

UNITED BANCSHARES INC/OH
Form 10-Q
November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

Commission file number 000-29283

UNITED BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

100 S. High Street, Columbus Grove, Ohio

(Address of principal executive offices)

34-1516518

(I.R.S. Employer Identification Number)

45830

(Zip Code)

(419) 659-2141

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 22, 2010:
3,444,889

This document contains 31 pages. The Exhibit Index is on page 29 immediately preceding the filed exhibits.

UNITED BANCSHARES, INC.

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

Consolidated Balance Sheets (Unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	\$ 7,829,480	\$ 8,547,737
Interest-bearing deposits in other banks	29,898,117	18,775,271
Federal funds sold	-	56,881
Total cash and cash equivalents	37,727,597	27,379,889
SECURITIES , available-for-sale	144,605,435	138,586,362
FEDERAL HOME LOAN BANK STOCK , at cost	4,893,800	4,893,800
LOANS	398,124,275	407,814,923
Less allowance for loan losses	(7,635,721)	(4,803,595)
Net loans	390,488,554	403,011,328
PREMISES AND EQUIPMENT , net	10,035,870	9,132,248
GOODWILL	8,554,979	7,282,013
CASH SURRENDER VALUE OF LIFE INSURANCE	12,752,691	12,401,984
OTHER REAL ESTATE OWNED	3,593,079	5,170,635
OTHER ASSETS , including accrued interest receivable and other intangible assets	7,279,839	8,547,175
TOTAL ASSETS	\$ 619,931,844	\$ 616,405,434

LIABILITIES AND SHAREHOLDERS' EQUITY**LIABILITIES**

Deposits

Non-interest bearing	\$ 47,518,335	\$ 45,665,777
Interest bearing	450,944,493	424,002,707

Total deposits	498,462,828	469,668,484
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Other borrowings	50,603,967	77,906,588
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Junior subordinated deferrable interest debentures	10,300,000	10,300,000
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Accrued expenses and other liabilities	4,207,612	4,251,257
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Total liabilities	563,574,407	562,126,329
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SHAREHOLDERS' EQUITY

Common stock, \$1.00 stated value. Authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,660,000	14,659,661
Retained earnings	39,002,874	38,343,134
Accumulated other comprehensive income	3,760,902	2,359,821
Treasury stock, 315,668 shares at September 30, 2010 and 316,791 shares at December 31, 2009, at cost	(4,826,896)	(4,844,068)
Total shareholders' equity	56,357,437	54,279,105
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 \$ 619,931,844	 \$ 616,405,434

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
INTEREST INCOME				
	\$	\$	\$	\$
Loans, including fees	6,049,849	6,762,928	28,409,873	20,257,337
Securities:				
Taxable	952,278	1,022,293	2,059,246	3,263,033
Tax-exempt	500,674	505,984	4,496,057	1,494,032
Other	<u>19,076</u>	<u>7,655</u>	<u>57,828</u>	<u>26,291</u>
Total interest income	<u>7,521,877</u>	<u>8,298,823</u>	<u>33,023,004</u>	<u>25,040,693</u>
INTEREST EXPENSE				
Deposits	1,510,361	2,153,327	27,800,062	6,921,465
Other borrowings	<u>591,481</u>	<u>890,792</u>	<u>1,174,378</u>	<u>2,683,085</u>
Total interest expense	<u>2,101,842</u>	<u>3,044,119</u>	<u>28,974,440</u>	<u>9,604,550</u>
NET INTEREST INCOME	5,420,035	5,254,736	5,048,564	15,436,143
PROVISION FOR LOAN LOSSES	<u>1,900,000</u>	<u>3,950,000</u>	<u>4,500,000</u>	<u>5,725,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,520,035	1,304,736	558,564	9,711,143
NON-INTEREST INCOME				
Gain on sales of loans	285,663	241,300	475,083	1,212,840
Gain on sales of securities	274,946	-	276,081	130,491
Change in fair value of mortgage servicing rights	18,881	(113,777)	(378,477)	55,289
Other	<u>666,135</u>	<u>719,922</u>	<u>2,043,552</u>	<u>2,018,409</u>
Total non-interest income	<u>1,245,625</u>	<u>847,445</u>	<u>4,416,239</u>	<u>3,417,029</u>
NON-INTEREST EXPENSES	<u>3,763,253</u>	<u>3,638,268</u>	<u>8,618,965</u>	<u>11,086,401</u>
Income (loss) before income taxes	1,002,407	(1,486,088)	3,345,838	2,041,771
PROVISION (CREDIT) FOR INCOME TAXES	<u>123,000</u>	<u>(709,000)</u>	<u>136,000</u>	<u>52,000</u>

NET INCOME (LOSS)		\$	\$	\$
	\$	879,407	(777,088)	2,209,838
				1,989,771
		=====	=====	=====

NET INCOME (LOSS) PER SHARE

			\$	
Basic	\$	0.26	\$ (0.23)	0.64
Weighted average common shares outstanding		3,444,856	3,443,393	3,444,641
				3,442,867
			\$	
Diluted	\$	0.26	\$ (0.23)	0.64
Weighted average common shares outstanding		3,444,856	3,444,033	3,444,641
				3,443,120

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)
Nine months ended September 30, 2010 and 2009

	Common		Retained	Accumulated Other
	Stock	Surplus	Earnings	Comprehensive
				Income (Loss)
BALANCE AT DECEMBER 31, 2009	\$ 3,760,557	14,659,661	38,343,134	2,359,821
Net income			2,209,838	
Change in unrealized gain on available-for-sale securities, net of income taxes				1,401,081
Total comprehensive income				
Dividends declared (\$0.45 per share)			(1,550,098)	
1,123 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan			339	
BALANCE AT SEPTEMBER 30, 2010	\$ 3,760,557	14,660,000	39,002,874	3,760,902
BALANCE AT DECEMBER 31, 2008	\$ 3,760,557	14,659,661	37,528,026	(412,304)
Net income			1,989,771	
Change in unrealized loss on available-for-sale securities, net of income taxes				2,987,106
Total comprehensive income				
Dividends declared (\$0.45 per share)			(1,549,398)	
2,103 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan			(1,524)	
BALANCE AT SEPTEMBER 30, 2009	\$ 3,760,557	14,659,661	37,966,875	2,574,802

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries
Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine months ended September 30,	
	2010	2009
	\$	
	7,460,762	
Cash flows from operating activities		\$ 5,507,593
Cash flows from investing activities:		
Net proceeds (purchases) of available-for-sale securities, including		
proceeds from calls or maturities	(3,843,880)	8,957,839
Net decrease in loans	9,159,279	1,914,885
Insurance proceeds from casualty loss	-	145,000
Cash received from branch acquisition	22,260,144	-
Proceeds from sale of other real estate owned	2,055,725	-
Expenditures for premises and equipment	(276,843)	(326,521)
Net cash from investing activities	29,354,425	10,691,203
Cash flows from financing activities:		
Net change in deposits	2,367,729	(13,166,514)
Long-term borrowings, net of repayments	(27,302,621)	(5,157,699)
Proceeds from issuance of common stock	17,511	30,633
Cash dividends paid	(1,550,098)	(1,549,398)
Net cash from financing activities	(26,467,479)	(19,842,978)
Net change in cash and cash equivalents	10,347,708	(3,644,182)
Cash and cash equivalents:		
At beginning of period	27,379,889	25,622,293
	\$	
At end of period	37,727,597	\$ 21,978,111
Cash paid for:		
	\$	\$
Interest	7,385,684	7,555,213
	\$	\$
Income taxes	475,000	1,065,000

Non-cash investing activities:

Change in net unrealized gain on

available-for-sale securities	\$	\$
	2,122,849	4,525,918

Transfer of loans to other real estate owned	\$	\$
	658,000	-

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

NOTE 1 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of United Bancshares, Inc. and subsidiaries (the Corporation) have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. Complete audited consolidated financial statements with footnotes thereto are included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009.

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

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

ASC 860-10 addresses accounting for transfers of financial assets. Among other requirements, the ASC removes the concept of a qualifying special-purpose entity and removes the exception from applying consolidation of variable interest entities to qualifying special-purpose entities. The objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Among other things, ASC 860-10 applies to any transfer of financial assets, which for the Corporation primarily relates to loan participations sold. The adoption of ASC 860-10 effective January 1, 2010 did not have any impact on the Corporation's September 30, 2010

consolidated financial statements since the Bank has not sold any loan participations during the nine month period ended September 30, 2010.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures*, which provides amendments to ASC 820-10 and is intended to improve disclosure requirements related fair value measurements. The Update clarifies that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities measured at fair value. A class is often a subset of assets or liabilities within a line item in the statement of financial position. Reporting entities should also provide disclosures about the valuation techniques and inputs used to measure fair value for fair value measurements falling within Level 2 or 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Information on fair value measurements is included in Note 7 to the consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which will increase disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures will provide additional information about the nature of credit risk inherent in the Bank's loans, how credit risk is analyzed and assessed, and the reasons for the change in the allowance for loan losses. The expanded disclosure requirements will be effective for the Corporation's December 31, 2010 consolidated financial statements.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

NOTE 3 BRANCH ACQUISITION

On November 30, 2009, the Bank entered into an agreement to purchase the Findlay, Ohio branch of The Home Savings and Loan Company of Youngstown, Ohio (Seller). Under the terms of the agreement, the Bank assumed all deposits and purchased the related branch premises and certain loans. The transaction was completed in March, 2010 with assets acquired and liabilities assumed being recorded at their estimated fair values as follows:

Assets acquired:

Cash, net of final settlement paid to seller	\$ 22,260,144
Loans	1,804,505
Bank premises	1,021,000
Goodwill	1,272,966
Core deposit intangible asset	286,000
	\$ 26,644,615

Deposits assumed \$ 26,644,615

Cash proceeds from the branch acquisition were used to fund \$10.0 million of brokered certificates of deposit and \$16.5 million of FHLB borrowings that matured during the second quarter of 2010.

The operating results of the branch subsequent to the acquisition are included in the Corporation's consolidated financial statements. The core deposit intangible asset is being amortized on a straight-line basis over a period of seven years.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of September 30, 2010 and December 31, 2009 are as follows (dollars in thousands):

	September 30, 2010		December 31, 2009	
	Amortized	Fair	Amortized	Fair
	cost	value	cost	value
U.S. Government and agencies Obligations of states and political subdivisions	\$ 2,998	\$ 3,015	\$ 3,993	\$ 3,983
Mortgage-backed	46,498	48,896	46,757	47,829
Other	88,909	92,173	83,759	86,270
	502	521	502	504
Total	\$ 138,907	\$ 144,605	\$ 135,011	\$ 138,586

A summary of gross unrealized gains and losses on available-for-sale securities at September 30, 2010 and December 31, 2009 follows (dollars in thousands):

	September 30, 2010		December 31, 2009	
	Gross	Gross	Gross	Gross
	unrealized	unrealized	unrealized	unrealized
	gains	losses	gains	losses
U.S. Government and agencies	\$ 17	\$ -	\$ -	\$ 10

Obligations of states and

political subdivisions	2,398	-	1,280	209
Mortgage-backed	3,277	13	2,757	245
Other	19	-	2	-
Total	\$ 5,711	\$ 13	\$ 4,039	\$ 464

NOTE 5 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the nine month periods ended September 30, 2010 and 2009 (dollars in thousands):

	<u>2010</u>	<u>2009</u>
Unrealized holding gains on		
available-for-sale securities	\$ 2,399	\$ 4,656
Reclassification adjustments for securities		
gains realized in income	(276)	(130)
Net unrealized gains	2,123	4,526
Tax effect	722	1,539
Net-of-tax amount	\$ 1,401	\$ 2,987

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

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 3.69% at September 30, 2010 and 3.75% at September 30, 2009. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures approximated \$267,000 and \$323,000 for the nine month periods ended September 30, 2010 and 2009, respectively, and is included in interest expense-other borrowings in the accompanying consolidated statements of income.

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

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.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

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

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

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at September 30, 2010 and December 31, 2009 include available-for-sale securities, which are all valued using Level 2 inputs, and mortgage servicing rights, amounting to \$826,558 at September 30, 2010 and \$1,273,525 at December 31, 2009, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at September 30, 2010 and December 31, 2009 include other real estate owned, as well as impaired loans approximating \$16,402,000 at September 30, 2010 and \$11,947,000 at December 31, 2009 all of which are valued using Level 3 inputs.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the periods presented due to the lack of observable quotes in inactive markets for those instruments at September 30, 2010 and December 31, 2009.

The table below presents a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for the nine month period ended September 30, 2010 and year ended December 31, 2009:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Balance at beginning of period	\$ 1,273,525	\$ 703,388

Gains or losses, including realized and unrealized:

Disposals amortization based on loan

payments and payoffs	(221,249)	(237,463)
Purchases, issuances, and settlements	152,759	612,499
Other changes in fair value	(378,477)	195,101
Balance at end of period	\$ 826,558	\$ 1,273,525

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon 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.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 1 or Level 3 at September 30, 2010 or December 31, 2009. There were no gains or losses relating to securities available-for-sale included in earnings before income taxes that were attributable to changes in fair values of securities held at September 30, 2010 or December 31, 2009.

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 costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. Due to the significance of the level 3 inputs, impaired loans fair values 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 expected selling costs. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3. In accordance with the provisions of ASC 360-10, other real estate owned was written down to its estimated fair value of \$3,593,079, resulting in impairment charges of \$150,656 which are included in earnings for the nine month period ended September 30, 2010.

Certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Financial assets and financial liabilities, excluding impaired loans and other real estate owned, measured at fair value on a nonrecurring basis were not significant at September 30, 2010 and December 31, 2009.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at September 30, 2010 and December 31, 2009 were as follows (dollars in thousands):

	September 30, 2010		December 31, 2009	
	Carrying amount	Estimated value	Carrying amount	Estimated value
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 37,728	\$ 37,728	\$ 27,380	\$ 27,380
Securities, including Federal				
Home Loan Bank stock	149,499	149,499	143,480	143,480
Net loans	390,489	430,294	403,011	430,072
Mortgage servicing rights	827	827	1,274	1,274
	\$ 578,543	\$ 618,348	\$ 575,145	\$ 602,206
FINANCIAL LIABILITIES				
Deposits	\$ 498,463	\$ 503,618	\$ 469,668	\$ 472,617
Other borrowings	50,604	54,049	77,907	80,649
Junior subordinated deferrable				
interest debentures	10,300	9,242	10,300	8,776
Other liabilities	4,207	4,291	4,251	4,341
	\$ 563,574	\$ 571,200	\$ 562,126	\$ 566,383

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

There are also unrecognized financial instruments at September 30, 2010 and December 31, 2009 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$67,278,000 at September 30, 2010 and \$67,338,000 at December 31, 2009. Such amounts are also considered to be the estimated fair values.

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

Cash and cash equivalents:

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

Securities:

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

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

Loans:

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

Mortgage servicing rights:

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

Deposit liabilities:

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

Other borrowings and junior subordinated deferrable interest debentures:

The fair value of other borrowings (consisting of Federal Home Loan Bank borrowings, securities sold under agreements to repurchase, and customer repurchase agreements), and junior subordinated deferrable interest debentures are determined using the net present value of discounted cash flows based on current borrowing rates for similar types of borrowing arrangements, and are obtained from an independent third party.

Other financial instruments:

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

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

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

NOTE 9 SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after September 30, 2010 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at September 30, 2010 have been recognized in the consolidated financial statements for the period ended September 30, 2010. Events or transactions that provided evidence about conditions that did not exist at September 30, 2010 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended September 30, 2010.

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

SELECTED FINANCIAL DATA

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

	As of or for the Three		As of or for the Nine	
	Months Ended		Months Ended	
	September 30,		September 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
SIGNIFICANT RATIOS (Unaudited)				
Net income to:				
Average assets (a)	0.57%	-0.51%	0.47%	0.43%
Average shareholders' equity (a)	6.30%	-5.88%	5.33%	5.05%
Net interest margin (a)	3.94%	3.86%	3.85%	3.77%
Efficiency ratio (b)	54.35%	57.18%	60.40%	56.50%
Average shareholders' equity to average assets	8.99%	8.73%	8.80%	8.57%
Loans to deposits (end of period)	79.87%	91.84%	79.87%	91.84%
Allowance for loan losses to loans (end of period)	1.92%	1.80%	1.92%	1.80%
Cash dividends to net income	58.76%	-66.47%	70.15%	77.87%
Book value per share	\$ 16.36	\$ 15.72	\$ 16.36	\$ 15.72

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

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

Introduction

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

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

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

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 estimated, is projected, or similar expressions are intended to identify forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any such statements are subject to the risks and uncertainties that include but are not limited to: changes in economic conditions in the Corporation's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Corporation's market area, and competition. All or some of these factors could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

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

The Corporation does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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

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

RESULTS OF OPERATIONS

Overview of the Income Statement

For the quarter ended September 30, 2010, the Corporation reported net income of \$879,000, or \$0.26 basic earnings per share. This compares to the third quarter of 2009 net loss of \$777,000, or \$(0.23) basic earnings per share. The significant improvement in operating results for the third quarter of 2010 as compared to the same period in 2009 was primarily attributable to a \$2,050,000 decrease in the provision for loan losses and a \$398,000 increase in non-interest income offset by the related income tax effects of these items.

Net income for the nine-months ended September 30, 2010 totaled \$2,210,000, or \$0.64 basic earnings per share compared to \$1,990,000, or \$0.58 basic earnings per share for the same period in 2009. Compared with the same period in 2009, net income increased \$220,000 or 11.1%. The increase for the nine month period ended September 30, 2010, as compared to the nine month period ended September 30, 2009, was primarily the result of a decrease in the provision for loan losses of \$1,225,000 and an increase in net interest income of \$612,000, offset by a decrease in non-interest income of \$1,001,000, an increase in non-interest expenses of \$532,000, and an \$84,000 increase in the provision for income taxes. The significant decrease in non-interest income was primarily attributable to a \$738,000 decrease in gain on sale of loans, and \$434,000 impact of the change in fair value of mortgage servicing rights, offset by a \$146,000 increase in gain on sales of securities.

Net Interest Income

Net interest income is the amount by which interest income from interest-earning assets exceeds interest incurred on interest-bearing liabilities. Interest-earning assets consist principally of loans and investment securities while interest-bearing liabilities include interest-bearing deposit accounts and borrowed funds. Net interest income remains the primary source of revenue for the Corporation. Changes in market interest rates, as well as changes in the mix and volume of interest-bearing assets and interest-bearing liabilities impact net interest income. Net interest income was \$5,420,000 for the third quarter of 2010, compared to \$5,255,000 for the same period of 2009, an increase of \$165,000 (3.2%). Net interest income was \$16,049,000 for the first nine months of 2010 compared to \$15,436,000 for the same period of 2009, an increase of \$612,000 (4.0%).

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 quarterly and nine month periods ended September 30, 2010, the net interest margin (on a taxable equivalent basis) was 3.94% and 3.85%, respectively, compared with 3.86% and 3.77% for the same periods in 2009.

Deposits comprised 85% of average interest-bearing liabilities for the nine month period ended September 30, 2010, compared to 82% for the same period in 2009. This change in the composition of interest-bearing liabilities, coupled with a lower overall interest rate environment, resulted in the Corporation's cost of funds being 1.78% for the first nine months of 2010 compared to 2.49% for the same period in 2009. This decrease in cost of funds more than offset the impact on the net interest margin of the decrease in the yield of interest-earning assets (5.45% for the first nine months of 2010 compared to 5.99% for the same period of 2009).

Provision for Loan Losses

The Corporation's provision for loan losses is determined based upon management's calculation of the allowance for loan losses and is reflective of management's assessment of the quality of the portfolio and overall management of the inherent credit risk of the loan portfolio. Changes in the provision for loan losses are dependent, among other things, on loan delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's lending markets. A \$1,900,000 provision for loan losses was made for the third quarter of 2010 compared to a \$3,950,000 provision for the same period in 2009. A \$4,500,000 provision for loan losses was made for the nine month period ended September 30, 2010 compared to a \$5,725,000 provision for the same period in 2009. While the Corporation experienced a significant decrease in the provision for loan losses for both the quarterly and nine month periods ended September 30, 2010, as compared to the same periods in 2009, both the quarterly and nine month periods in 2009 were significantly impacted by the deterioration of one large commercial credit which resulted in an additional provision for loan losses of \$3.0 million during the third quarter of 2009. Throughout 2010, the provision for loan losses has been affected by an increase in the level of classified credits as well as the loss rates applied to both non-impaired watch list credits and non-watch list credits. See "Allowance for Loan Losses" under Financial Condition and "Overview of the Income Statement" under Results of Operations for further discussion relating to the provision for loan losses.

Non-Interest Income

The Corporation's non-interest income is largely generated from activities related to the origination, servicing and gain on sales of fixed rate mortgage loans, customer deposit account fees, earnings on life insurance policies, income arising from sales of investment products to customers, and occasional security sale transactions. Income related to customer deposit accounts and Bank Owned Life Insurance provides a relatively steady flow of income while the other sources are more volume or transaction related and consequently can vary from quarter to quarter. For the quarter ended September 30, 2010, non-interest income was \$1,246,000, compared to \$847,000 for the third quarter of 2009, a \$398,000 (47.1%) increase. For the nine month period ended September 30, 2010, non-interest income was \$2,416,000 compared to \$3,417,000 for the same period in 2009, a \$1,001,000 (29.3%) decrease.

Gain on sales of loans amounted to \$286,000 for the quarter ended September 30, 2010, compared to \$241,000 for the third quarter of 2009, an increase of \$45,000. Quarterly gains on sale of loans included capitalized servicing rights of \$97,000 and \$107,000 for the periods ended September 30, 2010 and 2009, respectively. Gain on sales of loans amounted to \$475,000 for the nine months ended September 30, 2010 compared to \$1,213,000 for the comparable period in 2009, a decrease of \$738,000. Gain on sale of loans for the nine month periods included capitalized servicing rights of \$153,000 in 2010 and \$550,000 in 2009. The significant decrease in gain on sale of loans corresponds with the decrease in loan sales activity. Loan sales for the first nine months of 2010 were \$20.1 million, compared to \$56.0 million for the first nine months of 2009.

The fair value of mortgage servicing rights increased \$19,000 for the quarter ended September 30, 2010, compared to a \$114,000 decrease for the quarter ended September 30, 2009. For the nine-month period ended September 30, 2010, there was a decrease in fair value of mortgage servicing rights of \$378,000, compared to an increase in fair value of mortgage servicing rights of \$55,000 for the nine months ended September 30, 2009. The decrease in fair value was largely attributable to accelerated prepayment speed assumptions as a result of declining long-term interest rates. Amortization of mortgage servicing rights, which is reported as a reduction of servicing income (other non-interest income in the accompanying condensed consolidated statements of income), amounted to \$221,000 for the nine months ended September 30, 2010, compared to \$210,000 for the nine months ended September 30, 2009.

During the third quarter of 2010, as part of its asset/liability management strategy, the Corporation sold \$10.0 million of securities with long-term maturities resulting in a gain on sale of \$275,000. These securities primarily consisted of mortgage-backed securities and were sold in response to unanticipated changes in long-term interest rates.

Other non-interest income increased \$25,000 (1.2%) to \$2,044,000 for the nine month period ended September 30, 2010, compared to \$2,018,000 for the nine month period ended September 30, 2009.

Non-Interest Expenses

For the quarter ended September 30, 2010, non-interest expenses were \$3,763,000, compared to \$3,638,000 for the third quarter of 2009, a \$125,000 (3.4%) increase. For the nine-month period ended September 30, 2010, non-interest expenses totaled \$11,619,000, compared to \$11,086,000 for the comparable period of 2009, an increase of \$533,000 (4.8%). The increase in non-interest expenses for the nine month period ended September 30, 2010 as compared to 2009 included a \$56,000 (1.0%) increase in salaries and benefits, a \$34,000 (3.2%) increase in occupancy expense and a \$443,000 (11.3%) increase in other non-interest expenses. The \$443,000 increase in other non-interest expenses includes increases of \$526,000 relating to other real estate owned and related asset management costs; \$82,000 in advertising, \$53,000 in consulting expenses, \$76,000 in ATM processing expenses, \$101,000 in miscellaneous losses; and \$71,000 in miscellaneous expenses, offset by a \$306,000 decrease in FDIC premium expenses and a \$106,000 net decrease in deposit premium amortization. The increase in consulting expense is primarily related to the Findlay branch acquisition described in Note 3 to the consolidated financial statements. The increase in other real estate owned and related asset management costs is attributable to the significant increase in other real estate owned and includes \$151,000 of impairment charges taken during the first nine months of 2010, as well as \$29,000 of losses recognized on sale of OREO properties. The decrease in FDIC expenses resulted from the 2009 one-time industry-wide special assessment that was expensed during the second quarter. Deposit premium amortization decreased as a result of the Pemberville and Gibsonburg deposit premium being fully amortized in March, 2010.

Maintaining acceptable levels of non-interest expenses and operating efficiency are key performance indicators for the Corporation in its strategic initiatives. The financial services industry uses the efficiency ratio (total non-interest expense as a percentage of the aggregate of fully-tax equivalent net interest income and non-interest income) as a key indicator of performance. For the quarter ended September 30, 2010, the Corporation's efficiency ratio was 54.35%, compared to 57.18% for the same period of 2009. For the nine month period ended September 30, 2010, the Corporation's efficiency ratio was 60.40%, compared to 56.50% for the same period of 2009.

Provision (Credit) for Income Taxes

The provision (credit) for income taxes for the quarter ended September 30, 2010 was \$123,000, compared to \$(709,000) for the comparable 2009 period. The provision for income taxes for the nine month period ended September 30, 2010 was \$136,000, or 5.8% of income before income taxes, compared to \$52,000, or 2.5%, for the comparable 2009 period. The unusually low effective tax rate for the nine months ended September 30, 2010 was due to tax exempt income from securities and loans, as well as bank-owned life insurance comprising approximately 81% of the Corporation's income before income taxes.

Return on Assets

Return on average assets was 0.57% for the third quarter of 2010, compared to (0.51%) for the third quarter of 2009. For the nine month period ended September 30, 2010, return on average assets was 0.47%, compared to 0.43% for the same period of 2009. The return on average assets was adversely impacted by the Findlay branch acquisition

Return on Equity

Return on average shareholders' equity for the third quarter of 2010 was 6.30%, compared to (5.88%) for the same period of 2009. Return on average equity for the nine months ended September 30, 2010 was 5.33%, compared to 5.05% for the same period in 2009.

The Corporation and Bank met all regulatory capital requirements as September 30, 2010, and the Bank is considered well capitalized under regulatory and industry standards of risk-based capital.

FINANCIAL CONDITION

Overview of Balance Sheet

Total assets amounted to \$619.9 million at September 30, 2010, compared to \$616.4 million at December 31, 2009, an increase of \$3.5 million, or 0.6%. The increase in total assets was primarily the result of increases in total cash and cash equivalents of \$10.3 million (37.8%), and available-for-sale securities of \$6.0 million (4.3%), offset by a decrease of \$11.5 million (2.8%) in gross loans (excluding the impact of the Findlay branch acquisition). Deposits during this same period increased \$2.2 million, or .5% (excluding the impact of the Findlay branch acquisition) and other borrowings, consisting of Federal Home Loan Bank (FHLB) borrowings, and customer repurchase agreements, decreased \$27.3 million (35.0%).

Shareholders' equity increased from \$54.3 million at December 31, 2009 to \$56.4 million at September 30, 2010. This increase was the result of net income (\$2,210,000), the issuance of 1,123 treasury shares under the Corporation's Employee Stock Purchase Plan (\$18,000), and a \$1,401,000 increase in unrealized securities gains, net of tax, offset by the payment of dividends (\$1,550,000). The increase in unrealized securities gains during the nine month period ended September 30, 2010, was the result of customary and expected changes in the bond market. Net unrealized gains on securities are reported as accumulated other comprehensive income in the consolidated balance sheets.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$37.7 million at September 30, 2010, compared to \$27.4 million at December 31, 2009. Cash and cash equivalents at September 30, 2010 includes interest-bearing deposits in other banks of \$29.9 million compared to \$18.8 million at December 31, 2009. Management believes the current level of cash and cash equivalents is sufficient to meet the Corporation's present liquidity and performance needs. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and corresponding liquidity sources and uses. Management believes the Corporation's liquidity needs in the near term will be satisfied by the current level of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that will mature within one year. These sources of funds should enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due. In addition, the Corporation has access to various sources of additional borrowings by virtue of long-term assets that can be used as collateral for such borrowings.

Securities

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

At September 30, 2010, available-for-sale securities totaled \$144.6 million, an increase of \$6.0 million from December 31, 2009. At September 30, 2010, the amortized cost of the Corporation's securities totaled \$138.9 million, resulting in net unrealized gains of \$5.7 million and a corresponding after tax increase in shareholders' equity of \$3.8 million.

Loans

The Corporation's lending is primarily centered in Northwestern and West Central Ohio. Gross loans totaled \$398.1 million at September 30, 2010, compared to \$407.8 million at December 31, 2009, a decrease of \$9.7 million (2.4%).

The Bank has continued to experience soft loan demand in its lending markets. The decrease in loan balances during the first nine months of 2010 resulted primarily from a decline in loan origination activity, normal pay downs and runoff on current loans, and a continued focus by the Bank's credit administration department to identify and dispose of or reduce problem credits.

Allowance for Loan Losses

The following table presents a summary of activity in the allowance for loan losses for the nine months ended September 30, 2010 and 2009, respectively:

	(dollars in thousands)	
	2010	2009
Balance, beginning of period	\$4,804	\$3,198
Provision for loan losses	4,500	5,725
Charge offs	(2,058)	(1,691)
Recoveries	390	232
Net charge offs	(1,668)	(1,459)
Balance, end of period	\$7,636	\$7,464

The allowance for loan losses as a percentage of gross loans was 1.92% at September 30, 2010 and 1.18% at December 31, 2009. The increase in the allowance for loan losses as a percentage of gross loans is attributable to the higher level of charge-offs experienced by the Bank over the past few years, a continued decline in the overall loan portfolio as evidenced by the level of classified credits, and continued concerns with the prolonged economic downturn.

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

Loans on non-accrual status amounted to \$20.0 million and \$12.9 million at September 30, 2010 and December 31, 2009, respectively. During the nine month period ended September 30, 2010, the Bank financed several OREO properties. As a result, non-accrual loans include \$1.2 million of performing loans that forbid the accrual of interest until a minimum principal amount is paid by the borrowers. Non-accrual loans as a percentage of outstanding loans amounted to 5.0% at September 30, 2010, compared to 3.2% at December 31, 2009.

The Bank considers a loan to be impaired when it becomes probable that the Bank will be unable to collect under the contractual terms of the loan, based on current information and events. Impaired loans, principally consisting of commercial and commercial real estate credits, amounted to \$18.8 million at September 30, 2010 and \$13.2 million at December 31, 2009. Impaired loans at September 30, 2010 and December 31, 2009, included \$4.3 million and \$8.2 million, respectively of loans with no specific reserves included in the allowance for loan losses and \$12.1 million and \$5.0 million, respectively of loans with specific reserves of \$1.7 million and \$1.2 million included in the Bank's September 30, 2010 and December 31, 2009 allowance for loan losses.

In addition to impaired loans, the Bank had other potential problem credits of \$34.2 million at September 30, 2010 and \$28.0 million at December 31, 2009. The Bank's credit administration department continues to closely monitor these credits.

The Bank provides pooled reserves for potential problem loans using loss rates calculated considering historic net loan-charge off experience. The Bank has experienced \$1.7 million of net loan charge-offs during the first nine months of 2010 compared to net loan charge-offs of \$5.9 million in 2009, \$1.2 million in 2008, and \$668,000 in 2007, with most of the charge-offs coming from the commercial and commercial real estate loan portfolios. The Bank 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. Consequently, the loss rates applied to these loans have increased as a result of the increase in the Bank's historic net loan charge-offs.

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 \$498.5 million, or 89.1% of the Corporation's funding sources at September 30, 2010. Total deposits increased \$28.8 million during the nine months ended September 30, 2010, including \$26.6 million of deposits acquired as a result of the Findlay branch acquisition.

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 9.5% total deposits at September 30, 2010, compared to 9.7% at December 31, 2009 and 9.3% at September 30, 2009.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling \$44.6 million at September 30, 2010 and \$66.1 million at December 31, 2009, and customer repurchase agreements totaling \$6.0 million and \$11.8 million at September 30, 2010 and December 31, 2009, respectively. During the third quarter of 2010, the Bank repaid \$10.0 million of FHLB borrowings using a portion of the cash received upon assumption of deposits in the Findlay branch acquisition. The Corporation also has outstanding junior subordinated deferrable interest debentures of \$10.3 million at September 30, 2010 and December 31, 2009. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

Shareholders Equity

For the nine month period ended September 30, 2010, the Corporation had net income of \$2,210,000 and declared dividends of \$1,550,000, resulting in a dividend payout ratio of 70.1% of net income. Management and the Board will continue to closely monitor the relationship between dividends declared and the Corporation's equity and net income levels.

The increase in net unrealized gains on available-for-sale securities, net of income taxes, was \$1,401,000 and \$2,987,000 for the nine months ended September 30, 2010 and 2009, respectively. Since all of the securities in the Corporation's portfolio are classified as available-for-sale, both securities and the equity section of the consolidated balance sheets are sensitive to the changing market values of securities.

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

Liquidity and Interest Rate Sensitivity

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

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

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

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

Effects of Inflation on Financial Statements

All of the Corporation's assets relate to commercial banking operations and are generally monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss of purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the commercial banking industry, monetary assets typically exceed monetary liabilities. The Bank has not experienced a significant level of inflation or deflation during the nine month period ended September 30, 2010. However, because of the depressed national real estate market and sluggish local economy, the Bank 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 Bank's allowance for loan losses.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The Corporation monitors its interest rate risk through a sensitivity analysis, whereby it measures potential changes in its future earnings and the fair values of its financial instruments that may result from one or more hypothetical changes in interest rates. This analysis is performed by estimating the expected cash flows of the Corporation's financial instruments using interest rates in effect at year-end. For the fair value estimates, the cash flows are then discounted to year-end to arrive at an estimated present value of the Corporation's financial instruments. Hypothetical changes in interest rates are then applied to the financial instruments, and the cash flows and fair values are again estimated using these hypothetical rates. For the net interest income estimates, the hypothetical rates are applied to the financial instruments based on the assumed cash flows. The Corporation typically applies interest rate shocks to its financial instruments up and down under various scenarios up to as much as 300 basis points depending on the overall level of interest rates at any point in time.

There have been no material changes in the quantitative and qualitative information about market risk from the information provided in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

ITEM 4T

CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures.

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

(a)

information required to be disclosed by the Corporation in this Quarterly Report on Form 10-Q would be accumulated and communicated to the Corporation's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure;

(b)

information required to be disclosed by the Corporation in this Quarterly Report on Form 10-Q would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

(c)

the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to the Corporation and its consolidated subsidiaries is made known to them, particularly during the period for which our periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

Changes in Internal Control over Financial Reporting.

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

PART II Other Information

Item 1: Legal Proceedings.

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

Item 1A: Risk Factors

There have been no material changes in the discussion pertaining to risk factors that was provided in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

The Corporation has not sold any of its securities which were not registered under the Securities Act during the period covered by this report. The table below includes certain information regarding the Corporation's purchase of United Bancshares, Inc. common stock during the quarterly period ended September 30, 2010:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program	Maximum number of shares that may yet be purchased under the plan or program (a)
07/01/10 - 07/31/10	None	None	302,058	97,942

08/01/10 -				
08/31/10	None	None	302,058	97,942
09/01/10 -				
09/30/10	None	None	302,058	97,942

(a) A stock repurchase program (Plan) was announced on July 29, 2005 (100,000 shares authorized) and expanded by 100,000 shares on December 23, 2005 and 200,000 shares on March 20, 2007. The Plan authorizes the Corporation to repurchase up to 400,000 of the Corporation s common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

Item 3: Defaults upon Senior Securities.

None

Item 4: (Removed and Reserved.)

Item 5: Other Information.

None

Item 6: Exhibits

(a) Exhibits

Exhibit 3(i) Amended and Restated Articles of Incorporation

Exhibit 3(ii) Amended and Restated Code of Regulations

Exhibit 10 Material Contracts

Exhibit 10.1 Employment Agreement Daniel W. Schutt

Exhibit 10.2 Salary Continuation Agreement Daniel W. Schutt

Exhibit 10.3 Agreement - Brian D. Young

Exhibit 10.4 Salary Continuation Agreement - Brian D. Young

Exhibit 10.5 Salary Continuation Agreement Heather M. Oatman

Exhibit 10.6 Salary Continuation Agreement, First Amendment Daniel W. Schutt

Exhibit 10.7 Preferred Trust Securities, Placement and Debenture agreements

Exhibit 10.8 Salary Continuation Agreement, Second Amendment Daniel W. Schutt

Exhibit 10.9 Salary Continuation Agreement, First Amendment Brian D. Young

Exhibit 10.10 Change in Control Agreement - Daniel W. Schutt

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

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

Exhibit 32.1 Section 1350 CEO s Certification

Exhibit 32.2 Section 1350 CFO s Certification

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

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: November 15, 2010

By:/s/ Brian D. Young
Brian D. Young
Chief Financial Officer

EXHIBIT INDEX

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

FOR PERIOD ENDED SEPTEMBER 30, 2010

Exhibit

Number	Description	Exhibit Location
3(i)	Amended and Restated Articles of Incorporation	Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002.
3(ii)	Amended and Restated Code of Regulations	Incorporated herein by reference to the Corporation's Form 10Q for the quarter ended June 30, 2007.
10.1	Employment Agreement Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.2	Salary Continuation Agreement Daniel W. Schutt	Incorporated by reference to Corporation's Form 10K filed March 23, 2007.
10.3	Agreement - Brian D. Young	Incorporated by reference to Corporation's Form 8-K filed July 20, 2006.
10.4	Salary Continuation Agreement - Brian D. Young	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.5	Salary Continuation Agreement Heather M. Oatman	Incorporated herein by reference to the Corporation's 2008 Form 10K filed March 20, 2009.
10.6	Salary Continuation Agreement First Amendment Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.7	Preferred Trust Securities, Placement and Debenture agreements	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.8	Salary Continuation Agreement, Second Amendment Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.9		

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	Salary Continuation Agreement, First Amendment Brian D. Young	Incorporated herein by reference to the Corporation s 2007 Form 10Q filed April 27, 2007.
10.10	Change in Control Agreement - Daniel W. Schutt	Incorporated herein by reference to the Corporation s Form 8-K filed January 14, 2010.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO	Filed herewith
32.1	Section 1350 CEO s Certification	Filed herewith
32.2	Section 1350 CFO s Certification	Filed herewith
99	Safe Harbor under the Private Securities Litigation Reform Act of 1995	Filed herewith