

UNITED BANCSHARES INC/OH  
Form 10-Q  
April 26, 2019

---

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2019**

Commission file number 333-86453

**UNITED BANCSHARES, INC.**

(Exact name of Registrant as specified in its charter)

**Ohio**

(State or other jurisdiction of incorporation or organization)

**105 Progressive Drive, Columbus Grove, Ohio**

(Address of principal executive offices)

**34-1516518**

(I.R.S. Employer Identification Number)

**45830**

(Zip Code)

**(419) 659-2141**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer      Accelerated filer    Non-accelerated filer    Smaller Reporting Company  
Emerging growth company

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

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 March 31, 2019:  
3,270,635.

This document contains 44 pages. The Exhibit Index is on page 38 immediately preceding the filed exhibits.

---

---

---

**UNITED BANCSHARES, INC.**

Table of Contents

	<b><u>Page</u></b>
<b>Part I – Financial Information</b>	
<b>Item 1</b> – Financial Statements	3
<b>Item 2</b> – Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
<b>Item 3</b> – Quantitative and Qualitative Disclosures about Market Risk	34
<b>Item 4</b> – Controls and Procedures	36
<b>Part II – Other Information</b>	
<b>Item 1</b> – Legal Proceedings	37
<b>Item 1A</b> – Risk Factors	37
<b>Item 2</b> – Unregistered Sales of Equity Securities and Use of Proceeds	37
<b>Item 3</b> – Defaults Upon Senior Securities	37
<b>Item 4</b> – Mine Safety Disclosures	38
<b>Item 5</b> – Other Information	38
<b>Item 6</b> – Exhibits	38

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

Consolidated Balance Sheets (Unaudited)

	(in thousands except share data)	
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$10,319	\$ 11,698
Interest-bearing deposits in other banks	16,947	4,777
Total cash and cash equivalents	27,266	16,475
<b>SECURITIES, available-for-sale</b>	169,497	167,354
<b>FEDERAL HOME LOAN BANK STOCK, at cost</b>	5,302	5,302
<b>LOANS HELD FOR SALE</b>	10,465	7,705
<b>LOANS AND LEASES</b>	565,987	561,614
Less allowance for loan and lease losses	3,644	3,527
Net loans and leases	562,343	558,087
<b>PREMISES AND EQUIPMENT, net</b>	18,826	18,968
<b>GOODWILL</b>	28,616	28,616
<b>CORE DEPOSIT INTANGIBLE ASSETS, net</b>	913	953
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	18,321	18,223
<b>OTHER REAL ESTATE OWNED</b>	108	108
<b>OTHER ASSETS, including accrued interest receivable</b>	10,574	8,509
<b>TOTAL ASSETS</b>	<b>\$852,231</b>	<b>\$ 830,300</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$117,942	\$ 115,333
Interest-bearing	571,312	550,903
Total deposits	689,254	666,236
Other borrowings	59,500	65,443
Junior subordinated deferrable interest debentures	12,882	12,874
Other liabilities	6,162	4,803
Total liabilities	767,798	749,356
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, stated value \$1.00, authorized 10,000,000 shares; issued 3,760,557 shares	3,761	3,761

Surplus	15,025	14,960
Retained earnings	73,058	71,670
Accumulated other comprehensive income (loss)	252	(1,764 )
Treasury stock, at cost, 489,922 shares at March 31, 2019 and 491,199 shares at December 31, 2018	(7,663 )	(7,683 )
Total shareholders' equity	84,433	80,944
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$852,231</b>	<b>\$ 830,300</b>

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

**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statements of Income (Unaudited)

	(in thousands except share data)	
	Three months ended March 31,	
	<b>2019</b>	<b>2018</b>
<b>INTEREST INCOME</b>		
Loans and leases, including fees	\$7,783	\$6,621
Securities:		
Taxable	662	581
Tax-exempt	413	409
Other	128	130
Total interest income	8,986	7,741
<b>INTEREST EXPENSE</b>		
Deposits	1,410	718
Other borrowings	641	493
Total interest expense	2,051	1,211
Net interest income	6,935	6,530
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>	100	90
Net interest income after provision for loan and lease losses	6,835	6,440
<b>NON-INTEREST INCOME</b>		
Gain on sale of loans	1,438	1,099
Net securities gains	-	14
Other operating income	1,070	1,135
Total non-interest income	2,508	2,248
<b>NON-INTEREST EXPENSES</b>	7,222	6,551
<b>INCOME BEFORE INCOME TAXES</b>	2,121	2,137
<b>PROVISION FOR INCOME TAXES</b>	307	338
<b>NET INCOME</b>	\$1,814	\$1,799
<b>NET INCOME PER SHARE (basic and diluted)</b>	\$0.55	\$0.55
Weighted average common shares outstanding (basic)	3,270,408	3,268,054
Weighted average common shares outstanding (diluted)	3,277,717	3,272,528

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

**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Comprehensive Income (Unaudited)

	(in thousands)	
	Three months ended March 31,	
	<b>2019</b>	<b>2018</b>
<b>NET INCOME</b>	\$1,814	\$1,799
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gain (loss) on securities:		
Unrealized holding gains (losses) during period	2,552	(2,611)
Reclassification adjustments for gains included in net income	-	(14 )
Other comprehensive income (loss), before income taxes	2,552	(2,625)
Income tax expense (credit) related to items of other comprehensive income (loss)	536	(551 )
Other comprehensive income (loss)	2,016	(2,074)
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$3,830</b>	<b>\$(275 )</b>

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



**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Shareholders' Equity (Unaudited)

Three months ended March 31, 2019 and 2018

(in thousands except share data)

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
<b>BALANCE AT DECEMBER 31, 2018</b>	\$3,761	\$14,960	\$71,670	\$ (1,764 )	\$ (7,683 )	\$80,944
Comprehensive income:						
Net income	-	-	1,814	-	-	1,814
Other comprehensive income	-	-	-	2,016	-	2,016
1,277 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	10	-	-	20	30
Stock option expense	-	55	-	-	-	55
Cash dividends declared, \$0.13 per share	-	-	(426 )	-	-	(426 )
<b>BALANCE AT MARCH 31, 2019</b>	\$3,761	\$15,025	\$73,058	\$ 252	\$ (7,663 )	\$84,433
<b>BALANCE AT DECEMBER 31, 2017</b>	\$3,761	\$14,783	\$64,994	\$ (124 )	\$ (7,710 )	\$75,704
Comprehensive loss:						
Net income	-	-	1,799	-	-	1,799
Other comprehensive loss	-	-	-	(2,074 )	-	(2,074 )
468 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	4	-	-	7	11
Stock option expense	-	35	-	-	-	35
Cash dividends declared, \$0.12 per share	-	-	(391 )	-	-	(391 )
Reclassification for accounting change	-	-	24	(24 )	-	-
<b>BALANCE AT MARCH 31, 2018</b>	\$3,761	\$14,822	\$66,426	\$ (2,222 )	\$ (7,703 )	\$75,084

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

**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statement of Cash Flows (Unaudited)

	(in thousands)	
	Three months ended March 31,	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$(1,818 )	\$938
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales, calls and maturities of available-for-sale securities	3,788	8,974
Purchases of available-for-sale securities	(3,575 )	(13,290)
Net increase in loans and leases	(4,222 )	(14,276)
Purchases of premises and equipment	(83 )	(124 )
Net cash used in investing activities	(4,092 )	(18,716)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	23,040	10,863
Repayments of other borrowings	(5,943 )	(3,559 )
Proceeds from sale of treasury shares	30	11
Cash dividends paid	(426 )	(391 )
Net cash provided by financing activities	16,701	6,924
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>10,791</b>	<b>(10,854)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
At beginning of period	16,475	27,274
At end of period	\$27,266	\$16,420
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>		
Cash paid during the period for:		
Interest	\$2,012	\$1,245
Federal income taxes	\$-	\$-
Non-cash investing activities:		
Transfer of loans to other real estate owned	\$-	\$-
Change in net unrealized gain or loss on available-for-sale securities	\$2,552	\$(2,625 )

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

**United Bancshares, Inc. and Subsidiaries**

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

**March 31, 2019**

**NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of United Bancshares, Inc. and subsidiaries (the “Corporation”) have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. The balance sheet as of December 31, 2018 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, 2018.

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

**NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS**

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASC requires that both types of leases be recognized on the balance sheet. For public companies, this update is effective for interim and annual periods beginning after December

15, 2018. The adoption of ASU No. 2016-02 effective January 1, 2019 resulted in an increase to other assets and other liabilities of \$2,168,000. The Corporation chose the effective date as the date of initial application. Consequently, prior period financial information has not been updated or restated.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). ASU 2016-09 is intended to simplify the accounting for share-based payment transactions, including income tax consequences, classification of awards as either assets or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of ASU 2016-09 effective January 1, 2019 did not have a material impact on the consolidated financial statements.

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

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

**NOTE 3 - SECURITIES**

The amortized cost and fair value of available-for-sale securities as of March 31, 2019 and December 31, 2018 are as follows:

	(in thousands)			
	<b>March 31, 2019</b>		<b>December 31, 2018</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
Available-for-sale:				
Obligations of states and political subdivisions	\$62,866	\$63,917	\$59,585	\$59,466
Mortgage-backed	105,310	104,604	109,000	106,924
Other	1,002	976	1,002	964
<b>Total</b>	<b>\$169,178</b>	<b>\$169,497</b>	<b>\$169,587</b>	<b>\$167,354</b>

A summary of gross unrealized gains and losses on available-for-sale securities as of March 31, 2019 and December 31, 2018 follows:

	(in thousands)			
	<b>March 31, 2019</b>		<b>December 31, 2018</b>	
	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>
Available-for-sale:				
Obligations of states and political subdivisions	\$1,155	\$ 104	\$354	\$ 473
Mortgage-backed	342	1,048	162	2,238
Other	-	26	-	38
<b>Total</b>	<b>\$1,497</b>	<b>\$ 1,178</b>	<b>\$516</b>	<b>\$ 2,749</b>

**NOTE 4 – LOANS AND LEASES**

The following tables present the activity in the allowance for loan and lease losses by portfolio segment for the three month periods ended March 31, 2019 and 2018:

	(in thousands)				
	<b>Commercial and agricultural real estate</b>	<b>Commercial and agricultural real estate</b>	<b>Residential 1 – 4 family real estate</b>	<b>Consumer</b>	<b>Total</b>
Balance at December 31, 2018	\$534	\$ 2,355	\$ 576	\$ 62	\$3,527
Provision charged to expenses	5	59	33	3	100
Losses charged off	-	-	(25 )	(3 )	(28 )
Recoveries	36	6	3	-	45
Balance at March 31, 2019	\$575	\$ 2,420	\$ 587	\$ 62	\$3,644
Balance at December 31, 2017	\$501	\$ 1,746	\$ 545	\$ 43	\$2,835
Provision (credit) charged to expenses	45	(1 )	43	3	90
Losses charged off	(19 )	(8 )	(51 )	(2 )	(80 )
Recoveries	29	101	-	1	131
Balance at March 31, 2018	\$556	\$ 1,838	\$ 537	\$ 45	\$2,976

The following tables present the balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and based on impairment method as of March 31, 2019 and December 31, 2018:

	(in thousands)				
	Commercial	Commercial and agricultural real estate	Residential 1 – 4 family real estate	Consumer	Total
<b>March 31, 2019</b>					
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	\$57	\$ 43	\$ -	\$ -	\$100
Collectively evaluated for impairment	518	2,377	587	62	3,544
Total allowance for loan and lease losses	\$575	\$ 2,420	\$ 587	\$ 62	\$3,644
Loans and leases:					
Individually evaluated for impairment	\$137	\$ 1,145	\$ -	\$ -	\$1,282
Acquired with deteriorated credit quality	-	192	52	-	244
Collectively evaluated for impairment	78,708	358,428	120,212	7,113	564,461
Total ending loans and leases balance	\$78,845	\$ 359,765	\$ 120,264	\$ 7,113	\$565,987
<b>December 31, 2018</b>					
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	\$ 63	\$ 65	\$ -	\$ -	\$128
Collectively evaluated for impairment	471	2,290	576	62	3,399
Total allowance for loan and lease losses	\$ 534	\$ 2,355	\$ 576	\$ 62	\$3,527
Loans and leases:					
Individually evaluated for impairment	\$ 361	\$ 970	\$ -	\$ -	\$1,331
Acquired with deteriorated credit quality	-	226	70	-	296
Collectively evaluated for impairment	80,269	353,250	119,771	6,696	559,986
Total ending loans and leases balance	\$ 80,630	\$ 354,446	\$ 119,841	\$ 6,696	\$561,613

The average recorded investment in impaired loans and leases (excluding loans and leases acquired with deteriorated credit quality) for the three month period ended March 31, 2019 was \$1,307,000 (none for the three month period ended March 31, 2018). There was \$100,000 of allowance for loan and lease losses specifically reserved as of March 31, 2019 for impaired loans compared to no specific reserves as of March 31, 2018. Additionally, there was approximately \$24,000 and \$27,000 in interest income recognized by the Corporation on impaired loans and leases on an accrual or cash basis for the three month period ended March 31, 2019 and 2018, respectively.

The following table presents the recorded investment in nonaccrual loans and leases, loans and leases past due over 90 days still on accrual and troubled debt restructurings by class of loans as of March 31, 2019 and December 31, 2018. Nonaccrual loans primarily consist of smaller dollar homogenous loans that are collectively evaluated for impairment.

	(in thousands)		
	Loans and leases		Troubled Debt Restructurings
March 31, 2019	Nonaccrual	past due over 90 days still accruing	
Commercial	\$ 113	\$ -	\$ 24
Commercial real estate	704	-	219
Agricultural real estate	215	-	-
Agriculture	-	-	-
Consumer	-	-	-
Residential: 1 – 4 family	303	161	364
Total	\$1,335	\$ 161	\$ 607
<b>December 31, 2018</b>			
Commercial	\$ 121	\$ -	\$ 24
Commercial real estate	754	-	228
Agricultural real estate	216	-	-
Agriculture	-	-	-
Consumer	-	-	-
Residential: 1 – 4 family	354	161	372
Total	\$1,445	\$ 161	\$ 624



The following table presents the aging of the recorded investment in past due loans and leases as of March 31, 2019 and December 31, 2018 by class of loans and leases:

(in thousands)						
	<b>30 – 59 days</b>	<b>60 – 89 days</b>	<b>Greater than 90 days</b>	<b>Total past due</b>	<b>Loans and leases not past due</b>	<b>Total</b>
<b>March 31, 2019</b>	<b>past due</b>	<b>past due</b>	<b>past due</b>			
Commercial	\$349	\$-	\$-	\$349	\$68,022	\$68,371
Commercial real estate	509	-	526	1,035	327,960	328,995
Agriculture	-	-	-	-	10,474	10,474
Agricultural real estate	18	-	241	259	30,511	30,770
Consumer	1	-	-	1	7,112	7,113
Residential real estate	1,312	53	240	1,605	118,659	120,264
<b>Total</b>	<b>\$2,189</b>	<b>\$53</b>	<b>\$1,007</b>	<b>\$3,249</b>	<b>\$562,738</b>	<b>\$565,987</b>
<b>December 31, 2018</b>						
Commercial	\$482	\$-	\$-	\$482	\$68,503	\$68,985
Commercial real estate	580	-	155	735	322,032	322,767
Agriculture	-	-	-	-	11,645	11,645
Agricultural real estate	7	-	241	248	31,431	31,679
Consumer	4	-	-	4	6,692	6,696
Residential real estate	2,471	371	278	3,120	116,721	119,841
<b>Total</b>	<b>\$3,544</b>	<b>\$371</b>	<b>\$674</b>	<b>\$4,589</b>	<b>\$557,024</b>	<b>\$561,613</b>

## Credit Quality Indicators:

The Corporation categorizes loans and leases 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 and leases individually by classifying the loans and leases as to the credit risk. This analysis generally includes non-homogenous loans and leases, such as commercial and commercial real estate loans and leases. The Corporation uses the following definitions for risk ratings:

**Special Mention:** Loans and leases which possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans and leases pose unwarranted financial risk that, if not corrected, could weaken the loan or lease 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 and leases are inadequately protected by the current sound net worth and paying ability of the borrower. Loans and leases of this type will generally display negative financial trends such as poor or negative net worth, earnings or cash flow. These loans and leases may also have historic and/or severe delinquency problems, and Corporation management may depend on secondary repayment sources to liquidate these loans and leases. The Corporation could sustain some degree of loss in these loans and leases if the weaknesses remain uncorrected.

**Doubtful:** Loans and leases 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.

The following table provides a summary of the loan portfolio risk grades, as applicable, based on the most recent analysis performed, as of March 31, 2019 and December 31, 2018. The Corporation risk rates all commercial and commercial real estate loans.

As of March 31, 2019 and December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans and leases is as follows:

	(in thousands)				
<b>March 31, 2019</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Not rated</b>
Commercial	\$77,444	\$ -	\$ 1,401	\$ -	\$-
Commercial and multi-family real estate	351,181	4,153	4,431	-	-

Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-Q

Residential 1 - 4 family	9,945	-	-	-	110,319
Consumer	-	-	-	-	7,113
Total	\$438,570	\$ 4,153	\$ 5,832	\$ -	\$117,432

**December 31, 2018**

Commercial	\$79,179	\$ -	\$ 1,451	\$ -	\$-
Commercial and multi-family real estate	346,580	4,755	3,111	-	-
Residential 1 - 4 family	10,461	-	-	-	109,381
Consumer	-	-	-	-	6,696
Total	\$436,220	\$ 4,755	\$ 4,562	\$ -	\$116,077

The Corporation considers the performance of the loan and lease portfolio and its impact on the allowance for loan and lease losses. For all loan classes that are not rated, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. Generally, all loans and leases not rated that are 90 days past due or are classified as nonaccrual and collectively evaluated for impairment, are considered nonperforming. The following table presents the recorded investment in all loans and leases that are not risk rated, based on payment activity as of March 31, 2019 and December 31, 2018:

	(in thousands)	
	<b>Residential</b>	<b>Consumer</b>
<b>March 31, 2019</b>	<b>1-4 family</b>	
Performing	\$110,080	\$ 7,113
Nonperforming	239	-
Total	\$110,319	\$ 7,113

**December 31, 2018**

Performing	\$109,103	\$ 6,696
Nonperforming	278	-
Total	\$109,381	\$ 6,696

Modifications:

The Corporation's loan and lease portfolio also includes certain loans and leases 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 and leases.

When the Corporation modifies a loan or lease, 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 or lease agreement, except when the sole (remaining) source of repayment for the loan or lease is 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 or lease is less than the recorded investment in the loan or lease (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 or lease balance if collection is not expected.

There were no modifications for TDR loans and leases for which there was a payment default during the three month period ended March 31, 2019.

The Corporation acquired The Ohio State Bank (“OSB”) in November 2014 and the Benchmark Bank in September 2017. As a result of these acquisitions, the Corporation has loans and leases, 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 following is information related to loans and leases acquired in these transactions, including purchased impaired loans:

	<b>The Ohio State Bank</b>		
	(in thousands)		
	<b>Contractual</b>	<b>Principal Accretable</b>	<b>Carrying</b>
	<b>Receivable</b>	<b>Difference</b>	<b>Amount</b>
<b>Purchased Performing Loans and Leases</b>			
Balance at December 31, 2018	\$19,043	\$ (658 )	\$ 18,385
Change due to payments received	(1,325 )	45	(1,280 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at March 31, 2019	\$17,718	\$ (613 )	\$ 17,105
<b>Purchased Impaired Loans and Leases</b>			
Balance at December 31, 2018	\$196	\$ (163 )	\$ 33
Change due to payments received	(6 )	3	(3 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at March 31, 2019	\$190	\$ (160 )	\$ 30
<b>Benchmark Bank</b>			
(in thousands)			
	<b>Contractual</b>	<b>Principal Accretable</b>	<b>Carrying</b>
	<b>Receivable</b>	<b>Difference</b>	<b>Amount</b>
<b>Purchased Performing Loans and Leases</b>			
Balance at December 31, 2018	\$74,837	\$ (1,553 )	\$ 73,284
Change due to payments received	(4,482 )	89	(4,393 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at March 31, 2019	\$70,355	\$ (1,464 )	\$ 68,891
<b>Purchased Impaired Loans and Leases</b>			
Balance at December 31, 2018	\$516	\$ (253 )	\$ 263
Change due to payments received	(106 )	57	(49 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at March 31, 2019	\$410	\$ (196 )	\$ 214

There was no provision for loan and lease losses recognized during the three month periods ended March 31, 2019 and 2018 related to the acquired loans as there was no significant change to the credit quality of the loans during the period.



**NOTE 5 – OTHER BORROWINGS**

Other borrowings consists of the following at March 31, 2019 and December 31, 2018:

	(in thousands)	
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Federal Home Loan Bank borrowings:</b>		
Secured note, with interest at 2.55%, due March, 2019	\$-	\$ 1,281
Secured note, with interest at 1.72%, due September, 2020	6,000	6,000
Secured note, with interest at 2.90%, due June, 2021	8,000	8,000
Secured note, with variable interest, at 2.84% at March 31, 2019 and 2.99% at December 31, 2018, due September, 2021	7,000	7,000
Secured note, with interest at 1.86%, due September, 2021	6,000	6,000
Secured note, with interest at 2.94%, due December, 2021	8,000	8,000
Secured note, with interest at 2.98%, due June, 2022	9,000	9,000
Secured note, with interest at 1.97%, due September, 2022	6,000	6,000
<b>Zions Bank:</b>		
Secured note, with interest at 2.64%, due January, 2019	-	2,917
<b>United Bankers Bank</b>		
Note payable, with interest at 4.875% payable quarterly, and \$250,000 principal payments commencing December 1, 2018, with any remaining unpaid principal, due September 1, 2022. All Union Bank stock is held as collateral.	9,500	9,750
Secured note, with interest at 3.00%, due January, 2019	-	1,495
Total other borrowings	\$59,500	\$ 65,443

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock and eligible mortgage loans approximating \$139,377,000 and \$137,744,000 at March 31, 2019 and December 31, 2018 respectively.



**NOTE 6 – 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 5.76% at March 31, 2019 and 5.97% at December 31, 2018. 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 OSB acquisition with \$3,000,000 of the liability guaranteed by the Corporation and the remaining \$93,000 secured by an investment in the trust preferred securities. The trust preferred securities carrying value as of March 31, 2019 and December 31, 2018 was \$2,582,000 and \$2,574,000, 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 5.61% at March 31, 2019 and 5.33% at December 31, 2018.

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 amounted to \$191,000 and \$159,000 for the three month periods ended March 31, 2019 and 2018, respectively, and is included in other borrowings interest expense in the accompanying consolidated statements of income.

## NOTE 7 - FAIR VALUE MEASUREMENTS

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

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

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

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* – Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Corporation's own assumptions about what market participants

would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Corporation's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at March 31, 2019 and December 31, 2018 include available-for-sale securities, which are valued using Level 2 inputs as well as mortgage servicing rights, amounting to \$1,196,000 at March 31, 2019 and \$1,313,000 at December 31, 2018, which are valued using Level 3 inputs. There were no impaired loans for the periods ended March 31, 2019 and December 31, 2018.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the period ended March 31, 2019, due to the lack of observable quotes in inactive markets for those instruments at March 31, 2019.

The tables below present a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month period ended March 31, 2019 and for the year ended December 31, 2018:

	(in thousands)	
	<b>March</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2019</b>	<b>2018</b>
<b>Mortgage Servicing Rights</b>		
Balance at beginning of period	\$ 1,313	\$ 1,270
Gains or losses, including realized and unrealized:		
Purchases, issuances, and settlements	28	164
Disposals - amortization based on loan payments and payoffs	(45 )	(147 )
Changes in fair value	(100 )	26
Balance at end of period	\$ 1,196	\$ 1,313

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, and disclosure of unobservable inputs 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 internally developed 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 securities, 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.



### ***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 or evaluations as well as 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 11% and 13%, 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 typically between 10% and 30% of appraised value, and expected selling costs between 10% and 20% of adjusted appraised value. Such values are estimated primarily using appraisals or evaluations utilizing a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3.

Certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Financial assets and financial liabilities, excluding impaired loans and other real estate owned, measured at fair value on a nonrecurring basis were not significant at March 31, 2019 and December 31, 2018.

**NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of recognized financial instruments at March 31, 2019 and December 31, 2018 were as follows:

	(in thousands)				
	<b>March 31, 2019</b>		<b>December 31, 2018</b>		
	<b>Carrying amount</b>	<b>Estimated value</b>	<b>Carrying amount</b>	<b>Estimated value</b>	<b>Input Level</b>
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	\$27,266	\$27,266	\$16,475	\$16,475	1
Securities, including FHLB stock	174,799	174,799	172,656	172,656	2,3
Loans held for sale	10,465	10,465	7,705	7,705	3
Net loans and leases	562,343	559,595	558,087	554,223	3
Mortgage servicing rights	1,196	1,196	1,313	1,313	3
Hedging assets	798	798	492	492	3
Total Financial Assets	\$776,867	\$774,119	\$756,728	\$752,864	
<b>FINANCIAL LIABILITIES</b>					
Deposits					
Maturity	\$188,859	\$187,873	\$180,675	\$178,947	3
Non-maturity	500,395	500,395	485,561	485,561	1
Other borrowings	59,500	59,393	65,443	65,029	3
Junior subordinated deferrable interest debentures	12,882	9,916	12,874	8,318	3
Hedging liabilities	-	-	86	86	3
Total Financial Liabilities	\$761,636	\$757,577	\$744,639	\$737,941	

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 inputs.

There are also unrecognized financial instruments at March 31, 2019 and December 31, 2018 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounted to \$146,718,000 at March 31, 2019 and \$147,526,000 at December 31, 2018. 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 held for sale:

The fair value of loans held for sale is determined based on the sales price of similar loans. Loan held for sale are typically held for 60 days or less.



Loans and leases:

Fair value for loans and leases was estimated for portfolios of loans and leases 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 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 9 – STOCK OPTIONS**

The United Bancshares, Inc. 2016 Stock Option Plan (the “Plan”) permits the Corporation to award non-qualified stock options to eligible participants. A total of 250,000 shares are available for issuance pursuant to the Plan.

The Corporation issued 33,352 options during the fourth quarter of 2016 at an exercise price of \$19.32, 30,151 options during 2017 at an exercise price of \$21.70, and 31,267 options during 2018 at an exercise price of \$23.30 under the Plan. Following is a summary of activity for stock options for the quarters ended March 31, 2019 and March 31, 2018:

	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Outstanding, beginning of quarter	93,069	63,503
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding, end of quarter	93,069	63,503
Weighted average exercise price at end of quarter	\$21.39	\$20.45

The options vest over a three-year period on the anniversary of the date of grant. At March 31, 2019, 31,718 options were vested compared to 11,117 options vested at March 31, 2018 and outstanding options had a weighted average remaining contractual term of 5.5 years.

The fair value of options granted is estimated at the date of grant using the Black Scholes option pricing model. Following are assumptions used in calculating the fair value of the options granted:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Weighted-average fair value of options granted	\$7.87	\$7.35	\$6.27
Average dividend yield	2.18 %	2.23 %	2.31 %
Expected volatility	40.00 %	40.00 %	40.00 %
Risk-free interest rate	2.81 %	2.06 %	1.58 %
Expected term (years)	7	7	7

Total compensation expense related to the stock options granted in 2016 is expected to be \$209,000 and is being recognized ratably over the 36 month period beginning January 1, 2017. Total compensation expense related to the stock options granted in 2017, net of forfeitures, is expected to be \$209,000 and is being recognized ratably over the 36 month period beginning August 1, 2017. Total compensation expense related to the stock options granted in 2018 is expected to be \$246,000 and is being recognized ratably over the 36 month period beginning September 1, 2018. Stock option expense for outstanding awards amounted to \$55,000 for the three months ended March 31, 2019 and \$35,000 for the three months ended March 31, 2018.

**NOTE 10 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after March 31, 2019 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at March 31, 2019 have been recognized in the consolidated financial statements for the period ended March 31, 2019. Events or transactions that provided evidence about conditions that did not exist at March 31, 2019 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended March 31, 2019.

On April 16, 2019, the Corporation's Board of Directors approved a cash dividend of \$0.13 per common share payable June 17, 2019 to shareholders of record at the close of business on May 31, 2019.

## 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:

	<b>As of or for the three months ended March 31, 2019      2018</b>	
<b>SIGNIFICANT RATIOS (Unaudited)</b>		
Net income to:		
Average assets (a)	0.87 %	0.92 %
Average tangible shareholders' equity (non-GAAP) (a)	13.86 %	14.86 %
Net interest margin (a)	3.81 %	3.82 %
Efficiency ratio (b)	74.76 %	73.15 %
Average shareholders' equity to average assets	9.83 %	9.56 %
Loans to deposits (end of period) (c)	83.63 %	81.68 %
Allowance for loan losses to loans (end of period)	0.63 %	0.57 %
 Book value per share	 \$25.82	 \$22.97

Net income to average assets, net income to average tangible shareholders' equity and net interest margin are (a) 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.

(c) Includes loans held for sale

### Reconciliation of common shareholders' equity to tangible common equity

	March 31, 2019	March 31, 2018
Shareholders' equity	\$84,433	\$75,084
Less goodwill and other intangibles	\$29,529	\$26,286

Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-Q

Tangible common equity	\$54,904	\$48,798
Average shareholders' equity	\$81,900	\$74,976
Less average goodwill and other intangibles	\$29,546	\$26,286
Average tangible common equity	\$52,354	\$48,690

## 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 105 Progressive Drive, 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, Franklin, Hancock, Marion, Putnam, Sandusky, and Wood counties in Ohio, with office locations in Bowling Green, Columbus Grove, Delaware, Delphos, Findlay, Gahanna, Gibsonburg, Kalida, Leipsic, Lima, Marion, Ottawa, Pemberville, Westerville and Worthington, Ohio.

The Bank offers a full range of commercial banking services, including checking accounts, savings and money market accounts, time certificates of deposit, automatic teller machines, commercial, consumer, agricultural, residential mortgage and home equity loans, credit card services, safe deposit box rentals, and other personalized banking services. The Bank has formed UBC Investments, Inc. (“UBC”) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. The Bank has also formed UBC Property, Inc. to hold and manage certain other real estate owned.

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

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



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

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

27

---

## RESULTS OF OPERATIONS

### Overview of the Income Statement

For the quarter ended March 31, 2019, the Corporation reported net income of \$1,814,000, or \$0.55 basic earnings per share. This compares to the first quarter of 2018 net income of \$1,799,000, or \$0.55 basic earnings per share. The increase in operating results for the first quarter of 2019 as compared to the same period in 2018 was primarily attributable to increases in net interest income of \$405,000 and non-interest income of \$260,000 as well as a decrease in the provision for income taxes of \$31,000, offset by increases in non-interest expenses of \$671,000 and a provision for loan losses of \$10,000.

### 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 \$6,935,000 for the first quarter of 2019, compared to \$6,530,000 for the same period of 2018, an increase of \$405,000 (6.2%).

The increase in net interest income was largely attributable to an increase in interest income of \$1,245,000, including a \$1,162,000 increase in interest income from loans and leases. This increase was attributable to average loan growth from March 2018 to March 2019 of \$50.7 million, as well as higher rates. The average loan balance was \$571.1 million for the first quarter 2019 compared to \$520.4 million for the first quarter 2018.

Net interest margin is calculated by dividing net interest income (adjusted to reflect tax-exempt interest income on a taxable equivalent basis) by average interest-earning assets. The resulting percentage serves as a measurement for the Corporation in comparing its results with those of past periods as well as those of peer institutions. For the three months ended March 31, 2019, the net interest margin (on a taxable equivalent basis) was 3.81% compared with 3.82% for the same period in 2018.

Interest-bearing deposits comprised 89.3% of average interest-bearing liabilities for the three months ended March 31, 2019, compared to 89.4% for the same period in 2018.

Interest expense for the three month period ended March 31, 2019 increased \$840,000 (69.4%). The increase in interest expense was attributable to year over year average deposit growth of \$29.1 million, as well as increased rates. The average deposit balance was \$669.8 million for the first quarter of 2019 compared to \$640.7 million for the first quarter 2018.

### **Provision for Loan and Lease Losses**

The Corporation's provision for loan and lease losses is determined based upon management's calculation of the allowance for loan and lease 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 and lease portfolio. Changes in the provision for loan and lease losses are dependent, among other things, on loan and lease delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's lending markets. A \$100,000 provision for loan and lease losses was recognized during the three month period ended March 31, 2019 compared to a \$90,000 provision during the three month period ended March 31, 2018. See "Allowance for Loan and Lease Losses" under Financial Condition for further discussion relating to the provision for loan and lease 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 life insurance policies provides a relatively steady flow of income while the other sources are more volume or transaction related and consequently can vary from quarter to quarter. For the quarter ended March 31, 2019, non-interest income was \$2,508,000, compared to \$2,248,000 for the first quarter of 2018, a \$260,000 (11.6%) increase, which was primarily attributable to increases in gain on sales of loans of \$339,000 offset by a decrease in other operating income of \$65,000.

Loan sales for the first quarter of 2019 approximated \$41.0 million compared to \$36.9 million for the first quarter of 2018, resulting in gains on sale of loans of \$1,438,000 for the quarter ended March 31, 2019, compared to \$1,099,000 for the first quarter of 2018, an increase of \$339,000.

Gains on sales of securities amounted to \$14,000 for the quarter ended March 31, 2018. There were no gains or losses for the quarter ended March 31, 2019.

Other operating income decreased \$65,000 (6.0%) for the quarter ended March 31, 2019. The decrease in other operating income is largely attributable to the impact of changes in fair value of mortgage servicing rights. During the three months ended March 31, 2019, the fair value of the mortgage servicing rights asset decreased \$100,000 primarily due to an increase in prepayment speeds caused by a decrease in mortgage loan interest rates. This is a change occurring throughout the mortgage banking industry and is not specific to our loan portfolio. During the quarter ended March 31, 2018, the fair value of the servicing rights asset increased \$53,000 with minimal change in the level of serviced loan portfolio.

### **Non-Interest Expenses**

For the quarter ended March 31, 2019, non-interest expenses were \$7,222,000, compared to \$6,551,000 for the first quarter of 2018, a \$671,000 (10.2%) increase. The quarter-over-quarter increases included salaries and benefits expense of \$399,000 (10.6%), legal fees of \$103,000 which were offset by a decrease in collection legal fees of \$55,000 and data processing of \$83,000 (28.6%).

Maintaining acceptable levels of non-interest expenses and operating efficiency are key performance indicators for the Corporation in its strategic initiatives. The financial services industry uses the efficiency ratio (total non-interest expense as a percentage of the aggregate of fully-tax equivalent net interest income and non-interest income) as a key indicator of performance. For the quarter ended March 31, 2019, the Corporation's efficiency ratio was 74.76%, compared to 73.15% for the same period of 2018.

### **Provision for Income Taxes**

The provision for income taxes for the quarter ended March 31, 2019 was \$307,000 (effective rate of 14.5%), compared to \$338,000 (effective rate of 15.8%) for the comparable 2018 period.

## FINANCIAL CONDITION

### Overview of Balance Sheet

Total assets amounted to \$852.2 million at March 31, 2019, compared to \$830.3 million at December 31, 2018, an increase of \$21.9 million (2.6%). The increase in total assets was primarily the result of an increase of \$10.8 million in cash, \$4.3 million in net loans, \$2.8 million in loans held for sale and \$2.1 million in securities available-for-sale. Deposits during this same period increased \$23.0 million (3.5%) while other borrowings decreased \$5.9 million (9.1%).

Shareholders' equity increased from \$80.9 million at December 31, 2018 to \$84.4 million at March 31, 2019. This increase was primarily the result of net income during the three month period ended March 31, 2019 of \$1,814,000 and an increase in unrealized securities gains, net of tax of \$2,016,000 offset by dividends paid of \$426,000. The increase in unrealized securities gains during the three month period ended March 31, 2019, was the result of customary and expected changes in the bond market. Net unrealized gains and losses on securities are reported as accumulated other comprehensive income (loss) in the consolidated balance sheets.

### Cash and Cash Equivalents

Cash and cash equivalents totaled \$27.3 million at March 31, 2019 and \$16.5 million at December 31, 2018, including interest-bearing deposits in other banks of \$16.9 million at March 31, 2019 and \$4.8 million at December 31, 2018. Management believes the current level of cash and cash equivalents is sufficient to meet the Corporation's present liquidity and performance needs especially considering the availability of other funding sources, as described below. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and corresponding liquidity sources and uses. Management believes the Corporation's liquidity needs in the near term will be satisfied by the current level of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that will mature within one year. These sources of funds should enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due. In addition, the Corporation has access to various sources of additional borrowings by virtue of long-term assets that can be used as collateral for such borrowings.

### Securities

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

The amortized cost and fair value of available-for-sale securities as of March 31, 2019 totaled \$169.2 million and \$169.5 million, respectively, resulting in net unrealized gain before tax of \$319,000 and a corresponding after-tax increase in shareholders' equity of \$252,000.

### **Loans and Leases**

The Corporation's primary lending areas are Northwestern, West Central, and Central Ohio. Gross loans and leases totaled \$566.0 million at March 31, 2019, compared to \$561.6 million at December 31, 2018, an increase of \$4.4 million (0.8%).

There are also unrecognized financial instruments at March 31, 2019 and December 31, 2018 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments approximated \$146.7 million at March 31, 2019 and \$147.5 million at December 31, 2018.

**Allowance for Loan and Lease Losses**

The following table presents a summary of activity in the allowance for loan and lease losses for the three months ended March 31, 2019 and 2018:

	(in thousands)	
	Three months ended March 31,	
	<b>2019</b>	<b>2018</b>
Balance, beginning of period	\$3,527	\$2,835
Provision for loan and lease losses	100	90
Charge offs	(28 )	(80 )
Recoveries	45	131
Net recoveries	17	51
Balance, end of period	\$3,644	\$2,976

The allowance for loan and lease losses as a percentage of gross loans and leases was .63% at March 31, 2019, .63% at December 31, 2018, and .57% at March 31, 2018.

Regular provisions are made in amounts sufficient to maintain the balance in the allowance for loan and lease 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 and lease 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 and lease losses may also require additions to the allowance or the charge-off of specific loans and leases based upon the information available to them at the time of their examinations.

Loans and leases on non-accrual status amounted to \$1.3 million and \$1.4 million at March 31, 2019 and December 31, 2018, respectively. Non-accrual loans and leases as a percentage of outstanding loans amounted to .24% at March 31, 2019 and .26% at December 31, 2018.

The Corporation considers a loan or lease to be impaired when it becomes probable that the Corporation will be unable to collect under the contractual terms of the loan or lease, as the case may be, based on current information and events. The Corporation had impaired loans totaling \$357,000 with \$100,000 of specific reserves at March 31, 2019 and impaired loans of \$372,000 with \$128,000 of specific reserves as of December 31, 2018. The Corporation had \$925,000 and \$959,000, respectively, of impaired loans without specific reserves at March 31, 2019 and December



31, 2018.

The Corporation had other potential problem credits of \$9.6 million at March 31, 2019 and \$6.7 million at December 31, 2018. The Corporation's credit administration department continues to closely monitor these credits.

The Corporation provides pooled reserves for potential problem loans and leases using loss rates calculated considering historic net loan charge-off experience, as well as other environmental and qualitative factors. The Corporation experienced \$28,000 of loan charge-offs during the first three months of 2019 compared to loan charge-offs of \$80,000 during the first three months of 2018 with most of the charge-offs coming from the commercial and residential 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.

31

---

## **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 \$689.3 million, or 90.5% of the Corporation's outstanding funding sources at March 31, 2019. Total deposits increased \$23.0 million during the three months ended March 31, 2019.

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 March 31, 2019, compared to 17.3% at December 31, 2018.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling \$50.0 million at March 31, 2019 and \$54.2 million at December 31, 2018 as well as \$9,500,000 and \$9,750,000 of term borrowings from the United Bankers' Bank (UBB) at March 31, 2019 and December 31, 2018, respectively. The Corporation also has outstanding junior subordinated deferrable interest debentures of \$12,882,000 and \$12,874,000 at March 31, 2019 and December 31, 2018, respectively. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

## **Regulatory Capital**

The Corporation and Bank met all regulatory capital requirements as of March 31, 2019, and the Bank is considered "well capitalized" under regulatory and industry standards of risk-based capital.

## **Cash Flow from Operations**

The Bank implemented a hedging program during the 2<sup>nd</sup> quarter of 2018. As part of this program, loans held for sale are now accumulated into larger blocks before being sold. Depending on the timing of the sales of these blocks, there could be a positive or negative impact to cash flow from operations. As of March 31, 2019, loans held for sale amounted to \$10,465,000 compared to \$7,705,000 as of December 31, 2018 resulting in a negative impact to cash flow from operations for the three month period ended March 31, 2019 of \$2,760,000. Excluding the change in loans held for sale, cash flow from operations for the three months ended March 31, 2019 would have been a positive \$942,000.

## **Liquidity and Interest Rate Sensitivity**

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

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

The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The Corporation closely monitors the sensitivity of its assets and liabilities on an ongoing basis and projects the effect of various interest rate changes on its net interest margin. Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or re-price within a designated time frame.

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

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

All of the Corporation's assets relate to commercial banking operations and are generally monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss of purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the commercial banking industry, monetary assets typically exceed monetary liabilities. The Corporation has not experienced a significant level of inflation or deflation during the three month period ended March 31, 2019. 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 and lease losses.

### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are risks inherent to the Corporation's business. The material risks and uncertainties that management believes affect the Corporation are described below. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation's business operations. A more detailed listing and description of the risks impacting the Corporation can be found in the 2018 Form 10-K. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Corporation's financial condition and results of operations could be materially and adversely affected.

#### **Risks Related to the Corporation's Business**

##### *The Corporation is Subject to Interest Rate Risk*

The most 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's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation's ability to originate loans and obtain deposits, (ii) the fair value of the Corporation's financial assets and liabilities, and (iii) the average duration of the Corporation's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. For example, in a rising interest rate environment, loans tend to prepay slowly and new loans at higher rates increase slowly, while interest paid on deposits increases rapidly because the terms to maturity of deposits tend to be shorter than the terms to maturity or prepayment of loans. Such differences in the adjustment of interest rates on assets and liabilities may negatively affect the Corporation's income.

*Changing interest rates may decrease our earnings and asset values.*

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 100, 200 and 300 and up 400 basis points. Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Corporation's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Corporation's financial condition and results of operations.

*Expected interest rate increases could negatively affect our income, if we are not able to anticipate corresponding changes in market forces.*

The Corporation's operating results are dependent to a significant degree on its net interest income, which is the difference between interest income from loans, investments and other interest-earning assets and interest expense on deposits, borrowings and other interest-bearing liabilities. The interest income and interest expense of the Corporation change as the interest rates on interest-earning assets and interest-bearing liabilities change. Interest rates may change because of general economic conditions, the policies of various regulatory authorities and other factors beyond the Corporation's control.

*We are subject to credit risk related to the interest rate environment and the economic conditions of the markets in which we operate.*

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across the State of Ohio, the United States and abroad. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Loans not secured by one-to-four family residential real estate are generally considered to involve greater risk of loss than loans secured by one- to four-family residential real estate due, in part, to the effects of general economic conditions. The repayment of multifamily residential, nonresidential real estate and commercial loans generally depends upon the cash flow from the operation of the property or business, which may be negatively affected by national and local economic conditions. Construction loans may also be negatively affected by such economic conditions, particularly loans made to developers who do not have a buyer for a property before the loan is made. The risk of default on consumer loans increases during periods of recession, high unemployment and other adverse economic conditions. When consumers have trouble paying their bills, they are more likely to pay mortgage loans than consumer loans. In addition, the collateral securing such loans, if any, may decrease in value more rapidly than the outstanding balance of the loan.

The Corporation's level of non-performing loans has decreased over the past couple of years. However, an increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loans losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation's financial condition and results of operations.

*The Corporation is subject to liquidity risk in its operations, which could adversely affect the ability to fund various obligations.*

Liquidity risk is the possibility of being unable to meet obligations as they come due, pay deposits when withdrawn, capitalize on growth opportunities as they arise, or pay dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is derived primarily from retail deposit growth and retention, principal and interest payments on loans and investment securities, net cash provided from operation and access to other funding sources. Liquidity is essential to our business. We must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or regulatory action that limits or eliminates our access to alternate funding sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative expectations about the prospects for the financial services industry as a whole, as evidenced by recent turmoil in the

domestic and worldwide credit markets.

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, 2018.

35

---



## **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 on that evaluation, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2019.

### **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, 2018.

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

The Corporation has not sold any of its securities which were not registered under the Securities Act during the period covered by this report. The table below includes certain information regarding the Corporation's purchase of United Bancshares, Inc. common stock during the quarterly period ended March 31, 2019:

Period	Total number of shares purchased	Weighted 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)
01/01/19 - 01/31/19	1,277	\$ 23.36	-	202,666
02/01/19 - 02/28/19	-	\$ -	-	202,666
03/01/19 - 03/31/19	-	\$ -	-	202,666

(a) A stock repurchase program (“Plan”) was adopted by the Corporation’s Board of Directors and originally announced on July 29, 2005. The Plan, which was subsequently amended on December 23, 2005, March 20, 2007 and December 17, 2014, authorizes the Corporation to repurchase up to 600,000 of the Corporation’s common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

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

None

37

---

**Item 4: Mine Safety Disclosures**

Not applicable

**Item 5: Other Information.**

None

**Item 6: Exhibits**

**Exhibit**

**Number Description**

3.1 Amended and Restated Articles of Incorporation

3.2 Amended and Restated Code of Regulations

10.1 Change in Control Agreement between United Bancshares, Inc. and Stacy A. Cox, dated February 19, 2019

**Exhib**  
**Locat**  
Incorp  
herein  
referen  
the  
Corpo  
Form  
the qu  
ended  
30, 20  
Incorp  
herein  
referen  
the  
Corpo  
Form  
the qu  
ended  
June 3  
2007.  
Incorp  
by ref  
to the  
Repor  
Form

- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of CEO](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of CFO](#)
- 32.1 [Section 1350 CEO's Certification](#)
- 32.2 [Section 1350 CFO's Certification](#)
- 99.1 [Safe Harbor under the Private Securities Litigation Reform Act of 1995](#)
- 101.INS XBRL Instance Document
- 101.SCHXBRL Taxonomy Extension Schema
- 101.CALXBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition
- 101.LABXBRL Taxonomy Extension Label
- 101.PRE XBRL Taxonomy Extension Presentation

filed v  
SEC o  
Februa  
2019.  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew  
Filed  
herew

**SIGNATURES**

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

**UNITED BANCSHARES, INC.**

**Date:** April

26, By: /s/ Stacy A. Cox

2019

Stacy A. Cox  
Chief Financial Officer