

UNITED BANCSHARES INC/OH  
Form 10-Q  
October 29, 2015

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, 2015

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 September 30, 2015:  
3,329,129

This document contains 43 pages. The Exhibit Index is on page 37 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)

|                                             | September 30,<br>2015 | December 31,<br>2014  |
|---------------------------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                               |                       |                       |
| <b>CASH AND CASH EQUIVALENTS</b>            |                       |                       |
| Cash and due from banks                     | \$ 9,017,406          | \$ 11,444,096         |
| Interest bearing deposits in other banks    | 7,896,596             | 20,910,484            |
| Total cash and cash equivalents             | 16,914,002            | 32,354,580            |
| SECURITIES, available-for-sale              | 190,035,823           | 206,461,063           |
| RESTRICTED BANK STOCK, at cost              | 4,829,540             | 4,829,540             |
| CERTIFICATES OF DEPOSIT, at cost            | 2,490,000             | 2,490,000             |
| LOANS HELD FOR SALE                         | 161,804               | 229,425               |
| <b>LOANS</b>                                |                       |                       |
| Less allowance for loan losses              | 359,279,212           | 360,937,164           |
| Net loans                                   | (3,576,876 )          | (3,839,508 )          |
|                                             | 355,702,336           | 357,097,656           |
| PREMISES AND EQUIPMENT, net                 | 12,131,588            | 12,385,556            |
| GOODWILL                                    | 10,072,399            | 10,072,399            |
| CORE DEPOSIT INTANGIBLE ASSETS, net         | 937,552               | 1,040,547             |
| CASH SURRENDER VALUE OF LIFE INSURANCE      | 16,723,385            | 16,406,846            |
| OTHER REAL ESTATE OWNED                     | 316,050               | 535,999               |
| OTHER ASSETS, including accrued interest    | 5,777,689             | 6,296,050             |
| <b>TOTAL ASSETS</b>                         | <b>\$ 616,092,168</b> | <b>\$ 650,199,661</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                       |                       |
| <b>LIABILITIES</b>                          |                       |                       |
| <b>Deposits</b>                             |                       |                       |
| Non-interest bearing                        | \$ 87,773,232         | \$ 92,499,725         |
| Interest bearing                            | 424,781,202           | 472,945,234           |
| Total deposits                              | 512,554,434           | 565,444,959           |

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|                                                                                                                                                                   |                       |                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Other borrowings                                                                                                                                                  | 15,000,000            | -                     |
| Junior subordinated deferrable interest debentures                                                                                                                | 12,763,938            | 12,738,549            |
| Other liabilities                                                                                                                                                 | 4,329,213             | 4,243,876             |
| Total liabilities                                                                                                                                                 | 544,647,585           | 582,427,384           |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                       |                       |                       |
| Common stock, stated value \$1.00, authorized 10,000,000 shares; 3,760,557 shares issued; shares outstanding at 9/30/15 of 3,329,129 and 3,367,735 as of 12/31/14 | 3,760,557             | 3,760,557             |
| Surplus                                                                                                                                                           | 14,669,087            | 14,665,845            |
| Retained earnings                                                                                                                                                 | 57,551,032            | 53,925,768            |
| Accumulated other comprehensive income                                                                                                                            | 2,038,829             | 1,412,115             |
| Treasury stock 431,428 shares at September 30, 2015 and 392,822 shares at December 31, 2014, at cost                                                              | (6,574,922            | ) (5,992,008 )        |
| Total shareholders' equity                                                                                                                                        | 71,444,583            | 67,772,277            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                 | <b>\$ 616,092,168</b> | <b>\$ 650,199,661</b> |

See notes to consolidated financial statements.

**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statements of Income (Unaudited)

|                                                     | Three months ended September 30, |              | Nine months ended September 30, |               |
|-----------------------------------------------------|----------------------------------|--------------|---------------------------------|---------------|
|                                                     | 2015                             | 2014         | 2015                            | 2014          |
| <b>INTEREST INCOME</b>                              |                                  |              |                                 |               |
| Loans, including fees                               | \$ 4,645,590                     | \$ 3,676,038 | \$ 13,690,402                   | \$ 10,964,945 |
| Securities:                                         |                                  |              |                                 |               |
| Taxable                                             | 609,454                          | 648,227      | 1,999,036                       | 1,944,030     |
| Tax-exempt                                          | 436,489                          | 381,515      | 1,229,001                       | 1,310,413     |
| Other                                               | 63,444                           | 93,419       | 217,123                         | 251,990       |
| Total interest income                               | 5,754,977                        | 4,799,199    | 17,135,562                      | 14,471,378    |
| <b>INTEREST EXPENSE</b>                             |                                  |              |                                 |               |
| Deposits                                            | 370,682                          | 485,755      | 1,208,907                       | 1,504,525     |
| Borrowings                                          | 125,196                          | 169,802      | 368,674                         | 506,943       |
| Total interest expense                              | 495,878                          | 655,557      | 1,577,581                       | 2,011,468     |
| Net interest income                                 | 5,259,099                        | 4,143,642    | 15,557,981                      | 12,459,910    |
| <b>PROVISION FOR LOAN LOSSES</b>                    | -                                | -            | 100,000                         | 115,000       |
| Net interest income after provision for loan losses | 5,259,099                        | 4,143,642    | 15,457,981                      | 12,344,910    |
| <b>NON-INTEREST INCOME</b>                          |                                  |              |                                 |               |
| Gain on sales of loans                              | 144,285                          | 133,590      | 368,080                         | 254,765       |
| Net securities gains                                | 63,612                           | 3,266        | 116,050                         | 400,262       |
| Other operating income                              | 834,668                          | 841,406      | 2,838,844                       | 2,486,601     |
| Total non-interest income                           | 1,042,565                        | 978,262      | 3,322,974                       | 3,141,628     |
| <b>NON-INTEREST EXPENSES</b>                        | 4,313,968                        | 3,851,050    | 13,257,344                      | 11,426,253    |
| <b>INCOME BEFORE INCOME TAXES</b>                   | 1,987,696                        | 1,270,854    | 5,523,611                       | 4,060,285     |
| <b>PROVISION FOR INCOME TAXES</b>                   | 485,000                          | 233,000      | 996,000                         | 796,000       |
| <b>NET INCOME</b>                                   | \$ 1,502,696                     | \$ 1,037,854 | \$ 4,527,611                    | \$ 3,264,285  |
| <b>NET INCOME PER SHARE</b>                         |                                  |              |                                 |               |
| Basic                                               | \$ 0.45                          | \$ 0.31      | \$ 1.35                         | \$ 0.95       |
| Weighted average common shares outstanding          | 3,329,088                        | 3,395,226    | 3,346,161                       | 3,419,154     |

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|                                            |           |           |           |           |
|--------------------------------------------|-----------|-----------|-----------|-----------|
| Diluted                                    | \$ 0.45   | \$ 0.31   | \$ 1.35   | \$ 0.95   |
| Weighted average common shares outstanding | 3,329,088 | 3,395,226 | 3,346,161 | 3,419,154 |

See notes to consolidated financial statements.

**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Comprehensive Income (Unaudited)

|                                                                                       | Three months ended September<br>30, |              | Nine months ended September<br>30, |              |
|---------------------------------------------------------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
|                                                                                       | 2015                                | 2014         | 2015                               | 2014         |
| NET INCOME                                                                            | \$ 1,502,696                        | \$ 1,037,854 | \$ 4,527,611                       | \$ 3,264,285 |
| <b>OTHER COMPREHENSIVE INCOME</b>                                                     |                                     |              |                                    |              |
| Unrealized gains on securities:                                                       |                                     |              |                                    |              |
| Unrealized holding gains (losses) during period                                       | 1,555,230                           | (867,197 )   | 1,065,634                          | 3,441,445    |
| Reclassification adjustments for gains included<br>in net income                      | (63,612 )                           | (3,266 )     | (116,050 )                         | (400,262 )   |
| Other comprehensive income (loss), before<br>income taxes                             | 1,491,618                           | (870,463 )   | 949,584                            | 3,041,183    |
| Income tax (expense)/benefit related to items of<br>other comprehensive income (loss) | (507,150 )                          | 295,958      | (322,870 )                         | (1,034,003 ) |
| Other comprehensive income (loss)                                                     | 984,468                             | (574,505 )   | 626,714                            | 2,007,180    |
| COMPREHENSIVE INCOME                                                                  | \$ 2,487,164                        | \$ 463,349   | \$ 5,154,325                       | \$ 5,271,465 |

See notes to consolidated financial statements.



**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Shareholders' Equity (Unaudited)

Nine months ended September 30, 2015 and 2014

|                                                                                                   | Common Stock | Surplus      | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock |
|---------------------------------------------------------------------------------------------------|--------------|--------------|-------------------|-----------------------------------------------|----------------|
| BALANCE AT DECEMBER 31, 2014                                                                      | \$3,760,557  | \$14,665,845 | \$53,925,768      | \$1,412,115                                   | \$(5,992,008)  |
| Net income                                                                                        | -            | -            | 4,527,611         | -                                             | -              |
| Other comprehensive income                                                                        | -            | -            | -                 | 626,714                                       | -              |
| Dividends declared (\$0.27 per share)                                                             | -            | -            | (902,347 )        | -                                             | -              |
| Repurchase of 39,321 shares                                                                       | -            | -            | -                 | -                                             | (593,815 )     |
| 715 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan | -            | 3,242        | -                 | -                                             | 10,901         |
| BALANCE AT SEPTEMBER 30, 2015                                                                     | \$3,760,557  | \$14,669,087 | \$57,551,032      | \$2,038,829                                   | \$(6,574,922)  |
| BALANCE AT DECEMBER 31, 2013                                                                      | \$3,760,557  | \$14,663,861 | \$50,807,689      | \$(1,358,205)                                 | \$(4,866,037)  |
| Net income                                                                                        | -            | -            | 3,264,285         | -                                             | -              |
| Other comprehensive income                                                                        | -            | -            | -                 | 2,007,180                                     | -              |
| Dividends declared (\$0.27 per share)                                                             | -            | -            | (923,999 )        | -                                             | -              |
| Repurchase of 75,000 shares                                                                       | -            | -            | -                 | -                                             | (1,136,430)    |
| 684 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan | -            | 1,984        | -                 | -                                             | 10,459         |
| BALANCE AT SEPTEMBER 30, 2014                                                                     | \$3,760,557  | \$14,665,845 | \$53,147,975      | \$648,975                                     | \$(5,992,008)  |

See notes to consolidated financial statements.

**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statement of Cash Flows (Unaudited)

|                                                                | Nine months ended September 30, |               |
|----------------------------------------------------------------|---------------------------------|---------------|
|                                                                | 2015                            | 2014          |
| Cash flows provided by operating activities                    | \$ 4,138,065                    | \$ 3,597,967  |
| Cash flows provided by/(used in) investing activities:         |                                 |               |
| Proceeds from sales, calls or maturities of securities         | 51,542,345                      | 30,563,359    |
| Purchases of available-for-sale securities                     | (34,743,784 )                   | (22,734,203 ) |
| Net (increase) decrease in loans                               | 2,732,827                       | (9,905,335 )  |
| Proceeds from sale of OREO                                     | 363,663                         | -             |
| Proceeds from sale of FHLB stock                               | -                               | 749,600       |
| Proceeds from maturities of certificates of deposit            | -                               | 249,000       |
| Purchases of premises and equipment                            | (184,714 )                      | (171,477 )    |
| Net cash provided by/(used in) investing activities            | 19,710,337                      | (1,249,056 )  |
| Cash flows from financing activities:                          |                                 |               |
| Net change in deposits                                         | (52,806,961 )                   | 39,527,284    |
| Long-term borrowings, net of repayments                        | 15,000,000                      | (4,600,552 )  |
| Proceeds from sale of treasury shares                          | 14,143                          | 12,443        |
| Purchase of treasury stock                                     | (593,815 )                      | (1,136,430 )  |
| Cash dividends paid                                            | (902,347 )                      | (923,999 )    |
| Net cash provided by/(used in) financing activities            | (39,288,980 )                   | 32,878,746    |
| Net change in cash and cash equivalents                        | (15,440,578 )                   | 35,227,657    |
| Cash and cash equivalents:                                     |                                 |               |
| At beginning of period                                         | 32,354,580                      | 22,407,458    |
| At end of period                                               | \$ 16,914,002                   | \$ 57,635,115 |
| Cash paid for:                                                 |                                 |               |
| Interest                                                       | \$ 1,579,936                    | \$ 2,029,879  |
| Federal income taxes                                           | \$ 350,000                      | \$ 460,000    |
| Non-cash investing activities:                                 |                                 |               |
| Transfer of loans to other real estate owned                   | \$ 371,713                      | \$ -          |
| Change in net unrealized gain on available-for-sale securities | \$ 949,585                      | \$ 3,041,183  |

See notes to consolidated financial statements.



United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2015

#### 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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The balance sheet as of December 31, 2014 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, 2014.

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. 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 January 2014, the FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors. The FASB issued ASU 2014-04 to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real property recognized. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation has determined the provisions for ASU 2014-04 did not have a material impact on the financial statements.

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, amending ASC topic 860. The FASB issued ASU 2014-11 to change the accounting for repurchase-to-maturity transactions and linked repurchase financials to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this update are effective for the first interim or annual period beginning after December 15, 2014. The Corporation has determined the provisions for ASU 2014-11 did not have a material impact on the financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables – Troubled Debt Restructurings by Creditors. The FASB issued ASU 2014-14 to reduce the diversity of how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure; 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The amendments in this update are effective for annual periods, and interim periods within those periods, beginning after December 15, 2014. The Corporation has determined the provisions for ASU 2014-04 did not have a material impact on the financial statements.

### NOTE 3 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of September 30, 2015 and December 31, 2014 are as follows (dollars in thousands):

|                                                  | September 30, 2015 |            | December 31, 2014 |            |
|--------------------------------------------------|--------------------|------------|-------------------|------------|
|                                                  | Amortized cost     | Fair value | Amortized cost    | Fair value |
| Available-for sale:                              |                    |            |                   |            |
| U.S. Government and agencies                     | \$3,998            | 4,001      | \$9,640           | \$9,537    |
| Obligations of states and political subdivisions | 72,708             | 74,333     | 56,605            | 58,099     |
| Mortgage-backed                                  | 109,237            | 110,689    | 137,074           | 137,818    |
| Other                                            | 1,002              | 1,013      | 1,002             | 1,007      |
| Total                                            | \$186,945          | \$190,036  | \$204,321         | \$206,461  |

A summary of gross unrealized gains and losses on available-for-sale securities as of September 30, 2015 and December 31, 2014 follows (dollars in thousands):

|                                                  | September 30, 2015     |                         | December 31, 2014      |                         |
|--------------------------------------------------|------------------------|-------------------------|------------------------|-------------------------|
|                                                  | Gross unrealized gains | Gross unrealized losses | Gross unrealized gains | Gross unrealized losses |
| Available-for sale:                              |                        |                         |                        |                         |
| U.S. Government and agencies                     | \$ 4                   | 1                       | \$ -                   | \$ 103                  |
| Obligations of states and political subdivisions | 1,738                  | 113                     | 1,674                  | 181                     |

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|                 |          |        |          |          |
|-----------------|----------|--------|----------|----------|
| Mortgage-backed | 1,798    | 346    | 1,557    | 812      |
| Other           | 11       | -      | 5        | -        |
| Total           | \$ 3,551 | \$ 460 | \$ 3,236 | \$ 1,096 |

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## NOTE 4 – LOANS

The following tables present the activity in the allowance for loan losses by portfolio segment for the periods ending September 30, 2015 and 2014.

|                                        | Commercial | Commercial and<br>multi-family real<br>estate | Residential real<br>estate | Consumer  | Total       |
|----------------------------------------|------------|-----------------------------------------------|----------------------------|-----------|-------------|
| Balance at December 31, 2014           | \$ 198,367 | \$ 3,255,148                                  | \$ 362,895                 | \$ 23,098 | \$3,839,508 |
| Provision (credit) charged to expenses | 245,910    | (183,506 )                                    | 37,313                     | 283       | 100,000     |
| Losses charged off                     | (326,801 ) | (97,253 )                                     | (136,774 )                 | (13,090 ) | (573,918 )  |
| Recoveries                             | 62,645     | 121,859                                       | 19,981                     | 6,801     | 211,286     |
| Balance at September 30, 2015          | \$ 180,121 | \$ 3,096,248                                  | \$ 283,415                 | \$ 17,092 | \$3,576,876 |

|                                        | Commercial | Commercial and<br>multi-family real<br>estate | Residential real<br>estate | Consumer  | Total       |
|----------------------------------------|------------|-----------------------------------------------|----------------------------|-----------|-------------|
| Balance at December 31, 2013           | \$ 305,434 | \$ 3,346,286                                  | \$ 344,803                 | \$ 17,868 | \$4,014,391 |
| Provision (credit) charged to expenses | 135,602    | (74,852 )                                     | 44,356                     | 9,894     | 115,000     |
| Losses charged off                     | -          | (96,610 )                                     | (53,764 )                  | (17,401 ) | (167,775 )  |
| Recoveries                             | 8,188      | 30,598                                        | 8,426                      | 9,025     | 56,237      |
| Balance at September 30, 2014          | \$ 449,224 | \$ 3,205,422                                  | \$ 343,821                 | \$ 19,386 | \$4,017,853 |



The following tables present 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 September 30, 2015 and December 31, 2014:

| September 30, 2015                                             | Commercial    | Commercial and<br>multi-family real<br>estate | Residential real<br>estate | Consumer     | Total          |
|----------------------------------------------------------------|---------------|-----------------------------------------------|----------------------------|--------------|----------------|
| Allowance for loan losses:                                     |               |                                               |                            |              |                |
| Attributable to loans individually<br>evaluated for impairment | \$ 104,785    | \$ 944,342                                    | \$ -                       | \$-          | \$ 1,049,127   |
| Collectively evaluated for<br>impairment                       | 75,336        | 2,151,906                                     | 283,415                    | 17,092       | 2,527,749      |
| Total allowance for loan losses                                | \$ 180,121    | \$ 3,096,248                                  | \$ 283,415                 | \$ 17,092    | \$ 3,576,876   |
| Loans:                                                         |               |                                               |                            |              |                |
| Individually evaluated for<br>impairment                       | \$ 2,758,643  | \$ 4,771,373                                  | \$ -                       | \$-          | \$ 7,530,016   |
| Acquired with deteriorated credit<br>quality                   | 45,004        | 695,961                                       | 78,320                     | -            | 819,285        |
| Collectively evaluated for<br>impairment                       | 63,441,218    | 205,861,293                                   | 77,616,522                 | 4,010,878    | 350,929,911    |
| Total ending loans balance                                     | \$ 66,244,865 | \$ 211,328,627                                | \$ 77,694,842              | \$ 4,010,878 | \$ 359,279,212 |

| December 31, 2014                                              | Commercial   | Commercial and<br>multi-family real<br>estate | Residential real<br>estate | Consumer    | Total          |
|----------------------------------------------------------------|--------------|-----------------------------------------------|----------------------------|-------------|----------------|
| Allowance for loan losses:                                     |              |                                               |                            |             |                |
| Attributable to loans individually<br>evaluated for impairment | \$-          | \$ 806,944                                    | \$ -                       | \$-         | \$806,944      |
| Collectively evaluated for<br>impairment                       | 198,367      | 2,448,204                                     | 362,895                    | 23,098      | 3,032,564      |
| Total allowance for loan losses                                | \$ 198,367   | \$ 3,255,148                                  | \$ 362,895                 | \$ 23,098   | \$ 3,839,508   |
| Loans:                                                         |              |                                               |                            |             |                |
| Individually evaluated for<br>impairment                       | \$ 197,803   | \$ 3,483,640                                  | \$ -                       | \$-         | \$3,681,443    |
| Acquired with deteriorated credit<br>quality                   | 20,573       | 678,003                                       | 201,343                    | 652         | 900,571        |
| Collectively evaluated for<br>impairment                       | 63,604,790   | 207,785,007                                   | 80,166,430                 | 4,798,923   | 356,355,150    |
| Total ending loans balance                                     | \$63,823,166 | \$ 211,946,650                                | \$ 80,367,773              | \$4,799,575 | \$ 360,937,164 |

Impaired loans were as follows as of September 30, 2015 and December 31, 2014:

|                                                     | September 30, 2015 | December 31, 2014 |
|-----------------------------------------------------|--------------------|-------------------|
| Loans with no allowance for loan losses allocated   | \$ -               | \$ 1,005,067      |
| Loans with allowance for loan losses allocated      | 7,530,016          | 2,676,376         |
| Total impaired loans                                | \$ 7,530,016       | \$ 3,681,443      |
| Amount of the allowance allocated to impaired loans | \$ 1,049,127       | \$ 806,944        |

The average recorded investment in impaired loans (excluding loans acquired with deteriorated credit quality) for the nine month periods ended September 30, 2015 and 2014 was approximately \$5.7 million and \$3.9 million, respectively. There was approximately \$304,000 and \$183,000 in interest income recognized by the Corporation on impaired loans on an accrual or cash basis for the nine month periods ended September 30, 2015 and 2014, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2015 and December 31, 2014:

|                                         | September 30, 2015  |                                     | December 31, 2014   |                                     |
|-----------------------------------------|---------------------|-------------------------------------|---------------------|-------------------------------------|
|                                         | Recorded investment | Allowance for loan losses allocated | Recorded investment | Allowance for loan losses allocated |
| With no related allowance recorded:     |                     |                                     |                     |                                     |
| Commercial                              | \$-                 | \$ -                                | \$-                 | \$ -                                |
| Commercial and multi-family real estate | -                   | -                                   | 1,005,067           | -                                   |
| Agriculture                             | -                   | -                                   | -                   | -                                   |
| Agricultural real estate                | -                   | -                                   | -                   | -                                   |
| Consumer                                | -                   | -                                   | -                   | -                                   |
| Residential 1-4 family real estate      | -                   | -                                   | -                   | -                                   |
| With an allowance recorded:             |                     |                                     |                     |                                     |
| Commercial                              | 2,758,643           | 104,785                             | 197,803             | 85,561                              |
| Commercial and multi-family real estate | 4,771,373           | 944,342                             | 2,478,573           | 721,383                             |
| Agriculture                             | -                   | -                                   | -                   | -                                   |
| Agricultural real estate                | -                   | -                                   | -                   | -                                   |
| Consumer                                | -                   | -                                   | -                   | -                                   |
| Residential 1 -4 family real estate     | -                   | -                                   | -                   | -                                   |
| Total                                   | \$7,530,016         | \$ 1,049,127                        | \$3,681,443         | \$ 806,944                          |

The following tables present 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 September 30, 2015 and December 31, 2014:

| September 30, 2015       | Nonaccrual  | Loans past due<br>over 90 days still<br>accruing | Troubled Debt<br>Restructurings |
|--------------------------|-------------|--------------------------------------------------|---------------------------------|
| Commercial               | \$308,012   | \$ -                                             | \$ -                            |
| Commercial real estate   | 4,194,209   | -                                                | 2,144,638                       |
| Agriculture              | 49,312      | -                                                | -                               |
| Agricultural real estate | 60,068      | 287,858                                          | -                               |
| Consumer                 | 8,310       | 1,060                                            | -                               |
| Residential real estate  | 1,379,915   | 84,625                                           | 379,060                         |
| Total                    | \$5,999,826 | \$ 373,543                                       | \$ 2,523,698                    |

| December 31, 2014        | Nonaccrual   | Loans past due over 90 days still accruing | Troubled Debt Restructurings |
|--------------------------|--------------|--------------------------------------------|------------------------------|
| Commercial               | \$ 199,160   | \$ 25,284                                  | \$ -                         |
| Commercial real estate   | 3,351,521    | 1,253,936                                  | 1,967,898                    |
| Agricultural real estate | 78,640       | -                                          | -                            |
| Agricultural             | -            | -                                          | -                            |
| Consumer                 | 4,450        | 758                                        | -                            |
| Residential real estate  | 1,586,945    | 233,021                                    | 153,260                      |
| Total                    | \$ 5,220,716 | \$ 1,512,999                               | \$ 2,121,158                 |

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 September 30, 2015 by class of loans:

|                          | 30 - 59 days past due | 60 - 89 days past due | 90 days or greater past due | Total past due | Loans not past due | Total          |
|--------------------------|-----------------------|-----------------------|-----------------------------|----------------|--------------------|----------------|
| Commercial               | \$ 28,480             | -                     | 64,683                      | 93,163         | 54,084,630         | \$ 54,177,793  |
| Commercial real estate   | 793,294               | -                     | 2,990,617                   | 3,783,911      | 185,081,334        | 188,865,245    |
| Agriculture              | -                     | -                     | 218,868                     | 218,868        | 11,848,204         | 12,067,072     |
| Agricultural real estate | -                     | 13,918                | 287,858                     | 301,776        | 22,161,606         | 22,463,382     |
| Consumer                 | 57,238                | 5,957                 | 1,060                       | 64,255         | 3,946,623          | 4,010,878      |
| Residential real estate  | 496,823               | 65,080                | 356,155                     | 918,058        | 76,776,784         | 77,694,842     |
| Total                    | \$ 1,375,835          | \$ 84,955             | \$ 3,919,241                | \$ 5,380,031   | \$ 353,899,181     | \$ 359,279,212 |

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

|                          | 30 - 59 days past due | 60 - 89 days past due | 90 days or greater past due | Total past due | Loans not past due | Total         |
|--------------------------|-----------------------|-----------------------|-----------------------------|----------------|--------------------|---------------|
| Commercial               | \$ 212,495            | \$ 210,541            | \$ 36,494                   | \$ 459,530     | \$ 48,300,122      | \$ 48,759,652 |
| Commercial real estate   | 1,150,611             | 1,852,191             | 3,053,809                   | 6,056,611      | 181,172,227        | 187,228,838   |
| Agriculture              | 49,312                | -                     | -                           | 49,312         | 15,014,202         | 15,063,514    |
| Agricultural real estate | -                     | -                     | 17,535                      | 17,535         | 24,700,277         | 24,717,812    |
| Consumer                 | 26,295                | 44,537                | 2,941                       | 73,773         | 4,725,802          | 4,799,575     |

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|                         |              |              |              |              |                |                |
|-------------------------|--------------|--------------|--------------|--------------|----------------|----------------|
| Residential real estate | 249,963      | 386,278      | 732,913      | 1,369,154    | 78,998,619     | 80,367,773     |
| Total                   | \$ 1,688,676 | \$ 2,493,547 | \$ 3,843,692 | \$ 8,025,915 | \$ 352,911,249 | \$ 360,937,164 |

## 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 final 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 \$500,000 at September 30, 2015 and \$250,000 at December 31, 2014 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.

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 \$500,000 or are included in groups of homogenous loans. As of September 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| September 30, 2015                      | Pass          | Special<br>Mention | Substandard | Doubtful | Not rated     |
|-----------------------------------------|---------------|--------------------|-------------|----------|---------------|
| Commercial                              | \$37,701,006  | \$3,844,432        | \$3,196,939 | \$ -     | \$21,502,489  |
| Commercial and multi-family real estate | 133,307,249   | 7,709,170          | 5,600,973   | -        | 64,711,235    |
| Residential 1 – 4 family                | 181,809       | -                  | -           | -        | 77,513,033    |
| Consumer                                | -             | -                  | -           | -        | 4,010,878     |
| Total                                   | \$171,190,063 | \$11,553,602       | \$8,797,912 | \$ -     | \$167,737,635 |

| December 31, 2014                       | Pass                 | <b>Special<br/>Mention</b> | Substandard        | Doubtful         | Not rated            |
|-----------------------------------------|----------------------|----------------------------|--------------------|------------------|----------------------|
| Commercial                              | \$53,737,496         | \$1,515,485                | \$180,574          | \$197,803        | \$8,191,808          |
| Commercial and multi-family real estate | 172,674,560          | 9,780,593                  | 8,902,162          | 110,202          | 20,479,134           |
| Residential 1 – 4 family                | -                    | -                          | 110,759            | -                | 80,257,013           |
| Consumer                                | -                    | -                          | 758                | -                | 4,798,817            |
| <b>Total</b>                            | <b>\$226,412,056</b> | <b>\$11,296,078</b>        | <b>\$9,194,253</b> | <b>\$308,005</b> | <b>\$113,726,772</b> |

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, commercial and consumer loans based on payment activity as of September 30, 2015 and December 31, 2014:



September 30, 2015

|               | Consumer    | <b>Residential 1-4<br/>family</b> | Commercial   | <b>Commercial and<br/>Multi-family real<br/>estate</b> |
|---------------|-------------|-----------------------------------|--------------|--------------------------------------------------------|
| Performing    | \$3,987,995 | \$76,043,137                      | \$21,268,107 | \$61,667,995                                           |
| Nonperforming | 22,883      | 1,469,896                         | 234,382      | 3,043,239                                              |
| Total         | \$4,010,878 | \$77,513,033                      | \$21,502,489 | \$64,711,235                                           |

December 31, 2014

|               | Consumer    | <b>Residential 1-4<br/>family</b> | Commercial  | <b>Commercial and<br/>Multi-family real<br/>estate</b> |
|---------------|-------------|-----------------------------------|-------------|--------------------------------------------------------|
| Performing    | \$4,788,985 | \$78,045,118                      | \$8,166,789 | \$19,307,124                                           |
| Nonperforming | 9,832       | 2,211,895                         | 25,019      | 1,172,010                                              |
| Total         | \$4,798,817 | \$80,257,013                      | \$8,191,808 | \$20,479,134                                           |

## 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 following table includes the recorded investment and number of modifications for TDR loans during the nine month period ended September 30, 2015.

|                               | <b>Number of<br/>modifications</b> | <b>Recorded<br/>investment</b> | <b>Allowance for loan<br/>losses allocated</b> |
|-------------------------------|------------------------------------|--------------------------------|------------------------------------------------|
| Troubled Debt Restructurings: |                                    |                                |                                                |
| Commercial Real Estate        | 14                                 | \$ 514,581                     | -                                              |

The concessions granted in the above TDR's were a modification of the original term, pursuant to which the terms were extended. The recorded investment in the loans did not change as a result of the modification. There are not any troubled debt restructurings for which there was a payment default in the current reporting period.

The following is additional information with respect to loans acquired through The Ohio State Bank acquisition as of September 30, 2015 and December 31, 2014:

|                                    | Contractual<br>Principal<br>Receivable | Accretable<br>Difference | Carrying<br>Amount |
|------------------------------------|----------------------------------------|--------------------------|--------------------|
| Purchased Performing Loans         |                                        |                          |                    |
| Balance at December 31, 2014       | \$58,436,586                           | \$(3,143,613)            | \$55,292,973       |
| Change due to payments received    | (11,338,228)                           | 911,195                  | (10,427,033)       |
| Transfer to foreclosed real estate | -                                      | -                        | -                  |
| Change due to loan charge-off      | (7,120 )                               | -                        | (7,120 )           |
| Balance at September 30, 2015      | \$47,091,238                           | \$(2,232,418)            | \$44,858,820       |

|                                    | Contractual<br>Principal<br>Receivable | Non<br>Accretable<br>Difference | Carrying<br>Amount |
|------------------------------------|----------------------------------------|---------------------------------|--------------------|
| Purchased Impaired Loans           |                                        |                                 |                    |
| Balance at December 31, 2014       | \$2,688,709                            | \$(1,788,138)                   | \$900,571          |
| Change due to payments received    | (107,843 )                             | 35,910                          | (71,933 )          |
| Transfer to foreclosed real estate | (194,295 )                             | 187,275                         | (7,020 )           |
| Change due to loan charge-off      | (147,983 )                             | 145,650                         | (2,333 )           |
| Balance at September 30, 2015      | \$2,238,588                            | \$(1,419,303)                   | \$819,285          |

As a result of The Ohio State Bank acquisition, the Corporation has loans, for which there was at acquisition, evidence of deterioration of credit quality since origination and for which it was probable at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans as of September 30, 2015 and December 31, 2014 was \$819,285 and \$900,571, respectively.

No provision for loan losses was recognized during the period ended September 30, 2015 and December 31, 2014 related to the acquired loans as there was no significant change to the credit quality of the loans.

#### 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 3.48% at September 30, 2015 and 3.39% at September 30, 2014. 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.

The Corporation assumed \$3,093,000 of trust preferred securities through The Ohio State Bank acquisition. The \$3,000,000 of liability is guaranteed by the Corporation, and the remaining \$93,000 is secured by an investment in the trust preferred securities. The trust preferred securities carrying value as of September 30, 2015 and December 31, 2014 was \$2,463,938 and \$2,438,549, respectively. The difference between the principal owed and the carrying value is due to the below-market interest rate on the debentures. The debentures have a stated maturity date of April 23, 2034. Interest is at a floating rate adjustable quarterly and equal to 285 basis points over the 3-month LIBOR amounting to 3.18% at September 30, 2015.

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.

Interest expense on the debentures approximated \$324,500 and \$257,000 for the nine month periods ended September 30, 2015 and 2014, respectively, and is included in interest expense-other borrowings in the accompanying consolidated statements of income.

#### **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 September 30, 2015 and December 31, 2014 include available-for-sale securities, which are valued using Level 2 inputs except for one security which is valued using Level 1 inputs and one other security which is valued using Level 3 inputs and mortgage servicing rights, amounting to \$1,130,352 at September 30, 2015 and \$1,217,931 December 31, 2014, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at September 30, 2015 and December 31, 2014 include other real estate owned, as well as impaired loans approximating \$6.5 million at September 30, 2015 and \$2.9 million at December 31, 2014 all of which are valued using Level 3 inputs.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the period ended September 30, 2015, due to the lack of observable quotes in inactive markets for those instruments at September 30, 2015. The Corporation did have one security that was moved from a Level 2 to Level 3 at December 31, 2014.

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 nine month period ended September 30, 2015 and year ended December 31, 2014:

|                                                             | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|-------------------------------------------------------------|-------------------------------|------------------------------|
| Mortgage Servicing Rights                                   |                               |                              |
| Balance at beginning of period                              | \$ 1,217,931                  | \$ 1,398,396                 |
| Gains or losses, including realized and unrealized:         |                               |                              |
| Purchases, issuances, and settlements                       | 129,415                       | 134,324                      |
| Disposals – amortization based on loan payments and payoffs | (305,380 )                    | (167,739 )                   |
| Other changes in fair value                                 | 88,386                        | (147,050 )                   |
| Balance at end of period                                    | \$ 1,130,352                  | \$ 1,217,931                 |
| Securities valued using Level 3 inputs                      |                               |                              |
| Balance at beginning of period                              | \$ 2,535,817                  | \$ 2,673,424                 |
| Principal payments received                                 | (108,519 )                    | (139,400 )                   |
| Changes in Fair Value                                       | 27,024                        | 1,793                        |
| Balance at end of period                                    | \$ 2,454,322                  | \$ 2,535,817                 |

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 U. S. Government and agencies, 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 have securities classified as Level 2 or Level 3 at September 30, 2015 and December 31, 2014. 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 September 30, 2015 and December 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 15% and 35% 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 -3.21% and 1.18%, 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 70% 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 \$316,050, resulting in impairment charges of \$228,000, which are included in non-interest expenses for the nine month period ended September 30, 2015.

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 September 30, 2015 and December 31, 2014.

## NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at September 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

|                                                    | September 30, 2015 |                 | December 31, 2014 |                 | Input Level |
|----------------------------------------------------|--------------------|-----------------|-------------------|-----------------|-------------|
|                                                    | Carrying amount    | Estimated value | Carrying amount   | Estimated value |             |
| <b>FINANCIAL ASSETS</b>                            |                    |                 |                   |                 |             |
| Cash and cash equivalents                          | \$16,914           | \$16,914        | \$32,355          | \$32,355        | 1           |
| Securities, including Federal Home Loan Bank stock | 194,865            | 194,865         | 211,291           | 211,291         | 1, 2, 3     |
| Certificates of deposit                            | 2,490              | 2,490           | 2,490             | 2,490           | 2           |
| Loans held for sale                                | 162                | 162             | 229               | 229             | 3           |
| Net loans                                          | 355,702            | 355,528         | 357,098           | 357,066         | 3           |
| Mortgage servicing rights                          | 1,130              | 1,130           | 1,218             | 1,218           | 3           |
|                                                    | \$571,263          | \$571,089       | \$604,681         | \$604,649       |             |
| <b>FINANCIAL LIABILITIES</b>                       |                    |                 |                   |                 |             |
| Deposits                                           |                    |                 |                   |                 |             |
| Maturity                                           | \$153,347          | 152,660         | \$174,929         | \$174,263       | 3           |
| Non-maturity                                       | 359,207            | 359,207         | 390,516           | 390,516         | 1           |
| Other borrowings                                   | 15,000             | 15,000          | -                 | -               | 3           |
| Junior subordinated deferrable interest debentures | 12,764             | 12,560          | 12,739            | 12,627          | 3           |
|                                                    | \$540,318          | \$539,427       | \$578,184         | \$577,406       |             |

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 and would be considered level 1 input.

There are also unrecognized financial instruments at September 30, 2015 and December 31, 2014 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments approximated \$87,050,000 at September 30, 2015 and \$92,921,000 at December 31, 2014. 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.

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.

NOTE 8 – SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after September 30, 2015 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at September 30, 2015 have been recognized in the consolidated financial statements for the period ended September 30, 2015. Events or transactions that provided evidence about conditions that did not exist at September 30, 2015 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended September 30, 2015.

On October 20, 2015, the Corporation's Board of Directors approved a cash dividend of \$0.09 per common share payable December 15, 2015 to shareholders of record at the close of business on November 30, 2015.

## 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<br>Months Ended<br>September 30, |      | As of or for the Nine<br>Months Ended<br>September 30, |      |          |   |          |   |
|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------|--------------------------------------------------------|------|----------|---|----------|---|
|                                                                                                                  | 2015                                                    | 2014 | 2015                                                   | 2014 |          |   |          |   |
| <b>SIGNIFICANT RATIOS (Unaudited)</b>                                                                            |                                                         |      |                                                        |      |          |   |          |   |
| Net income to:                                                                                                   |                                                         |      |                                                        |      |          |   |          |   |
| Average assets (a)                                                                                               | 0.97                                                    | %    | 0.70                                                   | %    | 0.95     | % | 0.75     | % |
| Average shareholders' equity (a)                                                                                 | 8.53                                                    | %    | 6.26                                                   | %    | 8.74     | % | 6.75     | % |
| Net interest margin (a)                                                                                          | 3.79                                                    | %    | 3.18                                                   | %    | 3.68     | % | 3.31     | % |
| Efficiency ratio (b)                                                                                             | 62.54                                                   | %    | 72.41                                                  | %    | 63.22    | % | 70.20    | % |
| Average shareholders' equity to average assets                                                                   | 11.33                                                   | %    | 11.17                                                  | %    | 10.82    | % | 11.17    | % |
| Loans to deposits (end of period)                                                                                | 69.40                                                   | %    | 60.21                                                  | %    | 69.40    | % | 60.21    | % |
| Allowance for loan losses to loans (end of period)<br>excluding loans marked to market in the acquisition of OSB | 1.14                                                    | %    | 1.32                                                   | %    | 1.14     | % | 1.32     | % |
| Book value per share                                                                                             | \$ 21.46                                                |      | \$ 19.67                                               |      | \$ 21.46 |   | \$ 19.67 |   |

(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, Delaware, Hancock, Marion, Putnam, Sandusky, Van Wert and Wood counties in Ohio, with office locations in Bowling Green, Columbus Grove, Delaware, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Marion, 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.

On July 1, 2014, the Corporation, Ohio State Bancshares, Inc. (“OSB”) and Rbancshares, Inc. (“Rbancshares”) entered into a Stock Purchase Agreement (the “Purchase Agreement”) pursuant to which the Corporation purchased from OSB all of the issued and outstanding shares of The Ohio State Bank (“The Ohio State Bank”), an Ohio banking corporation and wholly-owned subsidiary of OSB (the “Acquisition”). Immediately following the acquisition, The Ohio State Bank was merged into the Bank. The Ohio State Bank operated three full-service branches with a main office and one other facility in Marion, Ohio and one branch in Delaware, Ohio. These offices became branches of the Bank after the acquisition. The transaction was completed on November 14, 2014 with assets acquired and deposits assumed being recorded at their estimated fair values.

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 September 30, 2015, the Corporation reported net income of \$1,503,000, or \$0.45 basic earnings per share. This compares to the third quarter of 2014 net income of \$1,038,000, or \$0.31 basic earnings per share. The increase in operating results for the third quarter of 2015 as compared to the same period in 2014 was primarily attributable to an increase in interest income of \$956,000, increase in non-interest income of \$64,000, a \$463,000 increase in non-interest expenses, and a decrease of \$160,000 in interest expense, and the related income tax effects of these items. The majority of the increase in interest income for the quarter was due to the acquisition of the loan portfolio from OSB. Non-interest expense increased due to occupancy and salary expense for the three branches acquired from OSB.

Net income for the nine months ended September 30, 2015 totaled \$4,528,000, or \$1.35 basic earnings per share compared to \$3,264,000 or \$0.95 basic earnings per share for the same period in 2014. Compared with the same period in 2014, net income increased \$1,264,000, or 38.7%. The increase for the nine month period ended September 30, 2015, as compared to the nine month period ended September 30, 2014, was primarily the result of an increase in non-interest income of \$181,000 and an increase in net interest income of \$3,098,000 offset by an increase of \$1,831,000 in non-interest expenses, and the related income tax effects of these items. The majority of the increase in net interest income for the nine months ended September 30, 2015 was due to the acquisition of the loan portfolio from OSB.

### 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 \$5,259,000 for the third quarter of 2015, compared to \$4,144,000 for the same period of 2014, an increase of \$1,115,000 (26.9%).

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 third

quarter and nine month periods ended September 30, 2015, the net interest margin (on a taxable equivalent basis) was 3.79% and 3.68% compared with 3.18% and 3.31% for the same periods in 2014.

Interest-bearing deposits comprised 97.3% of average interest-bearing liabilities for the nine months ended September 30, 2015, compared to 94.7% for the same period in 2014. The Corporation's cost of funds on interest-bearing liabilities was 0.47% for the nine months of 2015 compared to 0.63% for the same period in 2014.

#### 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. A \$100,000 provision for loan losses was made during the nine month period ended September 30, 2015. A \$115,000 provision for loan losses was made during the nine month period ended September 30, 2014. 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 September 30, 2015, non-interest income was \$1,042,000 compared to \$978,000 for the third quarter of 2014, a \$64,000 (6.6%) increase.

Gain on sales of loans amounted to \$144,000 for the quarter ended September 30, 2015, compared to \$134,000 for the third quarter of 2014, an increase of \$10,000 (8.0%). Quarterly gain on sale of loans was impacted by an increase in capitalized servicing rights of \$39,000 in 2015 and an increase of \$55,000 in 2014. Gain on sales of loans amounted to \$368,000 for the nine months ended September 30, 2015 compared to \$255,000 for the comparable period in 2014, an increase of \$113,000 (44.5%). Gain on sales of loans for the nine month period included capitalized servicing rights of \$129,000 in 2015 and \$109,000 in 2014. The increase in gain on sale of loans corresponds with the increase in loan sales activity. Loan sales for the first nine months of 2015 were \$22.3 million, compared to \$11.2 million for the first nine months of 2014.

The fair value of mortgage servicing rights decreased \$104,000 for the quarter ended September 30, 2015, compared to a \$6,000 decrease for the quarter ended September 30, 2014. For the nine month period ended September 30, 2015, there was an increase in fair value of mortgage servicing rights of \$88,000, compared to a decrease in fair value of mortgage servicing rights of \$77,000 for the nine months ended September 30, 2014. The decrease in fair value of mortgage servicing rights during the three months ended September 30, 2015 resulted from an increase in the prepayment speeds utilized, an increase in servicing costs and an increase in the internal rate of return utilized. The increase in fair value of mortgage servicing rights during the nine month period ending September 30, 2015 resulted from a decrease in the prepayment speeds utilized during the six month period ended June 30, 2015.

Gain on sales of securities amounted to \$64,000 for the quarter ended September 30, 2015, compared to \$3,000 for the third quarter of 2014, an increase of \$61,000. Gain on sales of securities amounted to \$116,000 for the nine months ended September 30, 2015 compared to \$400,000 for the comparable period in 2014, a decrease of \$284,000 (71.0%).

## Non-Interest Expenses

For the quarter ended September 30, 2015, non-interest expenses were \$4,314,000, compared to \$3,851,000 for the third quarter of 2014, a \$463,000 (12.0%) increase. For the nine month period ended September 30, 2015, non-interest expenses totaled \$13,257,000, compared to \$11,426,000 for the comparable period of 2014, an increase of \$1,831,000 (16.0%). The increase in non-interest expenses for the nine month period ended September 30, 2015 was primarily attributed to the increase in expenses for the three branches acquired from OSB. Also, contributing to the increase in non-interest expense were increases in data processing expenses, other real estate owned expenses, asset management expenses, occupancy expenses and deposit premium amortization.

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 September 30, 2015, the Corporation's efficiency ratio was 62.54%, compared to 72.41% for the same period of 2014. For the nine month period ended September 30, 2015, the Corporation's efficiency ratio was 63.22% compared to 70.20% for the same period of 2014.

### **Provision for Income Taxes**

The provision for income taxes for the quarter ended September 30, 2015 was \$485,000 compared to \$233,000 for the comparable 2014 period. The provision for income taxes for the nine month period ended September 30, 2015 was \$996,000, or 18.0% of income before income taxes, compared to \$796,000 or 19.6% for the comparable 2014 period. The change was due, in part, to a one-time tax benefit due to a change in the tax law of \$331,000 which was recognized during the second quarter of 2015.

### **Return on Assets**

Return on average assets was 0.97% for the third quarter of 2015, compared to 0.70% for the third quarter of 2014. For the nine month period ended September 30, 2015, return on average assets was 0.95%, compared to 0.75% for the same period of 2014.

### **Return on Equity**

Return on average shareholders' equity for the third quarter of 2015 was 8.53%, compared to 6.26% for the same period of 2014. Return on average equity for the nine months ended September 30, 2015 was 8.74%, compared to 6.75% for the same period in 2014.

The Corporation and Bank met all regulatory capital requirements as of September 30, 2015, 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 \$616.1 million at September 30, 2015, compared to \$650.2 million at December 31, 2014, a decrease of \$34.1 million (5.25%). The decrease in total assets was primarily the result of a decrease of \$15.4 million (47.72%) in cash and cash equivalents, a \$518,000 (8.23%) decrease in other assets and a \$220,000 (41.04%) decrease in other real estate owned, decrease of \$1.7 million (0.46%) in gross loans, and a decrease in available-for-sale securities of \$16.4 million (7.96%). Deposits during this same period decreased \$52.9 million, or 9.35%. The decrease in deposits also resulted in a decrease in total assets and increased borrowings by \$15.0 million.

Shareholders' equity increased from \$67.8 million at December 31, 2014 to \$71.4 million at September 30, 2015. This increase was the result of net income of \$4,528,000, dividends paid of \$902,000, repurchase of 39,321 shares for \$594,000, the issuance of 715 treasury shares under the Corporation's Employee Stock Purchase Plan of \$14,000 and a \$627,000 increase in unrealized securities gains, net of tax. The increase in unrealized securities gains during the nine month period ended September 30, 2015, was the result of customary and normal 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 \$16.9 million at September 30, 2015, compared to \$32.4 million at December 31, 2014. Cash and cash equivalents includes interest-bearing deposits in other banks of \$7.9 million at September 30, 2015 and \$20.9 million at December 31, 2014. 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 September 30, 2015 totaled \$186.9 million and \$190.0 million, respectively, resulting in net unrealized gains of \$3,091,000 and a corresponding after tax increase in shareholders' equity of \$2,040,000. The amortized cost of available-for-sale securities decreased \$17.4 million from December 31, 2014.

### Loans

The Corporation's lending is primarily centered in Northwestern and West Central Ohio. Gross loans totaled \$359.3 million at September 30, 2015, compared to \$360.9 million at December 31, 2014, a decrease of \$1.6 million (.46%). The decrease in loan balances during the first nine months of 2015 resulted primarily from a decrease in loan origination activity.

There are also unrecognized financial instruments at September 30, 2015 and December 31, 2014 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments approximated \$87.1 million at September 30, 2015 and \$92.9 million at December 31, 2014.

### Allowance for Loan Losses

The following table presents a summary of activity in the allowance for loan losses for the nine months ended September 30, 2015 and 2014, respectively:

|                              | (dollars in thousands) |          |
|------------------------------|------------------------|----------|
|                              | 2015                   | 2014     |
| Balance, beginning of period | \$ 3,840               | \$ 4,015 |
| Provision for loan losses    | 100                    | 115      |
| Charge offs                  | (574 )                 | (168 )   |
| Recoveries                   | 211                    | 56       |
| Net charge offs              | (363 )                 | (112 )   |
| Balance, end of period       | \$ 3,577               | \$ 4,018 |

The allowance for loan losses as a percentage of gross loans was 1.14% at September 30, 2015 (excluding mark to market loans acquired from OSB) and 1.32% at December 31, 2014. 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 \$6.0 million and \$5.2 million at September 30, 2015 and December 31, 2014, respectively. Non-accrual loans as a percentage of outstanding loans amounted to 1.67% at September 30, 2015 and 1.45% at December 31, 2014.

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 \$7.5 million at September 30, 2015 and \$3.7 million at December 31, 2014. Impaired loans at December 31, 2014 included \$1.0 million of loans with no specific reserves included in the allowance for loan losses and none at September 30, 2015 and \$7.5 million and \$2.7 million,

respectively, of loans with specific reserves of \$1,049,000 and \$807,000 included in the Corporation's September 30, 2015 and December 31, 2014 allowance for loan losses.

In addition to impaired loans, the Corporation had other potential problem credits of \$15.9 million at September 30, 2015 and \$18.7 million at December 31, 2014. 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 \$363,000 of loan charge-offs net of loan recoveries during the first nine months of 2015 compared to annual loan recoveries, net of charge-offs, of \$255,117 in 2014, as well as net charge-offs of \$2.2 million in 2013, and \$1.8 million in 2012, 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 \$512.6 million, or 94.1% of the Corporation's funding sources at September 30, 2015. Total deposits decreased \$52.9 million during the nine months ending September 30, 2015.

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 17.1% of total deposits at September 30, 2015, compared to 14.9% at September 30, 2014.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling \$15.0 million at September 30, 2015 (none at December 31, 2014). The Corporation also has outstanding junior subordinated deferrable interest debentures of \$12.8 million at September 30, 2015 and December 31, 2014. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

## Shareholders' Equity

For the nine month period ended September 30, 2015, the Corporation had net income of \$4.53 million. The increase in net unrealized gains on available-for-sale securities, net of income taxes, was \$626,700 and \$2.0 million for the nine months ended September 30, 2015 and 2014, 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.

## 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 nine month period ended September 30, 2015. 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, 2014.

## 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, 2014.

**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 September 30, 2015:

| Period                | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced plan or program (a) | Maximum number of shares that may yet be purchased under the plan or program (a) |
|-----------------------|----------------------------------|------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| 07/01/15 - 07/31/2015 | -                                | \$ -                         | 314,558                                                                              | 285,442                                                                          |
| 08/01/15 - 08/31/2015 | -                                | -                            | 314,558                                                                              | 285,442                                                                          |
| 09/01/15 - 09/30/2015 | -                                | -                            | 314,558                                                                              | 285,442                                                                          |

The Corporation's stock repurchase plan (the "Plan") authorizes the Corporation to repurchase up to 600,000 of the (a) 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

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**Item 4: Mine Safety Disclosures**

Not applicable

**Item 5: Other Information.**

None

**Item 6: Exhibits**

(a) Exhibits

Exhibit 2 Stock Purchase Agreement, dated July 1, 2014 among United Bancshares, Inc., Ohio State Bancshares, Inc. and Rbancshares, Inc.

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 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:** October 29, 2015 **By:** /s/ Anthony M.V. Eramo  
Anthony M.V. Eramo  
Chief Financial Officer

**EXHIBIT INDEX**

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

FOR PERIOD ENDED September 30, 2015

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                            | <b>Exhibit Location</b>                                                                                                         |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| 2                     | Stock Purchase Agreement, dated July 1, 2014 among United Bancshares, Inc., Ohio State Bancshares, Inc. and Rbancshares, Inc. | Incorporated herein by reference to the Corporation's Form 8-K filed July 1, 2014.                                              |
| 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.                                       |
| 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                                                                                                        | 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                                                                                                                  |

