

UNITED BANCSHARES INC/OH  
Form 10-Q  
October 26, 2018

Table of Contents

**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, 2018**

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 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", "smaller reporting company" and "Emerging growth company" in Rule 12b-2 of the Exchange Act.:

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 September 30, 2018:  
3,269,358.

This document contains 48 pages. The Exhibit Index is on page 41 immediately preceding the filed exhibits.

---

Table of Contents

**UNITED BANCSHARES, INC.**

Table of Contents

	<b><u>Page</u></b>
<b><u>Part I – Financial Information</u></b>	
<b><u>Item 1 – Financial Statements</u></b>	3
<b><u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	28
<b><u>Item 3 – Quantitative and Qualitative Disclosures about Market Risk</u></b>	35
<b><u>Item 4 – Controls and Procedures</u></b>	36
<b><u>Part II – Other Information</u></b>	
<b><u>Item 1 – Legal Proceedings</u></b>	37
<b><u>Item 1A – Risk Factors</u></b>	37
<b><u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	37
<b><u>Item 3 – Defaults Upon Senior Securities</u></b>	37
<b><u>Item 4 – Mine Safety Disclosures</u></b>	37
<b><u>Item 5 – Other Information</u></b>	37
<b><u>Item 6 – Exhibits</u></b>	38

---

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

## Consolidated Balance Sheets (Unaudited)

	(in thousands except share data)	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$9,658	\$ 10,718
Interest-bearing deposits in other banks	8,991	16,556
Total cash and cash equivalents	18,649	27,274
<b>SECURITIES</b> , available-for-sale	163,504	169,428
<b>FEDERAL HOME LOAN BANK STOCK</b> , at cost	5,302	5,302
<b>LOANS HELD FOR SALE</b>	6,437	2,384
<b>LOANS AND LEASES</b>	550,777	506,412
Less allowance for loan and lease losses	3,314	2,835
Net loans and leases	547,463	503,577
<b>PREMISES AND EQUIPMENT</b> , net	19,038	19,336
<b>GOODWILL</b>	28,616	25,203
<b>CORE DEPOSIT INTANGIBLE ASSETS</b> , net	996	1,126
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	18,122	17,828
<b>OTHER REAL ESTATE OWNED</b>	166	159
<b>OTHER ASSETS</b> , including accrued interest receivable	6,860	8,833
<b>TOTAL ASSETS</b>	<b>\$815,153</b>	<b>\$ 780,450</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$112,775	\$ 105,828
Interest-bearing	547,574	524,720
Total deposits	660,349	630,548
Other borrowings	60,000	57,148
Junior subordinated deferrable interest debentures	12,865	12,840
Other liabilities	4,983	4,210
Total liabilities	738,197	704,746
<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	14,905	14,783
Retained earnings	69,626	64,994
Accumulated other comprehensive loss	(3,653 )	(124 )
Treasury stock, at cost, 491,199 shares at September 30, 2018 and 492,914 shares at December 31, 2017	(7,683 )	(7,710 )
Total shareholders' equity	76,956	75,704
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$815,153</b>	<b>\$ 780,450</b>

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

Table of Contents**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statements of Income (Unaudited)

(in thousands except share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017

**INTEREST INCOME**

Loans and leases, including fees	\$7,596	\$5,384	\$21,777	\$14,516
----------------------------------	---------	---------	----------	----------

## Securities:

Taxable	686	581	1,898	1,833
Tax-exempt	372	420	1,193	1,266
Other	105	99	342	257
Total interest income	8,759	6,484	25,210	17,872

**INTEREST EXPENSE**

Deposits	1,028	559	2,600	1,466
Borrowings	659	217	1,681	569
Total interest expense	1,687	776	4,281	2,035
Net interest income	7,072	5,708	20,929	15,837

**PROVISION (CREDIT) FOR LOAN AND LEASE**

<b>LOSSES</b>	150	-	350	(350 )
---------------	-----	---	-----	--------

Net interest income after provision (credit) for loan and lease losses	6,922	5,708	20,579	16,187
--	-------	-------	--------	--------

**NON-INTEREST INCOME**

Gain on sale of loans	1,469	235	3,425	466
Net securities gains (losses)	(12 )	30	(6 )	111
Other operating income	1,007	1,095	3,456	3,168
Total non-interest income	2,464	1,360	6,875	3,745

<b>NON-INTEREST EXPENSES</b>	7,249	6,427	20,599	15,949
------------------------------	-------	-------	--------	--------

<b>INCOME BEFORE INCOME TAXES</b>	2,137	641	6,855	3,983
-----------------------------------	-------	-----	-------	-------

<b>PROVISION FOR INCOME TAXES</b>	351	239	1,070	1,002
-----------------------------------	-----	-----	-------	-------

<b>NET INCOME</b>	\$1,786	\$402	\$5,785	\$2,981
-------------------	---------	-------	---------	---------

<b>NET INCOME PER SHARE</b> (basic and diluted)	\$0.55	\$0.12	\$1.77	\$0.91
---	--------	--------	--------	--------

Weighted average common shares outstanding (basic)	3,269,128	3,267,527	3,268,435	3,267,191
--	-----------	-----------	-----------	-----------

Weighted average common shares outstanding (diluted)	3,275,922	3,273,313	3,275,229	3,272,976
--	-----------	-----------	-----------	-----------

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





Table of Contents**United Bancshares, Inc. and Subsidiaries**

## Consolidated Statements of Comprehensive Income (Unaudited)

	(in thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>NET INCOME</b>	\$1,786	\$402	\$5,785	\$2,981
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Unrealized gain (loss) on securities:				
Unrealized holding gains (losses) during period	(1,100)	189	(4,442)	2,023
Reclassification adjustments for losses (gains) included in net income	12	(30)	6	(111)
Other comprehensive income (loss), before income taxes	(1,088)	159	(4,436)	1,912
Income tax expense (credit) related to items of other comprehensive income (loss)	(228)	54	(931)	650
Other comprehensive income (loss)	(860)	105	(3,505)	1,262
<b>COMPREHENSIVE INCOME</b>	<b>\$926</b>	<b>\$507</b>	<b>\$2,280</b>	<b>\$4,243</b>

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

Table of Contents**United Bancshares, Inc. and Subsidiaries**

Consolidated Statements of Shareholders' Equity (Unaudited)

Nine months ended September 30, 2018 and 2017

(in thousands except share data)

	<b>Common stock</b>	<b>Surplus</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Treasury stock</b>	<b>Total</b>
<b>BALANCE AT DECEMBER 31, 2017</b>	\$3,761	\$14,783	\$64,994	\$ (124 )	\$ (7,710 )	\$75,704
Comprehensive income:						
Net income	-	-	5,785	-	-	5,785
Other comprehensive loss	-	-	-	(3,505 )	-	(3,505 )
1,715 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	13	-	-	27	40
Stock option expense	-	109	-	-	-	109
Cash dividends declared, \$0.36 per share	-	-	(1,177 )	-	-	(1,177 )
Reclassification for accounting change	-	-	24	(24 )	-	-
<b>BALANCE AT SEPTEMBER 30, 2018</b>	\$3,761	\$14,905	\$69,626	\$ (3,653 )	\$ (7,683 )	\$76,956
<b>BALANCE AT DECEMBER 31, 2016</b>	\$3,761	\$14,674	\$62,717	\$ (866 )	\$ (7,728 )	\$72,558
Comprehensive income:						
Net income	-	-	2,981	-	-	2,981
Other comprehensive income	-	-	-	1,262	-	1,262
1,126 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	7	-	-	18	25
Stock option expense	-	65	-	-	-	65
Cash dividends declared, \$0.36 per share	-	-	(1,177 )	-	-	(1,177 )
<b>BALANCE AT SEPTEMBER 30, 2017</b>	\$3,761	\$14,746	\$64,521	\$ 396	\$ (7,710 )	\$75,714

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



Table of Contents**United Bancshares, Inc. and Subsidiaries**

## Condensed Consolidated Statement of Cash Flows (Unaudited)

	(in thousands)	
	Nine months ended	
	September 30,	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$2,397	\$582
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales, calls and maturities of available-for-sale securities	34,696	42,791
Purchases of available-for-sale securities	(33,817)	(29,941)
Proceeds from certificates of deposit	-	249
Proceeds from sale of other real estate owned	31	358
Acquisition of Benchmark Bancorp, Inc., net of cash received	-	(24,660)
Net increase in loans and leases	(43,248)	(23,556)
Purchases of premises and equipment	(368 )	(3,943 )
Net cash used in investing activities	(42,706)	(38,702)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	29,969	17,449
Proceeds from other borrowings	25,000	40,260
Repayments of other borrowings	(22,148)	(18,774)
Proceeds from sale of treasury shares	40	25
Cash dividends paid	(1,177 )	(1,177 )
Net cash provided by financing activities	31,684	37,783
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,625 )</b>	<b>(337 )</b>
<b>CASH AND CASH EQUIVALENTS</b>		
At beginning of period	27,274	14,186
At end of period	\$18,649	\$13,849
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>		
Cash paid during the period for:		
Interest	\$4,282	\$1,899
Federal income taxes	\$-	\$425
Non-cash investing activities:		
Transfer of loans to other real estate owned	\$70	\$241
Change in net unrealized gain or loss on available-for-sale securities	\$(4,436 )	\$1,912

The accompanying notes are an

integral part of  
the  
consolidated  
financial  
statements.

7

---

Table of Contents

**United Bancshares, Inc. and Subsidiaries**

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

**September 30, 2018**

**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 consolidated 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 and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The balance sheet as of December 31, 2017 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, 2017.

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

**NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific

guidance throughout the industry topics of the Codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The guidance does not apply to revenues associated with financial instruments, including loans and securities that are accounted for under U.S. GAAP. The adoption of ASU 2014-09 effective January 1, 2018 did not have a material impact on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, amending ASU Subtopic 825-10. The amendments in this update make targeted improvements to generally accepted accounting principles (GAAP) as follows: 1) require equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; 4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and 8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The adoption of ASU 2016-01 effective January 1, 2018 did not have a material impact on the consolidated financial statements.

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

Table of Contents

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). ASU 2016-09 is intended to simplify the accounting for share-based payment transactions, including income tax consequences, classification of awards as either assets or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Corporation does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements and related disclosures upon adoption effective December 31, 2018.

In September 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. Management cannot at the present time accurately estimate the expected impact the adoption of ASU 2016-13 will have on the consolidated financial statements since the calculation at the adoption date will be dependent on various data and assumptions that cannot be reasonably determined at the present time.

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 calculation 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 based on its current financial condition.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this ASU are effective for reporting periods after December 15, 2018, and management does not believe the changes will have a material effect on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-2, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The ASU is effective for fiscal



years beginning after December 15, 2018 with early adoption permitted. The Company elected to early adopt the provisions of ASU 2018-2 and recognized a reclassification adjustment of \$24,000 between accumulated other comprehensive loss and retained earnings during the first quarter of 2018.

Table of Contents**NOTE 3 - SECURITIES**

The amortized cost and fair value of available-for-sale securities as of September 30, 2018 and December 31, 2017 are as follows:

	(in thousands)			
	<b>September 30, 2018</b>		<b>December 31, 2017</b>	
	<b>Amortized</b>	<b>Fair</b>	<b>Amortized</b>	<b>Fair</b>
	<b>cost</b>	<b>value</b>	<b>cost</b>	<b>value</b>
Available-for-sale:				
Obligations of states and political subdivisions	\$55,499	\$54,675	\$67,160	\$67,979
Mortgage-backed	111,627	107,874	101,454	100,463
Other	1,002	955	1,002	986
Total	\$168,128	\$163,504	\$169,616	\$169,428

A summary of gross unrealized gains and losses on available-for-sale securities as of September 30, 2018 and December 31, 2017 follows:

	(in thousands)			
	<b>September 30, 2018</b>		<b>December 31, 2017</b>	
	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>
	<b>unrealized</b>	<b>unrealized</b>	<b>unrealized</b>	<b>unrealized</b>
	<b>gains</b>	<b>losses</b>	<b>gains</b>	<b>losses</b>
Available-for-sale:				
Obligations of states and political subdivisions	\$117	\$ 941	\$977	\$ 158
Mortgage-backed	24	3,777	285	1,276
Other	-	47	-	16
Total	\$141	\$ 4,765	\$1,262	\$ 1,450

Table of Contents**NOTE 4 – LOANS AND LEASES**

The following tables present the activity in the allowance for loan and lease losses by portfolio segment for the periods ending September 30, 2018 and 2017:

(in thousands)

	<b>Commercial</b>		<b>Residential</b>		
	<b>Commercial</b>	<b>agricultural</b>	<b>1 – 4 family</b>	<b>Consumer</b>	<b>Total</b>
	<b>real estate</b>		<b>real estate</b>		
Balance at December 31, 2017	\$501	\$ 1,746	\$ 545	\$ 43	\$2,835
Provision charged to expenses	79	231	22	18	350
Losses charged off	(21 )	(114 )	(52 )	(6 )	(193 )
Recoveries	38	249	35	-	322
Balance at September 30, 2018	\$597	\$ 2,112	\$ 550	\$ 55	\$3,314
Balance at December 31, 2016	\$896	\$ 1,876	\$ 542	\$ 31	\$3,345
Provision (credit) charged to expenses	(374)	(65 )	65	24	(350 )
Losses charged off	(36 )	(553 )	(45 )	(23 )	(657 )
Recoveries	78	381	12	8	479
Balance at September 30, 2017	\$564	\$ 1,639	\$ 574	\$ 40	\$2,817

Table of Contents

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 September 30, 2018 and December 31, 2017:

(in thousands)

<b>September 30, 2018</b>	<b>Commercial and agricultural real estate</b>		<b>Residential</b>	<b>Consumer</b>	<b>Total</b>
	<b>Commercial real estate</b>	<b>agricultural real estate</b>	<b>1 – 4 family real estate</b>		
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	\$ 59	\$ -	\$ -	\$ -	\$ 59
Collectively evaluated for impairment	538	2,112	550	55	3,255
Total allowance for loan and lease losses	\$ 597	\$ 2,112	\$ 550	\$ 55	\$ 3,314
Loans and leases:					
Individually evaluated for impairment	\$ 113	\$ 302	\$ -	\$ -	\$ 415
Acquired with deteriorated credit quality	-	328	56	-	384
Collectively evaluated for impairment	85,169	338,978	119,795	6,036	549,978
Total ending loans and leases balance	\$ 85,282	\$ 339,608	\$ 119,851	\$ 6,036	\$ 550,777
<b>December 31, 2017</b>	<b>Commercial and agricultural real estate</b>		<b>Residential</b>	<b>Consumer</b>	<b>Total</b>
	<b>Commercial real estate</b>	<b>agricultural real estate</b>	<b>1 – 4 family real estate</b>		
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	501	1,746	545	43	2,835
Total allowance for loan and lease losses	\$ 501	\$ 1,746	\$ 545	\$ 43	\$ 2,835
Loans and leases:					
Individually evaluated for impairment	\$ 501	\$ 384	\$ -	\$ -	\$ 885
Acquired with deteriorated credit quality	-	984	194	-	1,178
Collectively evaluated for impairment	67,571	310,890	121,224	4,664	504,349
Total ending loans and leases balance	\$ 68,072	\$ 312,258	\$ 121,418	\$ 4,664	\$ 506,412

Table of Contents

The average recorded investment in impaired loans and leases (excluding loans and leases acquired with deteriorated credit quality) for the nine month period ended September 30, 2018 and 2017 was approximately \$415,000 and \$1.8 million, respectively. There was \$59,000 of allowance for loan loss specifically reserved as of September 30, 2018 for impaired loans compared to no specific reserves as of September 30, 2017. Additionally, there was approximately \$36,000 and \$86,000 in interest income recognized by the Corporation on impaired loans and leases on an accrual or cash basis for the nine month period ended September 30, 2018 and 2017, respectively.

The following tables present the recorded investment in nonaccrual loans and leases, loans and leases past due over 90 days still on accrual and troubled debt restructurings by class of loans as of September 30, 2018 and December 31, 2017. Nonaccrual loans primarily consist of smaller dollar homogenous loans that are collectively evaluated for impairment.

(in thousands)

<b>September 30, 2018</b>	<b>Nonaccruals</b>	<b>Loans and leases past due over 90 days still accruing</b>	<b>Troubled Debt Restructurings</b>
Commercial	\$19	\$ -	\$ 25
Commercial real estate	880	-	214
Agricultural real estate	230	-	-
Agriculture	-	-	-
Consumer	1	-	-
Residential:			
1 – 4 family	429	315	238
Home equity	-	-	-
<b>Total</b>	<b>\$1,559</b>	<b>\$ 315</b>	<b>\$ 477</b>
<b>December 31, 2017</b>			
Commercial	\$532	\$ 60	\$ 27
Commercial real estate	1,411	-	257
Agricultural real estate	233	-	-
Agriculture	-	-	-
Consumer	-	-	-
Residential:			
1 – 4 family	591	110	428

Home equity	-	-	-
Total	\$2,767	\$ 170	\$ 712

Table of Contents

The following table presents the aging of the recorded investment in past due loans and leases as of September 30, 2018 and December 31, 2017 by class of loans and leases:

(in thousands)

September 30, 2018	30 – 59	60 – 89	Greater than 90	Total past due	Loans and leases not past due	Total
	days past due	days past due	days past due	due	due	
Commercial	\$346	\$106	\$ -	\$452	\$71,543	\$71,995
Commercial real estate	528	87	240	855	307,957	308,812
Agriculture	20	-	-	20	13,267	13,287
Agricultural real estate	-	-	254	254	30,542	30,796
Consumer	-	3	1	4	6,032	6,036
Residential real estate	4,378	41	449	4,868	114,983	119,851
Total	\$5,272	\$237	\$944	\$6,453	\$544,324	\$550,777
<b>December 31, 2017</b>						
Commercial	\$419	\$34	\$60	\$513	\$55,410	\$55,923
Commercial real estate	636	354	631	1,621	278,276	279,897
Agriculture	-	145	-	145	12,318	12,463
Agricultural real estate	25	-	-	25	32,022	32,047
Consumer	1	-	-	1	4,663	4,664
Residential real estate	3,418	195	392	4,005	117,413	121,418
Total	\$4,499	\$728	\$1,083	\$6,310	\$500,102	\$506,412

Table of Contents

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 is completed on all non-homogenous loans and leases, such as commercial and commercial real estate loans and leases at origination and at the renewal of line of credit. For amortizing loan relationships, an annual assessment is performed on relationships with outstanding aggregate balance greater than \$500,000. 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.

Loans and leases not meeting the previous criteria that are analyzed individually as part of the above described process are considered to be pass rated loans and leases. Beginning in March 2018, all commercial loans, including commercial and multi-family real estate loans, are risk rated. Loans and leases not rated, including commercial loans and leases prior to March 31, 2018, generally are less than \$500,000 or are included in groups of homogenous loans.

As of September 30, 2018 and December 31, 2017, and based on the most recent analysis performed, the risk category of loans by class of loans and leases is as follows:

(in thousands)

**Pass**

**Substandard Doubtful**



**September 30, 2018**

		<b>Special Mention</b>			<b>Not rated</b>
Commercial	\$82,796	\$ 45	\$ 2,441	\$ -	\$-
Commercial and multi-family real estate	330,848	5,406	3,291	-	63
Residential 1 - 4 family	10,546	-	-	-	109,305
Consumer	-	-	-	-	6,036
Total	\$424,190	\$ 5,451	\$ 5,732	\$ -	\$115,404

**December 31, 2017**

Commercial	\$47,054	\$ -	\$ 1,845	\$ -	\$19,173
Commercial and multi-family real estate	234,428	2,344	3,868	-	71,618
Residential 1 - 4 family	11,637	-	174	-	109,607
Consumer	-	-	-	-	4,664
Total	\$293,119	\$ 2,344	\$ 5,887	\$ -	\$205,062

Table of Contents

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 September 30, 2018 and December 31, 2017:

(in thousands)

<b>September 30, 2018</b>	<b>Commercial and agricultural  real estate</b>	<b>Commercial real estate</b>	<b>Residential 1-4 family</b>	<b>Consumer</b>
Performing	\$-	\$ 63	\$ 108,856	\$ 6,035
Nonperforming	-	-	449	1
<b>Total</b>	<b>\$-</b>	<b>\$ 63</b>	<b>\$ 109,305</b>	<b>\$ 6,036</b>

**December 31, 2017**

Performing	\$19,113	\$ 70,987	\$ 109,214	\$ 4,664
Nonperforming	60	631	393	-
<b>Total</b>	<b>\$19,173</b>	<b>\$ 71,618</b>	<b>\$ 109,607</b>	<b>\$ 4,664</b>

## 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.

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, or troubled debt restructurings for which there was a payment default during the nine month period ended September 30, 2018.

The Corporation acquired The Ohio State Bank (“OSB”) in November 2014 and 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.

Table of Contents

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, 2017	\$25,509	\$ (929 )	\$ 24,580
Change due to payments received	(4,076 )	192	(3,884 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at September 30, 2018	\$21,433	\$ (737 )	\$ 20,696
<b>Purchased Impaired Loans and Leases</b>			
Balance at December 31, 2017	\$496	\$ (232 )	\$ 264
Change due to payments received	(254 )	42	(212 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at September 30, 2018	\$242	\$ (190 )	\$ 52
<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, 2017	\$89,151	\$ (2,066 )	\$ 87,085
Change due to payments received	(12,011)	437	(11,574 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at September 30, 2018	\$77,140	\$ (1,629 )	\$ 75,511
<b>Purchased Impaired Loans and Leases</b>			
Balance at December 31, 2017	\$1,588	\$ (674 )	\$ 914
Change due to payments received	(980 )	398	(582 )
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at September 30, 2018	\$608	\$ (276 )	\$ 332

There was no provision for loan and lease losses recognized during the nine month period ended September 30, 2018 related to the acquired loans as there was no significant change to the credit quality of the loans during the period. There was a \$101,000 provision for loan and lease losses recognized during the nine month period ended September

30, 2017 related to one purchase credit impaired commercial loan from the OSB acquisition for which the sheriff's appraisal was substantially below the expected collateral value.

Table of Contents

**NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS**

The price risk related to changes in the fair value of interest rate lock commitments (IRLCs) and mortgage loans held for sale not committed to investors are subject to change primarily due to changes in market interest rates. The Corporation is exposed to this interest rate risk for IRLCs and mortgage loans held for sale originated until those loans are sold in the secondary market. The Corporation manages the interest rate and price risk associated with its outstanding IRLCs and mortgage loans held for sale not committed to investors by entering into derivative instruments such as forward loan sales commitments and mandatory delivery commitments. Management expects these derivative instruments will experience changes in fair value opposite to changes in the fair value of the IRLCs and mortgage loans held for sale not committed to investors, thereby reducing earnings volatility. Best effort sale commitments are also executed for certain loans at the time the IRLC is locked with the borrower. The fair value of the best effort IRLC and mortgage loans held for sale are valued using the commitment price to the investor. The Corporation started hedging in May of 2018 and takes into account various factors and strategies in determining the portion of the IRLCs and mortgage loans held for sale to be economically hedged. FASB ASC 815-25, *Derivatives and Hedging*, requires that all derivative instruments be recognized as assets or liabilities on the balance sheets at their fair value. Changes in the fair value of the derivative instruments are recognized in gain on sale of mortgage loans held for sale on the statements of operations in the period in which they occur. The Corporation accounts for all derivative instruments as free-standing derivative instruments and does not designate any for hedge accounting. For the period ended September 30, 2018, the Corporation recognized a net gain from hedging activity of \$90,000 which is included in gain on sale of loans in the 2018 condensed consolidated statement of income and reported a net hedging asset of \$210,000, which is included in other assets in the September 30, 2018 consolidated balance sheet.

Table of Contents**NOTE 6 – OTHER BORROWINGS**

Other borrowings consists of the following at September 30, 2018 and December 31, 2017:

	(in thousands)	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Federal Home Loan Bank:</b>		
Secured notes, with interest at 2.02%, due at various dates through September, 2018	\$-	\$ 22,048
Secured note, with interest at 0.0%, paid in August, 2018	-	100
Secured note, with variable interest at 2.56% at September 30, 2018 and 1.56% at December 31, 2017, due September, 2021	7,000	7,000
Secured note, with interest at 1.72%, due September, 2020	6,000	6,000
Secured note, with interest at 1.86%, due September, 2021	6,000	6,000
Secured note, with interest at 1.97%, due September, 2022	6,000	6,000
Secured note, with interest at 2.90%, due June, 2021	8,000	-
Secured note, with interest at 2.94%, due December, 2021	8,000	-
Secured note, with interest at 2.98%, due June, 2022	9,000	-
<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.	10,000	10,000
Total other borrowings	\$60,000	\$ 57,148

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock and eligible mortgage loans approximating \$136,449,000 and \$88,454,000 at September 30, 2018 and December 31, 2017 respectively.

Table of Contents

**NOTE 7 – 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 5.52% at September 30, 2018 and 4.82% at December 31, 2017. 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 September 30, 2018 and December 31, 2017 was \$2,565,000 and \$2,540,000, 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 5.19% at September 30, 2018 and 4.21% at December 31, 2017.

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 \$765,000 and \$411,000 for the nine month periods ended September 30, 2018 and 2017, respectively, and is included in interest expense-other borrowings in the accompanying consolidated statements of income.



Table of Contents

**NOTE 8 - FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017 include available-for-sale securities, which are valued using Level 2 inputs as well as mortgage servicing rights, amounting to \$1,338,000 at September 30, 2018 and \$1,270,000 at December 31, 2017, which are valued using Level 3 inputs. There were approximately \$356,000 and \$885,000 of impaired loans net of specific reserves at September 30, 2018 and December 31, 2017, respectively, all of which are valued using Level 3 inputs.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the period ended September 30, 2018, due to the lack of observable quotes in inactive markets for those instruments at September 30, 2018.

Table of Contents

The tables below present a summary of activity for the nine month period ended September 30, 2018 and year ended December 31, 2017 for mortgage servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), as well as the Bank's one security which was valued using Level 3 inputs for the year ended December 31, 2017:

	(in thousands)	
	<b>September</b>	<b>December</b>
	<b>30,</b>	<b>31,</b>
	<b>2018</b>	<b>2017</b>
<b>Mortgage Servicing Rights</b>		
Balance at beginning of period	\$ 1,270	\$ 1,247
Gains or losses, including realized and unrealized:		
Purchases, issuances, and settlements	132	183
Disposals - amortization based on loan payments and payoffs	(112 )	(129 )
Changes in fair value	48	(31 )
Balance at end of period	\$ 1,338	\$ 1,270
<b>Security valued using Level 3 inputs</b>		
Balance at beginning of period	\$ -	\$ 2,238
Principal payments received	-	(2,238 )
Changes in fair value	-	-
Balance at end of period	\$ -	\$ -

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.

Table of Contents

***Impaired Loans***

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral less estimated cost to sell, if repayment is expected solely from collateral. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria such as additional appraisal adjustments to consider deterioration of value subsequent to appraisal date and estimated cost to sell. Additional appraisal adjustments typically range between 15% and 35% of appraised value, and estimated selling cost typically ranges between 10% and 20% of the adjusted appraised value. Due to the significance of the Level 3 inputs, impaired loans fair values are typically 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 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.

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, 2018 and December 31, 2017.

Table of Contents**NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of recognized financial instruments at September 30, 2018 and December 31, 2017 were as follows:

	(in thousands)				
	<b>September 30, 2018</b>		<b>December 31, 2017</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	\$18,649	\$18,649	\$27,274	\$27,274	1
Securities, including FHLB stock	168,806	168,806	174,730	174,730	2,3
Loans held for sale	6,437	6,437	2,384	2,384	3
Net loans and leases	547,463	542,685	503,577	500,916	3
Mortgage servicing rights	1,338	1,338	1,270	1,270	3
Hedging assets	210	210	-	-	3
Total Financial Assets	\$742,903	\$738,125	\$709,235	\$706,574	
<b>FINANCIAL LIABILITIES</b>					
Deposits					
Maturity	\$175,056	\$172,753	\$170,615	\$168,914	3
Non-maturity	485,293	485,293	459,933	459,933	1
Other borrowings	60,000	60,217	57,148	57,096	3
Junior subordinated deferrable interest debentures	12,865	10,261	12,840	9,790	3
Hedging liabilities	-	-	-	-	3
Total Financial Liabilities	\$733,214	\$728,524	\$700,536	\$695,733	

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 September 30, 2018 and December 31, 2017 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounted to \$140,429,000 at September 30, 2018 and \$127,508,000 at December 31, 2017. 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.

Table of Contents

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.

Table of Contents**NOTE 10 – 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 the third quarter of 2017 at an exercise price of \$21.70, and 31,267 options during the third quarter of 2018 at an exercise price of \$23.30 under the Plan. Following is a summary of activity for stock options for the nine month periods ended September 30, 2018 and September 30, 2017:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Outstanding, beginning of period	63,503	33,352
Granted	31,267	30,151
Exercised	-	-
Forfeited	(1,701 )	-
Outstanding, end of period	93,069	63,503
Weighted average exercise price	\$ 21.38	\$ 19.32

The options vest over a three-year period on the anniversary of the date of grant. At September 30, 2018, 20,601 options were vested (none at September 30, 2017) and outstanding options had a weighted average remaining contractual term of 6.0 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 \$42,000 and \$109,000 for the quarter and nine month period ended September 30, 2018, respectively. Stock option expense for outstanding awards amounted to \$30,000 and \$65,000 for the quarter and nine month period ended September 30, 2017, respectively.

Table of Contents**NOTE 11 – ACQUISITION**

On September 8, 2017, after receiving full board of director and regulatory approval, the Corporation completed the acquisition of Benchmark Bancorp, Inc. (“Benchmark”) and its wholly-owned subsidiary, Benchmark Bank, in an all cash transaction. As a result of the acquisition, the two full-service banking centers of Benchmark Bank located in Gahanna and Westerville, Ohio, became full service offices of the Bank, and one mortgage loan production office located in Gahanna Ohio, became a mortgage loan production office of the Bank. With the acquisition, the Corporation expanded its geographical footprint in an effort to help continue the growth of the Corporation’s overall profile in size and in earnings. Goodwill was initially recorded in connection with the transaction as follows:

Total assets acquired	\$113,598
Total liabilities assumed	98,206
Net identifiable assets	15,392
Estimated Goodwill	15,360
Total cash paid	\$30,752

In August, the Corporation completed a review of the accounting and tax implications of the transaction and determined its liability for federal income tax associated with the transaction was approximately \$3.2 million greater than estimated at the time of the acquisition. As a result, consistent with measurement date purchase accounting adjustments for business combinations as required by ASC 805 and ASU No. 2015-16, the Corporation recorded the additional tax liability, as well as certain other measurement date deferred tax adjustments during the third quarter of 2018 with a corresponding \$3.4 million increase to goodwill.

**NOTE 12 – SUBSEQUENT EVENTS**

Management evaluated subsequent event through the date the consolidated financial statements were issued. Events or transactions occurring after September 30, 2018 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at September 30, 2018 have been recognized in the consolidated financial statements for the period ended September 30, 2018. Events or transactions that provided evidence about conditions that did not exist at September 30, 2018 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended September 30, 2018.

On October 16, 2018, the Corporation's Board of Directors approved a cash dividend of \$0.12 per common share payable December 17, 2018 to shareholders of record at the close of business on November 30, 2018.

Table of Contents**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</b>		<b>As of or for the nine months</b>	
	<b>ended</b>		<b>ended</b>	
	<b>September 30, 2018</b>	<b>2017</b>	<b>September 30, 2018</b>	<b>2017</b>
<b>SIGNIFICANT RATIOS (Unaudited)</b>				
Net income to:				
Average assets (a)	0.88 %	0.24 %	0.97 %	0.61 %
Average tangible shareholders' equity (a)	14.12 %	2.49 %	15.59 %	6.23 %
Net interest margin (a)	3.90 %	3.79 %	3.98 %	3.68 %
Efficiency ratio (b)	75.62 %	89.72 %	72.88 %	79.36 %
Average shareholders' equity to average assets	9.49 %	11.23 %	9.51 %	11.48 %
Loans to deposits (end of period) (c)	84.38 %	77.39 %	84.38 %	77.39 %
Allowance for loan losses to loans (end of period)	0.60 %	0.57 %	0.60 %	0.57 %
Book value per share	\$23.54	\$23.17	\$23.54	\$23.17

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



Table of Contents

**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 and Westerville, 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.

Table of Contents

**RESULTS OF OPERATIONS**

**Overview of the Income Statement**

The operating results for the nine months ended September 30, 2018, as compared to the first nine months of 2017, were largely impacted by the September 8, 2017 acquisition of Benchmark Bancorp, Inc. and its wholly-owned subsidiary Benchmark Bank (together, “Benchmark”), which resulted in the Corporation acquiring assets with an estimated fair value of \$113.8 million. The post-September 8, 2017 operations for Benchmark are included in the operations of the Corporation.

For the quarter ended September 30, 2018, the Corporation reported net income of \$1,786,000, or \$0.55 basic earnings per share. This compares to the third quarter of 2017 net income of \$402,000, or \$0.12 basic earnings per share. The increase in operating results for the third quarter of 2018 as compared to the same period in 2017 was primarily attributable to increases in net interest income of \$1,364,000 and non-interest income of \$1,104,000, offset by increases in non-interest expenses of \$822,000, a provision for loan losses of \$150,000, and provision for income taxes of \$112,000.

Net income for the nine months ended September 30, 2018 totaled \$5,785,000, or \$1.77 basic earnings per share compared to \$2,981,000, or \$0.91 basic earnings per share for the same period in 2017. Compared with the same period in 2017, net income increased \$2,804,000, or 94.1%. The increase in operating results for the nine month period ended September 30, 2018 as compared to the nine month period ended September 30, 2017 was primarily attributable to increases in net interest income of \$5,091,000, non-interest income of \$3,130,000, offset by an increase in non-interest expenses of \$4,650,000, a provision for loan losses of \$350,000 compared to a credit for loan losses of \$350,000 for the nine months ended September 30, 2017, as well as an increase in the provision for income taxes of \$68,000.

**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 \$7,072,000 for the third quarter of 2018, compared to \$5,708,000 for the same period of 2017, an increase of \$1,364,000 (23.9%). Net interest income was \$20,929,000 for the nine months ended September 30, 2018 compared to \$15,837,000 for the same period of 2017, an increase of \$5,092,000 (32.2%).

The increase in net interest income was largely attributable to an increase in interest income for the nine months ended September 30, 2018 of \$7,338,000, as compared to the same period in 2017, including a \$7,261,000 (50.0%) increase in interest income from loans and leases. This increase was attributable to organic loan growth of \$67,661,000, as well as the impact of loans acquired in the Benchmark acquisition and slightly higher interest rates. Discount accretion recognized on loans acquired in the Benchmark acquisition amounted to \$835,000 for the nine month period ended September 30, 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 quarter and nine months ended September 30, 2018, the net interest margin (on a taxable equivalent basis) was 3.90% and 3.98%, respectively, compared with 3.79% and 3.68% for the same periods in 2017. The increases for the comparable quarterly and nine month periods is attributable to the aforementioned increases in loans and leases and interest income earned on loans and leases. The average yield for loans and leases was 5.50% and 5.44% for the quarterly and nine month periods in 2018 compared to 4.58% and 4.92% for the same periods in 2017. Loans and leases also comprised 75.6% of interest-earning assets at September 30, 2018 compared to 72.3% of interest-earning assets at September 30, 2017.

The Bank continues to maintain a low level of non-interest bearing deposits as compared to its peer institutions. Interest-bearing deposits comprised 89.2% of average interest-bearing liabilities for the nine months ended September 30, 2018, compared to 93.9% for the same period in 2017.

Interest expense for the nine month period ended September 30, 2018 increased \$2,246,000 (110.4%). The significant increase in interest expense included the impact of interest-bearing deposits assumed in the Benchmark transaction, as well as additional borrowings incurred to facilitate the transaction. The Bank also incurred \$25 million of FHLB borrowings during the first nine months of 2018 to facilitate loan growth. Interest expense has also increased as a result of rate increases.

Table of Contents

**Provision (Credit) for Loan and Lease Losses**

The Corporation's provision (credit) 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 (credit) for loan and lease losses are dependent on, among other things, loan and lease delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's lending markets. A \$350,000 provision for loan and lease losses was recognized during the nine month period ended September 30, 2018 compared to a \$350,000 credit during the nine month period ended September 30, 2017. 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 September 30, 2018, non-interest income was \$2,464,000, compared to \$1,360,000 for the third quarter of 2017, a \$1,104,000 (81.2%) increase, which was primarily attributable to increases in gain on sales of loans of \$1,234,000 offset by decreases in other operating income of \$88,000. For the nine months ended September 30, 2018, non-interest income was \$6,875,000, compared to \$3,745,000 for same period in 2017, an increase of \$3,130,000 (83.6%) which was primarily attributable to increases in gain on sales of loans of \$2,959,000 and other operating income of \$288,000, offset by a loss on sale of securities of \$6,000 compared to gain on sales of securities of \$111,000 in 2017. The significant increase in gain on sale of loans was attributable to the Loan One operations acquired in connection with the Benchmark transaction.

As a result of the September 2017 acquisition of Benchmark and its Loan One mortgage banking operations division, the Bank has experienced a significant increase in loan sales volume with loan sales for the third quarter of 2018 approximating \$31.7 million compared to \$5.4 million for the third quarter of 2017, resulting in gains on sale of loans of \$1,469,000 for the quarter ended September 30, 2018, compared to \$235,000 for the third quarter of 2017, an increase of \$1,234,000. For the nine month period ended September 30, 2018, loan sales were approximately \$68.6 million compared to \$10.2 million for the same period of 2017, resulting in gains on sales of loans of \$3,425,000 compared to \$466,000 for the same period in 2017, an increase of \$2,959,000.

Net loss on sales of securities amounted to \$12,000 for the quarter ended September 30, 2018, compared to net gains of \$30,000 for the same period in 2017. Net loss on sale of securities amounted to \$6,000 for the nine month period ended September 30, 2018 compared to net gains of \$111,000 for the comparable period in 2017. While having an

adverse impact on current year earnings, these losses, as compared to gains in the prior year, are attributable to rate changes in the bond market and are not indicative of credit quality within the securities portfolio.

Other operating income decreased \$88,000 (8.0%) for the quarter ended September 30, 2018 and increased \$288,000 (9.1%) for the nine months ended September 30, 2018. The increase in other operating income for the nine months ended September 30, 2018 is largely attributable to the Benchmark operations acquired in September 2017. Additionally, during the nine months ended September 30, 2018, the fair value of mortgage servicing rights asset increased \$48,000 primarily due to a decrease in prepayment speeds caused by an increase in mortgage loan interest rates. During the nine month period ended September 30, 2017, the fair value of the servicing rights asset decreased \$17,000 with minimal change in the level of the serviced loan portfolio.

### **Non-Interest Expenses**

For the quarter ended September 30, 2018, non-interest expenses were \$7,249,000, compared to \$6,427,000 for the third quarter of 2017, an \$822,000 (12.8%) increase. This increase is primarily attributable to the Benchmark operations and was mitigated by \$1,115,000 of acquisition costs incurred by the Corporation during the third quarter of 2017 in connection with the acquisition. The quarter over quarter increase included increases in salaries and benefits expense of \$1,194,000 (40.1%), advertising and promotion of \$153,000 and loan fees of \$183,000, offset by decreases in occupancy costs of \$243,000 (22.3%) and consultant fees of \$523,000. The decrease in consultant fees and occupancy costs from the third quarter of 2017 as compared to the third quarter of 2018 is attributable to costs incurred in connection with the Benchmark acquisition, including the cancellation of various service contracts.

For the nine month period ended September 30, 2018, non-interest expenses totaled \$20,599,000, compared to \$15,949,000 for the same period of 2017, an increase of \$4,650,000 (29.2%). Similar to the comparative quarterly results, the nine month increase is primarily attributable to the Benchmark operations, offset by acquisition costs incurred by the Corporation during the first nine months of 2017. The increase from September 30, 2017 to September 30, 2018 included increases in salaries and benefits expense of \$3,568,000 (43.1%), premises and equipment of \$186,000 (8.5%), advertising and promotion of \$599,000 and loan fees of \$465,000, offset by a decrease in consultant fees of \$563,000.

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, 2018, the Corporation's efficiency ratio improved to 75.62%, compared to 89.72% for the same period of 2017. For the nine month period ended September 30, 2018, the Corporation's efficiency ratio improved to 72.88% compared to 79.36% for the same period of 2017.

### **Provision for Income Taxes**

The provision for income taxes for the quarter ended September 30, 2018 was \$351,000 (effective rate of 16.4%), compared to \$239,000 (effective rate of 37.3%) for the comparable 2017 period. The provision for the nine month period ended September 30, 2018 was \$1,070,000 (effective rate of 15.6%) compared to \$1,002,000 (25.2%) for the comparable 2017 period. The decrease in the provision for income taxes despite increases in income before taxes of \$1,496,000 for the quarter ended September 30, 2018 and \$2,872,000 for the nine months ended September 30, 2018 is attributable to the impact of the Tax Reform Act which lowered the effective corporate income tax rate from 34% to 21% effective January 1, 2018.

Table of Contents

**FINANCIAL CONDITION**

**Overview of Balance Sheet**

Total assets amounted to \$815.2 million at September 30, 2018, compared to \$780.5 million at December 31, 2017, an increase of \$34.7 million (4.5%). The increase in total assets was primarily the result of an increase of \$43.9 million (8.7%) in net loans, \$4.1 million in loans held for sale and \$3.4 million (13.5%) in goodwill, offset by a decrease of \$8.6 million (31.6%) in cash and cash equivalents and a decrease of \$5.9 million in securities available-for-sale. Deposits during this same period increased \$29.8 million (4.7%) and other borrowings increased \$2.9 million (5.0%). In August, the Corporation completed a review of the accounting and tax implications of the Benchmark transaction and determined its liability for federal income tax associated with the transaction was greater than estimated at the time of the acquisition. As a result, consistent with measurement date purchase accounting adjustments for business combinations, the Corporation recorded the additional tax liability, as well as certain other measurement date deferred tax adjustments during the third quarter of 2018 with a corresponding \$3.4 million increase to goodwill.

Shareholders' equity increased from \$75.7 million at December 31, 2017 to \$77.0 million at September 30, 2018. This increase was primarily the result of net income during the nine-month period ended September 30, 2018 of \$5,785,000 offset by dividends paid of \$1,177,000 and a \$3,505,000 increase in unrealized securities losses, net of tax. The increase in unrealized securities losses during the nine month period ended September 30, 2018, 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 in the consolidated balance sheets.

**Cash and Cash Equivalents**

Cash and cash equivalents totaled \$18.6 million at September 30, 2018 and \$27.3 million at December 31, 2017, including interest-bearing deposits in other banks of \$9.0 million at September 30, 2018 and \$16.6 million at December 31, 2017. Management believes the current level of cash and cash equivalents remains sufficient to meet the Corporation's present liquidity and performance needs when 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 September 30, 2018 totaled \$168.1 million and \$163.5 million, respectively, resulting in net unrealized losses before tax approximating \$4.6 million and a corresponding after-tax decrease in shareholders' equity approximating \$3.5 million. This compares to net unrealized losses before tax of \$188,000 and an after-tax decrease in shareholders' equity of \$124,000 at December 31, 2017.

## Loans and Leases

The Corporation's primary lending areas are Northwestern, West Central, and Central Ohio. Gross loans and leases approximated \$550.8 million at September 30, 2018, compared to \$506.4 million at December 31, 2017, an increase of \$44.4 million (8.8%). The majority of that increase was in the commercial and commercial and multi-family real estate segments of the portfolio with increases of \$17.2 million and \$27.4 million, respectively.

The Bank also has unrecognized financial instruments at September 30, 2018 and December 31, 2017 related to commitments to extend credit and letters of credit. The contract amount of such financial instruments approximated \$140.4 million at September 30, 2018 and \$127.5 million at December 31, 2017.



Table of Contents**Allowance for Loan and Lease Losses**

The following table presents a summary of activity in the allowance for loan and lease losses for the nine months ended September 30, 2018 and 2017:

	(in thousands)	
	Nine months ended	
	September 30,	
	<b>2018</b>	<b>2017</b>
Balance, beginning of period	\$2,835	\$3,345
Provision (credit) for loan and lease losses	350	(350 )
Charge offs	(193 )	(657 )
Recoveries	322	479
Net (charge offs) recoveries	129	(178 )
Balance, end of period	\$3,314	\$2,817

The allowance for loan and lease losses as a percentage of gross loans and leases was .60% at September 30, 2018, .56% at December 31, 2017, and .57% at September 30, 2017.

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 approximated \$1.6 million and \$2.8 million at September 30, 2018 and December 31, 2017, respectively. Non-accrual loans and leases as a percentage of outstanding loans amounted to .28% at September 30, 2018 and .55% at December 31, 2017.

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 other potential problem credits of \$5.8 million at September 30, 2018 and \$6.5 million at December 31, 2017. 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 \$193,000 of loan charge-offs during the first nine months of 2018 compared to loan charge-offs of \$657,000 during the first nine months of 2017 with most of the charge-offs coming from the commercial and multi-family 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 historic net charge-off experience, as well as environmental and qualitative factors.

Table of Contents

**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 \$660.3 million, or 89.5% of the Corporation's outstanding funding sources at September 30, 2018. Total deposits increased \$29.8 million, or 4.7% during the nine months ended September 30, 2018, including non-interest bearing deposits increasing \$6.9 million and interest bearing deposits increasing \$22.9 million .

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 September 30, 2018 and \$47.1 million at December 31, 2017 as well as \$10.0 million of term borrowings from the United Bankers' Bank (UBB) at September 30, 2018 and December 31, 2017. The UBB term borrowings, as well as a portion of the FHLB borrowings were used to facilitate the Benchmark acquisition. The Corporation also has outstanding junior subordinated deferrable interest debentures of \$12,865,000 at September 30, 2018 and \$12,840,000 at December 31, 2017. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

**Shareholders' Equity**

Shareholders' equity increased from approximately \$75.7 million at December 31, 2017 to \$77.0 million at September 30, 2018, principally due to net income of approximately \$5.8 million, offset by the other comprehensive loss related to available-for-sale securities of approximately \$3.5 million and dividends paid of approximately \$1.2 million.

For the nine month period ended September 30, 2017, shareholder's equity increased from approximately \$72.6 million at December 31, 2016 to \$75.7 million, principally due to net income of approximately \$2.9 million and other comprehensive income of approximately \$1.3 million, net of dividends paid.

The Corporation and Bank met all regulatory capital requirements as of September 30, 2018, 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 second quarter of 2018. As part of this program, loans held for sale may be accumulated into larger blocks before being sold resulting in potential longer holding periods which can impact cash flows from operating activities. As of September 30, 2018, loans held for sale amounted to \$6,437,000 compared to \$2,384,000 as of December 31, 2017 resulting in a \$4,053,000 use of cash flow from operations for the nine month period ending September 30, 2018. Excluding the change in loans held for sale, cash flow from operations for the nine months ended September 30, 2018 would have been \$6,450,000.

### **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 nine month period ended September 30, 2018. 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.

Table of Contents

**ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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

There have been no material changes in the quantitative and qualitative information about market risk from the information provided in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Table of Contents

**ITEM 4**

**CONTROLS AND PROCEDURES**

**Evaluation of Controls and Procedures.**

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

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

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

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

Table of Contents**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, 2017.

**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, 2018:

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)
07/01/18 - 07/31/18	-	\$ -	397,334	202,666
08/01/18 - 08/31/18	-	\$ -	397,334	202,666



09/01/18 - 09/30/18      -      \$      -      397,334      202,666

The Plan authorizes the Corporation to repurchase up to 600,000 of the Corporation's common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

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

None

**Item 4: Mine Safety Disclosures**

Not applicable

**Item 5: Other Information.**

None

37

---

Table of Contents**Item 6: Exhibits**

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

FOR PERIOD ENDED September 30, 2018

**Exhibit**

<b>Number</b>	<b>Description</b>	<b>Exhibit Location</b>
2.1	Stock Purchase Agreement, dated July 1, 2014 among United Bancshares, Inc., Ohio State Bancshares, Inc. and Rbancshares, Inc.	Incorporated herein by reference to the Corporation's Form 8-K filed July 1, 2014.
2.2	Agreement and Plan of Merger, dated March 22, 2017 among United Bancshares, Inc, Benchmark Bancorp, Inc. and Benchmark Bank	Incorporated herein by reference to the Corporation's Form 8-K filed March 22, 2017.
3.1	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.
3.2	Amended and Restated Code of Regulations	Incorporated herein by reference to the Corporation's Form 10Q for the quarter ended September 30, 2007.
10.1	Salary Continuation Agreement - Brian D. Young	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.2	Salary Continuation Agreement – Heather M. Oatman	Incorporated herein by reference to the Corporation's 2008 Form 10K filed March 20, 2009.
10.3	Preferred Trust Securities, Placement and Debenture agreements	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.4	Salary Continuation Agreement, First Amendment – Brian D. Young	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.5	2016 Stock Option Plan	Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 23, 2016.
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of CEO</u>	Filed herewith
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of CFO</u>	Filed herewith
32.1	<u>Section 1350 CEO's Certification</u>	Filed herewith
32.2	<u>Section 1350 CFO's Certification</u>	Filed herewith
99.1	<u>Safe Harbor under the Private Securities Litigation Reform Act of 1995</u>	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation	Filed herewith

101.DEF XBRL Taxonomy Extension Definition  
101.LAB XBRL Taxonomy Extension Label  
101.PRE XBRL Taxonomy Extension Presentation

Filed herewith  
Filed herewith  
Filed herewith

Table of Contents

**SIGNATURES**

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

**UNITED BANCSHARES, INC.**

**Date:** October 26, 2018 **By:**/s/ Daniel J. Lucke  
Daniel J. Lucke  
Chief Financial Officer