UNITED BANKSHARES INC/WV
Form 10-Q
May 09, 2018
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# FORM 10-Q

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2018**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _________ to _________**

**Commission File Number: 0-13322**

# United Bankshares, Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **West Virginia** | **55-0641179** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **300 United Center** | |
| **500 Virginia Street, East** | |
| **Charleston, West Virginia** | **25301** |
| **(Address of principal executive offices)** | **Zip Code** |

**Registrant s telephone number, including area code: (304) 424-8716**

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** No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act:

| | | |
|---|---|---|
| Large accelerated filer | | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company |
| | | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes **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; **105,141,385** shares outstanding as of **April 30, 2018**.

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**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**FORM 10-Q**

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## PART I - FINANCIAL INFORMATION

**Item 1. FINANCIAL STATEMENTS (UNAUDITED)**

The March 31, 2018 and December 31, 2017, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries ( United or the Company ), consolidated statements of income and comprehensive income for the three months ended March 31, 2018 and 2017, the related consolidated statement of changes in shareholders equity for the three months ended March 31, 2018, the related condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017, and the notes to consolidated financial statements appear on the following pages.

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**CONSOLIDATED BALANCE SHEETS**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**(Dollars in thousands, except par value)**

| | March 31 2018 (Unaudited) | December 31 2017 (Note 1) |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 178,071 | $ 196,742 |
| Interest-bearing deposits with other banks | 960,308 | 1,468,636 |
| Federal funds sold | 791 | 789 |
| Total cash and cash equivalents | 1,139,170 | 1,666,167 |
| Securities available for sale at estimated fair value (amortized cost-$2,119,071 at March 31, 2018 and $1,900,684 at December 31, 2017) | 2,085,111 | 1,888,756 |
| Securities held to maturity (estimated fair value-$20,006 at March 31, 2018 and $20,018 at December 31, 2017) | 20,405 | 20,428 |
| Equity securities at estimated fair value | 11,160 | 0 |
| Other investment securities | 152,287 | 162,461 |
| Loans held for sale (at fair value-$192,673 at March 31, 2018 and $263,308 at December 31, 2017) | 193,915 | 265,955 |
| Loans | 12,998,435 | 13,027,337 |
| Less: Unearned income | (14,018) | (15,916) |
| Loans net of unearned income | 12,984,417 | 13,011,421 |
| Less: Allowance for loan losses | (76,653) | (76,627) |
| Net loans | 12,907,764 | 12,934,794 |
| Bank premises and equipment | 103,009 | 104,894 |
| Goodwill | 1,478,580 | 1,478,380 |
| Accrued interest receivable | 54,815 | 52,815 |
| Other assets | 473,486 | 484,309 |
| TOTAL ASSETS | $ 18,619,702 | $ 19,058,959 |
| **Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing | $ 4,344,203 | $ 4,294,687 |
| Interest-bearing | 9,301,965 | 9,535,904 |
| Total deposits | 13,646,168 | 13,830,591 |
| Borrowings: | | |
| Federal funds purchased | 17,615 | 16,235 |
| Securities sold under agreements to repurchase | 250,771 | 311,352 |
| Federal Home Loan Bank borrowings | 1,060,948 | 1,271,531 |
| Other long-term borrowings | 233,961 | 242,446 |
| Reserve for lending-related commitments | 755 | 679 |
| Accrued expenses and other liabilities | 158,171 | 145,595 |
| TOTAL LIABILITIES | 15,368,389 | 15,818,429 |

**Shareholders Equity**

| | | |
|---|---|---|
| Preferred stock, $1.00 par value; Authorized-50,000,000 shares, none issued | 0 | 0 |
| Common stock, $2.50 par value; Authorized-200,000,000 shares; issued-105,181,868 and 105,069,821 at March 31, 2018 and December 31, 2017, respectively, including 40,698 and 29,173 shares in treasury at March 31, 2018 and December 31, 2017, respectively | 262,955 | 262,675 |
| Surplus | 2,130,092 | 2,129,077 |
| Retained earnings | 924,263 | 891,816 |
| Accumulated other comprehensive loss | (64,553) | (42,025) |
| Treasury stock, at cost | (1,444) | (1,013) |
| TOTAL SHAREHOLDERS EQUITY | 3,251,313 | 3,240,530 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 18,619,702 | $ 19,058,959 |

*See notes to consolidated unaudited financial statements.*

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**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**(Dollars in thousands, except per share data)**

| | Three Months Ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| **Interest income** | | |
| Interest and fees on loans | $ 148,928 | $ 108,942 |
| Interest on federal funds sold and other short-term investments | 4,917 | 2,686 |
| Interest and dividends on securities: | | |
| Taxable | 11,875 | 8,011 |
| Tax-exempt | 1,465 | 1,119 |
| Total interest income | 167,185 | 120,758 |
| **Interest expense** | | |
| Interest on deposits | 15,657 | 8,468 |
| Interest on short-term borrowings | 421 | 304 |
| Interest on long-term borrowings | 7,064 | 4,366 |
| Total interest expense | 23,142 | 13,138 |
| Net interest income | 144,043 | 107,620 |
| Provision for loan losses | 5,178 | 5,899 |
| Net interest income after provision for loan losses | 138,865 | 101,721 |
| **Other income** | | |
| Fees from trust services | 3,091 | 3,030 |
| Fees from brokerage services | 2,224 | 1,856 |
| Fees from deposit services | 8,230 | 7,706 |
| Bankcard fees and merchant discounts | 1,356 | 884 |
| Other service charges, commissions, and fees | 509 | 477 |
| Income from bank-owned life insurance | 1,254 | 1,217 |
| Income from mortgage banking activities | 14,570 | 675 |
| Net investment securities (losses) gains | (485) | 3,940 |
| Other income | 443 | 361 |
| Total other income | 31,192 | 20,146 |
| **Other expense** | | |
| Employee compensation | 40,836 | 24,033 |
| Employee benefits | 9,571 | 6,903 |
| Net occupancy expense | 9,427 | 6,784 |
| Other real estate owned (OREO) expense | 946 | 1,414 |
| Equipment expense | 3,157 | 1,965 |
| Data processing expense | 5,850 | 4,043 |
| Bankcard processing expense | 466 | 465 |
| FDIC insurance expense | 1,848 | 1,751 |
| Other expense | 18,351 | 15,484 |
| Total other expense | 90,452 | 62,842 |

| | | |
|---|---|---|
| Income before income taxes | 79,605 | 59,025 |
| Income taxes | 17,899 | 20,216 |
| Net income | $ 61,706 | $ 38,809 |

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**CONSOLIDATED STATEMENTS OF INCOME (Unaudited) - continued**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**(Dollars in thousands, except per share data)**

| | Three Months Ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| Earnings per common share: | | |
| Basic | $ 0.59 | $ 0.48 |
| Diluted | $ 0.59 | $ 0.48 |
| Dividends per common share | $ 0.34 | $ 0.33 |
| Average outstanding shares: | | |
| Basic | 104,859,427 | 80,902,368 |
| Diluted | 105,162,858 | 81,306,540 |

*See notes to consolidated unaudited financial statements*

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**(Dollars in thousands)**

| | Three Months Ended March 31 | |
|---|---|---|
| | **2018** | **2017** |
| Net income | $ 61,706 | $ 38,809 |
| Change in net unrealized gain on available-for-sale (AFS) securities, net of tax | (16,773) | 3,378 |
| Accretion of the net unrealized loss on the transfer of AFS securities to held-to-maturity (HTM) securities, net of tax | 1 | 1 |
| Change in defined benefit pension plan, net of tax | 733 | 695 |
| Comprehensive income, net of tax | $ 45,667 | $ 42,883 |

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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**(Dollars in thousands, except per share data)**

| | Three Months Ended March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | Accumulated Other | | Total |
| | Shares | Par Value | Surplus | Retained Earnings | Comprehensive Income (Loss) | Treasury Stock | Shareholders Equity |
| Balance at January 1, 2018 | 105,069,821 | $ 262,675 | $ 2,129,077 | $ 891,816 | ($ 42,025) | ($ 1,013) | $ 3,240,530 |
| Cumulative effect of adopting Accounting Standard Update 2016-01 | | | | 136 | (136) | | 0 |
| Reclass due to adopting Accounting Standard Update 2018-02 | | | | 6,353 | (6,353) | | 0 |
| Comprehensive income: | | | | | | | |
| Net income | 0 | 0 | 0 | 61,706 | 0 | 0 | 61,706 |
| Other comprehensive income, net of tax: | 0 | 0 | 0 | 0 | (16,039) | 0 | (16,039) |
| Total comprehensive income, net of tax | | | | | | | 45,667 |
| Stock based compensation expense | 0 | 0 | 968 | 0 | 0 | 0 | 968 |
| Purchase of treasury stock (10,842 shares) | 0 | 0 | 0 | 0 | 0 | (404) | (404) |
| Cash dividends ($0.34 per share) | 0 | | | (35,748) | 0 | 0 | (35,748) |
| Grant of restricted stock (97,004 shares) | 97,004 | 243 | (243) | 0 | 0 | 0 | 0 |
| Forfeiture of restricted stock (683 shares) | 0 | 0 | 27 | 0 | 0 | (27) | 0 |
| Common stock options exercised (15,043 shares) | 15,043 | 37 | 263 | 0 | 0 | 0 | 300 |
| Balance at March 31, 2018 | 105,181,868 | $ 262,955 | $ 2,130,092 | $ 924,263 | ($ 64,553) | ($ 1,444) | $ 3,251,313 |

*See notes to consolidated unaudited financial statements.*

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**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**(Dollars in thousands)**

| | Three Months Ended March 31 | |
|---|---|---|
| | **2018** | **2017** |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 158,484 | $ 64,973 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from maturities and calls of securities held to maturity | 1 | 2,886 |
| Proceeds from sales of securities available for sale | 36,850 | 7,376 |
| Proceeds from maturities and calls of securities available for sale | 66,067 | 91,422 |
| Purchases of securities available for sale | (330,031) | (64,335) |
| Proceeds from sales of equity securities | 159 | 0 |
| Purchases of equity securities | (181) | 0 |
| Proceeds from sales and redemptions of other investment securities | 9,046 | 7,465 |
| Purchases of other investment securities | (3,672) | (6,227) |
| Purchases of bank premises and equipment | (756) | (1,680) |
| Proceeds from sales of bank premises and equipment | 1 | 0 |
| Proceeds from the sales of OREO properties | 3,433 | 1,558 |
| Net change in loans | 32,091 | (70,415) |
| NET CASH USED IN INVESTING ACTIVITIES | (186,992) | (31,950) |
| **FINANCING ACTIVITIES** | | |
| Cash dividends paid | (35,713) | (25,311) |
| Acquisition of treasury stock | (404) | 0 |
| Proceeds from exercise of stock options | 300 | 324 |
| Repayment of long-term Federal Home Loan Bank borrowings | (625,000) | (805,176) |
| Proceeds from issuance of long-term Federal Home Loan Bank borrowings | 615,000 | 795,000 |
| Repayment of trust preferred issuance | (9,374) | 0 |
| Changes in: | | |
| Deposits | (184,097) | 265,509 |
| Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings | (259,201) | (30,568) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (498,489) | 199,778 |
| (Decrease) Increase in cash and cash equivalents | (526,997) | 232,801 |
| Cash and cash equivalents at beginning of year | 1,666,167 | 1,434,527 |
| Cash and cash equivalents at end of period | $ 1,139,170 | $ 1,667,328 |
| Supplemental information | | |
| Noncash investing activities: | | |
| Transfers of loans to OREO | $ 527 | $ 951 |

*See notes to consolidated unaudited financial statements.*

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries ( United or the Company ) have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States (GAAP) 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 March 31, 2018 and 2017 and for the three-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2017 has been extracted from the audited financial statements included in United s 2017 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 2017 Annual Report of United on Form 10-K. To conform to the 2018 presentation, certain reclassifications have been made to prior period amounts, which had no impact on net income, comprehensive income, or stockholders equity. 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 operates in two business segments: community banking and mortgage banking. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Information is presented in these notes to the unaudited consolidated interim financial statements with dollars expressed in thousands, except per share or unless otherwise noted.

New Accounting Standards

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2018-03 clarifies that entities that use the measurement alternative for equity securities without readily determinable fair values can change its measurement approach to fair value. This election is irrevocable and will apply to all future purchases of identical or similar investments of the same issuer. The amended guidance also clarifies that adjustments made under the measurement alternative should reflect the fair value of the security as of the date that an observable transaction took place rather than the current reporting date. Entities will use the prospective transition approach only for securities they elect to measure using the measurement alternative. ASU No. 2018-03 is effective for interim and annual reporting periods beginning after December 15, 2017; early adoption is permitted. ASU No. 2018-03 did not have a material impact on the Company s financial condition or results of operations.

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to help organizations address certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act (the Tax Act ). This ASU provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. United adopted ASU No. 2018-02 in the first quarter of 2018 and reclassified $6,353 of stranded income tax effected amounts in AOCI to retained earnings.

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In August 2017, the FASB issued ASU No. 2017-12, Targeting Improvement to Accounting for Hedging Activities. This ASU amends ASC 815 and its objectives are to improve the transparency and understandability of information conveyed to financial statement users about an entity s risk management activities by better aligning the entity s financial reporting for hedging relationships with those risk management activities and reduce the complexity and simplify the application of hedge accounting by preparers. ASU No. 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. ASU No. 2017-12 is not expected to have a material impact on the Company s financial condition or results of operations.

In July 2017, the FASB issued ASU No. 2017-11, Part I, Accounting for Certain Financial Instruments with Down Round Features and Part II, Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling interests with a Scope Exception. Part I of this ASU simplifies the accounting for financial instruments that include down round features while the amendments in Part II, which do not have an accounting effect, address the difficulty of navigating the guidance in ASC 480, Distinguishing Liabilities from Equity , due to the existence of extensive pending content in the Codification. ASU No. 2017-11 is effective for interim and annual reporting periods beginning after December 15, 2018. ASU No. 2017-11 is not expected to have a material impact on the Company s financial condition or results of operations.

In May 2017, the FASB issued ASU No. 2017-09, Stock Compensation, Scope of Modification Accounting. This ASU clarifies when changes to the terms of conditions of a share-based payment award must be accounted for as modifications. Companies will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The new guidance should reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications, as the guidance will allow companies to make certain non-substantive changes to awards without accounting for them as modifications. It does not change the accounting for modifications. ASU No. 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017; early adoption is permitted. ASU No. 2017-09 did not have a material impact on the Company s financial condition or results of operations.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 amends ASC 715, Compensation - Retirement Benefits and will change how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. ASU 2017-07 was effective for United on January 1, 2018. The adoption of ASU 2017-07 had a slight change in presentation but did not materially impact the Company s financial condition or results of operations. United used amounts previously disclosed in its Employee Benefits Plan footnote (Note 14) to retrospectively adjust prior period amounts of employee compensation and employee benefits within United s Consolidated Statements of Income.

In January 2017, the FASB issued ASU 2017-04, Intangibles Goodwill and Other (topic 350). ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit s carrying amount over its fair value. ASU 2017-04 is effective for United on January 1, 2020, with early adoption permitted, and management is currently evaluating the possible impact this standard may have on the Company s financial condition or results of operations.

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In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 changes the definition of a business to assist entities with evaluation when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. ASU 2017-01 was effective for United on January 1, 2018 and did not have a material impact on the Company s financial condition or results of operations.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 amends ASC topic 230 to add and clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows as a result of diversity in practice and in certain circumstances, financial statement restatements. Entities should apply ASU 2016-15 using a retrospective transition method to each period presented. ASU 2016-15 was effective for United on January 1, 2018 and did not have a material impact on the Company s financial condition or results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments that aren t measured at fair value through net income. The standard will replace today s incurred loss approach with an expected loss model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the current other-than-temporary impairment (OTTI) model. ASU 2016-13 also simplifies the accounting model for purchased credit-impaired debt securities and loans. Entities will apply the standard s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for United on January 1, 2020, with early adoption permitted, and management is currently evaluating the possible impact this standard may have on the Company s financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will change certain aspects of accounting for share-based payments to employees. The new guidance will, amongst other things, require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. The requirement to report those income tax effects in earnings was applied to settlements occurring on or after January 1, 2017 and the impact of applying that guidance reduced reporting income tax expense by $1,048 for the year of 2017. ASU 2016-09 also allows an employer to repurchase more of an employee s shares than it could previously for tax withholding purposes without triggering liability accounting and make a policy election to account for forfeitures as they occur. The Company will continue to estimate the number of awards expected to be forfeited and adjust the estimate when it is no longer probable that the employee will fulfill the service condition, as was previously required. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award s vesting period. The adoption of ASU 2016-09 did not have a material impact on the Company s financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) . ASU 2016-02 includes a lessee accounting model that recognizes two types of leases, finance leases and operating leases, while lessor accounting will remain largely unchanged from the current GAAP. ASU 2016-02 requires, amongst other things, that a lessee recognize on the balance sheet a right-of-use asset and a lease liability for leases, which has not yet been quantified, with terms of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a

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lease by a lessee will depend on its classification as a finance or operating lease. ASU 2016-02 is effective for United on January 1, 2019. The Company is currently assessing the impact of the adoption of ASU 2016-02 on the Company s results of operations, financial position and cash flows. Significant implementation matters being addressed by the Company include gathering, documenting and analyzing all leases to assess the impact on accounting and disclosures, evaluating and implementing a third-party lease accounting software solution, assessing the impact to its internal controls over financial reporting, and documenting the new lease accounting process.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 makes changes to the classification and measurement of investments in equity securities, the presentation of certain fair value changes for financial liabilities measured at fair value under the fair value option and disclosure of fair value of instruments. In addition, ASU 2016-01 clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. ASU 2016-01 was adopted by United on January 1, 2018 and did not have a significant impact on the Company s financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in ASC topic 605, Revenue Recognition , and most industry-specific guidance throughout the ASC. The amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new revenue recognition standard sets forth a five-step principle-based approach for determining revenue recognition. For United, revenue is comprised of net interest income and noninterest income. As the standard does not apply to revenue associated with financial instruments, net interest income, gains and losses from securities, income from bank-owned life insurance (BOLI) and income from mortgage banking activities are not impacted by the standard. Based on a review and evaluation of a number of revenue contracts, United s management determined that ASU 2014-09 impacts certain recurring revenue streams related to noninterest income such as fees from trust and brokerage services. However, based on an assessment of these revenue streams under the standard, management concluded that ASU 2014-09 does not have a material impact on the Company s financial condition or results of operations. In addition, in the Company s evaluation of the nature of its contracts with customers, United has determined that further disaggregation of revenue from contracts with customers into more granular categories beyond those presented in the Consolidated Statements of Income was not necessary. ASU 2014-09 was adopted by United on January 1, 2018 using the modified-retrospective transition method. No cumulative effect adjustment was made to the opening balance of retained earnings because the amount was considered immaterial. The impact of ASU 2014-09 for the first three months of 2018 were also immaterial to United s consolidated financial position, results of operations, shareholders equity, cash flows and disclosures.

Descriptions of our revenue-generating activities that are within the scope of ASC topic 606, which are presented in our Consolidated Statements of Income as components of Other Income are discussed below. There are no significant judgements relating to the amount and timing of revenue recognition for those revenue streams under the scope of ASC topic 606.

*Fees from Trust Services*

Revenue from trust services primarily is comprised of fees earned from the management and administration of trusts and other customer assets. Trust services include custody of assets, investment management, escrow services, and similar fiduciary activities. The Company s performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers accounts.

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*Fees from Brokerage Services*

Revenue from brokerage services are recorded as the income is earned at the time the related service is performed. In return for such services, the Company charges a commission for the sales of various securities products primarily consisting of investment company shares, annuity products, and corporate debt and equity securities, for its selling and administrative efforts. For account supervision, advisory, and administrative services, revenue is recognized over a period of time as earned based on customer account balances and activity.

*Fees from Deposit Services*

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, ATM activity fees, debit card fees, and other deposit account related fees. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (ATM or debit card activity).

*Bankcard Fees and Merchant Discounts*

Bankcard fees and merchant discounts are primarily comprised of credit card income and merchant services income. Credit card income is primarily comprised of interchange fees earned whenever the Company s credit cards are processed through card payment networks such as Visa. Merchant services income mainly represents fees charged to merchants to process their credit card transactions. The Company s performance obligation for bankcard fees and exchange are largely satisfied, and related revenue recognized at the time services are rendered. Payment is typically received immediately or in the following month.

**2. MERGERS AND ACQUISITIONS**

Cardinal Financial Corporation

On April 21, 2017 (Cardinal Acquisition Date), United acquired 100% of the outstanding common stock of Cardinal Financial Corporation (Cardinal), headquartered in Tysons Corner, Virginia. The acquisition of Cardinal expands United s existing footprint in the Washington, D.C. Metropolitan Statistical Area. At consummation, Cardinal had assets of $4,136,008, loans of $3,313,033 and deposits of $3,344,740. Cardinal also operated George Mason Mortgage, LLC (George Mason), a residential mortgage lending company based in Fairfax, Virginia with offices located in Virginia, Maryland, North Carolina, South Carolina and the District of Columbia. As a result of the merger, George Mason became an indirectly-owned subsidiary of United.

The merger was accounted for under the acquisition method of accounting. The results of operations of Cardinal are included in the consolidated results of operations from the Cardinal Acquisition Date.

The aggregate purchase price was approximately $975,254, including common stock valued at $972,499, stock options assumed valued at $2,741, and cash paid for fractional shares of $14. The number of shares issued in the transaction was 23,690,589, which were valued based on the closing market price of $41.05 for United s common shares on April 21, 2017. The preliminary purchase price has been allocated to the identifiable tangible and intangible assets resulting in preliminary additions to goodwill, core deposit intangibles and the George Mason trade name intangible of $613,486, $28,724 and $1,080, respectively. The core deposit intangibles are expected to be amortized over ten years. The George Mason trade name provides a source of market recognition to attract potential clients and retain existing relationships. United believes the George Mason trade name provides a competitive advantage and is likely going to be used into perpetuity and thus will not be subject to amortization, but rather be evaluated for impairment.

Because the consideration paid was greater than the net fair value of the acquired assets and liabilities, the Company recorded goodwill as part of the acquisition. None of the goodwill from the Cardinal acquisition is expected to be

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deductible for tax purposes. United used an independent third party to help determine the fair values of the assets and liabilities acquired from Cardinal. As a result of the merger, United recorded preliminary fair value discounts of $144,434 on the loans acquired, $2,281 on leases and $8,738 on trust preferred issuances, respectively, and premiums of $4,408 on land acquired, $5,072 on interest-bearing deposits and $10,740 on long-term FHLB advances, respectively. The remaining discount and premium amounts are being accreted or amortized on an accelerated or straight-line basis over each asset s or liability s estimated remaining life at the time of acquisition except for loans and land. The discount on loans will be accreted into income based on the effective yield method. The premium on land will not be amortized. At March 31, 2018, the discounts on leases and trust preferred issuances had an average estimated remaining life of 5.5 years and 16.47 years, respectively, and the premiums on the interest-bearing deposits and the FHLB advances each had an average estimated remaining life of 4.5 years and 4.31 years, respectively. United assumed approximately $1,825 of liabilities to provide severance benefits to terminated employees of Cardinal, which has no remaining balance as of March 31, 2018. The estimated fair values of the acquired assets and assumed liabilities, including identifiable intangible assets and goodwill are preliminary as of March 31, 2018 and are subject to refinement as additional information relative to closing date fair values becomes available. Any subsequent adjustments to the fair values of acquired assets and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the measurement period following the date of acquisition.

In many cases, determining the estimated fair value of the acquired assets and assumed liabilities required United to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the fair value of acquired loans. The fair value of the acquired loans was based on the present value of the expected cash flows. Periodic principal and interest cash flows were adjusted for expected losses and prepayments, then discounted to determine the present value and summed to arrive at the estimated fair value. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with GAAP, there was no carry-over of Cardinal s previously established allowance for loan losses.

The acquired loans were divided into loans with evidence of credit quality deterioration, which are accounted for under ASC topic 310-30 (acquired impaired) and loans that do not meet this criteria, which are accounted for under ASC topic 310-20 (acquired performing). Acquired impaired loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that United will be unable to collect all contractually required payments receivable, including both principal and interest. Subsequent decreases in the expected cash flows require United to evaluate the need for additions to the Company s allowance for credit losses. Subsequent improvements in expected cash flows generally result in the recognition of additional interest income over the then remaining lives of the loans.

In conjunction with the Cardinal merger, the acquired loan portfolio was accounted for at fair value as follows:

| | April 21, 2017 |
|---|---|
| Contractually required principal and interest at acquisition | $ 4,211,734 |
| Contractual cash flows not expected to be collected | (56,176) |
| Expected cash flows at acquisition | 4,155,558 |
| Interest component of expected cash flows | (986,959) |
| Basis in acquired loans at acquisition estimated fair value | $ 3,168,599 |

Included in the above table is information related to acquired impaired loans. Specifically, contractually required principal and interest, cash flows expected to be collected and estimated fair value of acquired impaired loans were $132,837, $108,275, and $86,696, respectively.

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The consideration paid for Cardinal s common equity and the preliminary amounts of acquired identifiable assets and liabilities assumed as of the Cardinal Acquisition Date were as follows:

| | |
|---|---|
| Purchase price: | |
| Value of common shares issued (23,690,589 shares) | $ 972,499 |
| Fair value of stock options assumed | 2,741 |
| Cash for fractional shares | 14 |
| Total purchase price | 975,254 |
| Identifiable assets: | |
| Cash and cash equivalents | 44,545 |
| Investment securities | 395,829 |
| Loans held for sale | |