

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended **June 30, 2004**

Or

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period _____

Commission File Number: **0-13322**

United Bankshares, Inc.

(Exact name of registrant as specified in its charter)

West Virginia

(State or other jurisdiction of
incorporation or organization)

55-0641179

(I.R.S. Employer
Identification No.)

300 United Center

500 Virginia Street, East

Charleston, West Virginia

(Address of Principal Executive Offices)

25301

Zip Code

Registrant's Telephone Number, including Area Code: **(304) 424-8800**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes [X] No []**

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.) **Yes [X] No []**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class - Common Stock, \$2.50 Par Value; **43,368,976** shares outstanding as of **July 30, 2004**.

UNITED BANKSHARES, INC. AND SUBSIDIARIES

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

The June 30, 2004 and December 31, 2003, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries, the related consolidated statements of income for the three and six months ended June 30, 2004 and 2003, the related consolidated statement of changes in shareholders' equity for the six months ended June 30, 2004, the related condensed consolidated statements of cash flows for the six months ended June 30, 2004 and 2003, and the notes to consolidated financial statements appear on the following pages.

CONSOLIDATED BALANCE SHEETS
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except par value)

	June 30 2004	December 31 2003
	(Unaudited)	(Note 1)
Assets		
Cash and due from banks	\$ 150,450	\$ 211,406
Interest-bearing deposits with other banks	62,178	32,280
Federal funds sold	5,500	5,432
Total cash and cash equivalents	<u>218,128</u>	<u>249,118</u>
Securities available for sale at estimated fair value (amortized cost- \$1,177,689 at June 30, 2004 and \$1,251,357 at December 31, 2003)	1,172,897	1,266,635
Securities held to maturity (estimated fair value-\$237,101 at June 30, 2004 and \$253,704 at December 31, 2003)	234,208	243,975
Loans held for sale	2,074	1,687
Loans	4,184,413	3,960,637
Less: Unearned income	<u>(6,241)</u>	<u>(5,403)</u>
Loans net of unearned income	4,178,172	3,955,234
Less: Allowance for loan losses	<u>(50,379)</u>	<u>(50,309)</u>
Net loans	4,127,793	3,904,925
Bank premises and equipment	42,520	44,102
Goodwill	167,283	169,655
Accrued interest receivable	25,749	26,679
Other assets	160,875	137,883
Assets related to discontinued operations	<u>371,275</u>	<u>334,340</u>
TOTAL ASSETS	<u><u>\$6,522,802</u></u>	<u><u>\$6,378,999</u></u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 880,176	\$ 893,627
Interest-bearing	<u>3,393,672</u>	<u>3,244,860</u>
Total deposits	4,273,848	4,138,487
Borrowings:		
Federal funds purchased	46,970	90,540
Securities sold under agreements to repurchase	599,179	549,163
Other short-term borrowings	4,248	22,239
Federal Home Loan Bank borrowings	474,950	519,709
Other long-term borrowings	89,693	89,954
Accrued expenses and other liabilities	59,022	52,962
Liabilities related to discontinued operations	<u>362,791</u>	<u>300,754</u>
TOTAL LIABILITIES	5,910,701	5,763,808
Shareholders' Equity		
Common stock, \$2.50 par value; Authorized-100,000,000 shares; issued- 44,320,832 at June 30, 2004 and December 31, 2003, including 890,309 and 631,232 shares in treasury at June 30, 2004 and December 31, 2003, respectively	110,802	110,802
Surplus	102,559	110,592
Retained earnings	431,794	405,859
Accumulated other comprehensive income	(6,271)	6,512
Treasury stock, at cost	<u>(26,783)</u>	<u>(18,574)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>612,101</u>	<u>615,191</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$6,522,802</u></u>	<u><u>\$6,378,999</u></u>

See notes to consolidated unaudited financial statements.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Interest income				
Interest and fees on loans	\$55,227	\$50,520	\$110,786	\$105,688
Interest on federal funds sold and other short-term investments	108	213	184	600
Interest and dividends on securities:				
Taxable	13,523	12,727	26,985	26,604
Tax-exempt	2,102	2,196	4,156	4,475
Total interest income	<u>70,960</u>	<u>65,656</u>	<u>142,111</u>	<u>137,367</u>
Interest expense				
Interest on deposits	11,284	13,507	22,191	30,078
Interest on short-term borrowings	691	(1,847)	1,698	(798)
Interest on long-term borrowings	9,740	10,967	19,226	21,786
Total interest expense	<u>21,715</u>	<u>22,627</u>	<u>43,115</u>	<u>51,066</u>
Net interest income	49,245	43,029	98,996	86,301
Provision for loan losses	539	2,296	1,896	3,751
Net interest income after provision for loan losses	<u>48,706</u>	<u>40,733</u>	<u>97,100</u>	<u>82,550</u>
Other income				
Income from mortgage banking operations	242	723	410	1,495
Service charges, commissions, and fees	9,056	8,291	17,539	15,941
Fees from trust and brokerage services	2,663	2,462	5,233	4,737
Security gains (losses)	106	931	820	1,797
Other income	1,634	1,188	3,262	1,549
Total other income	<u>13,701</u>	<u>13,595</u>	<u>27,264</u>	<u>25,519</u>
Other expense				
Salaries and employee benefits	14,562	13,468	28,673	26,310
Net occupancy expense	3,033	2,840	6,246	5,728
Other expense	11,878	11,329	24,178	22,484
Total other expense	<u>29,473</u>	<u>27,637</u>	<u>59,097</u>	<u>54,522</u>
Income from continuing operations before income taxes	32,934	26,691	65,267	53,547
Income taxes	10,477	8,114	20,203	16,271
Income from continuing operations	<u>22,457</u>	<u>18,577</u>	<u>45,064</u>	<u>37,276</u>
Income from discontinued operations before income taxes	2,445	5,889	3,688	11,236
Income taxes	688	1,661	1,034	3,164
Income from Discontinued Operations	<u>1,757</u>	<u>4,228</u>	<u>2,654</u>	<u>8,072</u>
Net income	<u>\$ 24,214</u>	<u>\$ 22,805</u>	<u>\$ 47,718</u>	<u>\$ 45,348</u>
Earnings per common share from continuing operations:				
Basic	<u>\$0.52</u>	<u>\$0.45</u>	<u>\$1.03</u>	<u>\$0.89</u>
Diluted	<u>\$0.51</u>	<u>\$0.44</u>	<u>\$1.02</u>	<u>\$0.88</u>
Earnings per common share from discontinued operations:				
Basic	<u>\$0.04</u>	<u>\$0.10</u>	<u>\$0.06</u>	<u>\$0.19</u>
Diluted	<u>\$0.04</u>	<u>\$0.10</u>	<u>\$0.06</u>	<u>\$0.19</u>

(Dollars in thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
Earnings per common share:				
Basic	\$0.56	\$0.55	\$1.09	\$1.08
Diluted	\$0.55	\$0.54	\$1.08	\$1.07
Dividends per common share	\$0.25	\$0.25	\$0.50	\$0.50
Average outstanding shares:				
Basic	43,511,510	41,597,646	43,595,898	41,752,969
Diluted	44,005,011	42,067,728	44,131,285	42,220,476

See notes to consolidated unaudited financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)

	Six Months Ended June 30, 2004							
	Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock	Total Shareholders' Equity
	Shares	Par Value			Income (Loss)	Income (Loss)		
Balance at January 1, 2004	44,320,832	\$ 110,802	\$110,592	\$405,859	\$6,512	(\$18,574)	\$615,191	
Comprehensive income (loss):								
Net income	-	-	-	47,718	-	-	47,718	
Other comprehensive income (loss), net of tax:								
Unrealized loss on securities of \$12,510 net of reclassification adjustment for gains included in net income of \$533	-	-	-	-	(13,043)	-	(13,043)	
Amortization of the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio	-	-	-	-	260	-	260	
Total comprehensive income							34,935	
Purchase of treasury stock (629,534 shares)	-	-	-	-	-	(19,238)	(19,238)	
Cash dividends (\$0.50 per share)	-	-	-	(21,783)	-	-	(21,783)	
Common stock options exercised (370,457 shares)	-	-	(8,033)	-	-	11,029	2,996	
Balance at June 30, 2004	44,320,832	\$110,802	\$102,559	\$431,794	(\$6,271)	(\$26,783)	\$612,101	

See notes to consolidated unaudited financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands)

	Six Months Ended June 30	
	2004	2003
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES OF CONTINUED OPERATIONS	\$ (7,471)	\$ 88,768
INVESTING ACTIVITIES		
Proceeds from maturities and calls of investment securities	12,834	5,356
Purchases of investment securities	(2,645)	
Proceeds from sales of securities available for sale	214,146	58,189
Proceeds from maturities and calls of securities available for sale	189,293	622,339
Purchases of securities available for sale	(304,228)	(717,642)
Purchase of bank-owned life insurance	(13,826)	(30,000)
Net purchases of bank premises and equipment	(1,813)	(1,931)
Net change in loans	(221,804)	53,483
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(128,043)	(10,206)
FINANCING ACTIVITIES		
Cash dividends paid	(21,831)	(20,952)
Acquisition of treasury stock	(19,238)	(18,488)
Proceeds from exercise of stock options	2,996	1,247
Repayment of Federal Home Loan Bank borrowings	(44,000)	(203)
Proceeds from Federal Home Loan Bank borrowings		50,000
Changes in:		
Deposits	174,783	(48,881)
Federal funds purchased, securities sold under agreements to repurchase and other borrowings	11,124	(39,079)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES OF CONTINUING OPERATIONS	103,834	(76,356)
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	345	(754)
(Decrease) Increase in cash and cash equivalents	(31,335)	1,452
Cash and cash equivalents at beginning of year, continuing operations	249,118	171,300
Cash and cash equivalents at beginning of year, discontinued operations	5,823	4,063
Cash and cash equivalents at end of period, continuing operations	\$218,128	\$170,992
Cash and cash equivalents at end of period, discontinued operations	5,478	5,823
Cash and cash equivalents at end of period	<u>\$223,606</u>	<u>\$176,815</u>

See notes to consolidated unaudited financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

UNITED BANKSHARES, INC. AND SUBSIDIARIES

1. GENERAL

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries ("United") have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not contain all of the information and footnotes required by accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements presented as of June 30, 2004 and for the three-month and six-month periods ended June 30, 2004 and 2003 have not been audited. The consolidated balance sheet as of December 31, 2003 has been extracted from the audited financial statements included in United's 2003 Annual Report to Shareholders. The accounting and reporting policies followed in the presentation of these financial statements are consistent with those applied in the preparation of the 2003 Annual Report of United on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal and recurring nature.

The accompanying consolidated interim financial statements include the accounts of United and its wholly owned subsidiaries. United considers all of its principal business activities to be bank related. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Dollars are in thousands, except per share and share data.

United has stock option plans for certain employees that are accounted for under the intrinsic value method. Because the exercise price at the date of the grant is equal to the market value of the stock, no compensation expense is recognized.

The following pro forma disclosures present United's net income and diluted earnings per share, determined as if United had recognized compensation expense for its employee stock options under the fair value method under the provisions of SFAS No. 123:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net Income, as reported	\$24,214	\$22,805	\$47,718	\$45,348
Less pro forma expense related to options granted, net of tax	(248)	(211)	(503)	(422)
Pro forma net income	<u>\$23,966</u>	<u>\$22,594</u>	<u>\$47,215</u>	<u>\$44,926</u>
Pro forma net income per share:				
Basic – as reported	\$0.56	\$0.55	\$1.09	\$1.09
Basic – pro forma	\$0.55	\$0.54	\$1.08	\$1.08
Diluted – as reported	\$0.55	\$0.54	\$1.08	\$1.07
Diluted – pro forma	\$0.54	\$0.54	\$1.07	\$1.06

2. DIVESTURES, MERGERS & ACQUISITIONS

On July 7, 2004, United closed the sale of its wholly owned mortgage banking subsidiary, George Mason Mortgage, LLC (“Mason Mortgage”) to Cardinal Financial Corporation (“Cardinal”) of McLean, Virginia for an amount equivalent to Mason Mortgage’s tangible net worth plus cash of \$17 million in exchange for all of the outstanding membership interests in Mason Mortgage. The discussion of United’s second quarter and first half results is presented on a consolidated basis, which combines the results of continuing and discontinuing operations. Mason Mortgage, which was previously reported as a separate segment, is presented as discontinued operations for all periods presented.

The following table lists the assets and liabilities of Mason Mortgage included in the June 30, 2004, and December 31, 2003 consolidated balance sheets as assets and liabilities related to discontinued operations that were sold on July 7, 2004:

	June 30, 2004	December 31, 2003
Assets:		
Cash and cash equivalents	\$ 5,478	\$ 5,823
Loans held for sale	215,898	179,499
Net loans	138,690	140,662
Premises and equipment, net	2,289	2,252
Interest Receivable	441	419
Other Assets	8,480	5,685
Total Assets	<u>\$371,275</u>	<u>\$334,340</u>
Liabilities:		
Long term borrowings	\$271,754	\$248,511
Accrued expenses and other liabilities	91,037	52,243
Total Liabilities	<u>\$362,791</u>	<u>\$300,754</u>

Statements of Income for Discontinued Operations

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 2004</u>	<u>June 2003</u>	<u>June 2004</u>	<u>June 2003</u>
Interest and fees on loans	\$3,927	\$8,605	\$6,850	\$14,118
Interest expense	971	3,940	1,543	5,096
Net interest income	<u>2,956</u>	<u>4,665</u>	<u>5,307</u>	<u>9,022</u>
Other income:				
Service Charges, commissions, and fees	351	653	565	1,124
Income from Mortgage Banking Operations	8,899	13,544	15,179	24,744
Total other income	<u>9,250</u>	<u>14,197</u>	<u>15,744</u>	<u>25,868</u>
Other expense:				
Salaries and employee benefits expense	7,749	10,721	13,574	19,510
Net occupancy expense	496	424	985	852
Other expense	1,516	1,828	2,804	3,292
Total other expense	<u>9,761</u>	<u>12,973</u>	<u>17,363</u>	<u>23,654</u>
Income from discontinued operations before income taxes	2,445	5,889	3,688	11,236
Income taxes	<u>688</u>	<u>1,661</u>	<u>1,034</u>	<u>3,164</u>
Income from discontinued operations	<u>\$1,757</u>	<u>\$4,228</u>	<u>\$2,654</u>	<u>\$8,072</u>

The cash proceeds arising from the transaction as well as monies received from Mason Mortgage to repay amounts borrowed from United were used to prepay certain Federal Home Loan Bank (FHLB) long-term advances in the amount of approximately \$132.5 million with a weighted average interest rate of 6.25%. The prepayment of these borrowings in July of 2004 will result in a pre-tax charge of approximately \$16 million to be recognized in the third quarter of 2004, but will lower annual interest expense paid by approximately \$8.3 million.

3. INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities available for sale are summarized as follows:

	June 30, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 46,521		\$ 144	\$ 46,377
State and political subdivisions	65,472	\$ 1,118	605	65,985
Mortgage-backed securities	871,749	7,952	15,198	864,503
Marketable equity securities	13,080	1,301	90	14,291
Other	180,867	2,073	1,199	181,741
Total	\$1,177,689	\$12,444	\$17,236	\$1,172,897

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 32,681	\$ 158	\$ 3	\$ 32,836
State and political subdivisions	70,532	3,008	120	73,420
Mortgage-backed securities	954,567	13,978	5,565	962,980
Marketable equity securities	12,843	1,503	101	14,245
Other	180,734	3,549	1,129	183,154
Total	\$1,251,357	\$22,196	\$6,918	\$1,266,635

At June 30, 2004, the cumulative net unrealized loss, net of deferred income taxes on available for sale securities resulted in a decrease of \$3,114 in shareholders equity as compared to a cumulative net unrealized gain, net of deferred income taxes, of \$9,930 at December 31, 2003 which increased shareholders equity.

Management does not believe any individual unrealized loss as of June 30, 2004 represents other than temporary impairment. The unrealized losses on the mortgage-backed securities relate primarily to securities issued by FNMA and FHLMC. United has the ability and intent to hold these securities until such time as the value recovers or the securities mature. Further, United believes the value is attributable to changes in market interest rates and not credit quality of the issuer.

The amortized cost and estimated fair value of securities available for sale at June 30, 2004 and December 31, 2003 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Maturities of mortgage-backed securities are included below based upon an estimated average life.

June 30, 2004	December 31, 2003
Estimated	Estimated

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 38,482	\$ 38,477	\$ 9,561	\$ 9,563
Due after one year through five years	25,693	30,135	36,424	41,535
Due after five years through ten years	212,833	210,244	193,802	195,623
Due after ten years	887,601	879,750	998,727	1,005,669
Marketable equity securities	13,080	14,291	12,843	14,245
Total	\$1,177,689	\$1,172,897	\$1,251,357	\$1,266,635

The amortized cost and estimated fair values of securities held to maturity are summarized as follows:

	June 30, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 11,933	\$ 561		\$ 12,494
State and political subdivisions	74,185	1,761	\$ 277	75,669
Mortgage-backed securities	799	46		845
Other	147,291	5,144	4,342	148,093
Total	\$234,208	\$7,512	\$4,619	\$237,101

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 11,978	\$ 1,164		\$ 13,142
State and political subdivisions	80,607	3,718	\$ 2	84,323
Mortgage-backed securities	1,056	68		1,124
Other	150,334	8,673	3,892	155,115
Total	\$243,975	\$13,623	\$3,894	\$253,704

The amortized cost and estimated fair value of debt securities held to maturity at June 30, 2004 and December 31, 2003 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturities of mortgage-backed securities are included below based upon an estimated average life. There were no sales of held to maturity securities.

June 30, 2004

December 31, 2003

	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 3,981	\$ 4,055	\$ 6,229	\$ 6,290
Due after one year through five years	39,976	42,226	32,329	34,700
Due after five years through ten years	26,554	28,280	46,351	50,523
Due after ten years	163,697	162,540	159,066	162,191
Total	<u>\$234,208</u>	<u>\$237,101</u>	<u>\$243,975</u>	<u>\$253,704</u>

The carrying value of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law, approximated \$988,422 and \$1,068,142 at June 30, 2004 and December 31, 2003, respectively .

4. LOANS

Major classifications of loans are as follows:

	June 30, 2004	December 31, 2003
Commercial, financial and agricultural	\$ 802,173	\$ 791,219
Real estate:		
Single-family residential	1,582,052	1,463,774
Commercial	1,012,087	1,001,458
Construction	250,162	173,826
Other	116,735	125,295
Installment	421,204	405,065
Total gross loans	<u>\$ 4,184,413</u>	<u>\$ 3,960,637</u>

The table above does not include loans held for sale of \$2,074 and \$1,687 at June 30, 2004 and December 31, 2003, respectively.

United's subsidiary banks have made loans, in the normal course of business, to the directors and officers of United and its subsidiaries, and to their affiliates. Such related party loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than normal risk of collectibility. The aggregate dollar amount of these loans was \$138,796 and \$128,690 at June 30, 2004 and December 31, 2003, respectively.

5. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for loan losses is based upon a quarterly evaluation of the loan portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future

cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. The amounts allocated to specific credits and loan pools grouped by similar risk characteristics are reviewed on a

quarterly basis and adjusted as necessary based upon subsequent changes in circumstances. In determining the components of the allowance for loan losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other various factors. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses.

A progression of the allowance for loan losses for the periods presented is summarized as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2004	2003	2004	2003
Balance at beginning of period	\$50,474	\$46,985	\$50,432	\$47,387
Provision charged to expense	539	2,296	1,896	3,751
	51,013	49,281	52,328	51,138
Loans charged-off	(1,076)	(2,737)	(2,838)	(4,993)
Less: Recoveries	565	300	1,012	699
Net Charge-offs	(511)	(2,437)	(1,826)	(4,294)
Balance at end of period	\$50,502	\$46,844	\$50,502	\$46,844
Less Balance, discontinued operations	(123)	(123)	(123)	(123)
Balance, continued operations	<u>\$50,379</u>	<u>\$46,721</u>	<u>\$50,379</u>	<u>\$46,721</u>

At June 30, 2004, the recorded investment in loans that are considered to be impaired was \$20,347 (of which \$6,966 was on a nonaccrual basis). Included in this amount is \$5,863 of impaired loans for which the related allowance for loan losses is \$1,594 and \$14,484 of impaired loans that do not have an allowance for credit losses due to management's estimate that the fair value of the underlying collateral of these loans is sufficient for full repayment of the loan and interest. At December 31, 2003, the recorded investment in loans that were considered to be impaired was \$21,070 (of which \$7,523 was on a nonaccrual basis). Included in this amount was \$7,899 of impaired loans for which the related allowance for loan losses was \$1,596, and \$13,171 of impaired loans that did not have an allowance for credit losses. The average recorded investment in impaired loans during the quarter and year to date ending June 30, 2004 was \$21,977 and \$22,158, respectively and for the quarter and year ending June, 2003 was \$14,626, and \$13,234, respectively.

For the quarters ended June 30, 2004 and 2003, United recognized interest income on impaired loans of approximately \$67 and \$184, respectively. For the six months ended June 30, 2004 and 2003, United recognized interest income on the impaired loans of approximately \$254 and \$251, respectively. Substantially all of the interest income was recognized using the accrual method of income recognition. The amount of interest income that would have been recorded under the original terms for the above loans and nonaccrual loans was \$156 and \$318 for the quarters ended June 30, 2004 and 2003, respectively, and \$465 and \$464 for the six months ended June 30, 2004 and 2003, respectively.

6. RISK ELEMENTS

Nonperforming assets include loans on which no interest is currently being accrued, principal or interest has been in default for a period of 90 days or more and for which the terms have been modified due to deterioration in the financial position of the borrower. Loans are designated as nonaccrual when, in the opinion of management, the collection of principal or interest is doubtful. This generally occurs when a loan becomes 90 days past due as to principal or interest unless the loan is both well secured and in the process of collection. When interest accruals are discontinued, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. Other real estate owned consists of property acquired through foreclosure and is stated at the lower of cost or fair value less estimated selling costs.

Nonperforming assets are summarized as follows:

	June 30, 2004	December 31, 2003
Nonaccrual loans	\$ 6,966	\$ 7,523
Loans past due 90 days or more and still accruing interest	9,843	11,052
Total nonperforming loans	16,809	18,575
Other real estate owned	3,599	3,203
Total nonperforming assets	<u>\$20,408</u>	<u>\$21,778</u>

7. INTANGIBLE ASSETS

Total goodwill of \$167,283 and \$169,655 as of June 30, 2004 and December 31, 2003, respectively, is comprised of goodwill recorded in United's community banking segment.

The following is a summary of intangible assets subject to amortization and those not subject to amortization:

	As of June 30, 2004		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Amortized intangible assets:			
Core deposit intangible assets	<u>\$ 19,890</u>	<u>(\$11,778)</u>	<u>\$ 8,112</u>
Goodwill not subject to amortization	<u>\$190,628</u>	<u>(\$23,345)</u>	<u>\$167,283</u>

	As of December 31, 2003		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Amortized intangible assets:			
Core deposit intangible assets	<u>\$ 19,890</u>	<u>(\$ 10,344)</u>	<u>\$ 9,546</u>
Goodwill not subject to amortization	<u>\$193,000</u>	<u>(\$23,345)</u>	<u>\$169,655</u>

United incurred amortization expense of \$683 and \$1,433 for the quarter and six months ended June 30, 2004, respectively, and \$424 and \$857 for the quarter and six months ended June 30, 2003, respectively related to intangible assets. The following table sets forth the anticipated amortization expense for intangible assets for each of the next five years:

<u>Year</u>	<u>Amount</u>
2004	\$ 2,724
2005	2,278
2006	1,871
2007	1,462
2008	834
Thereafter	377

8. SHORT-TERM BORROWINGS

United has various unused lines of credit available from certain of its correspondent banks in the aggregate amount of \$195,000. These lines of credit, which bear interest at prevailing market rates, permit United to borrow funds in the overnight market, and are renewable annually subject to certain conditions.

United, through the parent company, has available funds of \$40,000 to provide for general liquidity needs under a one year renewable collateralized line of credit. The line of credit carries a LIBOR-based indexed floating rate of interest. At June 30, 2004, United had \$1,000 outstanding under the line of credit at an interest rate of 2.12%.

United Bank (VA) participates in the Treasury Investment Program, which is essentially the U.S. Treasury's savings account for companies depositing employment and other tax payments. The bank retains the funds in an open-ended interest-bearing note until the Treasury withdraws or "calls" the funds. A maximum note balance is established and that amount must be collateralized at all times. All tax deposits or a portion of the tax deposits up to the maximum balance are generally available as a source of short-term investment funding. At of June 30, 2004, United Bank (VA) had an outstanding balance of \$3,247 and had additional funding available of \$1,753.

United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). Membership in the FHLB makes available short-term and long-term borrowings from collateralized advances. All FHLB borrowings are collateralized by a mix of single-family residential mortgage loans, commercial loans and investment securities. At June 30, 2004, United had an unused borrowing amount of approximately \$1,145 available subject to delivery of collateral after certain trigger points.

9. LONG-TERM BORROWINGS

In July of 2003, United entered into a \$100 million notional amount interest rate swap agreement in an effort to offset a portion of the cost on a long-term fixed rate FHLB advance. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. The fair value of the interest rate swap is recognized on the balance sheet as either a freestanding asset or liability. At June 30, 2004, the fair value of the swap resulted in a \$6.46 million liability. Adjustments to the fair value of the swap are recorded as a corresponding adjustment to FHLB borrowings on the balance sheet with no impact to earnings.

At June 30, 2004, \$746,704 of FHLB advances with a weighted-average interest rate of 4.83% are scheduled to mature from one to twenty years. Included in this amount is the FHLB borrowings incurred as result of funding mortgage loans for discontinued operations of \$271,754. At June 30, 2004, the scheduled maturities of FHLB advances are as follows:

Year	<u>Amount</u>
2004	\$145,056
2005	125,000
2006	2,000
2007	0
2008 and thereafter	474,648
Less: Amounts to fund discontinued operations	<u>(271,754)</u>
Total	<u>\$474,950</u>

United has a total of seven statutory business trusts that were formed for the purpose of issuing or participating in pools of trust preferred capital securities (Capital Securities) with the proceeds invested in junior subordinated debt securities (Debentures) of United. The Debentures, which are subordinate and junior in right of payment to all present and future senior indebtedness and certain other financial obligations of United, are the sole assets of the trusts and United's payment under the Debentures is the sole source of revenue for the trusts. At June 30, 2004 and December 31, 2003, the outstanding balances of the Debentures were \$89,693 and \$89,954 respectively, and are included in the category of long-term debt on the Consolidated Balance Sheets entitled "Other long-term borrowings". The Capital Securities are not included as a component of shareholders' equity in the Consolidated Balance Sheets. United fully and unconditionally guarantees each individual trust's obligations under the Capital Securities.

Under the provisions of the subordinated debt, United has the right to defer payment of interest on the subordinated debt at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debt are deferred, the dividends on the Capital Securities are also deferred. Interest on the subordinated debt is cumulative.

The Trust Preferred Securities currently qualify as Tier 1 capital of United for regulatory purposes. The banking regulatory agencies have not issued any guidance which would change the regulatory capital treatment for the Trust Preferred Securities based on the recently enacted accounting rules that required deconsolidation in United's consolidated financial statements.

10. COMMITMENTS AND CONTINGENT LIABILITIES

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to alter its own exposure to fluctuations in interest rates. These financial instruments include loan commitments, standby letters of credit, and commercial letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

United's maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Collateral may be obtained, if deemed necessary, based on management's credit evaluation of the counterparty.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. United had approximately \$2,063,883 and \$2,076,840 of loan commitments outstanding as of June 30, 2004 and December 31, 2003, respectively, the majority of which expire within one year.

United is required to recognize its commitments with borrowers (interest rate lock commitments) and investors (best efforts commitments) on loans originated for sale in its mortgage banking operations. These commitments are entered into with the borrower and investor to manage the inherent interest rate and pricing risk associated with selling loans in the secondary market. These derivatives are accounted for by recognizing the fair value of the contracts and commitments on the balance sheet as either a freestanding asset or liability. The interest rate lock commitments generally terminate once the loan is funded, the lock period expires or the borrower decides not to enter into the loan. The best efforts commitments generally terminate once the loan is sold, the commitment period expires or the borrower decides not to enter into the loan. At June 30, 2004 and December 31, 2003, United had commitments to originate \$161,496 and \$93,051, respectively, of mortgage loans to sell in the secondary market. These commitments are associated with the now discontinued mortgage banking operations.

In March 2004, the SEC staff released Staff Accounting Bulletin 105 (SAB 105), which summarizes the views of the SEC staff regarding the application of generally accepted accounting principles to loan commitments accounted for as derivative instruments. United applied SAB 105 to loan commitments entered into after March 31, 2004 as required.

Commercial and standby letters of credit are agreements used by United's customers as a means of improving their credit standing in their dealings with others. Under these agreements, United guarantees certain financial commitments of its customers. A commercial letter of credit is issued specifically to facilitate trade or commerce. Typically, under the terms of a commercial letter of credit, a commitment is

drawn upon when the underlying transaction is consummated as intended between the customer and a third party. United has issued commercial letters of credit of \$1,504 and \$4,286 as of June 30, 2004 and December 31, 2003, respectively. A standby letter of credit is generally contingent upon the failure of a customer to perform according to the terms of an underlying contract with a third party. United has issued standby letters of credit of \$124,940 and \$110,957 as of June 30, 2004 and December 31, 2003, respectively. In accordance with FIN 45, United has determined that substantially all of its letters of credit are renewed on an annual basis and the fees associated with these letters of credit are immaterial.

11. LINE OF BUSINESS REPORTING

Prior to June 30, 2004, United operated in two segments: mortgage banking and community banking. United had a wholly-owned subsidiary, Mason Mortgage and reported its financial position and results of operations on a consolidated basis. On July 7, 2004, United completed the sale of Mason Mortgage to Cardinal Financial Corporation. The business related to Mason Mortgage is accounted for as discontinued operations and therefore, the results of operations and cash flows have been removed from United's continuing operations for all periods presented in this document.

12. COMPREHENSIVE INCOME

The components of total comprehensive income for the three and six months ended June 30, 2004 and 2003 are as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2004	2003	2004	2003
Net Income	\$ 24,214	\$ 22,805	\$ 47,718	\$ 45,348
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gain (loss) on available for sale securities arising during the period	(19,304)	1,902	(12,510)	(833)
Less: Reclassification adjustment for (gains) losses included in net income	(69)	(605)	(533)	(1,168)
Amortization on the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio	121	124	260	247
Total Comprehensive Income	<u>\$ 4,962</u>	<u>\$ 24,226</u>	<u>\$ 34,935</u>	<u>\$ 43,594</u>

13. EARNINGS PER SHARE

The reconciliation of the numerator and denominator of basic earnings per share with that of diluted earnings per share is presented as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(Dollars in thousands, except per share)</i>	2004	2003	2004	2003
Income from Continuing Operations	\$22,457	\$18,577	\$45,064	\$37,276
Income from Discontinued Operations	1,757	4,228	2,654	8,072
Net Income	\$24,214	\$22,805	\$47,718	\$45,438
Basic				
Income from Continuing Operations	\$0.52	\$0.45	\$1.03	\$0.90
Income from Discontinued Operations	0.04	0.10	0.06	0.19
Net Income	<u>\$0.56</u>	<u>\$0.55</u>	<u>\$1.09</u>	<u>\$1.09</u>
Average common shares outstanding	<u>43,511,510</u>	<u>41,597,646</u>	<u>43,595,898</u>	<u>41,752,969</u>
Diluted				
Income from Continuing Operations	\$0.51	\$0.44	\$1.02	\$0.88
Income from Discontinued Operations	0.04	0.10	0.06	0.19
Net Income	<u>\$0.55</u>	<u>\$0.54</u>	<u>\$1.08</u>	<u>\$1.07</u>
Average common shares outstanding	43,511,510	41,597,646	43,595,898	41,752,969
Equivalents from stock options	<u>493,501</u>	<u>470,082</u>	<u>535,387</u>	<u>467,507</u>
Average diluted shares outstanding	<u>44,005,011</u>	<u>42,067,728</u>	<u>44,131,285</u>	<u>42,220,476</u>

14. EMPLOYEE BENEFIT PLANS

United has a defined benefit retirement plan covering substantially all employees. Pension benefits are based on years of service and the average of the employee's highest five consecutive plan years of basic compensation paid during the ten plan years preceding the date of determination. United's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The associated benefits accumulated by these employees in their previous plan were assumed by United's benefit plan.

Net periodic pension cost included the following components:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Service cost	\$ 580	\$ 481	\$1,162	\$958
Interest cost	706	663	1,411	1,318
Expected return on plan assets	(933)	(801)	(1,867)	(1,593)
Amortization of transition asset	(44)	(53)	(87)	(106)
Recognized net actuarial loss		3		5
Amortization of prior service cost	229	227	457	449
Net periodic pension cost	\$ 538	\$ 518	\$1,076	\$1,031
Weighted-Average Assumptions:				
Discount rate	6.25%	7.00%	6.25%	7.00%
Expected return on assets	9.00%	9.50%	9.00%	9.50%
Rate of compensation increase	3.25%	3.00%	3.25%	3.00%

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Congress passed the Private Securities Litigation Act of 1995 to encourage corporations to provide investors with information about the company's anticipated future financial performance, goals, and strategies. The act provides a safe harbor for such disclosure, in other words, protection from unwarranted litigation if actual results are not the same as management expectations.

United desires to provide its shareholders with sound information about past performance and future trends. Consequently, any forward-looking statements contained in this report, in a report incorporated by reference to this report, or made by management of United in this report, in any other reports and filings, in press releases and in oral statements, involves numerous assumptions, risks and uncertainties.

Actual results could differ materially from those contained in or implied by United's statements for a variety of factors including, but not limited to: changes in economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies; the nature and extent of governmental actions and reforms; and rapidly changing technology and evolving banking industry standards.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of United conform with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates, assumptions and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgements are based on information available as of the date of the financial statements. Actual results could differ from these estimates. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses and the valuation of retained interests in securitized assets to be the accounting areas that require the most subjective or complex judgements, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of the probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because management's evaluation of the adequacy of the allowance for loan losses is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. In determining the components of the allowance for loan losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other various factors. The methodology used to determine the allowance for loan losses is described in Note 5 to the unaudited consolidated financial statements. A discussion of the factors leading to changes in the amount of the allowance for loan losses is included in the Provision for Loan Losses section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Retained interests in securitized financial assets are recorded at their estimated fair values in securities available for sale. Since quoted market prices are generally not available for retained interests, United relies on discounted cash flow modeling techniques to estimate fair values based on the present value of future expected cash flows using management's best estimates of key assumptions—credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. Because the values of the assets are sensitive to changes in these key assumptions, the valuation of retained interests is considered a critical accounting estimate. A discussion of the accounting for these securitized financial assets as well as sensitivity analyses showing how these assets' value change due to adverse changes in key assumptions is presented in the Interest Rate Risk section of the Quantitative and Qualitative Disclosures about Market Risk.

United is required to recognize its commitments with borrowers (interest rate lock commitments) and investors (best efforts commitments) on loans originated for sale in its mortgage banking operations. These commitments are entered into with the borrower and investor to manage the inherent interest rate and pricing risk associated with selling loans in the secondary market. These derivatives are accounted for by recognizing the fair value of the contracts and commitments on the balance sheet as either a freestanding asset or liability. The valuation of these derivative instruments is considered critical because carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are provided by third-party sources. A discussion on the accounting for and use of these derivatives is presented in Note 10 to the Unaudited Notes to Consolidated Financial Statements.

Any material effect on the financial statements related to these critical accounting areas are further discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a broad overview of the financial condition and results of operations and is not intended to replace the more detailed discussion, which is presented under specific headings on the following pages.

FINANCIAL CONDITION

United's total assets as of June 30, 2004 were \$6.52 billion, up \$143.80 million or 2.25% from year-end 2003 primarily the result of increases in loans held for sale, portfolio loans and other assets. Partially offsetting these increases were decreases in securities and cash and due from banks. The increase in total assets is reflected in a corresponding increase in total liabilities of \$146.89 million. Shareholders' equity decreased \$3.09 million from year-end 2003. The increase in total liabilities was due mainly to increases in deposits, and accrued expenses while the decrease in shareholders' equity was due to cash dividends, a decline in the mark-to-market adjustment on available for sale securities, the purchase of treasury shares and stock options being redeemed. The following discussion explains in more detail the changes in financial condition by major category.

Cash and Cash Equivalents

Cash and cash equivalents decreased \$30.99 million comparing June 30, 2004 to year-end 2003. Of this total decrease, cash and due from banks decreased \$60.96 million while interest-bearing deposits with other banks increased \$29.90 million. During the first half of 2004, net cash of \$128.04 million was used in investing activities, and \$7.47 million was used in operating activities from continuing operations, respectively. Discontinued operations provided \$345 thousand of cash during the same period. Net cash of \$103.83 million was provided by financing activities of continuing operations.

Securities

Total investment securities decreased \$103.51 million since year-end 2003. Securities available for sale decreased \$93.74 million or 7.40%. This change reflects \$403.44 million in sales, maturities and calls of securities, \$304.23 million in purchases and a decrease of \$12.78 million in market value. Securities held to maturity decreased \$9.77 million which was a decrease of 4.00%. This decrease was due largely to maturities

and calls of securities within the portfolio during the first six months of 2004. The amortized cost and estimated fair value of investment securities, including types and remaining maturities, is presented in Note 3 to the unaudited Notes to Consolidated Financial Statements.

Loans

Loans held for sale in continuing operations increased \$387 thousand or 22.94% as loan originations in the secondary market exceeded loan sales during the first six months of 2004. Portfolio loans, net of unearned income, increased \$222.94 million or 5.64%. The increase in portfolio loans was primarily attributable to increases in installment loans and single-family residential loans of \$16.14 million and \$118.28 million, respectively. Also commercial and commercial real estate loans increased by \$10.95 million and \$10.63 million, respectively. For a summary of major classifications of loans, see Note 4 to the unaudited Notes to Consolidated Financial Statements.

Other Assets

Other assets increased \$22.99 million or 16.67% since year-end 2003. In the first half of 2004, United purchased \$14 million of bank-owned life insurance (BOLI). The purchase of BOLI represents a tax-advantaged financing strategy that permits the company to meet its increasing benefit liability obligations in a more cost-effective manner. The intent is to create an independent source of funds to recoup some of the benefit expenses. The policies earnings, including death proceeds, will be used to offset and recover a portion of the costs to carry the policies. Interest earned on the cash value is not subject to tax unless the policies are surrendered or borrowed against before the insured's death.

Deposits

Total deposits at June 30, 2004 increased \$135.36 million or 3.27% since year-end 2003. In terms of composition, noninterest-bearing deposits decreased \$13.45 million and interest-bearing deposits increased \$148.81 million from December 31, 2003.

Borrowings

United's total borrowed funds from discontinued operations decreased \$33.32 million for the first six months of 2004. Since year-end 2003, federal fund purchased and other short-term borrowings decreased \$43.57 million or 48.12% and \$17.99 million or 80.90%, respectively, while securities sold under agreements to repurchase increased \$50.02 million or 9.11%. FHLB borrowings decreased \$21.52 million or 8.61%. For a further discussion of borrowings including amounts to fund discontinued operations, see Notes 8 and 9 to the unaudited Notes to Consolidated Financial Statements.

Shareholders' Equity

Shareholders' equity decreased \$3.09 million or less than 1% from December 31, 2003 as United continued to balance capital adequacy and returns to shareholders. The slight decrease in shareholders' equity was due mainly to a decrease of \$12.78 million, net of deferred income taxes in the fair value of its available for sale investment portfolio. Treasury stock has decreased \$8.21 million since year-end 2003 as treasury share

repurchases exceeded stock option redemptions during the first half of 2004. During the first six months of 2004, 629,534 shares were repurchased under a plan announced by United in May of 2003 to repurchase up to 1.65 million shares of its common stock on the open market. Since the plan's implementation, 1,037,969 shares have been repurchased.

RESULTS OF OPERATIONS

Overview

On July 7, 2004, United consummated the previously announced sale of its wholly-owned mortgage banking subsidiary, George Mason Mortgage, LLC ("Mason Mortgage") to Cardinal Financial Corporation ("Cardinal") of McLean, Virginia. The results of operations for Mason Mortgage are reported as income from discontinued operations. In the sale transaction, United received cash proceeds from Cardinal of \$17 million and will recognize a net gain on the transaction of approximately \$16 million in the third quarter of 2004. The cash proceeds arising from the transaction as well as monies received from Mason Mortgage to repay amounts borrowed from United were used to prepay certain Federal Home Loan Bank (FHLB) long-term advances in the third quarter of 2004. United incurred prepayment penalties of \$16.00 million in the repayment. Management felt that it had achieved the best from its mortgage-banking segment during an extended period of historically low interest rates and believed it was in the best interests of United to sell its mortgage-banking subsidiary at this time because of the widely predicted increase in interest rates. United will continue to be involved in retail mortgage banking through its banking subsidiaries, but not on a wholesale basis. The following detailed discussion of United's second quarter and first half results is presented on a consolidated basis, which combines the results of continuing and discontinuing operations.

Net income for the first half of 2004 was \$47.72 million or \$1.08 per diluted share compared to \$45.35 million or \$1.07 per share for the first half of 2003. This represents a 5.23% increase in net income. Net income for the second quarter of 2004 was \$24.21 million, an increase of 6.18% from the \$22.81 million reported for the prior year second quarter. Second quarter 2004 earnings were \$0.55 per diluted share, as compared to the \$0.54 per share reported for the second quarter of 2003. United's annualized return on average assets for the first six months of 2004 was 1.51% and return on average shareholders' equity was 15.38% as compared to 1.63% and 16.67% for the first six months of 2003.

The net interest margin was 3.82% for the first six months of 2004 compared to 3.79% for the first six months of 2003. Tax-equivalent net interest income increased \$13.47 million or 14.76% for the first six months of 2004 as compared to the same period for 2003. The net interest margin for the second quarter 2004 was 3.77%, a 6 basis points decrease from the 3.83% net interest margin for the second quarter of 2003. Tax-equivalent net interest income increased \$7.05 million or 15.49% for the second quarter of 2004 as compared to the same period for 2003. The provision for loan losses was \$1.89 million for the first six months of 2004 as compared to \$3.75 million for the first six months of 2003. For the quarters ended June 30, 2004 and 2003, the provision for loan losses was \$539 thousand and \$2.30 million, respectively. Noninterest income was \$27.26 million for the first six months of 2004, up \$1.74 million or 6.84% when compared to the first six months of 2003. For the second quarter of 2004, noninterest income was \$13.70 million, an increase of \$106 thousand or less than 1.00% from the second quarter of 2003. Noninterest expenses increased \$4.58 million or 8.39% for the first half of 2004 compared to the same period in 2003. For the second quarter of 2004, noninterest expenses increased \$1.84 million or 6.64% from the second quarter of 2003. United's

effective tax rate was 30.80% and 30.00% for the first half of 2004 and 2003, and 31.56% and 30.00% for the second quarter of 2004 and 2003, respectively.

Net Interest Income

Increased net interest income was the leading contributor to the earnings growth for the second quarter and first half of 2004 from last year's results. Tax-equivalent net interest income increased \$5.34 million or 10.65% and \$9.76 million or 9.73% for the second quarter and first six months of 2004, respectively, when compared to the same periods of 2003. United's tax-equivalent net interest margin was 3.77% and 3.82% for the second quarter and first half of 2004, respectively, compared to 3.83% and 3.79% for the same time periods in 2003, respectively.

For the second quarter of 2004, United's yield on average earning assets declined 54 basis points as the yield on average securities and loans declined 27 and 63 basis points, respectively, from the second quarter of 2003. United's cost of average interest-bearing funds declined 62 basis points from the second quarter of 2003; however, that decrease was not enough to offset the aforementioned decline in the yield on average earning assets. On a linked quarter basis, net interest income remained relatively stable at \$49.25 million while the net interest margin decreased 9 basis points from 3.86% in the first quarter of 2004.

For the first six months of 2004, United's yield on average earning assets declined 56 basis points as the yield on average securities and loans declined 56 and 64 basis points, respectively, from the first six months of 2003. United's cost of average interest-bearing funds declined 74 basis points from the first half of 2003; however, that decrease was not enough to offset the aforementioned decline in the yield on average earning assets.

Tables 1 and 2 present average balances, taxable equivalent interest income, interest expenses, and yields earned or paid on these assets and liabilities for the three-month and six-month periods ending June 30, 2004 and 2003, respectively. The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. The interest income and the yields on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 9%.

Table 1

The following table shows the daily average balance of major categories of assets and liabilities for each of the three-month periods ended June 30, 2004 and June 30, 2003 with the interest rate earned or paid on such amount.

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
<i>(Dollars in thousands)</i>						
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased						
Under agreements to resell and other						
short-term investments	\$ 39,676	\$ 110	1.12%	\$ 48,474	\$ 215	1.78%
Investment Securities:						
Taxable	1,279,143	13,523	4.25%	1,133,519	12,727	4.50%
Tax-exempt (1) (2)	177,424	3,053	6.92%	186,360	3,217	6.92%
Total Securities	1,456,567	16,576	4.58%	1,319,879	15,944	4.85%
Loans, net of unearned income (1) (2) (3)	4,448,055	61,490	5.55%	3,923,887	60,558	6.18%
Allowance for loan losses	(50,592)			(46,591)		
Net loans	4,397,463		5.61%	3,877,296		6.26%
Total earning assets	5,893,706	\$ 78,176	5.32%	5,245,649	\$ 76,717	5.86%
Other assets	540,369			357,219		
TOTAL ASSETS	\$6,434,075			\$5,602,868		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	\$3,291,816	\$ 11,284	1.38%	\$3,056,808	\$ 13,507	1.77%
Federal funds purchased, repurchase						
agreements and other short-term						
borrowings	717,184	1,662	0.93%	502,444	2,093	1.67%
FHLB advances and other long-term						
borrowings	862,126	9,740	4.54%	715,815	10,967	6.15%
Total Interest-Bearing Funds	4,871,126	22,686	1.87%	4,275,067	26,567	2.49%
Demand deposits	882,023			727,948		
Accrued expenses and other liabilities	47,684			51,001		
TOTAL LIABILITIES	5,800,833			5,054,016		
SHAREHOLDERS' EQUITY	633,242			548,852		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$6,434,075			\$5,602,868		
NET INTEREST INCOME		\$ 55,490			\$ 50,150	
INTEREST SPREAD			3.45%			3.37%
NET INTEREST MARGIN			3.77%			3.83%

(1) The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%.

(2) The interest income and the yields on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 9%.

(3) Nonaccruing loans are included in the daily average loan amounts outstanding.

Table 2

The following table shows the daily average balance of major categories of assets and liabilities for each of the six-month periods ended June 30, 2004 and June 30, 2003 with the interest rate earned or paid on such amount.

	<u>Six Months Ended</u> <u>June 30, 2004</u>			<u>Six Months Ended</u> <u>June 30, 2003</u>		
	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Avg.</u> <u>Rate</u>	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Avg.</u> <u>Rate</u>
<i>(Dollars in thousands)</i>						
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 25,225	\$ 186	1.48%	\$ 91,798	\$ 603	1.32%
Investment Securities:						
Taxable	1,287,990	26,985	4.21%	1,121,077	26,604	4.79%
Tax-exempt (1) (2)	175,486	6,113	7.00%	186,470	6,508	7.04%
Total Securities	1,463,476	33,098	4.55%	1,307,547	33,112	5.11%
Loans, net of unearned income (1) (2) (3)	4,345,966	121,480	5.61%	3,950,239	122,792	6.25%
Allowance for loan losses	(50,507)			(47,047)		
Net loans	4,295,459		5.68%	3,903,192		6.33%
Total earning assets	5,784,160	\$ 154,764	5.37%	5,302,537	\$ 156,507	5.93%
Other assets	550,561			358,502		
TOTAL ASSETS	<u>\$6,334,721</u>			<u>\$5,661,039</u>		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	\$3,250,578	\$ 22,191	1.37%	\$3,115,646	\$ 30,078	1.95%
Federal funds purchased, repurchase agreements and other short-term borrowings	687,532	3,241	0.95%	514,966	4,298	1.68%
FHLB advances and other long-term borrowings	857,660	19,226	4.51%	712,145	21,786	6.17%
Total Interest-Bearing Funds	4,795,770	44,658	1.87%	4,342,757	56,162	2.61%
Demand deposits	865,462			717,687		
Accrued expenses and other liabilities	45,646			51,929		
TOTAL LIABILITIES	5,706,878			5,112,373		
SHAREHOLDERS' EQUITY	627,843			548,666		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$6,334,721</u>			<u>\$5,661,039</u>		
NET INTEREST INCOME		<u>\$ 110,106</u>			<u>\$ 100,345</u>	
INTEREST SPREAD			3.50%			3.32%
NET INTEREST MARGIN			3.82%			3.79%

(1) The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%.

(2) The interest income and the yields on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 9%.

(3) Nonaccruing loans are included in the daily average loan amounts outstanding.

Provision for Loan Losses

Credit quality continues to compare favorably against peer group averages. Nonperforming loans were \$16.81 million or 0.40% of loans, net of unearned income at June 30, 2004 as compared to \$18.58 million or 0.46% of loans, net of unearned income, at December 31, 2003. The components of nonperforming loans include nonaccrual loans and loans, which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis. Nonaccrual loans and loans past due 90 days or more were \$6.97 million and \$9.84 million, respectively at June 30, 2004 as compared to \$7.52 million and \$11.05 million, respectively at year-end 2003. Total nonperforming assets of \$20.41 million, including OREO of \$3.60 million at June 30, 2004, represented 0.31% of total assets at the end of the second quarter. For a summary of nonperforming assets, see Note 6 to the unaudited consolidated financial statements.

At June 30, 2004, impaired loans were \$20.35 million, which was a decrease of \$72 thousand from the \$21.07 million in impaired loans at December 31, 2003. For further details, see Note 5 to the unaudited consolidated financial statements.

United evaluates the adequacy of the allowance for loan losses on a quarterly basis and its loan administration policies are focused upon the risk characteristics of the loan portfolio. United's process for evaluating the allowance is a formal company-wide process that focuses on early identification of potential problem credits and procedural discipline in managing and accounting for those credits. This process determines the appropriate level of the allowance for loan losses, allocation among loan types, and the resulting provision for loan losses.

At June 30, 2004, the allowance for loan losses was \$50.38 million, compared to \$50.31 million at December 31, 2003. As a percentage of loans, net of unearned income, the allowance for loan losses was 1.21% at June 30, 2004 and 1.27% of net loans at December 31, 2003. The ratio of the allowance for loan losses to nonperforming loans was 299.71% and 270.84% at June 30, 2004 and December 31, 2003, respectively.

For the quarters ended June 30, 2004 and 2003, the provision for loan losses was \$539 thousand and \$2.30 million, respectively, while the provision for the first six months was \$1.90 million for 2004 as compared to \$3.75 million for 2003. The changes in the provision are directionally consistent with the loan quality and the results of management's evaluation. Net charge-offs were \$511 thousand for the second quarter of 2004 as compared to net charge-offs of \$2.44 million for the previous year quarter, which represented 0.01% and 0.07% of average loans for the respective quarters. Net charge-offs for the first half of 2004 were \$1.83 million as compared to \$4.29 million for the first half of 2003. Note 5 to the accompanying unaudited consolidated financial statements provide a progression of the allowance for loan losses.

In determining the adequacy of the allowance for loan losses, management makes allocations to specific commercial loans classified by management as to risk. Management determines the loan's risk by considering the borrowers' ability to repay, the collateral securing the credit and other borrower-specific factors that may impact collectibility. Specific loss allocations are based on the present value of expected future cash flows using the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent. Other commercial loans not specifically reviewed on an individual basis are evaluated based on loan pools, which are grouped by similar

risk characteristics using management's internal risk ratings. Allocations for these commercial loan pools are determined based upon historical loss experience adjusted for current conditions and risk factors. Allocations for loans, other than commercial loans, are developed by applying historical loss experience adjusted for current conditions and risk factor to loan pools grouped by similar risk characteristics. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses.

Allocations are made for specific commercial loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectibility. Other commercial loans not specifically reviewed on an individual basis are evaluated based on historical loan percentages applied to loan pools that have been segregated by risk. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current conditions. The unallocated portion of the allowance for loan losses provides for risk arising in part from, but not limited to, declines in credit quality resulting from sudden economic or industry shifts and changing economic trends. Differences between actual loan loss experience and estimates are reviewed on a quarterly basis and adjustments are made to those estimates. United's formal company-wide process at June 30, 2004 produced decreased allocations in all of the four loan categories. The components of the allowance allocated to commercial loans decreased \$1.9 million as a result of adjustments primarily made to account for changes in historical loss factors. The consumer loan pool allocation decreased \$423 thousand as a result of changes in historical loss factors. The real estate construction loan pool allocation decreased \$56 thousand due to small changes in loan volume and historical loss factors. The components of the allowance allocated to real estate loans decreased \$1.1 million as a result of changes in historical loss factors.

Management believes that the allowance for loan losses of \$50.38 million at June 30, 2004 is adequate to provide for probable losses on existing loans based on information currently available.

Management is not aware of any potential problem loans, trends or uncertainties, which it reasonably expects, will materially impact future operating results, liquidity, or capital resources which have not been disclosed. Additionally, management has disclosed all known material credits, which cause management to have serious doubts as to the ability of such borrowers to comply with the loan repayment schedules.

Other Income

Other income consists of all revenues, which are not included in interest and fee income related to earning assets. Noninterest income has been and will continue to be an important factor for improving United's profitability. Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced. Noninterest income, excluding security transactions, increased \$931 thousand or 7.35% and \$2.72 million or 11.47% for the second quarter and first half of 2004, respectively, when compared to the second quarter and first half of 2003. On a linked-quarter basis, noninterest income, excluding security transactions, for the second quarter of 2004 increased \$746 thousand or 5.81% from the first quarter of 2004.

Mortgage loans sold in the secondary market during the second quarter of 2004 decreased \$219.7 million or 18% from the second quarter of 2003, while loan originations decreased \$306.0 million or 23% when compared to the second quarter of 2003. For the first six months of 2004, mortgage loans sold in the secondary market decreased \$747.9 million or 32%, while loan originations also decreased \$680.6 million or

29% from the first six months of 2003. On a linked-quarter basis, noninterest income for the second quarter of 2004 increased \$2.9 million or 14% from the first quarter of 2004 due to increased revenue from mortgage banking operations as long-term interest rates temporarily fell late in the first quarter.

Income from deposit services increased \$765 thousand or 9.28% for the second quarter of 2004 when compared to the second quarter of 2003 while increasing \$1.60 million or 10.02% for the first half of 2004 when compared to the first half of 2003.

Total noninterest income, including security transactions, increased \$106 thousand or less than 1.00% and \$1.74 million or 6.84% for the second quarter and first half of 2004, respectively, when compared to the second quarter and first half of 2003. Increases in the fees from trust and brokerage services for the second quarter and first half of 2004 were \$201 thousand or 8.16% and \$496 thousand or 10.47% when compared to the same periods of 2003.

Other Expenses

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. Other expenses increased \$1.84 million or 6.64% and \$4.57 million or 8.39% for the quarter and six months ended June 30, 2004, as compared to the same periods in 2003.

Total salaries and benefits increased by 8.12% or \$1.09 million and 8.98% or \$2.36 million for the second quarter and first six months of 2004 when compared to the same periods of 2003. The increase was due mainly to higher sales activity in the mortgage banking segment as compensation and incentives for its personnel are significantly tied to activity levels. On a linked quarter basis, salaries and benefits were up 3.20% or \$451 thousand from the first quarter of 2004.

Net occupancy expense for the second quarter of 2004 increased \$193 thousand or 6.80% when compared to the second quarter of 2003. Net occupancy expense for the first half of 2004 increased \$518 thousand or 9.04%, when compared to the first half of 2003. The increase in occupancy expense can be attributed to the additional branches acquired in the Sequoia acquisition. On a linked-quarter basis, net occupancy declined \$180 thousand or 6.50 % from the first quarter of 2004.

Other expenses increased \$549 thousand or 4.85% and \$1.69 million or 7.53% for the second quarter and first six months of 2004, respectively, as compared to the same periods of 2003 due to an increased level of general operating expenses resulting from the branches acquired in the Sequoia acquisition. On a linked quarter basis, other expense decreased \$422 thousand or 3.43%.

Income Taxes

For the second quarter of 2004, income taxes were \$11.17 million as compared to \$9.77 million for the second quarter of 2003. For the quarters ended June 30, 2004 and 2003, United's effective tax rates were 31.56% and 30.00%, respectively. For the first half of 2004 and 2003, income taxes were \$21.24 million and \$19.43 million, respectively. United's effective tax rates were 30.80% and 30.00% during those respective time periods.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The objective of United's Asset/Liability Management function is to maintain consistent growth in net interest income within United's policy guidelines. This objective is accomplished through the management of balance sheet liquidity and interest rate risk exposures due to changes in economic conditions, interest rate levels and customer preferences.

Interest Rate Risk

Management considers interest rate risk to be United's most significant market risk. Interest rate risk is the exposure to adverse changes in United's net interest income as a result of changes in interest rates. Consistency in United's earnings is largely dependent on the effective management of interest rate risk.

Interest rate risk management focuses on maintaining consistent growth in net interest income within Board-approved policy limits. United's Asset/Liability Management Committee (ALCO), which includes senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk to maintain an acceptable level of change to net interest income as a result of changes in interest rates. Policy established for interest rate risk is stated in terms of the change in net interest income over a one-year and two-year horizon given an immediate and sustained increase or decrease in interest rates. The current limits approved by the Board of Directors are structured on a staged basis with each stage requiring specific actions.

United employs a variety of measurement techniques to identify and manage its exposure to changing interest rates. One such technique utilizes an earnings simulation model to analyze the sensitivity of net interest income to movements in interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. The model also includes executive management projections for activity levels in product lines offered by United. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. Rate scenarios could involve parallel or nonparallel shifts in the yield curve, depending on historical, current, and expected conditions, as well as the need to capture any material effects of explicit or embedded options. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management's strategies. However, the earnings simulation model is currently the best tool available to executive management for managing interest rate risk.

Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or are repriced within a designated time frame. The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The difference between rate sensitive assets and rate sensitive liabilities for specified periods of time

is known as the "GAP." Earnings-simulation analysis captures not only the potential of these interest sensitive assets and liabilities to mature or reprice but also the probability that they will do so. Moreover, earnings-simulation analysis considers the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time. United closely monitors the sensitivity of its assets and liabilities on an on-going basis and projects the effect of various interest rate changes on its net interest margin.

The following table shows United's estimated earnings sensitivity profile as of June 30, 2004 and December 31, 2003:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income	
	<u>June 30, 2004</u>	<u>December 31, 2003</u>
+100	3.05%	3.00%
-100	0.45%	-1.60%

At June 30, 2004, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to increase by 3.05% over one year as compared to an increase of 3.00% at December 31, 2003. A 100 basis point immediate, sustained downward shock in the yield curve would increase net interest income by an estimated 0.45% over one year at June 30, 2004 as compared to a decrease of 1.60% at December 31, 2003. This analysis does not include the potential increased refinanced activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.

To further aid in interest rate management, United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets.

As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. In July of 2003, United entered into a \$100 million notional amount interest rate swap agreement. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. Under the swap agreement, United will receive payment streams at a fixed rate of 6.43% while paying a variable rate of one-month LIBOR plus 3.5% on the \$100 million for a term of seven years. United entered into the interest rate swap in an effort to offset a portion of the cost on a long-term fixed rate FHLB advance. However, the FHLB, at its discretion, can convert the fixed interest rate on the advance to a variable rate of three-month LIBOR plus 0.1%. If this conversion occurs, under the swap agreement, United would then receive variable payment streams equivalent to three-month LIBOR plus 0.1% and pay a variable rate of three-month LIBOR plus 3.5% over the remaining term. United accounts for its derivative activities in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

During 1999, to better manage risk, United sold fixed-rate residential mortgage loans in a securitization transaction. In that securitization, United retained subordinated interests that represent United's right to future cash flows arising after the investors in the securitization trust have received the return for which they contracted. United does not receive annual servicing fees from this securitization because the loans are serviced by an independent third-party. The investors and the securitization trust have no recourse to United's other assets for failure of debtors to pay when due; however, United's retained interests are subordinate to investors' interests. The value of the retained interests is subject to credit, prepayment, and interest rate risks on the underlying financial assets. At the date of securitization, key economic assumptions used in measuring the fair value of the retained interests were as follows: a weighted-average life of 5.3 years, expected cumulative credit losses of 15%, and discount rates of 8% to 18%.

Key economic assumptions used in measuring the fair value of the retained interests at June 30, 2004 and December 31, 2003 were as follows:

	June 30, 2004	December 31, 2003
Weighted average life (in years)	2.3	2.7
Prepayment speed assumption (annual rate)	15.19% - 30.00%	15.19% - 42.00%
Cumulative default rate	19.21%	19.21%
Residual cash flows discount rate (annual rate)	5.05% - 10.31%	4.03% - 9.80%

At June 30, 2004 and December 31, 2003, the retained interests approximated \$9 million and \$16 million, respectively, and are carried in the available for sale investment portfolio.

The following table presents quantitative information about delinquencies, net credit losses, and components of the underlying securitized financial assets consisting of the fixed-rate residential mortgage loans:

	June 30, 2004	December 31, 2003
Total principal amount of loans	\$32,197	\$41,761
Principal amount of loans		
60 days or more past due	415	865
Year to date average balances	36,979	54,965
Year to date net credit losses	729	2,931

Liquidity

United maintains, in the opinion of management, liquidity which is sufficient to satisfy its depositors' requirements and the credit needs of its customers. Like all banks, United depends upon its ability to renew maturing deposits and other liabilities on a daily basis and to acquire new funds in a variety of markets. A significant source of funds available to United is "core deposits". Core deposits include certain demand deposits, statement and special savings and NOW accounts. These deposits are relatively stable and they are the lowest cost source of funds available to United. Short-term borrowings have also been a significant

source of funds. These include federal funds purchased and securities sold under agreements to repurchase. Repurchase agreements represent funds, which are obtained as the result of a competitive bidding process.

Liquid assets are cash and those items readily convertible to cash. All banks must maintain sufficient balances of cash and near-cash items to meet the day-to-day demands of customers. Other than cash and due from banks, the available for sale securities portfolio, loans held for sale and maturing loans and investments are the primary sources of liquidity.

The goal of liquidity management is to ensure the ability to access funding which enables United to efficiently satisfy the cash flow requirements of depositors and borrowers and meet United's cash needs. Liquidity is managed by monitoring funds availability from a number of primary sources. Funding is available from cash and cash equivalents, unused short-term borrowing and a geographically dispersed network of subsidiary banks providing access to a diversified and substantial retail deposit market.

Short-term needs can be met through a wide array of sources such as correspondent and downstream correspondent federal funds and utilization of Federal Home Loan Bank advances.

Other sources of liquidity available to United to provide long-term as well as short-term funding alternatives, in addition to FHLB advances, are long-term certificates of deposit, lines of credit, borrowings that are secured by bank premises or stock of United's subsidiaries and issuances of trust preferred securities. In the normal course of business, United through ALCO evaluates these as well as other alternative funding strategies that may be utilized to meet short-term and long-term funding needs.

For the six months ended June 30, 2004, cash of \$7.47 million was used in continuing operations by United, cash of \$345 thousand was provided by discontinued operations and net cash of \$128.04 million was used in investing activities, which was primarily due to \$221.80 million of portfolio loan growth as well as the purchase of \$14 million of bank-owned life insurance. During the first half of 2004, financing activities, primarily due to an increase in deposits of \$174.78 million, provided net cash of \$103.83 million. Uses of cash for financing activities included repayment of approximately \$44.00 million in short-term borrowings and payments of \$21.83 million and \$19.24 million, respectively, for cash dividends and acquisitions of United shares under the stock repurchase program. The net effect of this activity was a decrease in cash and cash equivalents of \$31.33 million for the first six months of 2004.

United anticipates it can meet its obligations over the next 12 months and has no material commitments for capital expenditures. There are no known trends, demands, commitments, or events that will result in or that are reasonably likely to result in United's liquidity increasing or decreasing in any material way. United also has lines of credit available.

The Asset and Liability Committee monitors liquidity to ascertain that a liquidity position within certain prescribed parameters is maintained. In addition, variable rate loans are a priority. These policies help to protect net interest income against fluctuations in interest rates. No changes are anticipated in the policies of United's Asset and Liability Committee.

Capital Resources

United's capital position is financially sound. United seeks to maintain a proper relationship between capital and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders' equity. Based on regulatory requirements, United and its banking subsidiaries are categorized as "well capitalized" institutions. United's risk-based capital ratios of 11.30% at June 30, 2004 and 11.61% at December 31, 2003, are both significantly higher than the minimum regulatory requirements. United's Tier I capital and leverage ratios of 10.11% and 8.28%, respectively, at June 30, 2004, are also well above regulatory minimum requirements.

Total shareholders' equity was \$612.10 million, a decrease of \$3.09 million or less than 1% from December 31, 2003. United's equity to assets ratio was 9.84% at June 30, 2004, as compared to 9.64% at December 31, 2003. The primary capital ratio, capital and reserves to total assets and reserves, was 9.64% at June 30, 2004, as compared to 10.35% at December 31, 2003. United's average equity to average asset ratio was 9.64% and 9.80% for the quarters ended June 30, 2004 and 2003, respectively.

During the second quarter of 2004, United's Board of Directors declared a cash dividend of \$0.25 per share. Cash dividends were \$0.50 per common share for the first half of 2004. Total cash dividends declared were approximately \$10.87 million for the second quarter of 2004 and \$21.78 million for the first six months of 2004, an increase of 4.77% and 4.73% over the comparable periods of 2003. The year 2004 is expected to be the 31st consecutive year of dividend increases to United shareholders.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2004, an evaluation was performed under the supervision of and with the participation of United's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United's disclosure controls and procedures. Based on that evaluation, United's management, including the CEO and CFO, concluded that United's disclosure controls and procedures as of June 30, 2004 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission's rules and forms. There have been no significant changes in United's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the normal course of business, United and its subsidiaries are currently involved in various legal proceedings. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United's financial position.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The table below includes certain information regarding United's purchase of United common shares during the quarterly period ended June 30, 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan (1)
1/01 – 1/31/2004	100,191	\$30.71	508,626	1,141,471
2/01 – 2/29/2004	95,141	\$30.45	603,767	1,046,330
3/01 – 3/31/2004	115,295	\$30.49	719,062	931,035
4/01 – 4/30/2004	105,096	\$30.35	824,158	825,939
5/01 – 5/31/2004	100,118	\$30.04	927,276	725,821
6/01 – 6/30/2004	113,693	\$31.26	1,037,969	612,128
Total	629,534	\$30.55		

(1) United announced a stock repurchase plan in May of 2003 to repurchase up to 1.65 million shares of its common stock on the open market. The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The Annual Meeting of Shareholders was held on Monday, May 17, 2004.
- (b) Not applicable as to election of directors because; i) proxies for the meeting were solicited pursuant to Regulation 14 under the Securities and Exchange Act of 1934; ii) there was no solicitation in opposition to the nominees as listed in the proxy statement; iii) all of such nominees, as listed in the proxy statement, were elected.
- (c) One proposal was voted upon at the annual meeting, the election of eighteen (18) persons to serve as directors of United for a one-year term expiring at the 2005 Annual Meeting. The results of the voting were as follows:

	<u>Votes For</u>	<u>Votes Withheld</u>
Richard M. Adams	36,593,718	682,899
Robert G. Astorg	36,326,655	949,962
Thomas J. Blair, III	36,806,137	396,401
Harry L. Buch	36,589,739	681,032
W. Gaston Caperton, III	31,479,641	6,102,293
Lawrence K. Doll	36,836,945	439,672
H. Smoot Fahlgren	31,814,565	5,462,051
Theodore J. Georgelas	36,825,599	451,018
F. T. Graff, Jr.	31,051,126	6,225,491
Russell L. Isaacs	36,304,503	972,114
John M. McMahan	36,861,794	414,823
J. Paul McNamara	36,819,721	456,896
G. Ogden Nutting	36,535,925	740,692
William C. Pitt, III	36,811,962	464,656
I. N. Smith, Jr.	36,541,027	735,590
James G. Tardiff	36,816,932	459,685
Mary K. Weddle	36,849,608	427,009
P. Clinton Winter, Jr.	36,374,944	901,673

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601 of Regulation S-K

- Exhibit 31.1 Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
- Exhibit 31.2 Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
- Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
- Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

(b) Reports on Form 8-K

On June 4, 2004, United Bankshares, Inc. filed a Current Report under Item 11 and furnished under Item 7 to report the notice to executives and directors of United regarding the temporary suspension of trading related to a blackout period under the registrant's employee benefit plans.

On June 9, 2004, United Bankshares, Inc. filed a Current Report under Items 5 and furnished under Item 7 to report it had entered into a definitive agreement to sell its wholly-owned mortgage banking subsidiary, George Mason Mortgage, LLC ("Mason Mortgage") to Cardinal Financial Corporation ("Cardinal") of McLean, Virginia. United also announced plans to prepay certain long-term debt with the cash proceeds arising from the Mason Mortgage transaction as well as from monies received from Mason Mortgage to repay amounts borrowed from United.

On July 20, 2004, United Bankshares, Inc. filed a Current Report under Item 9 and furnished under Item 7 to report the results of operations for the second quarter and first half of 2004. The information was provided pursuant to Item 12 in accordance with the guidance provided in SEC Release Nos. 33-8216 and 34-47583.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED BANKSHARES, INC.
(Registrant)

Date: August 9, 2004

/s/ Richard M. Adams
Richard M. Adams, Chairman of
the Board and Chief Executive
Officer

Date: August 9, 2004

/s/ Steven E. Wilson
Steven E. Wilson, Executive
Vice President, Treasurer,
Secretary and Chief Financial Officer

CERTIFICATION

I, Richard M. Adams, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/Richard M. Adams
Richard M. Adams, Chairman of the
Board and Chief Executive Officer

CERTIFICATION

I, Steven E. Wilson, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ Steven E. Wilson
Steven E. Wilson, Executive
Vice President, Treasurer,
Secretary and Chief Financial Officer

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officer of United Bankshares, Inc. (the “Company”), hereby certifies, to such officer’s knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2004

/s/ Richard M. Adams

Name: Richard M. Adams

Title: Chief Executive Officer

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officer of United Bankshares, Inc. (the “Company”), hereby certifies, to such officer’s knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2004

/s/ Steven E. Wilson

Name: Steven E. Wilson

Title: Chief Financial Officer