UNITED BANCSHARES INC/OH
Form 10-Q
October 30, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

Commission file number 333-86453

UNITED BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

105 Progressive Drive, Columbus Grove, Ohio

(Address of principal executive offices)

34-1516518

(I.R.S. Employer Identification Number)

45830

(Zip Code)

(419) 659-2141

(Registrant's telephone number, including area code)

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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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.

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2017: 3,267,643.

This document contains 77 pages. The Exhibit Index is on page 42 immediately preceding the filed exhibits.

UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

United Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)

	(in thousands except share data)	
	September 30, 2017	December 31, 2016
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$9,401	$9,926
Interest-bearing deposits in other banks	4,448	4,260
Total cash and cash equivalents	13,849	14,186
SECURITIES, available-for-sale	178,740	190,205
FEDERAL HOME LOAN BANK STOCK, at cost	5,302	4,830
CERTIFICATES OF DEPOSIT, at cost	1,245	1,494
LOANS HELD FOR SALE	6,993	1,510
LOANS AND LEASES	493,089	376,086
Less allowance for loan and lease losses	2,817	3,345
Net loans and leases	490,272	372,741
PREMISES AND EQUIPMENT, net	19,312	13,395
GOODWILL	25,432	10,072
CORE DEPOSIT INTANGIBLE ASSETS, net	829	766
CASH SURRENDER VALUE OF LIFE INSURANCE	17,726	17,351
OTHER REAL ESTATE OWNED	451	578
OTHER ASSETS, including accrued interest receivable	10,562	5,991
TOTAL ASSETS	$770,713	$633,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest-bearing	$104,913	$98,134
Interest-bearing	532,761	426,546
Total deposits	637,674	524,680
Other borrowings	40,260	18,774
Junior subordinated deferrable interest debentures	12,832	12,806
Other liabilities	4,233	4,301
Total liabilities	694,999	560,561
SHAREHOLDERS' EQUITY		

Common stock, stated value $1.00, authorized 10,000,000 shares;		
issued 3,760,557 shares	3,761	3,761
Surplus	14,746	14,674
Retained earnings	64,521	62,717
Accumulated other comprehensive income (loss)	396	(866)
Treasury stock, at cost, 492,914 shares at September 30, 2017		
and 494,040 shares at December 31, 2016	(7,710)	(7,728)
Total shareholders' equity	75,714	72,558
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$770,713	$633,119

The accompanying notes are an integral part of the consolidated financial statements.

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United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	(in thousands except share data)			
	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Loans and leases, including fees	$5,384	$4,498	$14,516	$12,980
Securities:				
Taxable	581	552	1,833	1,623
Tax-exempt	420	390	1,266	1,224
Other	99	101	257	262
Total interest income	6,484	5,541	17,872	16,089
INTEREST EXPENSE				
Deposits	559	437	1,466	1,249
Borrowings	217	143	569	403
Total interest expense	776	580	2,035	1,652
Net interest income	5,708	4,961	15,837	14,437
CREDIT FOR LOAN AND LEASE LOSSES	-	-	(350)	(700)
Net interest income after credit for loan and lease losses	5,708	4,961	16,187	15,137
NON-INTEREST INCOME				
Gain on sale of loans	235	202	466	409
Net securities gains	30	23	111	159
Other operating income	1,095	1,064	3,168	2,903
Total non-interest income	1,360	1,289	3,745	3,471
NON-INTEREST EXPENSES	6,427	4,454	15,949	13,371
INCOME BEFORE INCOME TAXES	641	1,796	3,983	5,237
PROVISION FOR INCOME TAXES	239	418	1,002	1,216
NET INCOME	$402	$1,378	$2,981	$4,021
NET INCOME PER SHARE (basic and diluted)	$0.12	$0.42	$0.91	$1.22
Weighted average common shares outstanding (basic)	3,267,527	3,287,875	3,267,191	3,295,307
Weighted average common shares outstanding (diluted)	3,273,313	3,287,875	3,272,976	3,295,307

The accompanying notes are an integral part of the consolidated financial statements.

United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

	(in thousands) Three months ended September 30,		(in thousands) Nine months ended September 30,	
	2017	2016	2017	2016
NET INCOME	$402	$1,378	$2,981	$4,021
OTHER COMPREHENSIVE INCOME				
Unrealized gains on securities:				
Unrealized holding gains (losses) during period	189	(886)	2,023	2,376
Reclassification adjustments for gains included in net income	(30)	(23)	(111)	(159)
Other comprehensive income (loss), before income taxes	159	(909)	1,912	2,217
Income tax expense (benefit) related to items of other comprehensive income (loss)	54	(309)	650	754
Other comprehensive income (loss)	105	(600)	1,262	1,463
COMPREHENSIVE INCOME	$507	$778	$4,243	$5,484

The accompanying notes are an integral part of the consolidated financial statements.

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United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (Unaudited)

Nine months ended September 30, 2017 and 2016

	(in thousands except share data)					
	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
BALANCE AT DECEMBER 31, 2016	$3,761	$14,674	$62,717	$ (866)	$(7,728)	$72,558
Comprehensive income:						
Net income	-	-	2,981	-	-	2,981
Other comprehensive income	-	-	-	1,262	-	1,262
1,126 shares issued from treasury in connection with						
the Corporation's Employee Stock Purchase Plan	-	7	-	-	18	25
Stock option expense	-	65	-	-	-	65
Cash dividends declared, $0.36 per share	-	-	(1,177)	-	-	(1,177)
BALANCE AT SEPTEMBER 30, 2017	$3,761	$14,746	$64,521	$ 396	$(7,710)	$75,714
BALANCE AT DECEMBER 31, 2015	$3,761	$14,669	$58,642	$ 1,397	$(6,908)	$71,561
Comprehensive income:						
Net income	-	-	4,021	-	-	4,021
Other comprehensive income	-	-	-	1,463	-	1,463
Repurchase of 33,668 shares	-	-	-	-	(633)	(633)
843 shares issued from treasury in connection with						
the Corporation's Employee Stock Purchase Plan	-	5	-	-	13	18
Cash dividends declared, $0.33 per share	-	-	(1,086)	-	-	(1,086)
BALANCE AT SEPTEMBER 30, 2016	$3,761	$14,674	$61,577	$ 2,860	$(7,528)	$75,344

United Bancshares, Inc. and Subsidiaries

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine months ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	$582	$4,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, calls and maturities of available-for-sale securities	42,791	34,475
Purchases of available-for-sale securities	(29,941)	(41,884)
Proceeds from certificates of deposit	249	-
Proceeds from sale of other real estate owned	358	266
Acquisition of Benchmark Bancorp, Inc., net of cash received	(24,660)	-
Net increase in loans and leases	(23,556)	(4,724)
Purchases of premises and equipment	(3,943)	(37)
Net cash used in investing activities	(38,702)	(11,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	17,449	(902)
Proceeds from other borrowings	40,260	3,609
Principal payments on other borrowings	(18,774)	-
Purchase of treasury shares	-	(633)
Proceeds from sale of treasury shares	25	18
Cash dividends paid	(1,177)	(1,086)
Net cash provided by financing activities	37,783	1,006
NET DECREASE IN CASH AND CASH EQUIVALENTS	(337)	(6,672)
CASH AND CASH EQUIVALENTS		
At beginning of period	14,186	22,922
At end of period	$13,849	$16,250
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid during the period for:		
Interest	$1,899	$1,597
Federal income taxes	$425	$610
Non-cash investing activities:		
Transfer of loans to other real estate owned	$241	$644
Change in net unrealized gain or loss on available-for-sale securities	$1,912	$2,217

The accompanying notes are an integral part of the consolidated financial statements.

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2017

NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of United Bancshares, Inc. and subsidiaries (the "Corporation") have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The balance sheet as of December 31, 2016 is derived from completed audited consolidated financial statements with footnotes, which are included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, The Union Bank Company (the "Bank"). The Bank has formed a wholly-owned subsidiary, UBC Investments, Inc. ("UBC"), to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. The Bank has also formed a wholly-owned subsidiary, UBC Property, Inc. ("UBC Property"), to hold and manage certain property. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Corporation conform to generally accepted practices within the banking industry. The Corporation considers all of its principal activities to be banking related.

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The guidance does not apply to revenues associated with financial instruments, including loans and securities that are accounted for under U.S. GAAP. The Corporation does not expect the guidance will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, amending ASU Subtopic 825-10. The amendments in this update make targeted improvements to generally accepted accounting principles (GAAP) as follows: 1) require equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; 4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and 8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The Corporation has begun gathering data and is currently assessing the impact that this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASC requires that both types of leases by recognized on the balance sheet. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Corporation's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). ASU 2016-09 is intended to simplify the accounting for share-based payment transactions, including income tax consequences, classification of awards as either assets or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Corporation does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. Management has begun gathering data and evaluating the process for calculating the allowance for loan losses under the requirements of ASU 2016-13, but has not yet determined the expected impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The guidance in this update eliminates the Step 2 from the goodwill impairment test. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual goodwill impairment test with a measurement date after January 1, 2017. The Corporation does not expect the guidance to have a material impact on the consolidated financial statements.

NOTE 3 – ACQUISITION

On September 8, 2017, after receiving full board of director and regulatory approval, the Corporation completed the acquisition of Benchmark Bancorp, Inc. ("Benchmark") and its wholly-owned subsidiary, Benchmark Bank, in an all cash transaction. Under the terms of the merger agreement, shareholders of Benchmark received approximately $8.59 per share for each outstanding common share. Immediately following the merger of Benchmark with and into the Corporation, Benchmark Bank merged with and into the Bank.

As a result of the acquisition, the two full-service banking centers of Benchmark Bank located in Gahanna and Westerville, Ohio, became full service offices of the Bank, and one mortgage loan production office located in Gahanna Ohio, became a mortgage loan production office of the Bank. With the acquisition, the Corporation has expanded its geographical footprint in an effort to help continue the growth of the Corporation's overall profile in size and in earnings.

The results of operations of Benchmark are included in the Corporation's consolidated operating results for the period subsequent to the date of the transaction. Acquisition-related costs of $1,115,000 and $1,271,000, respectively, for the quarter and nine month periods ended September 30, 2017, are included in other non-interest operating expenses in the accompanying consolidated statements of income for the quarter and nine month periods ended September 30, 2017.

Goodwill of $15,360,000 arising from the acquisition consists largely of synergies and the cost savings expected to result from the combining of operations and is not expected to be deductible for income tax purposes.

Consideration paid and the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date are as follows (dollars in thousands):

Cash and cash equivalents	$6,092
Restricted stock	472
Loans, including loans held for sale	98,804
Premises and equipment	2,483
Core deposit intangible asset	146
Other real estate owned	141
Other assets, including accrued interest receivable	5,460

Total assets acquired	113,598
Deposits	95,545
Other liabilities	2,661
Total liabilities assumed	98,206
Net identifiable assets	15,392
Goodwill	15,360
Total cash paid	$30,752

The acquisition was partially funded through other borrowings, as more fully described in Note 6.

Explanatory Note: The following unaudited pro forma condensed combined consolidated financial statements, as well as the consolidated financial statements of Benchmark as of and for the year ended December 31, 2016, filed herewith as Exhibit 99.2 are intended to satisfy the Corporation’s reporting obligation under Item 9.01 of Form 8-K.

Unaudited Pro Forma Condensed Combined Consolidated Financial Statements

The following unaudited pro forma condensed combined consolidated balance sheet as of June 30, 2017 gives effect to the acquisition as if the merger occurred on that date. The unaudited pro forma condensed combined consolidated statement of income for the six months ended June 30, 2017 and the year ended December 31, 2016 give effect to the acquisition, as if the merger had occurred on January 1, 2016. The pro forma adjustments are based on estimates made for the purpose of preparing these pro forma financial statements and are described in the accompanying Notes. The Corporation’s management believes that the estimates used in these pro forma financial statements are reasonable under the circumstances.

The unaudited pro forma condensed combined consolidated financial information has been prepared based on the purchase method of accounting.

The unaudited pro forma condensed combined consolidated financial statements included herein are presented for information purposes only. The unaudited pro forma condensed combined consolidated balance sheet as of June 30, 2017 is not necessarily indicative of the combined financial position had the merger been effective at that date. The unaudited pro forma condensed combined consolidated statements of income are not necessarily indicative of the results of operations that would have occurred had the merger been effective at the beginning of the period indicated, or of the future results of operations of the Corporation.

These pro forma financial statements do not include the effects of any potential cost savings which management believes will result from operating Benchmark Bank as branches and combining certain operating procedures. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during this period.

	(in thousands except per share data) June 30, 2017				
	Historical United	Historical Benchmark	Pro Forma Adjustments Debit/(Credit)	Footnote Reference	Pro Forma Combined
	(Unaudited)				
ASSETS:					
Cash and due from banks	$14,155	$ 9,982	$ (5,897)	(1)	$ 18,240
Fed Funds sold	-	775	-		775
Securities, available-for-sale	183,975	1,621	-		185,596
Loans, gross	385,777	105,798	(3,046)	(2)	488,529
Allowance for loan losses	(2,829)	(1,088)	1,088	(3)	(2,829)
Premises and equipment	17,008	2,409	142	(4)	19,559
Other real estate owned	344	351	(211)	(5)	484
Federal Home Loan Bank stock	4,829	473	-		5,302
Bank owned life insurance	17,548	-	-		17,548
Other intangible assets	707	-	146	(6)	853
Goodwill	10,072	-	14,586	(7)	24,658
Accrued interest and other assets	5,092	4,029	618	(8)	9,739
Total Assets	$636,678	$ 124,350	$ 7,426		$ 768,454
LIABILITIES:					
Deposits	$537,303	$ 97,862	$ 418	(9)	$ 635,583
Other borrowings	7,571	8,000	25,000	(1)	40,571
Trust preferred	12,823	-	-		12,823

Accrued expenses and other liabilities	3,425	641	-		4,066
Total Liabilities	$561,122	$ 106,503	$ 25,418		$ 693,043
EQUITY:					
Common stock	$3,761	$ 3,115	$ (3,115)	(10)	$ 3,761
Preferred stock	-	2	(2)	(10)	-
Warrants	-	38	(38)	(10)	-
Additional paid-in capital - Common	-	20,923	(20,923)	(10)	-
Additional paid-in capital - Preferred	-	1,605	(1,605)	(10)	-
Surplus	14,712	-	-		14,712
Retained earnings (accumulated deficit)	64,511	(7,814)	7,669	(11)	64,366
Treasury stock	(7,719)	-	-		(7,719)
Accumulated other comprehensive income (loss)	291	(22)	22	(12)	291
Total Stockholders' Equity	75,556	17,847	(17,992)		75,411
Total Liabilities & Stockholders' Equity	$636,678	$ 124,350	$ 7,426		$ 768,454

(in thousands except per share data)
For the Six months Ended June 30, 2017

	Historical United	Historical Benchmark	Pro Forma Adjustments Debit/(Credit)	Footnote Reference	Pro Forma Combined
	(Unaudited)				
Interest Income	$11,389	$ 3,128	$ 187	(13)	$ 14,704
Interest Expense	1,260	434	158	(14)	1,852
Net interest income	10,129	2,694	29		12,852
Credit for loan losses	(350)	(96)	-		(446)
Net interest income after provision for loan losses	10,479	2,790	29		13,298
Non-interest income	2,385	2,651	-		5,036
Non-interest expense	9,522	5,028	15	(15)(16)	14,565
Income before income taxes	3,342	413	14		3,769
Income tax provision	763	207	5	(17)	975
Net Income	$2,579	$ 206	$ 9		$ 2,794
Earnings per share					
Basic	$0.79	$ 0.07			
Diluted	$0.79	$ 0.07			
Pro Forma earnings per share					
Basic				(18)	$ 0.86
Diluted				(18)	$ 0.86

(in thousands except per share data)
For the Year Ended December 31, 2016

	Historical United	Historical Benchmark	Pro Forma Adjustments Debit/(Credit)	Footnote Reference	Pro Forma Combined
	(Unaudited)				
Interest Income	$21,627	$ 6,082	$ 334	(13)	$ 28,043
Interest Expense	2,231	700	318	(14)	3,249
Net interest income	19,396	5,382	16		24,794
Credit for loan losses	(750)	(256)	-		(1,006)
Net interest income after provision for loan losses	20,146	5,638	16		25,800
Non-interest income	4,903	6,473	-		11,376
Non-interest expense	17,784	10,636	29	(15)(16)	28,449
Income before income taxes	7,265	1,475	(13)		8,727
Income tax provision	1,744	(3,652)	(5)	(17)	(1,913)
Net Income	$5,521	$ 5,127	$ (8)		$ 10,640

Earnings per share				
Basic	$1.68	$ 1.65		
Diluted	$1.68	$ 1.65		
Pro Forma earnings per share				
Basic			(18)	$ 3.43
Diluted			(18)	$ 3.43

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PRELIMINARY PURCHASE ACCOUNTING ALLOCATIONS

The unaudited pro forma condensed combined consolidated financial information for the merger includes an unaudited pro forma condensed combined balance sheet as of June 30, 2017 assuming the merger was completed on June 30, 2017. The unaudited pro forma condensed combined consolidated statements of income is for the six months ended June 30, 2017.

	(in thousands) **June 30, 2017**	**Footnote Reference**	
Benchmark Bancorp shareholders' equity - June 30, 2017 plus/(minus) estimated fair value adjustments:			$17,847
Loan fair value	$(3,046)	(2)	
Allowance for loan losses	1,088	(3)	
Loans, net	(1,958)		
Building	142	(4)	
OREO	(211)	(5)	
Core deposit intangible asset	146		
Deferred tax asset, net	618	(8)	
Deposits - fixed maturity	(418)	(9)	
Total fair value adjustments			$(1,681)
Estimated fair value of Benchmark Bancorp net assets at June 30, 2017			16,166
Total consideration paid to Benchmark Bancorp shareholders (**)			30,752
Goodwill			$14,586

** The purchase price is based on estimated total cash consideration of $30,752.

A. Notes:

(1) Cash consideration of $30,752,000 paid to Benchmark Bancorp’s shareholders plus estimated transaction costs of $145,000 net of tax, less additional borrowings of $25,000,000.

(2) The fair value of Benchmark's loan portfolio acquired in the transaction is estimated by United to be less than book value. Based on management's judgment, United applied a discount to the loan portfolio to estimate the fair value adjustment as of June 30, 2017. The adjustment reflects United's estimates of both market interest rate differential and credit considerations on pools of loans and the potential adjustments required by ASC 310-30, "Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality" for applicable individual loans. The portion of the fair market value adjustment that is accretable is assumed to amortize into interest income on a level yield basis over the estimated remaining life of the loans.

(3) Elimination of Benchmark's allowance for loan losses.

(4) Adjusts bank premises to appraised value at June 30, 2017.

(5) Adjusts the value of OREO at June 30, 2017 to estimated fair value.

(6) Represents the establishment of the estimated core deposit intangible. The core deposit intangible is assumed to amortize into non-interest expense over 10 years, using accelerated methods.

(7) Goodwill estimate based on the excess of the purchase price over the estimated fair value of the net assets acquired.

(8) Tax effect of estimated fair market value adjustments.

(9) Estimated fair market value adjustment related to deposits and is assumed to amortize into interest expense on a level yield basis over the estimated remaining maturity of the deposits.

(10) Reflects the elimination of Benchmark's common and preferred stock, including related additional paid-in capital, as well as warrants.

(11) Reflects the elimination of Benchmark's accumulated deficit of $7,814,000, net of after-tax transaction costs of $145,000.

(12) Reflects the elimination of Benchmark's accumulated other comprehensive loss of $22,000.

(13) Interest income impact of loan discount accretion on purchase accounting adjustment, net of lost earnings on cash consideration paid and net merger costs, after tax.

(14) Interest expense on other borrowings incurred to facilitate the transaction, net of estimated fair value adjustment related to deposits assumed to amortize into interest expense on an accelerated basis over 5 years.

(15) Reflects additional depreciation on fair value adjustment of bank premises.

(16) Reflects core deposit intangible amortization over 10 years, using accelerated methods.

(17) Represents the income tax effect (34%) of the impact of pro forma adjustments on income before tax.

(18) Basic and diluted pro forma earnings per share for the six months ended June 30, 2017 have been computed based on 3,267,020 basic and 3,271,477 diluted shares, respectively. Basic and diluted pro forma earnings per share for the year ended December 31, 2016 have been computed based upon 3,289,497 basic and diluted shares.

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of September 30, 2017 and December 31, 2016 are as follows:

	(in thousands) September 30, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Obligations of states and political subdivisions	$69,796	$70,800	$70,757	$70,624
Mortgage-backed	107,342	106,948	119,758	118,595
Other	1,002	992	1,002	986
Total	$178,140	$178,740	$191,517	$190,205

A summary of gross unrealized gains and losses on available-for-sale securities as of September 30, 2017 and December 31, 2016 follows:

	September 30, 2017		December 31, 2016	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Available-for-sale:				
Obligations of states and political subdivisions	$1,210	$ 206	$644	$ 777
Mortgage-backed	603	997	769	1,932
Other	-	10	-	16
Total	$1,813	$ 1,213	$1,413	$ 2,725

NOTE 5 – LOANS AND LEASES

The following tables present the activity in the allowance for loan and lease losses by portfolio segment for the periods ending September 30, 2017 and 2016:

(in thousands)

	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2016	$896	$ 1,876	$ 542	$ 31	$3,345
Provision (credit) charged to expenses	(374)	(65)	65	24	(350)
Losses charged off	(36)	(553)	(45)	(23)	(657)
Recoveries	78	381	12	8	479
Balance at September 30, 2017	$564	$ 1,639	$ 574	$ 40	$2,817

	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2015	$ 893	$ 2,540	$ 373	$ 28	$3,834
Provision (credit) charged to expenses	163	(904)	42	(1)	(700)
Losses charged off	(86)	(11)	(24)	(8)	(129)
Recoveries	28	285	62	8	383
Balance at September 30, 2016	$ 998	$ 1,910	$ 453	$ 27	$3,388

The following tables present the balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and based on impairment method for the periods ending September 30, 2017 and December 31, 2016:

(in thousands)

September 30, 2017	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	$98	$ -	$ -	$ -	$98
Collectively evaluated for impairment	466	1,639	574	40	2,719
Total allowance for loan and lease losses	$564	$ 1,639	$ 574	$ 40	$2,817
Loans and leases:					
Individually evaluated for impairment	$490	$ 396	$ -	$ -	$886
Acquired with deteriorated credit quality	-	915	227	-	1,142
Collectively evaluated for impairment	64,284	301,085	121,180	4,512	491,061
Total ending loans and leases balance	$64,774	$ 302,396	$ 121,407	$ 4,512	$493,089

December 31, 2016	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	$ 399	$ 619	$ -	$ -	$1,018
Collectively evaluated for impairment	497	1,257	542	31	2,327
Total allowance for loan and lease losses	$ 896	$ 1,876	$ 542	$ 31	$3,345
Loans and leases:					
Individually evaluated for impairment	$ 937	$ 1,980	$ -	$ -	$2,917
Acquired with deteriorated credit quality	-	573	51	-	624
Collectively evaluated for impairment	62,782	216,933	88,818	4,012	372,545
Total ending loans and leases balance	$ 63,719	$ 219,486	$ 88,869	$ 4,012	$376,086

Impaired loans and leases were as follows as of September 30, 2017 and December 31, 2016:

	(in thousands) September 30, 2017	December 31, 2016
Loans and leases with no allowance for loan and lease losses allocated	$396	$ -
Loans and leases with allowance for loan and lease losses allocated	490	2,917
Total impaired loans and leases	886	2,917
Amount of the allowance allocated to impaired loans and leases	$98	$ 1,018

No additional funds are committed to be advanced in connection with impaired loans and leases.

The average recorded investment in impaired loans and leases (excluding loans and leases acquired with deteriorated credit quality) for the nine month periods ended September 30, 2017 and 2016 was approximately $1.8 million and $4.5 million, respectively. There was $86,000 and $255,000 in interest income recognized by the Corporation on impaired loans and leases on an accrual or cash basis for the nine month periods ended September 30, 2017 and 2016, respectively.

The following table presents loans and leases individually evaluated for impairment by class of loans as of September 30, 2017 and December 31, 2016:

(in thousands)	September 30, 2017		December 31, 2016	
	Recorded investment	Allowance for loan and lease losses allocated	Recorded investment	Allowance for loan and lease losses allocated
With no related allowance recorded:				
Commercial	$-	$ -	$-	$ -
Commercial and multi-family real estate	396	-	-	-
Agriculture	-	-	-	-
Agricultural real estate	-	-	-	-
Consumer	-	-	-	-
Residential 1-4 family real estate	-	-	-	-
With an allowance recorded:				
Commercial	490	98	937	399
Commercial and multi-family real estate	-	-	1,980	619
Agriculture	-	-	-	-
Agricultural real estate	-	-	-	-
Consumer	-	-	-	-
Residential 1-4 family real estate	-	-	-	-
Total	$886	$ 98	$2,917	$ 1,018

The following tables present the recorded investment in nonaccrual loans and leases, loans and leases past due over 90 days still on accrual and troubled debt restructurings by class of loans as of September 30, 2017 and December 31, 2016:

	(in thousands)		
September 30, 2017	Nonaccrual	Loans and leases past due over 90 days still accruing	Troubled Debt Restructurings
Commercial	$618	$ -	$ 27
Commercial real estate	1,573	-	604

Agricultural real estate	233	-	-
Agriculture	-	-	-
Consumer	-	-	-
Residential:			
1 – 4 family	726	199	436
Home equity	-	-	-
Total	$3,150	$ 199	$ 1,067