

UNITED BANCSHARES INC/OH  
Form 10-Q  
April 24, 2014

**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 March 31, 2014**

Commission file number 000-29283

**UNITED BANCSHARES, INC.**

(Exact name of Registrant as specified in its charter)

**Ohio**

(State or other jurisdiction of incorporation or organization)

**100 S. High Street, 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

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 April 19, 2014:  
3,431,364

This document contains 42 pages. The Exhibit Index is on page 36 immediately preceding the filed exhibits.

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**UNITED BANCSHARES, INC.**

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**PART 1 - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS****United Bancshares, Inc. and Subsidiaries**

Consolidated Balance Sheets (Unaudited)

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$8,938,457	\$13,698,325
Interest-bearing deposits in other banks	4,949,015	8,709,133
Total cash and cash equivalents	13,887,472	22,407,458
<b>SECURITIES</b> , available-for-sale	199,687,648	197,079,925
<b>FEDERAL HOME LOAN BANK STOCK</b> , at cost	4,144,200	4,893,800
<b>CERTIFICATES OF DEPOSIT</b>	2,739,000	2,739,000
<b>LOANS HELD FOR SALE</b>	537,136	423,720
<b>LOANS</b>	301,139,746	295,313,069
Less allowance for loan losses	(3,950,542 )	(4,014,391 )
Net loans	297,189,204	291,298,678
<b>PREMISES AND EQUIPMENT</b> , net	9,095,308	9,165,532
<b>GOODWILL</b>	8,554,979	8,554,979
<b>CORE DEPOSIT INTANGIBLE ASSETS</b> , net	122,571	132,786
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	14,268,323	14,173,138
<b>OTHER REAL ESTATE OWNED</b>	483,999	667,954
<b>OTHER ASSETS</b> , including accrued interest and intangible assets	4,177,077	4,697,774
<b>TOTAL ASSETS</b>	<b>\$554,886,917</b>	<b>\$556,234,744</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits		
Non-interest bearing	\$71,405,213	\$86,752,995
Interest bearing	389,673,963	381,247,070
Total deposits	461,079,176	468,000,065

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Other borrowings	16,064,533	12,100,552
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Other Liabilities	2,969,979	2,826,262
Total liabilities	490,413,688	493,226,879
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1.00 stated value. Authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,664,728	14,663,861
Retained earnings	51,193,044	50,807,689
Accumulated other comprehensive loss	(113,075 )	(1,358,205 )
Treasury stock 329,193 shares at March 31, 2014 and 318,506 shares at December 31, 2013, at cost	(5,032,025 )	(4,866,037 )
Total shareholders' equity	64,473,229	63,007,865
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$554,886,917</b>	<b>\$556,234,744</b>

See notes to consolidated financial statements.

**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statements of Income (Unaudited)

	Three months ended March 31,	
	2014	2013
<b>INTEREST INCOME</b>		
Loans, including fees	\$3,649,622	\$3,720,951
Securities:		
Taxable	652,068	577,123
Tax-exempt	481,767	452,961
Other	75,084	83,324
Total interest income	4,858,541	4,834,359
<b>INTEREST EXPENSE</b>		
Deposits	502,300	543,410
Other borrowings	167,999	273,206
Total interest expense	670,299	816,616
<b>NET INTEREST INCOME</b>	4,188,242	4,017,743
Provision for loan losses	-	-
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	4,188,242	4,017,743
<b>NON-INTEREST INCOME</b>		
Gain on sales of loans	54,249	217,905
Gain on sales of securities	1,752	129,220
Change in fair value of mortgage servicing rights	(53,391 )	56,429
Other	812,042	721,694
Total non-interest income	814,652	1,125,248
<b>NON-INTEREST EXPENSES</b>	3,945,735	3,766,367
<b>INCOME BEFORE INCOME TAXES</b>	1,057,159	1,376,624
Provision for income taxes	156,000	279,000
<b>NET INCOME</b>	\$901,159	\$1,097,624
<b>NET INCOME PER SHARE</b>		
Basic	\$0.26	\$0.32
Weighted average common shares outstanding	3,436,519	3,446,717
Diluted	\$0.26	\$0.32
Weighted average common shares outstanding	3,436,519	3,446,717

See notes to consolidated financial statements.



**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended March 31,	
	2014	2013
<b>NET INCOME</b>	\$901,159	\$1,097,624
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gains on securities:		
Unrealized holding gains (losses) during period	1,888,313	(1,055,083)
Reclassification adjustments for gains included in net income	(1,752 )	(129,220 )
Other comprehensive income (loss), before income taxes	1,886,561	(1,184,303)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(641,431 )	402,663
Other comprehensive income (loss)	1,245,130	(781,640 )
<b>COMPREHENSIVE INCOME</b>	\$2,146,289	\$315,984

See notes to consolidated financial statements.

**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Shareholders' Equity (Unaudited)

Three months ended March 31, 2014 and 2013

	<b>Common Stock</b>	<b>Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Treasury Stock</b>	<b>Total</b>
<b>BALANCE AT DECEMBER 31, 2013</b>	\$3,760,557	\$14,663,861	\$50,807,689	\$ (1,358,205 )	\$(4,866,037)	\$63,007,865
Net income			901,159			901,159
Other comprehensive income				1,245,130		1,245,130
Dividends declared (\$0.15 per share)			(515,804 )			(515,804 )
Repurchase of 11,000 shares					(170,770 )	(170,770 )
313 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		867			4,782	5,649
<b>BALANCE AT MARCH 31, 2014</b>	\$3,760,557	\$14,664,728	\$51,193,044	\$ (113,075 )	\$(5,032,025)	\$64,473,229
<b>BALANCE AT DECEMBER 31, 2012</b>	\$3,760,557	\$14,661,664	\$46,855,865	\$ 3,697,363	\$(4,805,244)	\$64,170,205
Net income			1,097,624			1,097,624
Other comprehensive income (loss)				(781,640 )		(781,640 )
Dividends declared (\$0.05 per share)			(172,337 )			(172,337 )
441 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		1,181			6,743	7,924
<b>BALANCE AT MARCH 31, 2013</b>	\$3,760,557	\$14,662,845	\$47,781,152	\$ 2,915,723	\$(4,798,501)	\$64,321,776

See notes to consolidated financial statements.



**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statement of Cash Flows (Unaudited)

	Three months ended March 31,	
	2014	2013
<b>Cash flows provided by operating activities</b>	\$1,193,401	\$1,864,872
<b>Cash flows used by investing activities:</b>		
Proceeds from calls or maturities of securities	8,005,297	11,360,439
Proceeds from sales of available-for-sale securities	-	8,821,116
Purchases of available-for-sale securities	(8,896,107 )	(27,070,210)
Net (increase) decrease in loans	(5,890,526 )	3,528,897
Proceeds from sale of FHLB stock	749,600	-
Proceeds from sale of other real estate owned	-	650,046
Expenditures for premises and equipment	(43,818 )	(98,417 )
Net cash used by investing activities	(6,075,554 )	(2,808,129 )
<b>Cash flows used by financing activities:</b>		
Net change in deposits	(6,920,889 )	(1,422,477 )
Long-term borrowings, net of repayments	3,963,981	(757,917 )
Proceeds from issuance of common stock	5,649	7,924
Repurchase of common stock	(170,770 )	-
Cash dividends paid	(515,804 )	(172,337 )
Net cash used by financing activities	(3,637,833 )	(2,344,807 )
<b>Net change in cash and cash equivalents</b>	(8,519,986 )	(3,288,064 )
Cash and cash equivalents:		
At beginning of period	22,407,458	49,911,807
At end of period	\$13,887,472	\$46,623,743
Cash paid for:		
Interest	\$691,692	\$802,116
Income taxes	\$-	\$150,000
Non-cash investing activities:		
Change in net unrealized gain (loss) on available-for-sale securities	\$1,888,313	\$(1,055,083 )

See notes to consolidated financial statements.



**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

**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 three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The balance sheet as of December 31, 2013 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, 2013.

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., to hold and manage certain property that is acquired in lieu of foreclosure. 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 July 2013, the FASB issued ASU 2013-11, Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The FASB issued ASU 2013-11 to eliminate the diversity in the presentation of unrecognized tax benefits in those instances. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Corporation has determined the provisions for ASU 2013-11 did not have a material impact on the financial statements.



**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014****NOTE 3 - SECURITIES**

The amortized cost and fair value of available-for-sale securities as of March 31, 2014 and December 31, 2013 are as follows (dollars in thousands):

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Amortized</b>	<b>Fair</b>	<b>Amortized</b>	<b>Fair</b>
	<b>cost</b>	<b>value</b>	<b>cost</b>	<b>value</b>
U.S. Government and agencies	\$11,638	\$11,424	\$12,637	\$12,333
Obligations of states and political subdivisions	65,654	66,512	66,585	66,540
Mortgage-backed	121,816	121,013	119,164	117,472
Other	752	739	752	735
Total	\$199,860	\$199,688	\$199,138	\$197,080

A summary of gross unrealized gains and losses on available-for-sale securities as of March 31, 2014 and December 31, 2013 follows (dollars in thousands):

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>
	<b>unrealized</b>	<b>realized</b>	<b>unrealized</b>	<b>realized</b>
	<b>gains</b>	<b>losses</b>	<b>gains</b>	<b>losses</b>
U.S. Government and agencies	\$1	\$ 215	\$-	\$ 304
Obligations of states and political subdivisions	1,477	619	1,113	1,158
Mortgage-backed	1,295	2,098	1,165	2,857
Other	-	13	-	17
Total	\$2,773	\$ 2,945	\$2,278	\$ 4,336





**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014****NOTE 4 – LOANS**

The following table presents the activity in the allowance for loan losses by portfolio segment for the periods ending March 31, 2014 and 2013:

	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential real estate</b>	<b>Consumer</b>	<b>Total</b>
Balance at December 31, 2013	\$ 305,434	\$ 3,346,286	\$ 344,803	\$ 17,868	\$4,014,391
Provision charged to expenses	(16,895 )	14,199	1,492	1,204	-
Losses charged off	-	(65,050 )	-	(7,299 )	(72,349 )
Recoveries	4,048	-	-	4,452	8,500
Balance at March 31, 2014	\$ 292,587	\$ 3,295,435	\$ 346,295	\$ 16,225	\$3,950,542

	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential real estate</b>	<b>Consumer</b>	<b>Total</b>
Balance at December 31, 2012	\$ 1,027,837	\$ 5,240,175	\$ 602,291	\$ 47,302	\$6,917,605
Provision charged to expenses	(213,665 )	313,335	(83,719 )	(15,951 )	-
Losses charged off	-	(1,007,834 )	-	(4,756 )	(1,012,590)
Recoveries	8,547	-	-	9,096	17,643
Balance at March 31, 2013	\$ 822,719	\$ 4,545,676	\$ 518,572	\$ 35,691	\$5,922,658

**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the periods ending March 31, 2014 and December 31, 2013:

<b>March 31, 2014</b>	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential real estate</b>	<b>Consumer</b>	<b>Total</b>
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	\$-	\$195,780	\$-	\$-	\$195,780
Collectively evaluated for impairment	292,587	3,099,655	346,295	16,225	3,754,762
Total allowance for loan losses	\$292,587	\$3,295,435	\$346,295	\$16,225	\$3,950,542
Loans:					
Individually evaluated for impairment	\$401,028	\$2,311,285	\$80,537	\$-	\$2,792,850
Collectively evaluated for impairment	52,433,958	185,204,858	57,034,117	3,673,963	298,346,896
Total ending loans balance	\$52,834,986	\$187,516,143	\$57,114,654	\$3,673,963	\$301,139,746
<b>December 31, 2013</b>	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential real estate</b>	<b>Consumer</b>	<b>Total</b>
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	\$-	\$179,016	\$-	\$-	\$179,016
Collectively evaluated for impairment	305,434	3,167,270	344,803	17,868	3,835,375
Total allowance for loan losses	\$305,434	\$3,346,286	\$344,803	\$17,868	\$4,014,391
Loans:					
Individually evaluated for impairment	\$401,028	\$2,316,969	\$81,437	\$-	\$2,799,434
Collectively evaluated for impairment	50,904,208	181,529,447	56,146,111	3,933,869	292,513,635

Total ending loans balance	\$51,305,236	\$183,846,416	\$56,227,548	\$3,933,869	\$295,313,069
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**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

Impaired loans were as follows as of March 31, 2014 and December 31, 2013:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Loans with no allowance for loan losses allocated	\$2,138,303	\$2,139,203
Loans with allowance for loan losses allocated	654,547	660,231
<b>Total impaired loans</b>	<b>\$2,792,850</b>	<b>\$2,799,434</b>
Amount of the allowance allocated to impaired loans	\$195,780	\$179,016

The average recorded investment in impaired loans for the three month periods ended March 31, 2014 and 2013 was approximately \$2.8 million and \$15.1 million, respectively. There was approximately \$13,000 and \$60,000 in interest income recognized by the Corporation on impaired loans on an accrual or cash basis for the three month periods ended March 31, 2014 and 2013, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2014 and December 31, 2013:

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Recorded</b>	<b>Allowance for loan investment losses allocated</b>	<b>Recorded</b>	<b>Allowance for loan investment losses allocated</b>
With no related allowance recorded:				
Commercial	\$-	\$-	\$-	\$-
Agriculture	401,028	-	401,028	-
Commercial and multi-family real estate	1,007,702	-	1,007,702	-
Agricultural real estate	649,036	-	649,036	-

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Residential real estate	80,537	-	81,437	-
With an allowance recorded:				
Commercial and multi-family real estate	654,547	195,780	660,231	179,016
Total	\$2,792,850	\$ 195,780	\$2,799,434	\$ 179,016

**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014**

The following table presents the recorded investment in nonaccrual loans, loans past due over 90 days still on accrual and troubled debt restructurings by class of loans as of March 31, 2014 and December 31, 2013:

<b>March 31, 2014</b>	<b>Nonaccrual</b>	<b>Loans past due over 90 days still accruing</b>	<b>Troubled Debt Restructurings</b>
Commercial	\$-	\$ -	\$ -
Commercial real estate	3,101,517	-	-
Agriculture	401,028	-	-
Agricultural real estate	876,907	-	-
Consumer	21,821	1,085	-
Residential real estate	1,535,230	77,372	156,302
<b>Total</b>	<b>\$ 5,936,503</b>	<b>\$ 78,457</b>	<b>\$ 156,302</b>

<b>December 31, 2013</b>	<b>Nonaccrual</b>	<b>Loans past due over 90 days still accruing</b>	<b>Troubled Debt Restructurings</b>
Commercial	\$ 294,475	\$ -	\$ 294,475
Commercial real estate	2,966,751	-	43,508
Agriculture	401,028	-	-
Agricultural real estate	915,992	-	-
Consumer	7,551	3,112	-
Residential real estate	1,925,627	33,758	157,715
<b>Total</b>	<b>\$ 6,511,424</b>	<b>\$ 36,870</b>	<b>\$ 495,698</b>

The nonaccrual balances in the table above include troubled debt restructurings that have been classified as nonaccrual.

The following table presents the aging of the recorded investment in past due loans as of March 31, 2014 by class of loans:

	<b>30 – 59</b>	<b>60 – 89</b>	<b>90 days</b>	<b>Total</b>	<b>Loans</b>	
	<b>days</b>	<b>days</b>	<b>or greater</b>	<b>past due</b>	<b>not</b>	<b>Total</b>
	<b>past due</b>	<b>past due</b>	<b>past due</b>		<b>past due</b>	
Commercial	\$ 161,948	\$-	\$-	\$ 161,948	\$40,912,747	\$41,074,695
Commercial real estate	423,797	534,015	2,250,883	3,208,695	159,352,259	162,560,954
Agriculture	-	-	401,028	401,028	11,359,263	11,760,291
Agricultural real estate	-	19,342	793,422	812,764	24,142,425	24,955,189
Consumer	44,220	29,759	22,906	96,885	3,577,078	3,673,963
Residential real estate	1,813,696	53,364	642,866	2,509,926	54,604,728	57,114,654
<b>Total</b>	<b>\$2,443,661</b>	<b>\$636,480</b>	<b>\$4,111,105</b>	<b>\$7,191,246</b>	<b>\$293,948,500</b>	<b>\$301,139,746</b>



**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014**

The following table presents the aging of the recorded investment in past due loans as of December 31, 2013 by class of loans:

	<b>30 – 59 days past due</b>	<b>60 – 89 days past due</b>	<b>90 days or greater past due</b>	<b>Total past due</b>	<b>Loans not past due</b>	<b>Total</b>
Commercial	\$149,250	\$4,021	\$-	\$153,271	\$37,952,459	\$38,105,730
Commercial real estate	223,934	115,269	2,465,193	2,804,396	155,898,123	158,702,519
Agriculture	-	-	401,028	401,028	12,798,477	13,199,505
Agricultural real estate	508,125	-	805,868	1,313,993	23,829,905	25,143,898
Consumer	68,583	24,514	10,663	103,760	3,830,109	3,933,869
Residential real estate	1,420,956	930,154	479,098	2,830,208	53,397,340	56,227,548
<b>Total</b>	<b>\$2,370,848</b>	<b>\$1,073,958</b>	<b>\$4,161,850</b>	<b>\$7,606,656</b>	<b>\$287,706,413</b>	<b>\$295,313,069</b>

**Credit Quality Indicators:**

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to the credit risk. This analysis generally includes loans with an outstanding balance greater than \$250,000 and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

**Special Mention:** Loans which possess some credit deficiency or potential weakness which deserve close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered "potential", versus "defined", impairments to the primary source of loan repayment.

**Substandard:** These loans are inadequately protected by the current sound net worth and paying ability of the borrower. Loans of this type will generally display negative financial trends such as poor or negative net worth, earnings or cash flow. These loans may also have historic and/or severe delinquency problems, and bank management may depend on secondary repayment sources to liquidate these loans. The Corporation could sustain some degree of loss in these loans if the weaknesses remain uncorrected.

**Doubtful:** Loans in this category display a high degree of loss, although the amount of actual loss at the time of classification is undeterminable. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification.

**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014**

Loans not meeting the previous criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally either less than \$250,000 or are included in groups of homogenous loans. As of March 31, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<b>March 31, 2014</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Not rated</b>
Commercial	\$51,173,793	\$758,641	\$501,524	\$401,028	\$-
Commercial and multi-family real estate	168,905,478	7,714,416	10,247,213	649,036	-
Residential 1 – 4 family	-	-	75,000	5,537	57,034,117
Consumer	-	-	6,787	-	3,667,176
Total	\$220,079,271	\$8,473,057	\$10,830,524	\$1,055,601	\$60,701,293

<b>December 31, 2013</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Not rated</b>
Commercial	\$49,943,919	\$960,289	\$-	\$401,028	\$-
Commercial and multi-family real estate	169,094,312	5,755,107	8,347,961	649,036	-
Residential 1 – 4 family	-	-	75,000	6,437	56,146,111
Consumer	-	-	8,744	-	3,925,125
Total	\$219,038,231	\$6,715,396	\$8,431,705	\$1,056,501	\$60,071,236

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential 1 – 4 family and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in non-impaired residential 1 – 4 family and consumer loans based on payment activity as of March 31, 2014 and December 31, 2013:

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Residential 1 – 4 family</b>	<b>Consumer</b>	<b>Residential 1 – 4 family</b>	<b>Consumer</b>
Performing	\$55,427,051	\$3,644,270	\$54,501,907	\$3,914,625

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Nonperforming	1,607,066	22,906	1,644,204	10,500
Total	\$57,034,117	\$3,667,176	\$56,146,111	\$3,925,125

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**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

**Modifications:**

The Corporation's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Corporation's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. All TDRs are also classified as impaired loans.

When the Corporation modifies a loan, management evaluates any possible concession based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except with the sole (remaining) source of repayment for the loan in the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), an impairment is recognized through a specific reserve in the allowance or a direct write down of the loan balance if collection is not expected.

The Corporation did not have any loan modifications considered to be Troubled Debt Restructurings during the first quarter of 2014.

**NOTE 5 – JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES**

The Corporation has formed and invested \$300,000 in a business trust, United (OH) Statutory Trust ("United Trust") which is not consolidated by the Corporation. United Trust issued \$10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation's capital investment, to purchase \$10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures have a stated maturity date of March 26, 2033. As of March 26, 2008, and quarterly thereafter, the debentures may be shortened at the Corporation's option. Interest is payable quarterly at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 3.39% at March 31, 2014 and 3.43% at March 31, 2013. The Corporation has the right, subject to events in default, to defer payments of interest on the

debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures approximated \$85,000 and \$87,000 for the three month periods ended March 31, 2014 and 2013, respectively, and is included in interest expense-other borrowings in the accompanying consolidated statements of income.

Each issue of the trust preferred securities carries an interest rate identical to that of the related debenture. The securities have been structured to qualify as Tier I capital for regulatory purposes and the dividends paid on such are tax deductible. However, under Federal Reserve Board guidelines, the securities cannot be used to constitute more than 25% of the Corporation's core Tier I capital inclusive of these securities.

**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

**NOTE 6 - FAIR VALUE MEASUREMENTS**

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, and both able and willing to transact.

ASC 820-10 requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820-10 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

*Level 1* – Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are

observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* – Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Corporation's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Corporation's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at March 31, 2014 and December 31, 2013 include available-for-sale securities, which are all valued using Level 2 inputs, and mortgage servicing rights, amounting to \$1,331,141 at March 31, 2014 and \$1,398,396 at December 31, 2013, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at March 31, 2014 and December 31, 2013 include other real estate owned, as well as impaired loans approximating \$2,597,000 at March 31, 2014 and \$2,620,000 at December 31, 2013 all of which are valued using Level 3 inputs.



**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014**

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the periods presented due to the lack of observable quotes in inactive markets for those instruments at March 31, 2014 and December 31, 2013.

The table below presents a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for the three month period ended March 31, 2014 and year ended December 31, 2013:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Balance at beginning of period	\$1,398,396	\$930,760
Gains or losses, including realized and unrealized:		
Disposals – amortization based on loan payments and payoffs	(37,241 )	(160,873 )
Purchases, issuances, and settlements	23,377	312,751
Other changes in fair value	(53,391 )	315,758
Balance at end of period	\$1,331,141	\$1,398,396

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, follows.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

*Securities Available-for-Sale*

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 1 or Level 3 at March 31, 2014 or December 31, 2013. There were no gains or losses relating to securities available-for-sale included in earnings before income taxes that were attributable to changes in fair values of securities held at March 31, 2014 or December 31, 2013.

**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

***Impaired Loans***

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral less estimated cost to sell, if repayment is expected solely from collateral. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria such as additional appraisal adjustments to consider deterioration of value subsequent to appraisal date and estimated cost to sell. Additional appraisal adjustments range between 10% and 70% of appraised value, and estimated selling cost ranges between 10% and 20% of the adjusted appraised value. Due to the significance of the Level 3 inputs, impaired loans fair values have been classified as Level 3.

***Mortgage Servicing Rights***

The Corporation records mortgage servicing rights at estimated fair value based on a discounted cash flow model which includes discount rates between -0.14% and 1.31%, in addition to prepayment, internal rate of return, servicing costs, inflation rate of servicing costs and earnings rate assumptions that are considered to be unobservable inputs. Due to the significance of the Level 3 inputs, mortgage servicing rights have been classified as Level 3.

***Other Real Estate Owned***

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less appraisal adjustments between 10% and 20% of appraised value, and expected selling costs between 10% and 20% of adjusted appraised value. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3. In accordance with the provisions of ASC 360-10, other real estate owned was written down to its estimated fair value of \$484,000, resulting in impairment charges of approximately \$184,000, which are included in non-interest expenses for the three month period ended March 31, 2014.

Certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Financial assets and financial liabilities, excluding impaired loans and other real estate owned, measured at fair value on a nonrecurring basis were not significant at March 31, 2014 and December 31, 2013.

**United Bancshares, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****March 31, 2014****NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of recognized financial instruments at March 31, 2014 and December 31, 2013 were as follows (dollars in thousands):

	<b>March 31, 2014</b>		<b>December 31, 2013</b>		<b>Input Level</b>
	<b>Carrying amount</b>	<b>Estimated value</b>	<b>Carrying amount</b>	<b>Estimated value</b>	
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	\$ 13,887	\$ 13,887	\$ 22,407	\$ 22,407	1
Securities, including Federal Home Loan Bank stock	203,832	203,832	201,974	201,974	2
Certificates of deposit	2,739	2,739	2,739	2,739	1
Loans held for sale	537	537	424	424	3
Net loans	297,189	297,297	291,299	292,257	3
Mortgage servicing rights	1,331	1,331	1,398	1,398	3
	\$ 519,515	\$ 519,623	\$ 520,241	\$ 521,199	
<b>FINANCIAL LIABILITIES</b>					
<b>Deposits</b>					
Maturity	\$ 168,453	\$ 168,979	\$ 172,349	\$ 172,956	3
Non-maturity	292,626	292,626	295,651	295,651	1
Other borrowings	16,065	16,784	12,101	13,036	3
Junior subordinated deferrable interest debentures	10,300	10,294	10,300	10,294	3
	\$ 487,444	\$ 488,683	\$ 490,401	\$ 491,937	

The above summary does not include accrued interest receivable or cash surrender value of life insurance which are also considered financial instruments. The estimated fair value of such items is considered to be their carrying amounts.

There are also unrecognized financial instruments at March 31, 2014 and December 31, 2013 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments approximated \$81,191,000 at March 31, 2014 and \$76,322,000 at December 31, 2013. Such amounts are also considered to be the estimated fair values.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments shown above:

Cash and cash equivalents:

Fair value is determined to be the carrying amount for these items (which include cash on hand, due from banks, and federal funds sold) because they represent cash or mature in 90 days or less, and do not represent unanticipated credit concerns.

Securities:

The fair value of securities is determined based on quoted market prices of the individual securities; if not available, estimated fair value is obtained by comparison to other known securities with similar risk and maturity characteristics. Such value does not consider possible tax ramifications or estimated transaction costs.

**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

Loans:

Fair value for loans was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows.

Mortgage servicing rights:

The fair value for mortgage servicing rights is determined based on an analysis of the portfolio by an independent third party.

Deposit liabilities:

The fair value of core deposits, including demand deposits, savings accounts, and certain money market deposits, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates offered at quarter end for deposits of similar remaining maturities. The estimated fair value does not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the marketplace.

Other borrowings and junior subordinated deferrable interest debentures:

The fair value of other borrowings (consisting of Federal Home Loan Bank borrowings, securities sold under agreements to repurchase, and customer repurchase agreements), and junior subordinated deferrable interest

debentures are determined using the net present value of discounted cash flows based on current borrowing rates for similar types of borrowing arrangements, and are obtained from an independent third party.

Other financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount, since these financial instruments generally represent commitments at existing rates. The fair value of other borrowings is determined based on a discounted cash flow analysis using current interest rates. The fair value of other liabilities is generally considered to be carrying value except for the deferred compensation agreement. The fair value of the contract is determined based on a discounted cash flow analysis using a current interest rate for a similar instrument.

The fair value estimates of financial instruments are made at a specific point in time based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument over the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Since no ready market exists for a significant portion of the financial instruments, fair value estimates are largely based on judgments after considering such factors as future expected credit losses, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.



**United Bancshares, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2014**

**NOTE 8 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after March 31, 2014 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at March 31, 2014 have been recognized in the consolidated financial statements for the period ended March 31, 2014. Events or transactions that provided evidence about conditions that did not exist at March 31, 2014 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended March 31, 2014.

**ITEM 2****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS****SELECTED FINANCIAL DATA**

The following data should be read in conjunction with the unaudited consolidated financial statements and management's discussion and analysis that follows:

	As of or for the Three Months Ended March 31, 2014      2013	
<b>SIGNIFICANT RATIOS (Unaudited)</b>		
Net income to:		
Average assets (a)	0.65 %	0.78 %
Average shareholders' equity (a)	5.66 %	6.83 %
Net interest margin (a)	3.49 %	3.24 %
Efficiency ratio (b)	75.14 %	70.05 %
Average shareholders' equity to average assets	11.57 %	11.40 %
Loans to deposits (end of period)	65.43 %	64.09 %
Allowance for loan losses to loans (end of period)	1.31 %	1.97 %
Book value per share	\$18.73	\$18.66

(a) Net income to average assets, net income to average shareholders' equity and net interest margin are presented on an annualized basis. Net interest margin is calculated using fully-tax equivalent net interest income as a percentage of average interest earning assets.

(b) Efficiency ratio is a ratio of non-interest expense as a percentage of fully tax equivalent net interest income plus non-interest income.



## Introduction

United Bancshares, Inc. (the “Corporation”), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. The Corporation is a one-bank holding company, as that term is defined by the Federal Reserve Board.

The Union Bank Company (“the Bank”), a wholly-owned subsidiary of the Corporation, is engaged in the business of commercial banking. The Bank is an Ohio state-chartered bank, which serves Allen, Hancock, Putnam, Sandusky, Van Wert and Wood counties in Ohio, with office locations in Bowling Green, Columbus Grove, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville, Ohio.

The Bank offers a full range of commercial banking services, including checking accounts, savings and money market accounts, time certificates of deposit, automatic teller machines, commercial, consumer, agricultural, residential mortgage and home equity loans, credit card services, safe deposit box rentals, and other personalized banking services. The Bank has formed 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 UBC Property, Inc. to hold and manage certain other real estate owned.

When or if used in the Corporation’s Securities and Exchange Commission filings or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases: “anticipate,” “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “is projected,” or similar expressions are intended to identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Any such statements are subject to the risks and uncertainties that include but are not limited to: changes in economic conditions in the Corporation’s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Corporation’s market area, and competition. All or some of these factors could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Corporation cautions readers not to place undue reliance on any such forward looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in the levels of market interest rates, credit and other risks associated with lending and investing activities, and competitive and regulatory factors could affect the Corporation’s financial performance and could cause the Corporation’s actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

The Corporation is registered as a Securities Exchange Act of 1934 reporting company.

The following discussion and analysis of the consolidated financial statements of the Corporation is presented to provide insight into management's assessment of the financial results.

## RESULTS OF OPERATIONS

### Overview of the Income Statement

For the quarter ended March 31, 2014, the Corporation reported net income of approximately \$901,000, or \$0.26 basic earnings per share. This compares to the first quarter of 2013 net income of approximately \$1,098,000, or \$0.32 basic earnings per share. The decrease in operating results for the first quarter of 2014 as compared to the same period in 2013 was primarily attributable to an approximate \$311,000 decrease in non-interest income and an approximate \$179,000 increase in non-interest expenses, offset by a decrease of approximately \$146,000 in interest expense, an increase in interest income of approximately \$24,000, and the related income tax effects of these items.

### Net Interest Income

Net interest income is the amount by which income from interest-earning assets exceeds interest incurred on interest-bearing liabilities. Interest-earning assets consist principally of loans and investment securities while interest-bearing liabilities include interest-bearing deposit accounts and borrowed funds. Net interest income remains the primary source of revenue for the Corporation. Changes in market interest rates, as well as changes in the mix and volume of interest-bearing assets and interest-bearing liabilities impact net interest income. Net interest income was \$4,188,000 for the first quarter of 2014, compared to \$4,018,000 for the same period of 2013, an increase of \$170,000 (4.2%).

Net interest margin is calculated by dividing net interest income (adjusted to reflect tax-exempt interest income on a taxable equivalent basis) by average interest-earning assets. The resulting percentage serves as a measurement for the Corporation in comparing its results with those of past periods as well as those of peer institutions. For the three months ended March 31, 2014, the net interest margin (on a taxable equivalent basis) was 3.49%, compared with 3.24% for the same period in 2013.

Deposits comprised 93.8% of average interest-bearing liabilities for the three month period ended March 31, 2014, compared to 93.6% for the same period in 2013. A lower overall interest rate environment resulted in the Corporation's cost of funds being 0.65% for the first three months of 2014 compared to 0.77% for the same period in 2013. This decrease in the cost of funds coupled with an increase in the yield of interest-earning assets (4.02% for the first three months of 2014 compared to 3.86% for the same period of 2013) positively impacted the net interest margin. The yield on interest-earning assets improved as a result of the quarterly average of cash balances decreasing approximately \$31.5 million and the quarterly average of securities balances increasing approximately \$19.1 million when comparing the three month periods ended March 31, 2014 and March 31, 2013.

### **Provision for Loan Losses**

The Corporation's provision for loan losses is determined based upon management's calculation of the allowance for loan losses and is reflective of management's assessment of the quality of the portfolio and overall management of the inherent credit risk of the loan portfolio. Changes in the provision for loan losses are dependent, among other things, on loan delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's lending markets. No provision for loan losses was made during the first quarters of 2014 or 2013. See "Allowance for Loan Losses" under Financial Condition for further discussion relating to the provision for loan losses.

### **Non-Interest Income**

The Corporation's non-interest income is largely generated from activities related to the origination, servicing and gain on sales of fixed rate mortgage loans, customer deposit account fees, earnings on life insurance policies, income arising from sales of investment products to customers, and occasional security sale transactions. Income related to customer deposit accounts and Bank Owned Life Insurance provides a relatively steady flow of income while the other sources are more volume or transaction related and consequently can vary from quarter to quarter. For the quarter ended March 31, 2014, non-interest income was \$815,000, compared to \$1,125,000 for the first quarter of 2013, a \$310,000 (27.6%) decrease.

Gain on sales of loans amounted to \$54,000 for the quarter ended March 31, 2014, compared to \$218,000 for the first quarter of 2013, a decrease of \$164,000. Quarterly gains on sale of loans included capitalized servicing rights of \$23,000 and \$73,000 for the periods ended March 31, 2014 and 2013, respectively. The decrease in gain on sale of loans corresponds with the decrease in loan sales activity. Loan sales for the first three months of 2014 were \$2.3 million, compared to \$9.9 million for the first three months of 2013.

The fair value of mortgage servicing rights decreased \$53,000 for the quarter ended March 31, 2014, compared to a \$56,000 increase for the quarter ended March 31, 2013.

Gain on sales of securities amounted to \$2,000 for the quarter ended March 31, 2014, compared to \$129,000 for the first quarter of 2013, a decrease of \$127,000 (98.6%).

### **Non-Interest Expenses**

For the quarter ended March 31, 2014, non-interest expenses were \$3,946,000, compared to \$3,766,000 for the first quarter of 2013, a \$180,000 (4.8%) increase. The increase in non-interest expenses for the three month period ended March 31, 2014 was primarily attributable to a \$175,000 increase in other real estate owned expenses.

Maintaining acceptable levels of non-interest expenses and operating efficiency are key performance indicators for the Corporation in its strategic initiatives. The financial services industry uses the efficiency ratio (total non-interest expense as a percentage of the aggregate of fully-tax equivalent net interest income and non-interest income) as a key indicator of performance. For the quarter ended March 31, 2014, the Corporation's efficiency ratio was 75.14%, compared to 70.05% for the same period of 2013.

### **Provision for Income Taxes**

The provision for income taxes for the quarter ended March 31, 2014 was \$156,000 or 14.8% of income before income taxes, compared to \$279,000 or 20.3% for the comparable 2013 period. The decrease in the effective tax rate is attributable to tax-exempt interest income comprising a larger portion of income before income taxes in 2014 than 2013.

### **Return on Assets**



Return on average assets was 0.65% for the first quarter of 2014, compared to 0.78% for the first quarter of 2013.

**Return on Equity**

Return on average shareholders' equity for the first quarter of 2014 was 5.66%, compared to 6.83% for the same period of 2013.

The Corporation and Bank met all regulatory capital requirements as of March 31, 2014, and the Bank is considered "well capitalized" under regulatory and industry standards of risk-based capital.

## **FINANCIAL CONDITION**

### **Overview of Balance Sheet**

Total assets amounted to \$554.9 million at March 31, 2014, compared to \$556.2 million at December 31, 2013, a decrease of \$1.3 million. The decrease in total assets was primarily the result of a decrease of \$8.5 million (38.0%) in cash and cash equivalents, a \$750,000 (15.3%) decrease in Federal Home Loan Bank Stock, a \$521,000 (11.1%) decrease in other assets and a \$184,000 (27.5%) decrease in other real estate owned, offset by an increase of \$5.8 million (2.0%) in gross loans, and an increase in available-for-sale securities of \$2.6 million (1.3%). Deposits during this same period decreased \$6.9 million, or 1.5%.

Shareholders' equity increased from \$63 million at December 31, 2013 to \$64.5 million at March 31, 2014. This increase was the result of net income of \$901,000, dividends paid of \$516,000, the repurchase of 11,000 shares under the Corporation's common stock repurchase program of \$171,000, the issuance of 313 treasury shares under the Corporation's Employee Stock Purchase Plan of \$6,000, and a \$1.2 million increase in unrealized securities gains, net of tax. The increase in unrealized securities gains during the three month period ended March 31, 2014, was the result of customary and expected changes in the bond market. Net unrealized gains on securities are reported as accumulated other comprehensive income in the consolidated balance sheets.

### **Cash and Cash Equivalents**

Cash and cash equivalents totaled \$13.9 million at March 31, 2014, compared to \$22.4 million at December 31, 2013. Cash and cash equivalents includes interest-bearing deposits in other banks of \$4.9 million at March 31, 2014 and \$8.7 million at December 31, 2013. Management believes the current level of cash and cash equivalents is sufficient to meet the Corporation's present liquidity and performance needs. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and corresponding liquidity sources and uses. Management believes the Corporation's liquidity needs in the near term will be satisfied by the current level of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that will mature within one year. These sources of funds should enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due. In addition, the Corporation has access to various sources of additional borrowings by virtue of long-term assets that can be used as collateral for such borrowings.

### **Securities**

Management monitors the earnings performance and liquidity of the securities portfolio on a regular basis through Asset/Liability Committee (ALCO) meetings. As a result, all securities, except FHLB stock, have been designated as available-for-sale and may be sold if needed for liquidity, asset-liability management or other reasons. Such securities are reported at fair value, with any net unrealized gains or losses reported as a separate component of shareholders' equity, net of related incomes taxes.

The amortized cost and fair value of available-for-sale securities as of March 31, 2014 totaled \$199.9 million and \$199.7 million, respectively, resulting in net unrealized losses of \$172,000 and a corresponding after tax increase in shareholders' equity of \$1.2 million. The amortized cost of available-for-sale securities increased \$722,000 from December 31, 2013.

### **Loans**

The Corporation's lending is primarily centered in Northwestern and West Central Ohio. Gross loans totaled \$301.1 million at March 31, 2014, compared to \$295.3 million at December 31, 2013, an increase of \$5.8 million (2%). The increase in loan balances during the first three months of 2014 resulted primarily from an increase in loan origination activity.

**Allowance for Loan Losses**

The following table presents a summary of activity in the allowance for loan losses for the three months ended March 31, 2014 and 2013, respectively:

	(dollars in thousands)	
	2014	2013
Balance, beginning of period	\$4,014	\$6,918
Provision for loan losses	-	-
Charge offs	(72 )	(1,013)
Recoveries	9	18
Net charge offs	(63 )	(995 )
Balance, end of period	\$3,951	\$5,923

The allowance for loan losses as a percentage of gross loans was 1.31% at March 31, 2014 and 1.36% at December 31, 2013. Regular provisions are made in amounts sufficient to maintain the balance in the allowance for loan losses at a level considered by management to be adequate for losses within the portfolio. Even though management uses all available information to assess possible loan losses, future additions or reductions to the allowance may be required as changes occur in economic conditions and specific borrower circumstances. The regulatory agencies that periodically review the Corporation's allowance for loan losses may also require additions to the allowance or the charge-off of specific loans based upon the information available to them at the time of their examinations.

Loans on non-accrual status amounted to \$5.9 million and \$6.5 million at March 31, 2014 and December 31, 2013, respectively. Non-accrual loans as a percentage of outstanding loans amounted to 2.0% at March 31, 2014 and 2.2% at December 31, 2013.

The Corporation considers a loan to be impaired when it becomes probable that the Corporation will be unable to collect under the contractual terms of the loan, based on current information and events. Impaired loans, principally consisting of commercial real estate credits, amounted to \$2.8 million at March 31, 2014 and December 31, 2013. Impaired loans at March 31, 2014 and December 31, 2013, included \$2.1 million of loans with no specific reserves included in the allowance for loan losses and \$655,000 and \$660,000, respectively, of loans with specific reserves of \$196,000 and \$179,000 included in the Corporation's March 31, 2014 and December 31, 2013 allowance for loan losses.

In addition to impaired loans, the Corporation had other potential problem credits of \$20.4 million at March 31, 2014 and \$13.4 million at December 31, 2013. The Corporation's credit administration department continues to closely monitor these credits.

The Corporation provides pooled reserves for potential problem loans using loss rates calculated considering historic net loan-charge off experience. The Corporation has experienced \$64,000 of net loan charge-offs during the first three months of 2014 compared to annual net loan charge-offs of \$2.2 million in 2013, \$1.8 million in 2012, and \$3.8 million in 2011, with most of the charge-offs coming from the commercial and commercial real estate loan portfolios. The Corporation also provides general reserves for the remaining portion of its loan portfolio not considered to be problem or potential problem loans. These general reserves are also calculated considering, among other things, the historic net charge-off experience for the relative loan type.

## **Funding Sources**

The Corporation considers a number of alternatives, including but not limited to, deposits, as well as short-term and long-term borrowings when evaluating funding sources. Deposits, including customer deposits, brokered certificates of deposit, and public funds deposits, continue to be the most significant source of funds for the Corporation, totaling \$461.1 million, or 94.6% of the Corporation's funding sources at March 31, 2014. Total deposits decreased \$6.9 million during the three months ending March 31, 2014.

Non-interest bearing deposits remain a smaller portion of the funding source for the Corporation than for most of its peers. Non-interest bearing deposits comprised 15.5% of total deposits at March 31, 2014, compared to 14.5% at March 31, 2013.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling \$11.5 million at March 31, 2014 and \$7.5 million at December 31, 2013, and customer repurchase agreements totaling \$4.6 million at March 31, 2014 and December 31, 2013. The Corporation also has outstanding junior subordinated deferrable interest debentures of \$10.3 million at March 31, 2014 and December 31, 2013. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

## **Shareholders' Equity**

For the three month period ended March 31, 2014, the Corporation had net income of \$901,000. The increase (decrease) in net unrealized gains on available-for-sale securities, net of income taxes, was \$1.2 million and (\$782,000) for the three months ended March 31, 2014 and 2013, respectively. Since all of the securities in the Corporation's portfolio are classified as available-for-sale, both securities and the equity section of the consolidated balance sheets are sensitive to the changing market values of securities.

The Corporation has also complied with the standards of capital adequacy mandated by the banking industry. Bank regulators have established "risk-based" capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet and to certain off-balance sheet commitments.



## **Liquidity and Interest Rate Sensitivity**

The objective of the Corporation's asset/liability management function is to maintain consistent growth in net interest income through management of the Corporation's balance sheet liquidity and interest rate exposure based on changes in economic conditions, interest rate levels, and customer preferences.

The Corporation manages interest rate risk to minimize the impact of fluctuating interest rates on earnings. The Corporation uses simulation techniques that attempt to measure the volatility of changes in the level of interest rates, basic banking interest rate spreads, the shape of the yield curve, and the impact of changing product growth patterns. The primary method of measuring the sensitivity of earnings of changing market interest rates is to simulate expected cash flows using varying assumed interest rates while also adjusting the timing and magnitude of non-contractual deposit re-pricing to more accurately reflect anticipated pricing behavior. These simulations include adjustments for the lag in prime loan re-pricing and the spread and volume elasticity of interest-bearing deposit accounts, regular savings and money market deposit accounts.

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 Corporation closely monitors the sensitivity of its assets and liabilities on an ongoing basis and projects the effect of various interest rate changes on its net interest margin. Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or re-price within a designated time frame.

Management believes the Corporation's current mix of assets and liabilities provides a reasonable level of risk related to significant fluctuations in net interest income and the resulting volatility of the Corporation's earning base. The Corporation's management reviews interest rate risk in relation to its effect on net interest income, net interest margin, and the volatility of the earnings base of the Corporation.

## **Effects of Inflation on Financial Statements**

All of the Corporation's assets relate to commercial banking operations and are generally monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss of purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the commercial banking industry, monetary assets typically exceed monetary liabilities. The Corporation has not experienced a significant level of inflation or deflation during the three month period ended March 31, 2014. However, because of the depressed national real estate market and sluggish local economy, the Corporation has experienced declines in the value of collateral securing commercial and non-commercial real estate loans.



Management continues to closely monitor these trends in calculating the Corporation's allowance for loan losses.

### ITEM 3

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The only significant market risk to which the Corporation is exposed is interest rate risk. The business of the Corporation and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans and securities), which are funded by interest bearing liabilities (deposits and borrowings). These financial instruments have varying levels of sensitivity to changes in the market rates of interest, resulting in market risk. None of the Corporation's financial instruments are held for trading purposes.

The Corporation manages interest rate risk regularly through its Asset Liability Committee. The Committee meets on a regular basis and reviews various asset and liability management information, including but not limited to, the bank's liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

The Corporation monitors its interest rate risk through a sensitivity analysis, whereby it measures potential changes in its future earnings and the fair values of its financial instruments that may result from one or more hypothetical changes in interest rates. This analysis is performed by estimating the expected cash flows of the Corporation's financial instruments using interest rates in effect at year-end. For the fair value estimates, the cash flows are then discounted to year-end to arrive at an estimated present value of the Corporation's financial instruments. Hypothetical changes in interest rates are then applied to the financial instruments, and the cash flows and fair values are again estimated using these hypothetical rates. For the net interest income estimates, the hypothetical rates are applied to the financial instruments based on the assumed cash flows. The Corporation typically applies interest rate "shocks" to its financial instruments up and down under various scenarios up to as much as 400 basis points depending on the overall level of interest rates at any point in time.

There have been no material changes in the quantitative and qualitative information about market risk from the information provided in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## ITEM 4

### CONTROLS AND PROCEDURES

#### Evaluation of Controls and Procedures.

With the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")); as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that:

- (a) information required to be disclosed by the Corporation in this Quarterly Report on Form 10-Q would be accumulated and communicated to the Corporation's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by the Corporation in this Quarterly Report on Form 10-Q would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- (c) the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to the Corporation and its consolidated subsidiaries is made known to them, particularly during the period for which our periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

#### Changes in Internal Control over Financial Reporting.

There were no significant changes during the period covered by this Quarterly Report on Form 10-Q in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – Other Information**

**Item 1: Legal Proceedings.**

There are no pending legal proceedings to which the Corporation or its subsidiaries are a party or to which any of their property is subject except routine legal proceedings to which the Corporation or its subsidiaries are a party incident to the banking business. None of such proceedings are considered by the Corporation to be material.

**Item 1A: Risk Factors**

There have been no material changes in the discussion pertaining to risk factors that was provided in the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds.**

The Corporation has not sold any of its securities which were not registered under the Securities Act during the period covered by this report. The table below includes certain information regarding the Corporation’s purchase of United Bancshares, Inc. common stock during the quarterly period ended March 31, 2014:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan or program (a)

			or program (a)		
01/01/14 - 01/31/14	None	None	219,558	380,442	
02/01/14 - 02/28/14	11,000	\$ 15.52	230,558	369,442	
03/01/14 - 03/31/14	None	None	230,558	369,442	

(a) A stock repurchase program (“Plan”) was announced on July 29, 2005 (100,000 shares authorized) and expanded by 100,000 shares on December 23, 2005, 200,000 shares on March 20, 2007, and 200,000 shares on December 17, 2013. The Plan authorizes the Corporation to repurchase up to 600,000 of the Corporation’s common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

**Item 3: Defaults upon Senior Securities.**

None

**Item 4: Mine Safety Disclosures**

Not applicable

**Item 5: Other Information.**

None

**Item 6: Exhibits**

(a) Exhibits

Exhibit 3(i) Amended and Restated Articles of Incorporation

Exhibit 3(ii) Amended and Restated Code of Regulations

Exhibit 10.1 Salary Continuation Agreement - Brian D. Young

Exhibit 10.2 Salary Continuation Agreement – Heather M. Oatman

Exhibit 10.3 Preferred Trust Securities, Placement and Debenture agreements

Exhibit 10.4 Salary Continuation Agreement, First Amendment – Brian D. Young

Exhibit 10.5 Change in Control Agreement – Diana L. Engelhardt

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification of CEO

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification of CFO

Exhibit 32.1 Section 1350 CEO's Certification

Exhibit 32.2 Section 1350 CFO's Certification

Exhibit 99 Safe Harbor under The Private Securities Litigation Reform Act of 1995

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation

Exhibit 101.DEF XBRL Taxonomy Extension Definition

Exhibit 101.LAB XBRL Taxonomy Extension Label

Exhibit 101.PRE XBRL Taxonomy Extension Presentation

**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 BANCSHARES, INC.**

**Date:** April 24, 2014

By: /s/ Diana L. Engelhardt  
Diana L. Engelhardt  
Chief Financial Officer



**EXHIBIT INDEX**

UNITED BANCSHARES, INC. QUARTERLY REPORT ON FORM 10-Q

FOR PERIOD ENDED March 31, 2014

**Exhibit**

<b>Number</b>	<b>Description</b>	<b>Exhibit Location</b>
3(i)	Amended and Restated Articles of Incorporation	Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002.
3(ii)	Amended and Restated Code of Regulations	Incorporated herein by reference to the Corporation's Form 10Q for the quarter ended June 30, 2007.
10.1	Agreement - Brian D. Young	Incorporated by reference to Corporation's Form 8-K filed July 20, 2006.
10.2	Salary Continuation Agreement - Brian D. Young	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.3	Salary Continuation Agreement – Heather M. Oatman	Incorporated herein by reference to the Corporation's 2008 Form 10K filed March 20, 2009.
10.4	Preferred Trust Securities, Placement and Debenture agreements	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.5	Salary Continuation Agreement, First Amendment – Brian D. Young	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.6	Change in Control Agreement - Diana L. Engelhardt	Incorporated herein by reference to the Corporation's Form 8-K filed July 23, 2012.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO	Filed herewith
32.1	Section 1350 CEO's Certification	Filed herewith
32.2	Section 1350 CFO's Certification	Filed herewith
99	Safe Harbor under the Private Securities Litigation Reform Act of 1995	Filed herewith
101.INS	XBRL Instance Document (a)	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition	Filed herewith
101.LAB	XBRL Taxonomy Extension Label	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation	Filed herewith

(a) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

