

# Section 1: 10-K

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934, as amended

For the fiscal year ended December 31, 2010  
Commission File No.: 000-29283

**UNITED BANCSHARES, INC.**  
(exact name of registrant as specified in its charter)

**OHIO** **34-1516518**  
(State or other jurisdiction of (I.R.S. Employer I.D. No.)  
incorporation or organization)

**100 S. High Street, Columbus Grove, Ohio 45830**  
(Address of principal executive offices)

Registrant's telephone number, including area code: **(419) 659-2141**  
Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, no par value – NASDAQ Global Markets**  
(Title of class)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes \_\_\_ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes \_\_\_ No X

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 X No \_\_\_

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act:  
Large accelerated filer \_\_\_ Accelerated filer \_\_\_ Non-accelerated filer \_\_\_ Smaller Reporting Company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  
Yes \_\_\_ No X

The aggregate market value of the voting stock held by non-affiliates of the registrant, was \$32,290,172, based upon the last sales price as quoted on the Nasdaq National Market as of June 30, 2010.

The number of shares of Common Stock, no par value outstanding as of January 29, 2011: 3,445,278.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2010 are incorporated by reference into Part II. Portions of the Proxy Statement dated March 30, 2011 for the 2011 Annual Meeting of Shareholders to be held on April 27, 2011 are incorporated by reference into Part III.

### INDEX

	<u>Page(s)</u>
Part I	
Item 1. Business	3-25
Item 1A. Risk Factors	25-34
Item 1B. Unresolved Staff Comments	34
Item 2. Properties	34-35
Item 3. Legal Proceedings	35
Item 4. Removed and Reserved	35
Part II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	36
Item 6. Selected Financial Data	37
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	37
Item 8. Financial Statements and Supplementary Data	37
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	37
Item 9A. Controls and Procedures	37-38
Item 9B. Other Information	38
Part III	
Item 10. Directors, Executive Officers and Corporate Governance of the Registrant	39
Item 11. Executive Compensation	39
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	39
Item 13. Certain Relationships and Related Transactions and Director Independence	39
Item 14. Principal Accountant Fees and Services	39
Part IV	
Item 15. Exhibits and Financial Statement Schedules	40-41
Signatures	42

## PART I

### Item 1. Business

#### General

United Bancshares, Inc. (the “Corporation”), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. The Corporation is a one-bank holding company, through its wholly-owned subsidiary, The Union Bank Company, Columbus Grove, Ohio (“Bank”) as that term is defined by the Federal Reserve Board. As of December 31, 2010, the Corporation employed approximately 150 employees.

United Bancshares, Inc. has traded its common stock on the NASDAQ Global Market under the symbol “UBOH” since March 2001.

The Corporation is registered as a Securities Exchange Act of 1934 (the “1934 Act”) reporting company.

#### Forward Looking Statements

Certain matters disclosed herein may be deemed to be forward-looking statements that involve risks and uncertainties, including regulatory policy changes, interest rate fluctuations, loan demand, loan delinquencies and losses, general economic conditions, and other risks. Forward-looking statements are often characterized by the use of qualifying words and their derivatives such as “expects,” “anticipates,” “believes,” “estimates,” “plans,” “projects,” and other words and statements concerning opinions or judgments of the Corporation and its management about future events. Actual strategies and results in future time periods may differ materially from those currently expected. Such forward-looking statements represent management’s judgment as of the current date. The Corporation disclaims, however, any intent or obligation to update such forward-looking statements.

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and the Corporation. Forward-looking statements are identifiable by words or phrases such as “outlook”, “plan” or “strategy”; that an event or trend “may”, “should”, “will”, “is likely”, or is “probably” to occur or “continue”, has “begun” or “is scheduled” or “on track” or that the Corporation or its management “anticipates”, “believes”, “estimates”, “plans”, “forecasts”, “intends”, “predicts”, “projects”, or “expects” a particular result, or is “committed”, “confident”, “optimistic” or has an “opinion” that an event will occur, or other words or phrases such as “ongoing”, “future”, “signs”, “efforts”, “tend”, “exploring”, “appearing”, “until”, “near term”, “going forward”, “starting” and variations of such words and similar expressions. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, statements related to real estate valuation, future levels of non-performing loans, the rate of asset dispositions, dividends, future growth and funding sources, future liquidity levels, future profitability levels, the effects on earnings of changes in interest rates and the future level of other revenue sources. Management's determination of the provision and allowance for loan losses, the appropriate carrying value of intangible assets (including goodwill and mortgage servicing rights), deferred tax assets, other real estate owned, and

the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment), involves judgments that are inherently forward-looking. All statements with references to future time periods are forward-looking. All of the information concerning interest rate sensitivity is forward-looking. Management's assumptions regarding pension and other post retirement plans involve judgments that are inherently forward-looking. Our ability to successfully implement new programs and initiatives, increase efficiencies, respond to declines in collateral values and credit quality, maintain our current level of deposits and other sources of funding, and improve profitability is not entirely within our control and is not assured. The future effect of changes in the real estate, financial and credit markets and the national and regional economy on the banking industry, generally, and the Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

#### General Description of Bank Subsidiary

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

The Bank offers a full range of commercial banking services, including checking accounts, savings and money market accounts; time certificates of deposit; automatic teller machines; commercial, consumer, agricultural, residential mortgage and home equity loans; safe deposit box rentals; and other personalized banking services.

## Competition

The Corporation competes for deposits with other savings associations, commercial banks and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. Primary factors in competing for deposits include customer service, interest rates and convenience of office location. In making loans, the Corporation competes with other commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors that are not readily predictable. The number of financial institutions competing with the Corporation may increase as a result of changes in statutes and regulations eliminating various restrictions on interstate and inter-industry branching and acquisitions. Such increased competition may have an adverse effect upon the Corporation.

## Effect of Environmental Regulation

Compliance with federal, state and local provisions regulating the discharge of material into the environment, or otherwise relating to the protection of the environment, have not had a material effect upon the capital expenditures, earnings or competitive position of the Corporation and its subsidiary. The Corporation believes that the nature of the operations of its subsidiary has little, if any, environmental impact. The Corporation, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future. The Corporation's subsidiary may be required to make capital expenditures for environmental control facilities related to properties, which they may acquire through foreclosure proceedings in the future; however, the amount of such capital expenditures, if any, is not currently determinable.

## Supervision and Regulation

Sarbanes-Oxley Act of 2002 - On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "SOA"). The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties within publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, including the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

- \* audit committees for all reporting companies;
- \* certification of financial statements by the chief executive officer and the chief financial officer;
- \* the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;
- \* a prohibition on certain insider trading during pension plan black out periods;
- \* disclosure of off-balance sheet transactions;
- \* a prohibition on personal loans to directors and officers;
- \* expedited filing requirements for Forms 4;
- \* disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- \* "real time" filing of periodic reports;
- \* the formation of a public company accounting oversight board;
- \* auditor independence; and
- \* various increased criminal penalties for violations of securities laws.

#### Other Statutes and Regulations

The following is a summary of certain other statutes and regulations affecting the Corporation and its subsidiary. This summary is qualified in its entirety by reference to such statutes and regulations.

The Corporation is a bank holding company under the Bank Holding Company Act of 1956, as amended, which restricts the activities of the Corporation and the acquisition by the Corporation of voting shares or assets of any bank, savings association or other company. The Corporation is also subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Board. Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on transactions with affiliates, including any loans or extensions of credit to the bank holding company or any of its subsidiaries, investments in the stock or other securities thereof and the taking of such stock or securities as collateral for loans or extensions of credit to any borrower; the issuance of guarantees, acceptances or letters of credit on behalf of the bank holding company and its subsidiary; purchases or sales of securities or other assets; and the payment of money or furnishing of services to the bank holding company and other subsidiaries. Bank holding companies are prohibited from acquiring direct or indirect control of more than 5% of any class of voting stock or substantially all of the assets of any bank holding company without the prior approval of the Federal Reserve Board. A bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by the bank holding company or its subsidiaries.

As an Ohio state-chartered bank, the Bank is supervised and regulated by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). The deposits of the Bank are insured by the FDIC and the Bank is subject to the applicable provisions of the Federal Deposit Insurance Act. A subsidiary of a bank holding company can be liable to reimburse the FDIC if the FDIC incurs or anticipates a loss because of a default of another FDIC-insured subsidiary of the bank holding company or in connection with FDIC assistance provided to such subsidiary in danger of default. In addition, the holding company of any insured financial institution that submits a capital plan under the federal banking agencies' regulations on prompt corrective action guarantees a portion of the institution's capital shortfall, as discussed below.

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of the Bank, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans which may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on payment of dividends, and limitations on branching.

The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines include both a definition and a framework for calculating risk weighted assets by assigning assets and off-balance sheet items to broad risk categories. The minimum ratio of total capital to risk weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least 4% is to be comprised of common shareholders' equity (including retained earnings but excluding treasury stock), noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interest in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets ("Tier 1 capital"). The remainder ("Tier 2 capital") may consist, among other things, of mandatory convertible debt securities, a limited amount of subordinated debt, other preferred stock and a limited amount of allowance for loan losses. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 capital to total assets) of 3% for bank holding companies and state member banks that meet certain specified conditions, including having the highest regulatory rating. The minimum leverage ratio is 1%-2% higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and for those banks experiencing or anticipating significant growth. State non-member bank subsidiaries, such as the Bank are subject to similar capital requirements adopted by the FDIC.

The Corporation and its subsidiary currently satisfy all capital requirements. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC. The junior subordinated deferrable interest debentures issued in 2003, as described in Note 11 to the consolidated financial statements contained in the Corporation's Annual Report, currently qualify as Tier I capital for regulatory purposes. However, it is possible that regulations could change so that such securities do not qualify.

The federal banking regulators have established regulations governing prompt corrective action to resolve capital deficient banks. Under these regulations, institutions, which become undercapitalized, become subject to mandatory regulatory scrutiny and limitations that increase as capital decreases. Such institutions are also required to file capital plans with their primary federal regulator, and their holding companies must guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary bank and other subsidiaries. However, the Federal Reserve Board expects the Corporation to serve as a source of strength to its subsidiary bank, which may require it to retain capital for further investment in the subsidiary, rather than for dividends for shareholders of the Corporation. The Bank may not pay dividends to the Corporation if, after paying such dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval of its regulatory authorities if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year's net income and the retained net income for the preceding two years, less required transfers to surplus. Payment of dividends by a bank subsidiary may be restricted at any time at the discretion of the regulatory authorities, if they deem such dividends to



constitute an unsafe and/or unsound banking practice. These provisions could have the effect of limiting the Corporation's ability to pay dividends on its outstanding common shares.

### Deposit Insurance Assessments and Recent Legislation

The Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively, the "Deposit Insurance Reform Acts") were both signed into law during February, 2006. The provisions of the Deposit Insurance Reform Acts included, among other things, merging the Bank Insurance Fund and the Savings Association Insurance Fund into a new fund called the Deposit Insurance Fund, which merger was effective March 31, 2006; increasing insurance coverage for retirement accounts from \$100,000 to \$250,000, effective April 1, 2006; adjusting deposit insurance levels of \$100,000 for non-retirement accounts and \$250,000 for retirement accounts every five years based on an inflation index, with the first adjustment to be effective on January 1, 2011; eliminating a 1.25% hard target Designated Reserve Ratio, as defined, and giving the FDIC discretion to set the Designated Reserve Ratio within a range of 1.15% to 1.50% for any given year; eliminating certain restrictions on premium rates the FDIC charges covered institutions and establishing a risk-based premium system; and providing for a one-time credit for institutions that paid premiums to the Bank Insurance Fund or the Savings Association Insurance Fund prior to December 31, 1996.

Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC insures payment of deposits up to insured limits from the Deposit Insurance Fund. In late 2008, the FDIC announced an increase in insurance premium rates of seven basis points for the first quarter of 2009. On February 27, 2009, the FDIC announced its adoption of an interim final rule imposing a one-time special assessment of up to 20 basis points and a final rule adjusting the risk-based calculation used to determine the premiums due from each financial institution. On March 5, 2009, the FDIC announced its plan to reduce the special assessment to 10 basis points. The special assessment and the changes in the premium calculation significantly increased the Corporation's FDIC insurance expense in 2009 and possibly thereafter. On September 29, 2009, the FDIC adopted a Notice of Proposed Rule making it mandatory that insured depository institutions prepay their quarterly risk-based assessments to the FDIC on December 30, 2009 for the fourth quarter of 2009 and for the years 2010 through 2012.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was signed into law, which, in part, permanently raises the current standard maximum deposit insurance amount to \$250,000.

On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The unlimited insurance coverage is available to all depositors, including consumers, businesses, and government entities. Under the final rule, a noninterest-bearing transaction account is defined as a deposit account where interest is neither accrued nor paid; depositors are permitted to make an unlimited number of transfers and withdrawals; and the bank does not reserve the right to require advance notice of an intended withdrawal.

## Monetary Policy and Economic Conditions

The commercial banking business is affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These policies and regulations significantly affect the overall growth and distribution of bank loans, investments and deposits, and the interest rates charged on loans as well as the interest rates paid on deposits and accounts.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the money market and the activities of monetary and fiscal authorities, no definitive predictions can be made as to future changes in interest rates, credit availability or deposit level.

## Statistical Financial Information Regarding the Corporation

The following schedules and table analyze certain elements of the consolidated balance sheets and statements of income of the Corporation and its subsidiary, as required under Securities Act Industry Guide 3 promulgated by the Securities and Exchange Commission, and should be read in conjunction with the narrative analysis presented in ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION and the Consolidated Financial Statements of the Corporation, both of which are included in the 2010 Annual Report.

## Available Information

The Corporation files various reports with the SEC, including Forms 10-Q, 10-K, 11-K and 8-K as required. The public may read and copy any filed materials with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information that the Corporation electronically files with the SEC.

Various information on the Corporation may also be obtained from the Corporation's maintained website at <http://www.theubank.com>.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

A. The following are the average balance sheets for the years ended December 31:

ASSETS	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollars in thousands)		
Interest-earning assets			
Securities (1)			
Taxable	\$101,132	\$91,409	\$87,800
Non-taxable	48,616	47,964	45,616
Interest bearing deposits	33,357	18,185	21,456
Federal funds sold	210	110	6,656
Loans (2)	<u>398,378</u>	<u>417,913</u>	<u>400,823</u>
Total interest-earning assets	581,693	575,581	562,351
Non-interest-earning assets			
Cash and due from banks	7,202	7,278	6,863
Premises and equipment, net	9,823	9,222	7,870
Accrued interest receivable and other assets	32,885	25,576	26,235
Allowance for loan losses	<u>(6,322)</u>	<u>(4,714)</u>	<u>(2,570)</u>
	<u>\$625,281</u>	<u>\$612,943</u>	<u>\$600,749</u>
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing liabilities			
Deposits			
Savings and interest-bearing demand deposits	\$172,224	\$127,494	\$114,643
Time deposits	273,418	293,407	287,297
Federal funds purchased	-	-	8
Junior subordinated deferrable interest debentures	10,300	10,300	10,300
Other borrowings	<u>61,918</u>	<u>81,162</u>	<u>94,844</u>
Total interest-bearing liabilities	517,860	512,363	507,092
Non-interest-bearing liabilities			
Demand deposits	47,447	41,841	39,157
Accrued interest payable and other liabilities	4,128	5,877	4,705
Shareholders' equity (3)	<u>55,846</u>	<u>52,862</u>	<u>49,795</u>
	<u>\$625,281</u>	<u>\$612,943</u>	<u>\$600,749</u>
	=====	=====	=====

- (1) Securities include securities available-for-sale, which are carried at fair value, and Federal Home Loan Bank (FHLB) stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.
- (2) Loan balances include principal balances of non-accrual loans and loans held for sale.
- (3) Shareholders' equity includes average net unrealized appreciation (depreciation) on securities available-for-sale, net of tax.
- (4) Financial data for 2010 includes the impact of the March 2010 Findlay branch acquisition, as described in Note 3 to the consolidated financial statements included in Exhibit 13.



I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

B. The following tables set forth, for the years indicated, the condensed average balances of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average interest rates earned or paid thereon.

	2010 Average <u>Balance</u>	<u>Interest</u>	Average <u>Rate</u>
	(dollars in thousands)		
<b>INTEREST-EARNING ASSETS</b>			
Securities (1)			
Taxable	\$ 101,132	\$ 3,930	3.89%
Non-taxable (2)	48,616	3,011	6.19%
Loans (3, 4)	398,378	24,320	6.10%
Other	<u>33,567</u>	<u>78</u>	<u>0.23%</u>
Total interest-earning assets	<u>\$ 581,693</u>	<u>\$ 31,339</u>	<u>5.39%</u>
<b>INTEREST-BEARING LIABILITIES</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 172,224	\$ 600	0.35%
Time deposits	273,418	5,638	2.06%
Junior subordinated deferrable interest debentures	10,300	354	3.44%
Other borrowings	<u>61,918</u>	<u>2,367</u>	<u>3.82%</u>
Total interest-bearing liabilities	<u>\$ 517,860</u>	<u>\$ 8,959</u>	<u>1.73%</u>
Net interest income, tax equivalent basis		\$ 22,380	
		=====	
Net interest income as a percent of average interest-earning assets			3.85%
			=====

- (1) Securities include securities available-for-sale, which are carried at fair value, and FHLB stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.
- (2) Computed on tax equivalent basis for non-taxable securities (34% statutory rate).
- (3) Loan balances include principal balance of non-accrual loans.
- (4) Interest income on loans includes fees of \$867,535.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2009		Average
	<u>Average</u>	<u>Interest</u>	<u>Rate</u>
	<u>Balance</u>		
	(dollars in thousands)		
<b>INTEREST-EARNING ASSETS</b>			
Securities available-for-sale (1)			
Taxable	\$ 91,409	\$ 4,259	4.66%
Non-taxable (2)	47,964	3,026	6.31%
Loans (3, 4)	417,913	26,567	6.31%
Other	<u>18,295</u>	<u>43</u>	<u>0.24%</u>
Total interest-earning assets	<u>\$ 575,581</u>	<u>\$ 33,895</u>	<u>5.89%</u>
<b>INTEREST-BEARING LIABILITIES</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 127,494	\$ 465	0.36%
Time deposits	293,407	8,337	2.84%
Junior subordinated deferrable interest debentures	10,300	410	3.98%
Other borrowings	<u>81,162</u>	<u>3,105</u>	<u>3.83%</u>
Total interest-bearing liabilities	<u>\$ 512,363</u>	<u>\$ 12,317</u>	<u>2.40%</u>
Net interest income, tax equivalent basis		\$ 21,578	
		=====	
Net interest income as a percent of average interest-earning assets			3.75%
			=====

- (1) Securities include securities available-for-sale, which are carried at fair value, and FHLB stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.
- (2) Computed on tax equivalent basis for non-taxable securities (34% statutory rate).
- (3) Loan balances include principal balance of non-accrual loans and loans held for sale.
- (4) Interest income on loans includes fees of \$1,003,743.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2008 Average <u>Balance</u>	<u>Interest</u>	Average <u>Rate</u>
	(dollars in thousands)		
<b>INTEREST-EARNING ASSETS</b>			
Securities (1)			
Taxable	\$ 87,800	\$ 4,209	4.79%
Non-taxable (2)	45,616	2,897	6.35%
Loans (3, 4)	400,823	28,671	7.15%
Other	<u>28,112</u>	<u>416</u>	<u>1.48%</u>
Total interest-earning assets	<u>\$ 562,351</u>	<u>\$ 36,193</u>	<u>6.44%</u>
<b>INTEREST-BEARING LIABILITIES</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 114,643	\$ 941	0.82%
Time deposits	287,297	10,174	3.54%
Federal funds purchased	8	-	0.00%
Junior subordinated deferrable interest debentures	10,300	627	6.09%
Other borrowings	<u>94,844</u>	<u>4,053</u>	<u>4.27%</u>
Total interest-bearing liabilities	<u>\$ 507,092</u>	<u>\$ 15,795</u>	<u>3.11%</u>
Net interest income, tax equivalent basis		\$ 20,398	
		=====	
Net interest income as a percent of average interest-earning assets			3.63%
			=====

- (1) Securities include securities available-for-sale, which are carried at fair value, and FHLB stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.
- (2) Computed on tax equivalent basis for non-taxable securities (34% statutory rate).
- (3) Loan balances include principal balance of non-accrual loans and loans held for sale.
- (4) Interest income on loans includes fees of \$1,091,254.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

C. The following tables set forth the effect of volume and rate changes on interest income and expenses for the periods indicated. For purposes of these tables, changes in interest due to volume and rate were determined as follows:

Volume variance - change in volume multiplied by the previous year's rate.

Rate variance - change in rate multiplied by the previous year's volume.

Rate/volume variance - change in volume multiplied by the change in rate.

This variance was allocated to volume variances and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 34% in all years presented.

	2010/2009		
	Total Variance	Variance Attributable To	
		Volume	Rate
	(dollars in thousands)		
<b>INTEREST INCOME</b>			
Securities -			
Taxable	\$ (329)	\$ 424	\$ (753)
Non-taxable	(15)	41	(56)
Loans	(2,247)	(1,215)	(1,032)
Other	<u>35</u>	<u>35</u>	<u>-</u>
	<u>(2,556)</u>	<u>(715)</u>	<u>(1,841)</u>
<b>INTEREST EXPENSE</b>			
Deposits -			
Savings and interest-bearing demand deposits	135	157	(22)
Time deposits	(2,699)	(537)	(2,162)
Junior subordinated deferrable interest debentures	(56)	--	(56)
Other borrowings	<u>(738)</u>	<u>(736)</u>	<u>(2)</u>
	<u>(3,358)</u>	<u>(1,116)</u>	<u>(2,242)</u>
<b>NET INTEREST INCOME</b>	<u>\$ 802</u>	<u>\$ 401</u>	<u>\$ 401</u>



I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2009/2008		
	Total	Variance Attributable To	
	<u>Variance</u>	<u>Volume</u>	<u>Rate</u>
	(dollars in thousands)		
<b>INTEREST INCOME</b>			
Securities -			
Taxable	\$ 50	\$ 170	\$ (120)
Non-taxable	129	148	(19)
Loans	(2,104)	1,185	(3,289)
Other	<u>(373)</u>	<u>(109)</u>	<u>(264)</u>
	<u>(2,298)</u>	<u>1,394</u>	<u>(3,692)</u>
<b>INTEREST EXPENSE</b>			
Deposits -			
Savings and interest-bearing demand deposits	(476)	96	(572)
Time deposits	(1,837)	212	(2,049)
Federal funds purchased	(217)	--	(217)
Junior subordinated deferrable interest debentures	<u>(948)</u>	<u>(549)</u>	<u>(399)</u>
Other borrowings	<u>(3,478)</u>	<u>(241)</u>	<u>(3,237)</u>
<b>NET INTEREST INCOME</b>	<u>\$ 1,180</u>	<u>\$ 1,635</u>	<u>\$ (455)</u>
	=====	=====	=====

## II. INVESTMENT PORTFOLIO

A. The carrying amounts of securities available-for-sale as of December 31 are summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollars in thousands)		
U.S. Government agency securities	\$ -	\$ 3,983	\$ -
Obligations of states and political subdivisions	47,298	47,829	46,522
Mortgage-backed securities	92,633	86,270	89,476
Other	<u>509</u>	<u>504</u>	<u>500</u>
	<u>\$140,440</u>	<u>\$138,586</u>	<u>\$136,498</u>
	=====	=====	=====

The above excludes Federal Home Loan Bank stock amounting to \$4,893,800 in 2010, 2009 and 2008.

B. The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2010 are as follows (1):

	<u>Maturing</u>			
	<u>Within</u>	<u>After One year</u>	<u>After Five</u>	
	<u>One Year</u>	<u>But Within</u>	<u>But Within</u>	<u>After</u>
		<u>Five Years</u>	<u>Ten Years</u>	<u>Ten Years</u>
	(dollars in thousands)			
Obligations of states and political Subdivisions	\$ 848	\$ 7,651	\$ 7,012	\$ 31,787
Mortgage-backed securities (2)	<u>-</u>	<u>306</u>	<u>6,302</u>	<u>86,025</u>
	<u>\$ 848</u>	<u>\$ 7,957</u>	<u>\$ 13,314</u>	<u>\$117,812</u>
	=====	=====	=====	=====
	<u>Weighted Average Yield</u>			
Obligations of states and political subdivisions	4.92%	3.95%	4.49%	4.36%
Mortgage-backed securities (2)	<u>-</u>	<u>4.78%</u>	<u>4.45%</u>	<u>4.30%</u>
Total	<u>4.92%</u>	<u>3.99%</u>	<u>4.47%</u>	<u>4.31%</u>
	=====	=====	=====	=====

(1) Table excludes Federal Home Loan Bank stock and \$509,000 of securities having no maturity date.

(2) Maturity based upon estimated weighted-average life.

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount.

C. There were no securities which exceeded 10% of shareholders' equity at December 31, 2010.

### III. LOAN PORTFOLIO

A. Types of Loans – Total loans, including loans held for sale, are comprised of the following classifications at December 31 for the years indicated:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(dollars in thousands)				
Commercial and agricultural	\$263,832	\$286,485	\$268,433	\$222,566	\$198,768
Real estate mortgage	111,562	107,515	130,289	110,770	105,018
Consumer loans to individuals	<u>8,513</u>	<u>13,815</u>	<u>19,663</u>	<u>26,224</u>	<u>31,763</u>
	<u>\$ 383,907</u>	<u>\$ 407,815</u>	<u>\$ 418,385</u>	<u>\$ 359,560</u>	<u>\$ 335,549</u>
	=====	=====	=====	=====	=====

Real estate mortgage loans include real estate construction loans of \$6.5 million in 2010, \$4.8 million in 2009, \$20.9 million in 2008, \$18.0 million in 2007, and \$11.9 million in 2006. There were no lease financing receivables in any year.

**CONCENTRATIONS OF CREDIT RISK** – The Corporation’s depository institution subsidiary grants commercial, real estate, installment, and credit card loans to customers primarily located in Northwestern and West Central Ohio. Commercial loans include loans collateralized by business assets and agricultural loans collateralized by crops and farm equipment. As of December 31, 2010, commercial and agricultural loans make up 68.72% of the loan portfolio; the loans are expected to be repaid from cash flow from operations of the businesses. As of December 31, 2010, real estate mortgage loans make up 29.06% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2010, consumer loans to individuals make up 2.22% of the loan portfolio and are primarily collateralized by consumer assets.

B. Maturities and Sensitivities of Loans to Changes in Interest Rates – The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2010 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

<u>Maturing</u>	Commercial and <u>Agricultural</u> (dollars in thousands)
Within one year	\$ 53,253
After one year but within five years	38,975
After five years	<u>171,604</u>
	<u>\$ 263,832</u>
	=====

III. LOAN PORTFOLIO (CONTINUED)

	<u>Interest Sensitivity</u>		<u>Total</u>
	<u>Fixed Rate</u>	<u>Variable Rate</u>	
	(dollars in thousands)		
Due after one year but within five years	\$ 28,517	\$ 10,458	\$ 38,975
Due after five years	<u>7,498</u>	<u>164,106</u>	<u>171,604</u>
	\$ 36,015	\$174,564	\$210,579
	=====	=====	=====

C. Risk Elements – Non-accrual, Past Due, Restructured and Impaired Loans – The following table summarizes non-accrual, past due, restructured and impaired loans at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	\$16,497	\$12,937	\$3,074	\$2,613	\$2,601
(b) Loans contractually past due 90 days or more as to interest or principal payments and still accruing interest	126	2,456	2,387	824	556
(c) Loans not included in (a) or (b) which are "Troubled Debt Restructurings" as defined by accounting principles generally accepted in the United States of America	<u>3,092</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	\$19,715	\$15,393	\$5,461	\$3,437	\$3,157
	=====	=====	=====	=====	=====

The following is reported for the year ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(dollars in thousands)			
Gross interest income that would have been recorded on non-accrual loans outstanding if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period	\$ 987	\$ 1,015	\$ 259	\$ 217
Interest income actually recorded on non-accrual loans and included in net income for the period	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Interest income not recognized during the period	\$ 987	\$ 1,015	\$ 259	\$ 217
	=====	=====	=====	=====

### III. LOAN PORTFOLIO (CONTINUED)

#### 1. Discussion of the non-accrual policy

The accrual of interest income is discontinued when the collection of a loan or interest, in whole or in part, is doubtful. When the accrual of interest is discontinued, all interest income accrued but uncollected is reversed. While loans which are past due 90 days or more as to interest or principal payments are considered for non-accrual status, management may elect to continue the accrual of interest when the estimated net realizable value of collateral, in management's judgment, is sufficient to cover the principal balance and accrued interest. These policies apply to both commercial and real estate loans.

#### 2. Potential problem loans

As of December 31, 2010, in addition to the \$19,715,000 of loans reported under Item III. C, there are approximately \$26,389,000 of other outstanding loans where known information causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans pursuant to Item III. C at some future date. Consideration was given to loans classified for regulatory purposes as substandard or special mention that have not been disclosed in Item III. C above.

#### 3. Foreign outstandings

None.

#### 4. Loan concentrations

At December 31, 2010, loans outstanding relating to agricultural operations or collateralized by agricultural real estate aggregated \$65,818,000. At December 31, 2010, there were seven borrowers with loans totaling \$3,623,000 in agricultural commercial loans, which were accounted for on a non-accrual basis; and there were no accruing agricultural commercial loans which were contractually past due 90 days or more as to interest or principal payments.

#### D. Other interest-bearing assets

As of December 31, 2010, there were no other interest-bearing assets that are required to be disclosed.

#### IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. The following schedule presents an analysis of the allowance for loan losses, average loan data and related ratios for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
LOANS	(dollars in thousands)				
Loans outstanding at end of period (1)	\$ 383,907	\$ 407,815	\$ 418,385	\$ 359,560	\$ 335,549
Average loans outstanding during period (1)	\$ 398,378	\$ 417,913	\$ 400,823	\$ 345,532	\$ 323,802
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	<u>\$ 4,804</u>	<u>\$ 3,198</u>	<u>\$ 2,233</u>	<u>\$ 2,275</u>	<u>\$ 2,540</u>
Loans charged off -					
Commercial and agricultural	(3,107)	(5,471)	(512)	(215)	(261)
Real estate mortgage	(494)	(431)	(85)	(162)	(104)
Consumer loans to individuals	<u>(223)</u>	<u>(366)</u>	<u>(942)</u>	<u>(546)</u>	<u>(453)</u>
	<u>(3,824)</u>	<u>(6,268)</u>	<u>(1,539)</u>	<u>(923)</u>	<u>(818)</u>
Recoveries of loans previously charged off -					
Commercial and agricultural	282	53	40	28	69
Real estate mortgage	95	17	7	10	34
Consumer loans to individuals	<u>110</u>	<u>279</u>	<u>262</u>	<u>218</u>	<u>110</u>
	<u>487</u>	<u>349</u>	<u>309</u>	<u>256</u>	<u>213</u>
Net loans charged off	<u>(3,337)</u>	<u>(5,919)</u>	<u>(1,230)</u>	<u>(667)</u>	<u>(605)</u>
Provision for loan losses	<u>6,550</u>	<u>7,525</u>	<u>2,195</u>	<u>625</u>	<u>340</u>
Balance at end of period	\$8,017	\$4,804	\$3,198	\$2,233	\$2,275
Ratio of net charge-offs during the period to average loans outstanding during the period	0.84%	1.42%	0.31%	0.19%	0.19%

(1) Including loans held for sale.

The amount of loan charge-offs and recoveries fluctuate from year to year due to various factors relating to the condition of the general economy and specific business segments. The 2010 loan charge-offs included nine commercial or agricultural credits aggregating \$1,866,120, with the largest individual charge-off being \$585,000. The 2009 loan charge-offs included one commercial credit amounting to \$3,600,000 whose business operations ceased during the fourth quarter of 2009. The Bank incurred \$231,000 of additional charge-offs in 2010 related to the credit. In addition, 2009 net-loan charge-offs included five other commercial and/or commercial real estate credits aggregating \$1,548,000, with the largest individual credit charge-off being \$775,000. Net loan charge-offs in 2008 included four commercial or commercial real estate credits in excess of \$100,000 aggregating \$690,000. There were no individual net loan charge-offs in 2007 that exceeded \$100,000.

#### IV. SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

The Corporation recognized a provision for loan losses of \$6,550,000 in 2010. The significant increase in the provision for loan losses in 2010 and 2009, as compared to previous years, was attributable to the increase in net loan charge-offs, as well as an increase in problem and potential problem credits. Problem and potential problem loans aggregated \$46.1 million at December 31, 2010 compared to \$41.2 million at December 31, 2009. The Corporation will continue to monitor the credit quality of its loan portfolio, and especially the quality of those credits identified as problem or potential problem credits, to ensure the allowance for loan losses is maintained at an appropriate level.

The allowance for loan losses balance and the provision for loan losses are judgmentally determined by management based upon periodic reviews of the loan portfolio. In addition, management considered the level of charge-offs on loans as well as the fluctuations of charge-offs and recoveries on loans including the factors, which caused these changes. Estimating the risk of loans and the amount of loss is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral value and other factors and estimates which are subject to change over time.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

B. The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and related ratios.

Allocation of the Allowance for Loan Losses

	Allowance	Percentage	Allowance	Percentage
	Amount	of Loans in Each Category to Total Loans	Amount	of Loans in Each Category to Total Loans
(dollars in thousands)				
	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
Commercial and agricultural	\$ 7,134	68.7%	\$ 3,714	70.2%
Real Estate mortgages	323	29.1%	379	26.4%
Consumer loans to individuals	125	2.2%	277	3.4%
Unallocated	<u>435</u>	N/A	<u>434</u>	N/A
	<u>\$ 8,017</u>	100.0%	<u>\$ 4,804</u>	100.0%
	=====	=====	=====	=====
	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
Commercial and agricultural	\$ 2,454	64.2%	\$ 1,350	61.9%
Real Estate mortgages	271	31.1%	295	30.8%
Consumer loans to individuals	386	4.7%	377	7.3%
Unallocated	<u>87</u>	N/A	<u>211</u>	N/A
	<u>\$ 3,198</u>	100.0%	<u>\$ 2,233</u>	100.0%
	=====	=====	=====	=====
	<u>December 31, 2006</u>			
Commercial and agricultural	\$ 1,426	59.2%		
Real Estate mortgages	406	31.3%		
Consumer loans to individuals	385	9.5%		
Unallocated	<u>58</u>	N/A		
	<u>\$ 2,275</u>	100.0%		
	=====	=====		

The allowance for loan losses at December 31, 2010 included specific reserves for impaired loans amounting to \$692,000 compared to \$1,229,000 at December 31, 2009. The allowance amount for loan losses allocated to commercial and agricultural loans increased significantly in 2010. The increase is primarily attributable to higher loss rates due to recent charge-off experience as well as the increase in the level of criticized assets.

While the periodic analysis of the adequacy of the allowance for loan losses may require management to allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.





## V. DEPOSITS

Deposits have traditionally been the Bank's primary funding source for use in lending and other investment activities. In addition to deposits, the Bank derives funds from interest and principal repayments on loans and income from other earning assets. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows tend to fluctuate in response to economic conditions and interest rates. Deposits are attracted principally from within the Bank's designated market area by offering a variety of deposit instruments, including regular savings accounts, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts, term certificate accounts, and individual retirement accounts ("IRAs"). Interest rates paid, maturity terms, service fees, and withdrawal penalties for the various types of accounts are established periodically by the Bank's management based on the Bank's liquidity requirements, growth goals, and market trends. From time to time, the Bank may also acquire brokered deposits. The amount of deposits from outside the Bank's market area is not significant.

A.&B. The average amount of deposits and average rates paid are summarized as follows for the years ended December 31:

	(dollars in thousands)			
	2010	2010	2009	2009
	<u>Average</u>	<u>Average</u>	<u>Average</u>	<u>Average</u>
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Savings and interest-bearing demand deposits	\$ 172,224	0.35%	\$ 127,494	0.36%
Time deposits	273,418	2.06%	293,407	2.84%
Demand deposits (non-interest bearing)	<u>47,447</u>	--	<u>41,841</u>	--
	\$ 493,089		\$ 462,742	
	=====		=====	
	2008	2008		
	<u>Average</u>	<u>Average</u>		
	<u>Amount</u>	<u>Rate</u>		
Savings and interest-bearing demand deposits	\$ 114,643	0.82%		
Time deposits	287,297	3.54%		
Demand deposits (non-interest bearing)	<u>39,157</u>	--		
	\$ 441,097			
	=====			

C.&E. There were no foreign deposits in any periods presented.

V. DEPOSITS (CONTINUED)

D. Maturities of time certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2010 are summarized as follows:

Three months or less	\$ 12,120
Over three months and through six months	12,182
Over six months and through twelve months	16,792
Over twelve months	<u>39,697</u>
	\$ 80,791
	=====

VI. RETURN ON EQUITY AND ASSETS

The ratio of net income to average shareholders' equity and average total assets and certain other ratios are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollars in thousands)		
Average total assets	\$ 625,281	\$ 612,943	\$ 600,749
	=====	=====	=====
Average shareholders' equity (1)	\$ 55,846	\$ 52,862	\$ 49,795
	=====	=====	=====
Net income	\$ 2,808	\$ 2,883	\$ 4,419
	=====	=====	=====
Cash dividends declared	\$ 1,550	\$ 2,066	\$ 2,065
	=====	=====	=====
Return on average total assets	0.45%	0.47%	0.74%
	=====	=====	=====
Return on average shareholders' equity	5.03%	5.45%	8.87%
	=====	=====	=====
Dividend payout ratio (2)	55.20%	71.66%	46.73%
	=====	=====	=====
Average shareholders' equity to average total assets	8.93%	8.62%	8.29%
	=====	=====	=====

(1) Average shareholders' equity includes average unrealized gains or losses on securities available-for-sale.

(2) Dividends declared divided by net income.

## VII. SHORT-TERM BORROWINGS

The Bank has established lines of credit with its major correspondent banks to purchase federal funds to meet liquidity needs. At December 31, 2010, the Bank did not have any federal funds purchased, out of the \$6.7 million available under such lines. The Bank also uses repurchase agreements as a source of funds. These agreements essentially represent borrowings by the Bank from customers with maturities of three months or less. Certain securities are pledged as collateral for these agreements. At December 31, 2010, the Bank had \$11,200,000 of repurchase agreements.

The following table sets forth the maximum month-end balance for the Bank's outstanding short-term borrowings (federal funds purchased and repurchase agreements), along with the average aggregate balances and weighted average interest for 2010, 2009, and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollars in thousands)		
Balance at year-end	\$11,178	\$11,756	\$ 5,588
Maximum balance at month-end during the period	11,178	11,756	11,043
Average balance	6,693	5,659	5,373
Weighted average interest rate	0.56%	0.67%	0.68%

### Item 1A.

#### **RISK FACTORS**

An investment in the Corporation's common stock is subject to risks inherent to the Corporation's business. The material risks and uncertainties that management believes affect the Corporation are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Corporation's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Corporation's common stock could decline significantly, and you could lose all or part of your investment.

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

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

The Corporation's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also

affect (i) the Corporation's ability to originate loans and obtain deposits, (ii) the fair value of the Corporation's financial assets and liabilities, and (iii) the average duration of the Corporation's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

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

#### *The Corporation is Subject to Lending Risk*

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across the State of Ohio, the United States and abroad. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Corporation.

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

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

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

*Changes in accounting standards could impact the Corporation's reported earnings.*

Current accounting and tax rules, standards, policies and interpretations influence the methods by which financial institutions conduct business and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. Events that may not have a direct impact on the Corporation, such as bankruptcy of major U.S. companies, have resulted in legislators, regulators, and authoritative bodies, such as the Financial Accounting Standards Board, the Securities Exchange Commission, the Public Company Accounting Oversight Board and various taxing authorities, responding by adopting and/or proposing substantive revision to laws, regulations, rules, standards, policies and interpretations. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. The Corporation's financial condition and results of operations may be adversely affected by a change in accounting standards.

*The Corporation's Allowance for Loan Losses May Be Insufficient*

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require a potentially significant increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation's financial condition and results of operations.

*Prepayments of loans may negatively impact our business.*

Generally, customers of the Bank may prepay the principal amount of their outstanding loans at any time. The speed at which such prepayments occur, as well as the size of such prepayments, are within such customers' discretion. If customers prepay the principal amount of their loans, and the Bank is unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, the Bank's interest income will be reduced. A significant reduction in interest income could have a negative impact on the Corporation's results of operations and financial condition.

*The Corporation may face increasing pressure from historical purchasers of our residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans.*

We generally sell the fixed rate long-term residential mortgage loans we originate on the secondary market and retain adjustable rate mortgage loans for our portfolios. In response to the financial crisis, we believe that purchasers of residential mortgage loans, such as government sponsored entities,

are increasing their efforts to seek to require sellers of residential mortgage loans to either repurchase loans previously sold or reimburse purchasers for losses related to loans previously sold when losses are incurred on a loan previously sold due to actual or alleged failure to strictly conform to the purchaser's purchase criteria. As a result, we may face increasing pressure from historical purchasers of our residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans and we may face increasing expenses to defend against such claims. If we are required in the future to repurchase loans previously sold, reimburse purchasers for losses related to loans previously sold, or if we incur increasing expenses to defend against such claims, our financial condition and results of operations would be negatively affected, and would lower our capital ratios as a result of increasing assets and lowering income through expenses and any loss incurred.

*The recently enacted Dodd-Frank Act may adversely impact the Corporation's results of operations, financial condition or liquidity.*

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), was signed into law by President Obama. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes the new federal Bureau of Consumer Financial Protection (the "BCFP"), and will require the BCFP and other federal agencies to implement many new and significant rules and regulations. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact our business. Compliance with these new laws and regulations will likely result in additional costs, which could be significant and could adversely impact our results of operations, financial condition or liquidity.

*If the Corporation is required to write-down goodwill and other intangible assets, its financial condition and results of operations would be negatively affected.*

A substantial portion of the value of the merger consideration paid in connection with recent branch acquisitions was allocated to goodwill and other intangible assets on the Corporation's consolidated balance sheet. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. The Corporation is required to conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired.

Goodwill is tested for impairment annually in the fourth quarter. An impairment test also could be triggered between annual testing dates if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. Examples of those events or circumstances would include a significant adverse change in business climate; a significant unanticipated loss of customers or assets under management; an unanticipated loss of key personnel; a sustained period of poor investment performance; a significant loss of deposits or loans; a significant reduction in profitability; or a significant change in loan credit quality.

The Corporation cannot assure that it will not be required to take an impairment charge in the future. Any material impairment charge would have a negative effect on the Corporation's financial results and shareholders' equity.

### *The Corporation's Profitability Depends Significantly on Economic Conditions in the State of Ohio*

The Corporation's success depends primarily on the general economic conditions of the State of Ohio and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in the Ohio counties of Allen, Hancock, Putnam, Sandusky, Van Wert, and Wood. The local economic conditions in these areas have a significant impact on the demand for the Corporation's products and services as well as the ability of the Corporation's customers to repay loans, the value of the collateral securing loans and the stability of the Corporation's deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact those local economic conditions and, in turn, have a material adverse effect on the Corporation's financial condition and results of operations.

### *The Corporation Operates in a Highly Competitive Industry and Market Area*

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of whom are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Corporation operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Corporation's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Corporation introduces new products and services relative to its competitors.
- Customer satisfaction with the Corporation's level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.



### *The Corporation is subject to Extensive Government Regulation and Supervision*

The Corporation, primarily through its wholly owned subsidiary, The Bank, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Bank's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer through the Bank and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

### *The Corporation is subject to Environmental Liability Risk Associated with Lending Activities*

A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Corporation's exposure to environmental liability. Although the Corporation may perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's financial condition and results of operations.

### *The Corporation's Controls and Procedures May Fail or Be Circumvented*

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

### *The Corporation Relies On Dividends from Its Subsidiaries for Most of Its Revenue*

The Corporation is a separate and distinct legal entity from its subsidiary. It receives substantially all of its revenue from dividends from its subsidiary. These dividends are the principal source of funds to pay dividends on the Corporation's common stock, interest and principal on the Corporation's debt, and other operating expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Corporation. Also, the Corporation's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to the Corporation, the Corporation may not be able to service debt, pay obligations or pay dividends on the Corporation's common stock or trust preferred securities. The inability to receive dividends from the Bank could have a material adverse effect on the Corporation's business, financial condition and results of operations.

### *The Corporation May Not Be Able To Attract and Retain Skilled People*

The Corporation's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Corporation's key personnel could have a material adverse impact on the Corporation's business because of their skills, knowledge of the Corporation's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

### *The Corporation's Information Systems May Experience an Interruption or Breach in Security*

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of its information systems, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of the Corporation's information systems could damage the Corporation's reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

### *The Corporation Continually Encounters Technological Change*

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Many of the Corporation's competitors have substantially greater resources to invest in technological improvements. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

### *The Corporation Is Subject To Claims and Litigation Pertaining to Fiduciary Responsibility*

From time to time, customers make claims and take legal action pertaining to the Corporation's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Corporation's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal action are not resolved in a manner favorable to the Corporation they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

### *Severe Weather, Natural Disasters, Acts of War Or Terrorism And Other External Events Could Significantly Impact The Corporations Business*

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation's ability to conduct business. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

### **Risks Associated with the Corporation's Common Stock**

#### *The Corporation's Stock Price Can Be Volatile*

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Corporation's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to the Corporation.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Corporation and/or its competitors.
- New technology uses, or services offered, by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulations.
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Corporation's stock price to decrease regardless of operating results.

*An Investment in the Corporation's Common Stock is NOT an Insured Deposit*

The Corporation's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Corporation's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in many companies. As a result, if you acquire the Corporation's common stock, you may lose some or all of your investment.

*The Corporation's Articles of Incorporation and Regulations as well as Certain Banking Laws may have an Anti-Takeover Effect*

Provisions of the Corporation's articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation's shareholders.

The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Corporation's common stock.

**Risks Associated with the Corporation's Industry**

*The Earnings of Financial Services Companies are significantly affected by General Business and Economic Conditions*

The Corporation's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Corporation operates, all of which are beyond the Corporation's control. Deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Corporation's products and services, among other things, any of which could have a material adverse impact on the Corporation's financial condition and results of operations.

*Financial Services Companies Depend on the Accuracy and Completeness of Information about Customers and Counterparties*

In deciding whether to extend credit or enter into other transactions, the Corporation may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Corporation may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

## *Consumers May Decide Not To Use Banks to Complete their Financial Transactions*

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Corporation’s financial condition and results of operations.

### Item 1B. Unresolved Staff Comments

Not applicable

### Item 2. Properties

The following is a listing and brief description of the properties owned by the Corporation and the Bank and used in its business:

1. The main office is a two-story brick building located at 100 South High Street, Columbus Grove, Ohio. The building was constructed in approximately 1900 and contains approximately 7,870 square feet.
2. A full service branch office is located at 110 East North Street, Kalida, Ohio. The building was constructed in 1994 and contains approximately 2,540 square feet.
3. A full service branch office is located at 3211 Elida Road, Lima, Ohio. The building was constructed in 1994 and contains approximately 4,000 square feet.
4. A full service branch office is located at 1410 Bellefontaine Avenue, Lima, Ohio. The building was constructed in 1998 and contains approximately 4,200 square feet.
5. A drive-thru facility containing approximately 720 square feet located at 101 Progressive Drive, Columbus Grove, Ohio was completed and opened in February 2007. The new facility replaced a drive-thru facility that was located at 200 East Sycamore Street, Columbus Grove, Ohio, which was completely demolished in July 2007.
6. Two buildings located at 102 & 106 South High Street, Columbus Grove, Ohio were constructed in approximately 1930. They are both two-story buildings and together contain approximately 9,700 square feet. These facilities are used to house the operations areas of the Bank.
7. A full service branch office is located at 318 South Belmore Street, Leipsic, Ohio. It was constructed in 2001 and contains approximately 3,100 square feet.
8. A full service branch office is located at 114 East 3<sup>rd</sup> Street, Delphos, Ohio. The building was acquired as part of the Citizens Bank of Delphos Acquisition in 2001.

9. A full service branch office is located at 140 Front Street, Pemberville, Ohio. The building was acquired as part of the RFCBC branch Acquisition in March 2003.
10. A full service branch office is located at 230 West Main Street, Gibsonburg, Ohio. The building was acquired as part of the RFCBC branch Acquisition in March 2003.
11. A full service branch office is located at 1300 North Main Street, Bowling Green, Ohio. Construction was completed during the third quarter of 2007.
12. A full service branch office is located at 245 West Main Street, Ottawa, Ohio. The building was completed and opened during the fourth quarter of 2008, and contains approximately 3,100 square feet.
13. A full service branch office is located at 701 Shawnee Road, Lima, Ohio. The building was constructed in 1964 and contains approximately 2,400 square feet. The building was purchased, renovated and opened in December 2008.
14. A full service branch office is located at 1500 Bright Road, Findlay, Ohio. The building was acquired as part of The Home Savings and Loan Company branch acquisition in March 2010.

All of the properties are suitable for their intended use.

Item 3. Legal Proceedings

As of March 28, 2011, there are no pending legal proceedings to which the Corporation or its subsidiary are a party or to which any of their property is subject except routine legal proceedings to which the Corporation or its subsidiary are a party incident to its banking business. None of such proceedings are considered by the Corporation to be material.

Item 4. Removed and Reserved

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There were approximately 1,489 shareholders of record as of February 28, 2011.

The table below includes certain information regarding the Corporation's repurchase of United Bancshares, Inc. common stock during the quarterly period ended December 31, 2010:

<u>Period</u>	<u>Total number of shares purchased(a)</u>	<u>Average price paid per share(c)</u>	<u>Total number shares purchased as part of publicly announced plan or program</u>	<u>Maximum number of shares that may yet be purchased under the plan or program(b)</u>
10/1/10-10/31/10	None	-	214,558	185,442
11/01/10 - 11/30/10	None	-	214,558	185,442
12/1/10 - 12/31/10	None	-	214,558	185,442

(a) All share purchases were part of a publicly announced plan and all were open-market transactions.

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

(c) Includes related brokerage fees.

Additional information required herein is incorporated by reference from ("Market Price and Dividends on Common Stock") United Bancshares' Annual Report to Shareholders for 2010 ("Annual Report"), which is included herein as Exhibit 13.

Item 6. Selected Financial Data

The information required herein is incorporated by reference from (“Five Year Summary of Selected Financial Data”) United Bancshares’ Annual Report to Shareholders for 2010 (“Annual Report”), which is included herein as Exhibit 13.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information required herein is incorporated by reference from page 4 through 19 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2010 (“Annual Report”), which is included herein as Exhibit 13.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference from page 19 through 20 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2010 (“Annual Report”), which is included herein as Exhibit 13.

Item 8. Financial Statements and Supplementary Data

The information required herein is incorporated by reference from page 23 through 64 of United Bancshares’ Annual Report to Shareholders for 2010 (“Annual Report”), which is included herein as Exhibit 13.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management of the Corporation is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 15d-15(e) of the Securities Exchange Act of 1934. An evaluation was performed under the supervision, and with the participation, of the Corporation’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of December 31, 2010. Based on the results of the evaluation, and as of the time of that evaluation, the Corporation’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Corporation’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms.



## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. Management of the Corporation and its subsidiary are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15f. The Corporation's internal control over financial reporting is a process designed under the supervision of the Corporation's Chief Executive Officer and Chief Financial Officer. The purpose is to provide reasonable assurance to the Board of Directors regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management maintains internal controls over financial reporting. The internal controls contain control processes, and actions are taken to correct deficiencies as they are identified. The internal controls are evaluated on an ongoing basis by the Corporation's Management, and Audit Committee. Even effective internal controls, no matter how well designed, have inherent limitations – including the possibility of circumvention or overriding of controls – and therefore can provide only reasonable assurance with respect to financial statement preparation. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Corporation's internal controls as of December 31, 2010, in relation to criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2010, the Corporation's internal control over financial reporting met the criteria.

There were no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Corporation's fiscal quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

### Item 9B. Other Information

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required herein concerning Directors and Executive Officers is contained under the captions “Election of Directors” and “Directors and Executive Officers” of the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

Information required by this item concerning the Corporation’s Audit Committee is contained under the caption “Audit Committee Report” of the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

Information required by this item concerning the Corporation’s procedures for the nomination of Directors is contained under the caption “Committees of the Board of Directors” in the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

Information required by this item concerning compliance with section 16(a) of the Securities Exchange Act of 1934, as amended, is contained under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

On February 17, 2004, the Corporation adopted a Code of Ethics that is applicable to all employees of the Corporation, including the Corporation’s principal executive officer and principal financial and accounting officer. The Board of Directors reviewed the Code of Ethics on February 16, 2011. A copy of the Code of Ethics is incorporated herein by reference to the Corporation’s Form 10-K filed March 23, 2007.

### Item 11. Executive Compensation

The information required herein concerning Directors and Executive Officers of the Corporation is contained under the caption “Compensation of Directors and Executive Officers” in the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is contained under the caption “Voting Securities” in the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

In the ordinary course of conducting its business, the Corporation, for itself or through its bank subsidiary, may engage in transactions with the directors, employees, and managers of the Corporation or of the subsidiary which may include, but not be limited to, loans. As required by and in compliance with Ohio banking law, all banking transactions with directors, employees or managers of the Corporation are conducted on the same basis and terms as would be provided to any other bank customer.

### Item 14. Principal Accounting Fees and Services

Information required by this item is contained under the caption “Independent Public Accountants” in the Corporation’s definitive proxy statement dated March 30, 2011, which is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### **(a)(1) Financial Statements**

The following consolidated financial statements (and reports thereon) are set forth on pages 23 through 64 of the

Corporation's 2010 Annual Report to Shareholders (Exhibit 13 to this Annual Report on Form 10-K) and are incorporated herein by reference:

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets - December 31, 2010 and 2009  
Consolidated Statements of Income - Years ended December 31, 2010, 2009, and 2008  
Consolidated Statements of Shareholders' Equity - Years ended December 31, 2010, 2009, and 2008  
Consolidated Statements of Cash Flows - Years ended December 31, 2010, 2009, and 2008  
Notes to Consolidated Financial Statements

**(a)(2) Financial Statement Schedules**

Financial statement schedules have been omitted either because they are not applicable or because the required information is provided in the Consolidated Financial Statements, including the notes thereto.

**(a)(3) Exhibits**

The following exhibits are filed with or incorporated by reference (in accordance with Item 601 of SEC Regulation S-K) in this filing:

Exhibit No.

3.1	Articles of Incorporation	(1)
3.2	Regulations	(1)
10	Material Contracts	
10.1	Preferred Trust Securities, Placement and Debenture agreements	(2)
10.2	Employment Agreement – Daniel W. Schutt	(2)
10.3	Severance Agreement – E. Eugene Lehman	(2)
10.4	Agreement – Brian D. Young	(4)
10.5	Salary Continuation Agreement - Brian D. Young	(6)
10.6	Salary Continuation Agreement – Heather M. Oatman	(5)
10.7	Salary Continuation Agreement – Daniel W. Schutt	(7)
10.8	Change in Control Agreement – Daniel W. Schutt	(3)
13	2010 Annual Report to Shareholders	(3)
14	Code of Ethics	(5)
21	Subsidiaries	(3)
23	Consent of Independent Registered Public Accounting Firm	(3)
31.1	Rule 13a-14(a)/15d-14(a) CEO's Certification	(3)
31.2	Rule 13a-14(a)/15d-14(a) CFO's Certification	(3)
32.1	Section 1350 CEO's Certification	(3)
32.2	Section 1350 CFO's Certification	(3)

(1) Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002, SEC file reference number 333-86543.

(2) Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005, SEC file reference number 333-86543.

(3) Included herein.

(4) Incorporated herein by reference to the Corporation's Form 8-K filed July 20, 2006.

(5) Incorporated herein by reference to the Corporation's Form 10-K filed March 23, 2007.

(6) Incorporated herein by reference to the Corporation's Form 10-K filed March 20, 2009.

(7) Incorporated herein by reference to the Corporation's Form 8-K filed January 14, 2010.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ DANIEL W. SCHUTT  
Daniel W. Schutt, CEO, President

By: /s/ BRIAN D. YOUNG  
Brian D. Young, Executive Vice President,  
Treasurer & Chief Financial Officer

Date: March 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DANIEL W. SCHUTT</u> Daniel W. Schutt	Director	March 28, 2011
<u>/s/ JAMES N. REYNOLDS</u> James N. Reynolds	Director	March 28, 2011
<u>/s/ H. EDWARD RIGEL</u> H. Edward Rigel	Director	March 28, 2011
<u>/s/ R. STEVEN UNVERFERTH</u> R. Steven Unverferth	Director	March 28, 2011
<u>/s/ ROBERT L. BENROTH</u> Robert L. Benroth	Director	March 28, 2011
<u>/s/ ROBERT L. DILLHOFF</u> Robert L. Dillhoff	Director	March 28, 2011
<u>/s/ DAVID P. ROACH</u> David P. Roach	Director	March 28, 2011

41

[\(Back To Top\)](#)

## **Section 2: EX-13**

### Table of Contents

	Page
President's Letter	1

Market Price and Dividends on Common Stock	2
Five-Year Summary of Selected Financial Data	3
Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Report of Independent Registered Public Accounting Firm	23
Financial Statements	
Consolidated Balance Sheets	24
Consolidated Statements of Income	25
Consolidated Statements of Shareholders' Equity	26
Consolidated Statements of Cash Flows	27
Notes to Consolidated Financial Statements	29
Directors and Officers	65
Employee Anniversaries	67

---

Dear Shareholder:

It would be an understatement to say that the last two years in banking have been interesting. The geographic areas in which we conduct business have been negatively impacted by the economy and continue to experience historically high levels of unemployment. Many borrowers have continued to perform well during these most difficult times, but, like many other financial institutions, we have experienced an increased level of problem and potential problem loans.

Unfortunately, this has resulted in net loan charge-offs of \$3.3 million in 2010 and \$5.9 million in 2009. In addition, we have continued to increase our allowance for loan losses, which amounted to \$8.0 million as of December 31, 2010. Despite these issues, the Company was able to generate net income of \$2.8 million, or \$0.82 per share in 2010, and \$2.9 million or \$0.84 per share in 2009. Shareholders' equity increased to \$55.0 million as of December 31, 2010.

Although non-interest expenses increased \$1.0 million over the previous year, management has continued to monitor and control expenses when possible. Many of the non-interest expense increases were related to the economy, including legal expenses related to workout credits and losses on sales or write-downs of other real estate owned. Salaries and benefits increased 3.9%, but much of this increase can be attributed to the Findlay branch acquired in March of 2010. We are pleased with the addition of the Findlay branch, as we believe it fits well into our geographic area and should add value to our organization.

I can assure you that management and the Board of your institution will continue to work diligently for our shareholders, communities and employees. We realize that our performance is important and can have an impact on the aforementioned groups.

Respectfully,

Daniel W. Schutt  
President & CEO

---

## **UNITED BANCSHARES, INC.**

### **DESCRIPTION OF THE CORPORATION**

United Bancshares, Inc., an Ohio corporation (the "Corporation"), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. The Company is a one-bank holding company, through its wholly-owned subsidiary, The Union Bank Company, Columbus Grove, Ohio ("Bank") as that term is defined by the Federal Reserve Board. Effective February 1, 2007, the Bank 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. Effective, December 4, 2009, the Bank formed a wholly-owned subsidiary UBC Property, Inc. to hold and manage certain property that was acquired in lieu of foreclosure. Through its subsidiary, the Bank, the Corporation is engaged in the business of commercial banking and offers a full range of commercial banking services.

Union is an Ohio state-chartered bank, which serves Allen, Hancock, Putnam, Sandusky, Van Wert and Wood Counties, with office locations in Bowling Green, Columbus Grove, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville, Ohio.

### **MARKET PRICE AND DIVIDENDS ON COMMON STOCK**

United Bancshares, Inc. has traded its common stock on the Nasdaq Markets Exchange under the symbol "UBOH" since

March 2001. As of February 28, 2011, the common stock was held by 1,489 shareholders of record. Below are the trading highs and lows for the periods noted.

<b>Year 2010</b>	<b><u>High</u></b>	<b><u>Low</u></b>
First Quarter	\$10.60	\$8.81
Second Quarter	10.55	9.35
Third Quarter	10.11	8.82
Fourth Quarter	10.42	8.80
<b>Year 2009</b>	<b><u>High</u></b>	<b><u>Low</u></b>
First Quarter	\$10.41	\$8.01
Second Quarter	11.75	8.50
Third Quarter	12.00	10.10
Fourth Quarter	11.34	8.40

Dividends declared by United Bancshares, Inc. on its common stock during the past two years were as follows:

	<b><u>2010</u></b>	<b><u>2009</u></b>
First Quarter	\$ .15	\$ .15
Second Quarter	.15	.15
Third Quarter	.15	.15
Fourth Quarter	-	.15
Total	<u>\$ .45</u>	<u>\$ .60</u>

#### AVAILABILITY OF MORE INFORMATION

To obtain a copy, without charge, of the United Bancshares, Inc.'s annual report (Form 10-K) filed with the Securities and Exchange Commission, please write to:

Heather Oatman, Secretary  
 United Bancshares, Inc.  
 100 S. High Street  
 Columbus Grove, Ohio 45830  
 419-659-2141

---

#### UNITED BANCSHARES, INC. FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Years ended December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(Dollars in thousands, except per share data)				
Statements of income:					
Total interest income	\$ 30,264	\$ 32,867	\$ 35,208	\$ 34,849	\$ 32,790
Total interest expense	8,959	12,317	15,795	17,431	15,427
Net interest income	<u>21,305</u>	<u>20,550</u>	<u>19,413</u>	<u>17,418</u>	<u>17,363</u>
Provision for loan losses	<u>6,550</u>	<u>7,525</u>	<u>2,195</u>	<u>625</u>	<u>340</u>
Net interest income after provision for loan losses	14,755	13,025	17,218	16,793	17,023
Total non-interest income	3,718	4,492	2,674	2,965	3,157
Total non-interest expenses	<u>15,522</u>	<u>14,478</u>	<u>14,462</u>	<u>14,018</u>	<u>14,001</u>
Income before federal income taxes	2,951	3,039	5,430	5,740	6,179



Federal income taxes	143	156	1,011	1,161	1,252
Net income	\$ 2,808	\$ 2,883	\$ 4,419	\$ 4,579	\$ 4,927
Per share of common stock:					
Net income - basic	\$ 0.82	\$ 0.84	\$ 1.28	\$ 1.30	\$ 1.37
Dividends	0.45	0.60	0.60	0.56	0.52
Book value	15.97	15.76	14.72	13.99	12.93
Average shares outstanding – basic	3,444,703	3,443,093	3,447,536	3,527,093	3,598,747
Year end balances:					
Loans (1)	\$ 383,907	\$ 407,815	\$ 418,385	\$ 359,560	\$ 335,549
Securities (2)	145,334	143,480	141,392	142,607	172,778
Total assets	612,617	616,405	616,064	547,975	550,375
Deposits	488,651	469,668	464,792	393,203	377,430
Shareholders' equity	55,005	54,279	50,660	48,819	46,152
Average balances:					
Loans (1)	398,378	417,913	400,823	345,532	323,802
Securities (2)	149,748	139,373	133,409	155,773	180,572
Total assets	625,281	612,943	600,749	549,694	543,247
Deposits	493,089	462,742	443,174	386,572	361,670
Shareholders' equity	55,846	52,862	49,795	47,270	44,212
Selected ratios:					
Net yield on average interest-earning assets (3)	3.85%	3.75%	3.64%	3.61%	3.63%
Return on average assets	0.45%	0.47%	0.74%	0.83%	0.91%
Return on average shareholders equity	5.03%	5.45%	8.87%	9.69%	11.14%
Net loan charge-offs as a percentage of average outstanding net loans	0.84%	1.42%	0.31%	0.19%	0.19%
Allowance for loan losses as a percentage of year end loans	2.09%	1.18%	0.76%	0.62%	0.68%
Shareholders' equity as a percentage of total assets	8.98%	8.81%	8.22%	8.91%	8.39%

Notes:

- 1) Includes loans held for sale.
- 2) Includes Federal Home Loan Bank Stock.
- Net yield on average interest-earning assets was computed on a tax-equivalent
- 3) basis.
- 4) Financial data for 2010 includes the impact of the March 2010 Findlay branch acquisition.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion provides additional information relating to the financial condition and results of operations of United Bancshares, Inc.

**PERFORMANCE SUMMARY**

Consolidated net income for United Bancshares, Inc. (the "Corporation") and its wholly-owned subsidiary, The Union Bank Company (the "Bank"), was \$2.8 million in 2010 compared to \$2.9 million in 2009 and \$4.4 million in 2008.

Net income in 2010 as compared to 2009 was unfavorably impacted by a \$774,000 decrease in

non-interest income and a \$1.0 million increase in non-interest expenses, and favorably impacted by a \$755,000 increase in net interest income, a \$975,000 decrease in the provision for loan losses, and a \$13,000 decrease in the provision for federal income taxes. The increase in the provision for loan losses is more fully explained in the "Provision for Loan Losses and the Allowance for Loan Losses" section. The increase in net interest income is due to an improvement in the Corporation's net interest margin from 3.75% in 2009 to 3.85% in 2010, as well as a slight increase in the level of average interest-earning assets in 2010 as compared to 2009.

The Corporation's return on average assets was .45% in 2010, compared to .47% in 2009, and .74% in 2008. The Corporation's return on average shareholders' equity was 5.07% in 2010, 5.45% in 2009, and 8.87% in 2008. Basic net income per share was \$0.82 in 2010, a decrease of \$0.02 per share from \$0.84 in 2009. Basic net income per share was \$0.84 in 2009, a decrease of \$0.44 per share from \$1.28 in 2008. Changes in these amounts from year to year were generally reflective of changes in the level of net income.

The Corporation's assets decreased slightly to \$612.6 million at December 31, 2010, compared to \$616.4 million at December 31, 2009. Loans decreased \$23.9 million, or 5.9%, to \$383.9 million at December 31, 2010, compared to \$407.8 million at December 31, 2009. The decrease in loans resulted from continued soft loan demand in the Corporation's market area, and \$3.3 million of net loan charge-offs recognized in 2010. Deposits increased \$19.0 million, or 4.0%, to \$488.7 million at December 31, 2010, from \$469.7 million at December 31, 2009. Shareholders' equity at December 31, 2010 was \$55.0 million, a 1.3% increase compared to \$54.3 million at December 31, 2009.

## **RESULTS OF OPERATIONS – 2010 Compared to 2009**

### **Net Interest Income**

Net interest income, which represents the revenue generated from interest-earning assets in excess of the interest cost of funding those assets, is the Corporation's principal source of income. Net interest income is influenced by market interest rate conditions and the volume and mix of interest-earning assets and interest-bearing liabilities. Many external factors affect net interest income and typically include the strength of client loan demand, client preference for individual deposit account products, competitors' loan and deposit product offerings, the national and local economic climates, and Federal Reserve monetary policy.

---

## **UNITED BANCSHARES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

## **RESULTS OF OPERATIONS – 2010 Compared to 2009 (CONTINUED)**

### **Net Interest Income, Continued**

Net interest income for 2010 was \$21.3 million, an increase of \$755,000 (3.7%) from 2009. The increase in net interest income was primarily due to an increase in the Corporation's net interest margin. The average yield on loans for 2010 increased to 6.09% compared to 6.04% in 2009, and the average rate on interest-bearing liabilities decreased to 1.73% in 2010 from 2.41% in 2009. The effect of these and other factors resulted in the net interest yield on average interest-earning assets, on a tax-equivalent basis, increasing in 2010 to 3.85% from 3.75% in 2009.

### **Provision for Loan Losses and the Allowance for Loan Losses**

The Corporation's loan policy provides guidelines for managing both credit risk and asset quality. The policy details acceptable lending practices, establishes loan-grading classifications, and

prescribes the use of a loan review process. The Bank has a credit administration department that performs regular credit file reviews which facilitate the timely identification of problem or potential problem credits, ensure sound credit decisions, and assist in the determination of the allowance for loan losses. The Bank also engages an outside credit review firm to supplement the credit analysis function and to provide an independent assessment of the loan review process. The loan policy, loan review process, and credit analysis function facilitate management's evaluation of the credit risk inherent in the lending function.

As mentioned, ongoing reviews are performed to identify potential problem and nonperforming loans and also provide in-depth analysis with respect to the quarterly allowance for loan losses calculation. Part of this analysis involves accessing the need for specific reserves relative to impaired loans. This evaluation typically includes a review of the recent performance history of the credit, a comparison of the estimated collateral value in relation to the outstanding loan balance, the overall financial strength of the borrower, industry risks pertinent to the borrower, and competitive trends that may influence the borrower's future financial performance. Loans are considered impaired when, based upon the most current information available it appears probable that the borrower will not be able to make payments according to the contractual terms of the loan agreement. Impaired loans are recorded at the observable market price of the loan, the fair value of the underlying collateral (if the loan is collateral dependent), or the present value of the expected future cash flows discounted at the loan's effective interest rate. Given that the Bank's impaired loans are typically collateralized by real estate or other borrower assets, the fair value of individual impaired loans is most often based upon the underlying collateral value. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

To determine the allowance for loan losses, the Bank prepares a detailed analysis that focuses on delinquency trends, the status of nonperforming loans (i.e., impaired, nonaccrual, restructured, and past due 90 days or more), current and historical trends of charged-off loans within each loan category (i.e., commercial, real estate, and consumer), existing local and national economic conditions, and changes within the volume and mix in each loan category. Higher loss rates are applied in calculating the allowance for loan losses relating to potential problem loans. Loss rates are periodically evaluated considering historic loss rates in the respective potential problem loan categories (i.e., special mention, substandard, doubtful) and current trends.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS – 2010 Compared to 2009 (CONTINUED)**

**Provision for Loan Losses and the Allowance for Loan Losses, Continued**

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

The allowance for loan losses at December 31, 2010 was \$8.0 million, or 2.09% of total loans, compared to \$4.8 million, or 1.18% of total loans at December 31, 2009. The change in the allowance for loan losses during 2010 included a \$6.6 million provision for loan losses charged to operations and loan charge-offs, net of recoveries, of \$3.3 million.

The provision for loan losses charged to operations is determined by management after considering the amount of net losses incurred as well as management's estimation of losses inherent in the portfolio based on an evaluation of loan portfolio risk and current economic factors. The provision for loan losses of \$6.6 million in 2010 compares to a provision of \$7.5 million in 2009.

The Bank considers a loan to be impaired when it becomes probable that the Bank will be unable to collect under the contractual terms of the loan, based on current information and events. Impaired loans, principally consisting of commercial and commercial real estate credits, amounted to \$15.7 million at December 31, 2010 compared to \$13.2 million at December 31, 2009, an increase of \$2.5 million. Impaired loans at December 31, 2010, included \$9.6 million of loans with no specific reserves included in the allowance for loan losses and \$6.1 million of loans with specific reserves of \$692,000 included in the Bank's December 31, 2010 allowance for loan losses. Impaired loans at December 31, 2010 with no specific reserves include \$7.8 million of loans which were charged down during 2010. Impaired loans at December 31, 2009 with no specific reserve, includes \$3.5 million of loans which were charged down during 2009. The \$13.2 million of impaired loans at December 31, 2009 included \$5.0 million of loans with \$1.2 million of specific reserves included in the December 31, 2009 allowance for loan losses.

In addition to impaired loans, the Bank had other potential problem credits of \$30.4 million at December 31, 2010 compared to \$28.0 million at December 31, 2009, an increase of \$2.4 million (8.6%). The Bank's credit administration department continues to closely monitor these credits.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS – 2010 Compared to 2009 (CONTINUED)**

**Non-Interest Income**

Total non-interest income decreased \$774,000 (17.2%) to \$3.7 million in 2010 from \$4.5 million in 2009. With the exception of net securities gains, most of the components of non-interest income are recurring, although certain components are more susceptible to change than others. Net securities gains increased in 2010 to \$278,000 compared to \$129,000 in 2009.

Significant recurring components of non-interest income include service charges on deposit accounts, secondary market lending activities, and increases in the cash surrender value of life insurance. Service charges on deposit accounts decreased \$143,000 (10.7%) to \$1,188,000 in 2010 compared to \$1,331,000 in 2009. This decrease appears to be largely attributable to changes in customer overdraft behaviors.

The Bank has elected to sell in the secondary market substantially all fixed rate residential real estate loans originated, and typically retains the servicing rights relating to such loans. During 2010, gain on sale of loans was \$867,000, including \$315,000 of capitalized servicing rights. Gain on sale of loans was \$1,376,000 in 2009, including \$612,000 of capitalized servicing rights. The significant decrease in gain on sale of loans was attributable to the dramatic decrease in loan sales activities between the two years with loan sales in 2010 amounting to \$35.5 million compared to \$65.6 million in 2009. Much of the 2009 activity occurred during the first and second quarters and resulted from the significant decline in long-term mortgage interest rates that occurred during the latter part of the fourth quarter of 2008. The Bank's serviced portfolio decreased \$12.8 million during 2010 to \$175.9 million at December 31, 2010.

The Bank reports its mortgage servicing rights using the fair value measurement method. As a result, the Corporation recognized a \$142,000 decrease in the fair value of mortgage servicing rights during 2010, compared to a \$195,000 increase in the fair value of mortgage servicing rights in 2009, a comparative \$337,000 adverse impact on income before income taxes. Prepayment assumptions are a key valuation input used in determining the fair value of mortgage servicing rights. While prepayment assumptions are constantly subject to change, such changes typically occur within a relatively small parameter from period to period. The prepayment assumptions used in determining the fair value of servicing at December 31, 2010 was 321 compared to 300 at December 31, 2009.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS – 2010 Compared to 2009 (CONTINUED)**

**Non-Interest Expenses**

Total non-interest expenses amounted to \$15,522,000 in 2010, compared to \$14,479,000 in 2009, an increase of \$1,043,000 (7.2%). The Corporation experienced increases in several non-interest expense categories in 2010 as compared to 2009. Salaries, wages, and employee benefits increased \$287,000, or 3.9%, primarily due to normal salary increases and increased health care costs. There was essentially no change in the level of FTE's during the year. Advertising expense increased \$207,000, or 61.1%, as the Bank made the decision to participate in the KASASA program. OREO expense, including impairment adjustments and net loss from sales, increased \$374,000, primarily due to the significant increase in OREO activity that occurred during the fourth quarter of 2009 and continued throughout much of 2010. See additional explanation in the "Other Assets" discussion under financial condition section. Asset management expenses, primarily relating to legal costs increased \$219,000 as the Bank's volume of criticized assets remained well above traditional levels. Conversely, the Corporation experienced a decrease in FDIC premium assessments of \$344,000 and deposit premium amortization of \$160,000. The decrease in the FDIC premiums is attributable to the special assessments levied on all commercial banks in 2009.

The significant components of other operating expenses are summarized in Note 12 to the consolidated financial statements.

**Provision for Income Taxes**

The provision for income taxes for 2010 was \$143,000, an effective tax rate of 4.8%, compared to \$156,000 in 2009, an effective rate of 5.1%. The Corporation's effective tax rate was reduced from the federal statutory rate of 34% as a result of tax-exempt securities and loan interest income (23.6%) and life insurance contracts (5.7%). At December 31, 2010, the Corporation has available alternative minimum tax credits of \$268,000 which can be used in the future to the extent regular tax exceeds the alternative minimum tax.

**FINANCIAL POSITION – 2010 Compared to 2009**

**Branch Acquisition**

In March 2010, the Bank completed the acquisition of a branch in Findlay, Ohio which is expected to expand the Bank's market in Findlay and the surrounding area. Through the acquisition, the Bank received \$26.6 million of assets, including \$22.3 million of cash, \$1.8 million of loans, and assumed \$26.6 million of deposits. The operations of the branch subsequent to the acquisition are included in the Corporation's consolidated results. The cash proceeds from the branch acquisition were used to fund the repayment of FHLB advances and maturing brokered certificates of deposit.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**FINANCIAL POSITION – 2010 Compared to 2009 (CONTINUED)**

**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 Federal Home Loan Bank of Cincinnati (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 income taxes.

Securities, including FHLB stock, totaled \$145.3 million at December 31, 2010 compared to \$143.5 million at December 31, 2009, an increase of \$1.8 million (1.3%). The amortized cost of the securities portfolio increased \$2.7 million in 2010. However, the Bank experienced net unrealized losses on securities of \$832,000 during 2010.

The Bank is required to maintain a certain level of FHLB stock based on outstanding borrowings from the FHLB. FHLB stock is considered a restricted security which is carried at cost and evaluated periodically for impairment. There were no purchases or sales of FHLB stock during 2010.

At December 31, 2010, net unrealized gains on available-for-sale securities, net of income taxes, amounted to \$1.8 million compared to net unrealized gains on available for sale securities, net of income taxes, of \$2.4 million at December 31, 2009. At December 31, 2010, the Bank held 39 securities which were in a loss position with the fair value and gross unrealized losses of such securities amounting to \$38.1 million and \$783,000, respectively. Management has considered the current interest rate environment, typical volatilities in the bond market, and the Bank's liquidity needs in the near term in concluding that the impairment on these securities is temporary.

**Loans**

At December 31, 2010, total loans amounted to \$383.9 million compared to \$407.8 million at December 31, 2009, a decrease of \$23.9 million (5.9%). Most categories within the loan portfolio decreased during 2010, with commercial loans decreasing \$17.4 million (8.1%), agriculture loans decreasing \$5.2 million (7.3%), and consumer loans decreasing \$5.3 million (38.4%). Residential real estate loans increased \$4.0 million (3.8%). The overall decrease in the loan portfolio is attributable to continued slow economic conditions experienced throughout the Corporation's market area. The decrease in consumer loans is partially due to the continued residual effect of the Corporation's decision to cease indirect automobile lending in June 2008.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**FINANCIAL POSITION – 2010 Compared to 2009 (CONTINUED)**

**Other Assets**

During 2010, other real estate owned (OREO) decreased \$646,000 to \$4.5 million at December 31, 2010, compared to \$5.2 million at December 31, 2009. During 2010, \$2.3 million of loans were transferred to OREO. Throughout 2010, the Bank evaluated its OREO portfolio and made \$211,000 of impairment adjustments. The Bank also sold several properties from OREO and received net proceeds of \$2.7 million resulting in net loss on sales of \$44,000.

Under the requirements of the FDIC's Notice of Proposed Rulemaking (NPR), the Bank prepaid their quarterly risk-based assessments to the FDIC for the fourth quarter of 2009 and for all of years 2010 through 2012 on December 30, 2009. The assessments were made to address the FDIC's short-term liquidity needs. Under the NPR, depository institutions record a prepaid asset for the upfront payment and subsequently amortize the asset based on calculated quarterly assessments. As a result, as of December 31, 2010, the Bank had prepaid FDIC assessments of \$1.9 million compared with \$2.6 million at December 31, 2009.

**Deposits**

Total deposits at December 31, 2010 amounted to \$488.7 million, an increase of \$19.0 million (4.0%) compared with total deposits of \$469.7 million at December 31, 2009. Of this increase, \$4.7 million was related to non-interest bearing deposits. The increase in deposits includes the impact of the \$26.6 million of deposits assumed through the Findlay branch acquisition in March 2010, which is summarized in Note 3 to the consolidated financial statements.

**Other Borrowings**

The Bank also utilizes other borrowings as an alternative source of funding, as necessary, to support asset growth and periodic deposit shrinkage. Other borrowings, consisting of FHLB advances and customer repurchase agreements, amounted to \$55.8 million at December 31, 2010, compared to \$77.9 million at December 31, 2009, a decrease of \$22.1 million (28.4%). The decrease in other borrowings included \$21.5 million of repayments of FHLB borrowings, and a \$578,000 decrease in customer repurchase agreements.

---



**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS – 2009 Compared to 2008**

Net interest income for 2009 was \$20.6 million, an increase of \$1.1 million (5.9%) from 2008. The increase in net interest income was primarily due to an overall increase in the Corporation's net margin. The average yield on loans for 2009 decreased to 6.04% compared to 7.15% in 2008, and the average rate on interest-bearing liabilities decreased to 2.41% in 2009 from 3.12% in 2008. The net effect of these and other factors resulted in the net interest yield on average interest-earning assets, on a tax-equivalent basis, increasing in 2009 to 3.75% from 3.64% in 2008.

The allowance for loan losses at December 31, 2009 was \$4.8 million, or 1.18% of total loans, compared to \$3.2 million, or 0.76% of total loans at December 31, 2008. The change in the allowance for loan losses during 2009 included a \$7.5 million provision for loan losses charged to operations and loan charge-offs, net of recoveries, of \$5.9 million. The provision for loan losses of \$7.5 million in 2009 compares to a provision of \$2.2 million in 2008. The significant increase in the provision for loan losses in 2009, as compared to 2008, resulted from many factors, including an increase in the level of net loan charge-offs (\$5.9 million in 2009 compared to \$1.2 million in 2008) and an increase in the level of problem and potential problem loans. Net loan charge-offs in 2009 included \$3.6 million relating to a commercial credit whose business operations ceased during the fourth quarter of 2009.

Impaired loans, principally consisting of commercial and commercial real estate credits, amounted to \$13.2 million at December 31, 2009 compared to \$5.6 million at December 31, 2008, an increase of \$7.6 million. Impaired loans at December 31, 2009, included \$8.2 million of loans with no specific reserves included in the allowance for loan losses and \$5.0 million of loans with specific reserves of \$1.2 million included in the Bank's December 31, 2009 allowance for loan losses. Impaired loans at December 31, 2009 with no specific reserve, includes \$3.5 million of loans which were charged down during 2009. The \$5.6 million of impaired loans at December 31, 2008 included \$5.4 million of loans with \$1.1 million of specific reserves included in the December 31, 2008 allowance for loan losses.

In addition to impaired loans, the Bank had other potential problem credits of \$28.0 million at December 31, 2009 compared to \$15.7 million at December 31, 2008, an increase of \$12.3 million (78.3%). The Bank's credit administration department continues to closely monitor these credits.

Total non-interest income increased \$1.8 million (68.0%) to \$4.5 million in 2009 from \$2.7 million in 2008. Net securities gains increased slightly in 2009 to \$129,000 compared to \$49,000 in 2008.

Significant recurring components of non-interest income include service charges on deposit accounts, secondary market lending activities, and increases in the cash surrender value of life insurance. Service charges on deposit accounts decreased \$184,000 (12.1%) to \$1,331,000 in 2009 compared to \$1,515,000 in 2008. This decrease appears to largely be attributable to changes in customer savings patterns.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS – 2009 Compared to 2008 (CONTINUED)**

Net gain on sale of loans was \$1,376,000, including \$612,000 of capitalized servicing rights. Net gain on sale of loans was \$346,000 in 2008, including \$147,000 of capitalized servicing rights.

The significant increase in the net gain on sale of loans was attributable to the dramatic increase in loan sales activities between the two years with loan sales in 2009 amounting to \$65.6 million compared to \$16.0 million in 2008. Much of this activity occurred during the first and second quarters of 2009 and resulted from the significant decline in long-term mortgage interest rates that occurred during the latter part of the fourth quarter of 2008. Despite the significant loan sales activity experienced during 2009, the Bank's serviced portfolio remained relatively unchanged increasing only \$2.6 million to \$190.1 million at December 31, 2009, which is evidence of the significant impact borrower refinancing had on the 2009 loan sales activity.

The Corporation recognized a \$195,000 increase in the fair value of mortgage servicing rights during 2009, compared to a \$649,000 decrease in the fair value of mortgage servicing rights in 2008, a comparative \$844,000 positive impact on income before income taxes. Due to declines in the secondary market mortgage rates experienced during the fourth quarter of 2008, the prepayment assumptions used in determining the fair value of servicing at December 31, 2008 was 630 compared to 244 at December 31, 2007 which largely contributed to the significant decline in fair value of servicing experienced in 2008. As long-term mortgage rates stabilized in 2009, the prepayment assumptions returned to a more normal level of 300 at December 31, 2009.

Total non-interest expenses amounted to \$14,479,000 in 2009, compared to \$14,463,000 in 2008, an increase of \$16,000 (0.1%). Non-interest expenses for 2009 included a \$1,077,000 increase in the Bank's Federal Deposit Insurance Corporation (FDIC) expense. The Bank also experienced an increase in professional fees of \$134,000 (24.3%) with much of the increase resulting from loan collection costs. Conversely, the Corporation experienced decreases in several non-interest expense categories during 2009 as compared to 2008, including OREO and other asset impairment costs (\$340,000); ATM processing and other fees (\$223,000); salaries, wages, and employee benefits (\$197,000); dealer reserve (\$98,000); advertising (\$71,000); seminars and training (\$66,000); and franchise tax (\$48,000).

The significant increase in FDIC premium assessments was due to increased deposit premium rates as well as the FDIC Special Assessment ruling issued on May 22, 2009, which required all insured depository institutions to pay a special assessment equal to the lesser of 5 basis points on total assets less Tier 1 capital, or 10 basis points on total deposits. The decrease in salaries and wages was largely related to decreases in bonuses and other discretionary compensation.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**FINANCIAL POSITION – 2009 Compared to 2008**

Securities, including FHLB stock, totaled \$143.5 million at December 31, 2009 compared to \$141.4 million at December 31, 2008, an increase of \$2.1 million (1.5%). The amortized cost of the securities portfolio actually decreased \$2.1 million due to sales and maturities of securities exceeding purchases in 2009. However, the Bank experienced net unrealized gains on securities of \$4.2 million during 2009. There were no purchases or sales of FHLB stock during 2009.

At December 31, 2009, net unrealized gains on available-for-sale securities, net of income taxes, amounted to \$2.4 million compared to net unrealized losses on available for sale securities, net of income taxes, of \$412,000 at December 31, 2008. At December 31, 2009, the Bank held 33 securities which were in a loss position with the fair value and gross unrealized losses of such securities amounting to \$26.9 million and \$464,000, respectively. Management has considered the current interest rate environment, typical volatilities in the bond market, and the Bank's liquidity needs in the near term in concluding that the impairment on these securities is temporary.

At December 31, 2009, total loans amounted to \$407.9 million compared to \$418.4 million at December 31, 2008, a decrease of \$10.5 million (2.5%). Most categories within the loan portfolio decreased during 2009, with residential real estate loans decreasing \$22.5 million (17.3%), agriculture loans decreasing \$3.6 million (4.9%), and consumer loans decreasing \$5.8 million (29.7%). Commercial loans increased \$21.7 million (11.2%). The overall decrease in the loan portfolio is attributable to continued slow economic conditions experienced throughout the Corporation's market area and tightening credit underwriting standards. The decrease in consumer loans is largely due to the residual effect of the Corporation's decision to cease indirect automobile lending in June 2008.

During 2009, other real estate owned (OREO) increased \$4.9 million to \$5.2 million at December 31, 2009, compared to \$250,000 at December 31, 2008. This increase was primarily attributable to a real estate development loan client who ceased operations during the fourth quarter of 2009. In December 2009, the Bank accepted from the customer deeds in lieu of foreclosure to various residential and non-residential real estate properties resulting in a \$3.6 million transfer to OREO. During 2009, the Bank sold various properties from OREO and recognized a write-down on a property held in OREO at December 31, 2009, resulting in an overall loss on sale or write-down of OREO of \$30,000.

Total deposits at December 31, 2009 amounted to \$469.7 million, an increase of \$4.9 million (1.1%) compared with total deposits of \$464.8 million at December 31, 2008. Of this increase, \$4.0 million was related to non-interest bearing deposits. The change in deposits during 2009 also included a decrease of \$20.0 million in brokered deposits. At December 31, 2009, brokered deposits amounted to \$15.0 million, or 3.2% of total deposits.

Other borrowings, consisting of FHLB advances and customer repurchase agreements, amounted to \$77.9 million at December 31, 2009, compared to \$86.3 million at December 31, 2008, a decrease of \$8.3 million (10.7%). This decrease in other borrowings included a \$9.5 million decrease in FHLB borrowings and the maturity during 2009 of a \$5.0 million security sold under agreement to repurchase that was outstanding at December 31, 2008, offset by a \$6.2 million increase in customer repurchase agreements.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**LIQUIDITY**

Liquidity relates primarily to the Corporation's ability to fund loan demand, meet the withdrawal requirements of deposit customers, and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, securities available-for-sale, and loans held for sale. A large portion of liquidity is provided by the ability to sell or pledge securities. Accordingly, the Corporation has designated all securities other than FHLB stock as available-for-sale. A secondary source of liquidity is provided by various lines of credit facilities available through correspondent banks and the Federal Reserve. Another source of liquidity is represented by loans that are available to be sold. Certain other loans within the Bank's loan portfolio are also available to collateralize borrowings.

The consolidated statements of cash flows for the years presented provide an indication of the Corporation's sources and uses of cash as well as an indication of the ability of the Corporation to maintain an adequate level of liquidity. A discussion of cash flows for 2010, 2009, and 2008 follows.

The Corporation generated cash from operating activities of \$10.3 million in 2010, \$5.6 million in 2009, and \$8.3 million in 2008.

Net cash flows from investing activities amounted to \$41.9 million in 2010, \$1.7 million in 2009, and \$(60.9) million in 2008. The only significant investing cash outflow activity in 2010 was \$2.8 million of net cash outflows resulting from securities purchases, net of proceeds received from sales and maturities. Significant investing cash inflow activities in 2010 included \$22.3 million in proceeds from the branch acquisition, \$20.0 million decrease in loans, and \$2.7 million in proceeds from the sale of other real estate owned. The only significant investing cash flow activities in 2009 included \$2.3 million of net cash inflows from securities proceeds (sales and maturities) net of purchases, and \$710,000 to fund net loan growth. Investing cash outflows of \$60.4 million in 2008 were used to fund loan growth. Other significant investing cash flow activities in 2008 included \$1.7 million of net cash inflows from securities activity, and \$2.5 million of premises and equipment purchases. Most of the 2008 premises and equipment additions were related to the re-construction of the Bank's Ottawa branch office and the purchase and renovation of the Bank's new Lima Shawnee branch office.

Net cash flows from financing activities amounted to \$(31.0) million in 2010, \$(5.5) million in 2009, and \$63.2 million in 2008. Net cash used in financing activities in 2010 primarily resulted from \$21.6 million of repayments on FHLB borrowings, \$7.3 million decrease in deposits (excluding the impact of deposits assumed from the Findlay branch acquisition), including \$15 million repayment of brokered deposits, and the payment of \$1.6 million (\$.45 per share) of cash dividends. Net cash used in financing activities in 2009 primarily resulted from an \$8.3 million net reduction in other borrowings and the payment of \$2.1 million (\$.60 per share) of cash dividends, offset by customer deposit growth of \$4.9 million. Deposit growth provided a \$71.6 million financing funding source in 2008. Cash outflows from financing activities in 2008 included a \$5.6 million net reduction in other borrowings, \$775,000 for the purchase of 55,000 shares of stock under the Corporation's stock buyback program, and the payment of \$2.1 million (\$.60 per share) of cash dividends.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ASSET LIABILITY MANAGEMENT**

Closely related to liquidity management is the management of interest-earning assets and interest-bearing liabilities. The Corporation manages its rate sensitivity position to avoid wide swings in net interest margins and to minimize risk due to changes in interest rates.

The difference between a financial institution's interest rate sensitive assets (assets that will mature or reprice within a specific time period) and interest rate sensitive liabilities (liabilities that will mature or reprice within the same time period) is commonly referred to as its "interest rate sensitivity gap" or, simply, its "gap". An institution having more interest rate sensitive assets than interest rate sensitive liabilities within a given time interval is said to have a "positive gap". This generally means that, when interest rates increase, an institution's net interest income will increase and, when interest rates decrease, the institution's net interest income will decrease. An institution having more interest rate sensitive liabilities than interest rate sensitive assets within a given time interval is said to have a "negative gap". This generally means that, when interest rates increase, the institution's net interest income will decrease and, when interest rates decrease, the institution's net interest income will increase. The Corporation's one year cumulative gap at December 31, 2010 is approximately 96% which means the Bank has more liabilities than it does assets re-pricing within one year.

**EFFECTS OF INFLATION**

The assets and liabilities of the Corporation are primarily monetary in nature and are more directly affected by fluctuations in interest rates than inflation. Movement in interest rates is a result of the perceived changes in inflation as well as monetary and fiscal policies. Interest rates and inflation do not necessarily move with the same velocity or within the same period; therefore, a direct relationship to the inflation rate cannot be shown. The financial information presented in the Corporation's consolidated financial statements has been presented in accordance with generally accepted accounting principles, which require that the Corporation measure financial position and operating results primarily in terms of historical dollars.

**SIGNIFICANT ACCOUNTING POLICIES**

The Corporation's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the commercial banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements. These estimates, assumptions, and judgments are based upon the information available as of the date of the financial statements.

The Corporation's most significant accounting policies are presented in Note 1 to the consolidated financial statements. These policies, along with other disclosures presented in the Notes to Consolidated Financial Statements and Management's Discussion and Analysis, provide information about how significant assets and liabilities are valued in the financial statements and how those values are determined. Management has identified the determination of the allowance for loan losses, and the valuation of goodwill and mortgage servicing rights as the areas that require the most subjective and complex estimates, assumptions and judgments and, as such, could be the most subjective to revision as new information becomes available.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As previously noted, a detailed analysis to assess the adequacy of the allowance for loan losses is performed. This analysis encompasses a variety of factors including the potential loss exposure for individually reviewed loans, the historical loss experience for each loan category, the volume of non-performing loans, the volume of loans past due 30 days or more, a segmentation of each loan category by internally-assigned risk grades, an evaluation of current local and national economic conditions, any significant changes in the volume or mix of loans within each category, a review of the significant concentrations of credit, and any legal, competitive, or regulatory concerns.

Management considers the valuation of goodwill resulting from the 2003 Gibsonburg and Pemberville and the 2010 Findlay branch acquisitions through an annual impairment test which considers, among other things, the assets and equity of the Corporation as well as price multiples for sales transactions involving other local financial institutions. Management engaged an independent valuation specialist to perform a goodwill impairment evaluation as of September 30, 2010 which supported management's assessment that no impairment adjustments to goodwill were warranted. To date, none of the goodwill evaluations have revealed the need for an impairment charge. Management does not believe that any significant conditions have changed relating to the goodwill assessment through December 31, 2010.

Mortgage servicing rights are recognized when acquired through sale of mortgage loans and are reported at fair value. Changes in fair value are reported in net income for the period the changes occur. The Bank generally estimates fair value for servicing rights based on the present value of future expected cash flows, using management's best estimates of the key assumptions – credit losses, prepayment speeds, servicing costs, and discount rates commensurate with the risks involved. The Bank has engaged an independent consultant to calculate the fair value of mortgage servicing rights on a quarterly basis. Management regularly reviews the calculation, including assumptions used in making the calculation and discusses with the consultant. Management also reconciles information used by the consultant, with respect to the Bank's serviced portfolio, to the Bank's accounting records.

**IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

A summary of new accounting standards adopted or subject to adoption in 2010, as well as newly-issued but not effective accounting standards at December 31, 2010, is presented in Note 2 to the consolidated financial statements. In addition, the Corporation has provided in Note 5 to the consolidated financial statements, the expanded disclosure requirements about the credit quality of loans and the allowance for loan losses for 2010 as required by Accounting Standards Update 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Loss*.

---

**UNITED BANCSHARES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND  
CONTINGENT LIABILITIES AND COMMITMENTS**

The following table summarizes loan commitments, including letters of credit, as of December 31, 2010:

	<u>Amount of commitment to expire per period</u>				
	<u>Total Amount</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>Over 5 years</u>
	(Dollars in thousands)				
<b>Type of commitment</b>					
Commercial lines-of-credit	\$ 35,635	\$ 33,928	\$ 887	\$ 820	\$ -
Real estate lines-of-credit	31,789	2,207	10,349	5,080	14,153
Consumer lines-of-credit	9	8	1	-	-
Letters of Credit	2,602	2,602			
Guarantees	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total commitments</b>	<u>\$ 70,035</u>	<u>\$ 38,745</u>	<u>\$11,237</u>	<u>\$5,900</u>	<u>\$14,153</u>

**UNITED BANCSHARES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND  
CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

As indicated in the preceding table, the Corporation had \$70.0 million in total loan commitments at December 31, 2010, with \$38.7 million of that amount expiring within one year. All lines-of-credit represent either fee-paid or legally binding loan commitments for the loan categories noted. Letters-of-credit are also included in the amounts noted in the table since the Corporation requires that each letter-of-credit be supported by a loan agreement. The commercial and consumer lines represent both unsecured and secured obligations. The real estate lines are secured by mortgages in residential and nonresidential property. Many of the commercial lines are due on a demand basis, and are established for seasonal operating purposes. It is anticipated that a significant portion of these lines will expire without being drawn upon.

The following table summarizes the Corporation's contractual obligations as of December 31, 2010:

	<u>Total Amount</u>	<u>Payments due by period</u>			<u>Over 5 years</u>
		<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	
(Dollars in thousands)					
<b>Contractual obligations</b>					
Long-term debt	\$ 54,900	\$ 17,000	\$10,100	\$ -	\$ 27,800
Capital leases	-	-	-	-	-
Operating leases	-	-	-	-	-
Unconditional purchase obligations	-	-	-	-	-
Other long-term liabilities reflected under GAAP	305	14	34	43	214
<b>Total obligations</b>	<u>\$ 55,205</u>	<u>\$ 17,014</u>	<u>\$10,134</u>	<u>\$ 43</u>	<u>\$ 28,014</u>

Long-term debt presented in the preceding table is comprised of \$44.6 million in borrowings from the FHLB, and \$10.3 million from the issuance of junior subordinated deferrable interest debentures.

FHLB borrowings include notes that require monthly interest payments, with principal on most issues due at maturity. The remaining FHLB issues require monthly principal payments as disclosed in Note 10 to the consolidated financial statements. All outstanding FHLB borrowings at December 31, 2010 consist of advances with fixed interest rates. Certain fixed rate obligations have variable options that stipulate a prepayment penalty if the note's interest rate exceeds the current market rate for similar borrowings at the time of repayment. As a note matures, the Bank evaluates the liquidity and interest-rate circumstances at that point in time to determine whether to pay-off or renew the note. The evaluation process typically includes the strength of current and projected customer loan demand, the current federal funds sold or purchased position, projected cash flows from maturing securities, the current and projected market interest rate environment, local and national economic conditions, and customer demand for deposit product offerings. Fixed rate advances at December 31, 2010 include \$22.5 million in advances that can be put back at the option of the FHLB.



## **OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

The other long-term liabilities reflected under GAAP, as noted in the preceding table, represents the Bank's agreement with its current Chairman of the Board of Directors to provide for retirement compensation benefits as more fully described in Note 15 of the consolidated financial statements. At December 31, 2010, the net present value of future deferred compensation payments amounted to \$305,000, which is included in other liabilities in the December 31, 2010 consolidated balance sheet.

As indicated in the table, the Corporation had no capital lease obligations as of December 31, 2010. The Corporation has certain operating lease obligations, including photocopying equipment, which is considered immaterial and not included in the preceding table. The Bank also has a non-qualified deferred compensation plan covering certain directors and officers, and has provided an estimated liability of \$624,000 at December 31, 2010 for supplemental retirement benefits. Since substantially all participants under the plan are still active, it is not possible to determine the terms of the contractual obligations and, consequently, such liability is not included in the table.

## **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 applies these interest rate "shocks" to its financial instruments up and down 200 basis points.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (CONTINUED)**

The following table shows the Corporation's estimated earnings sensitivity profile as of December 31, 2010:

<b>Change in Interest Rates (basis points)</b>	<b>Percentage Change in <u>Net Interest Income</u></b>	<b>Percentage Change in <u>Net Income</u></b>
+200	4.1%	35.3%
-200	-7.2%	-56.9%

Given a linear 200bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would increase by 4.1% and net income would increase by 35.3%. A 200bp decrease in interest rates would decrease net interest income by 7.2% and decrease net income by 56.9%. Management does not expect any significant adverse effect to net interest income in 2011 based on the composition of the portfolio and anticipated trends in rates.

**OTHER INFORMATION**

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year. Dramatic declines in the housing market, along with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets, many national and regional lenders have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been significantly adversely affected as a result. Volatility and disruption in the capital and credit markets have reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the Emergency Economic Stabilization Act of 2008 ("EESA") was signed into law on October 3, 2008. The EESA authorized the U.S. Treasury Department ("Treasury") to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

---

**UNITED BANCSHARES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OTHER INFORMATION (CONTINUED)**

On July 21, 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was signed into law, which brings significant financial reform. Compliance with the Act's provisions may curtail the Corporation's revenue opportunities, increase its operating costs, require it to hold higher levels of regulatory capital and/or liquidity or otherwise adversely affect the Corporation's business or financial results in the future. Significant provisions of the Act are summarized in Note 18 to the consolidated financial statements

**FORWARD-LOOKING STATEMENTS**

This report includes certain forward-looking statements by the Corporation relating to such matters as anticipated operating results, prospects for new lines of business, technological developments, economic trends (including interest rates), and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements, and the purpose of this paragraph is to secure the use of the safe harbor provisions. While the Corporation believes that the assumptions underlying the forward looking statements contained herein and in other public documents are reasonable, any of the assumptions could prove to be inaccurate, and accordingly, actual results and experience could differ materially from the anticipated results or other expectations expressed by the Corporation in its forward-looking statements. Factors that could cause actual results or experience to differ from results discussed in the forward-looking statements include, but are not limited to: economic conditions, volatility and direction of market interest rates, governmental legislation and regulation, material unforeseen changes in the financial condition or results of operations of the Corporation's customers, customer reaction to and unforeseen complications with respect to the integration of acquisition, product design initiative, and other risks identified, from time-to-time in the Corporation's other public documents on file with the Securities and Exchange Commission.

---

## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
United Bancshares, Inc.  
Columbus Grove, Ohio

We have audited the accompanying consolidated balance sheets of United Bancshares, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Bancshares, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Toledo, Ohio  
March 28, 2011

Offices in 16 states and Washington, DC

---

### UNITED BANCSHARES, INC. CONSOLIDATED BALANCE SHEETS December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$ 8,253,990	\$ 8,547,737
Interest-bearing deposits in other banks	40,349,646	18,775,271
Federal funds sold	-	56,881

Total cash and cash equivalents	48,603,636	27,379,889
<b>SECURITIES</b> , available-for-sale	140,440,361	138,586,362
<b>FEDERAL HOME LOAN BANK STOCK</b> , at cost	4,893,800	4,893,800
<b>LOANS</b>	383,907,387	407,814,923
Less allowance for loan losses	8,016,786	4,803,595
Net loans	375,890,601	403,011,328
<b>PREMISES AND EQUIPMENT</b> , net	9,933,432	9,132,248
<b>GOODWILL</b>	8,554,979	7,282,013
<b>CORE DEPOSIT INTANGIBLE ASSETS</b> , net	255,357	63,575
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	12,894,671	12,401,984
<b>OTHER REAL ESTATE OWNED</b>	4,524,729	5,170,635
<b>OTHER ASSETS</b> , including accrued interest receivable	6,624,989	8,483,600
<b>TOTAL ASSETS</b>	<u>\$ 612,616,555</u>	<u>\$ 616,405,434</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 50,404,847	\$ 45,665,777
Interest-bearing	438,245,779	424,002,707
Total deposits	488,650,626	469,668,484
Other borrowings	55,777,834	77,906,588
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Other liabilities	2,883,032	4,251,257
Total liabilities	557,611,492	562,126,329
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, stated value \$1.00. Authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,660,000	14,659,661
Retained earnings	39,600,718	38,343,134
Accumulated other comprehensive income	1,810,684	2,359,821
Treasury stock, at cost, 315,668 shares in 2010 and 316,791 shares in 2009	(4,826,896)	(4,844,068)
Total shareholders' equity	55,005,063	54,279,105
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 612,616,555</u>	<u>\$ 616,405,434</u>

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

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>INTEREST INCOME</b>			
Loans, including fees	\$ 24,268,758	\$ 26,567,451	\$ 28,671,468
Securities:			
Taxable	3,930,341	4,259,284	4,208,541
Tax-exempt	1,987,585	1,997,099	1,911,630
Other	<u>77,537</u>	<u>43,241</u>	<u>416,252</u>
Total interest income	<u>30,264,221</u>	<u>32,867,075</u>	<u>35,207,891</u>
<b>INTEREST EXPENSE</b>			
Deposits	6,238,475	8,801,736	11,114,853
Borrowings	<u>2,720,852</u>	<u>3,515,156</u>	<u>4,680,343</u>
Total interest expense	<u>8,959,327</u>	<u>12,316,892</u>	<u>15,795,196</u>
Net interest income	21,304,894	20,550,183	19,412,695
<b>PROVISION FOR LOAN LOSSES</b>			
	<u>6,550,000</u>	<u>7,525,000</u>	<u>2,195,000</u>
Net interest income after provision for loan losses	<u>14,754,894</u>	<u>13,025,183</u>	<u>17,217,695</u>
<b>NON-INTEREST INCOME</b>			
Service charges on deposit accounts	1,187,987	1,331,379	1,515,441
Gain on sale of loans	866,562	1,375,729	346,267
Net securities gains	278,242	129,493	49,055
Change in fair value of mortgage servicing rights	(141,587)	195,101	(649,091)
Increase in cash surrender value of life insurance	492,687	512,152	493,051
Other operating income	<u>1,033,802</u>	<u>948,121</u>	<u>919,684</u>
Total non-interest income	<u>3,717,693</u>	<u>4,491,975</u>	<u>2,674,407</u>
<b>NON-INTEREST EXPENSES</b>			
Salaries, wages and employee benefits	7,718,080	7,430,903	7,627,730
Occupancy expenses	1,511,765	1,435,041	1,430,037
Other operating expenses	<u>6,292,060</u>	<u>5,612,618</u>	<u>5,404,738</u>
Total non-interest expenses	<u>15,521,905</u>	<u>14,478,562</u>	<u>14,462,505</u>
Income before income taxes	2,950,682	3,038,596	5,429,597
<b>PROVISION FOR INCOME TAXES</b>			
	<u>143,000</u>	<u>156,000</u>	<u>1,011,000</u>
<b>NET INCOME</b>	<u>\$ 2,807,682</u>	<u>\$ 2,882,596</u>	<u>\$ 4,418,597</u>
<b>NET INCOME PER SHARE</b> (basic and diluted)	<u>\$ .82</u>	<u>\$ .84</u>	<u>\$ 1.28</u>

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

---

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years Ended December 31, 2010, 2009 and 2008**

	<u>Common stock</u>	<u>Surplus</u>	<u>Retained earnings</u>	<u>Accumulated other compre- hensive income (loss)</u>	<u>Treasury stock</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2007</b>	\$ 3,760,557	\$ 14,659,661	\$ 35,187,304	\$ (576,065)	\$ (4,212,873)	\$ 48,818,584
Comprehensive income:						
Net income	-	-	4,418,597	-	-	4,418,597
Change in net unrealized loss, net of reclassification adjustments and income taxes	-	-	-	163,761	-	<u>163,761</u>
Total comprehensive income						4,582,358
Sale of 7,258 treasury shares	-	-	(13,189)	-	111,898	98,709
Purchase of 55,000 shares	-	-	-	-	(775,250)	(775,250)
Cash dividends declared, \$0.60 per share	<u>-</u>	<u>-</u>	<u>(2,064,686)</u>	<u>-</u>	<u>-</u>	<u>(2,064,686)</u>
<b>BALANCE AT DECEMBER 31, 2008</b>	3,760,557	14,659,661	37,528,026	(412,304)	(4,876,225)	50,659,715
Comprehensive income:						
Net income	-	-	2,882,596	-	-	2,882,596
Change in net unrealized gain (loss), net of reclassification adjustments and income taxes	-	-	-	2,772,125	-	<u>2,772,125</u>
Total comprehensive income						5,654,721
Sale of 2,103 treasury shares	-	-	(1,525)	-	32,157	30,632
Cash dividends declared, \$0.60 per share	<u>-</u>	<u>-</u>	<u>(2,065,963)</u>	<u>-</u>	<u>-</u>	<u>(2,065,963)</u>
<b>BALANCE AT DECEMBER 31, 2009</b>	3,760,557	14,659,661	38,343,134	2,359,821	(4,844,068)	54,279,105
Comprehensive income:						
Net income	-	-	2,807,682	-	-	2,807,682
Change in net unrealized gain, net of reclassification adjustments and income taxes	-	-	-	(549,137)	-	<u>(549,137)</u>
Total comprehensive income						2,258,545
Sale of 1,123 treasury shares	-	339	-	-	17,172	17,511
Cash dividends declared, \$0.45 per share	<u>-</u>	<u>-</u>	<u>(1,550,098)</u>	<u>-</u>	<u>-</u>	<u>(1,550,098)</u>
<b>BALANCE AT DECEMBER 31, 2010</b>	\$ 3,760,557 =====	\$ 14,660,000 =====	\$ 39,600,718 =====	\$ 1,810,684 =====	\$ (4,826,896) =====	\$ 55,005,063 =====

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



**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 2,807,682	\$ 2,882,596	\$ 4,418,597
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	647,006	984,573	1,127,182
Credit for accrued compensation – stock options	-	-	(11,286)
Deferred income taxes	(865,711)	(280,565)	(543,362)
Provision for loan losses	6,550,000	7,525,000	2,195,000
Gain on sale of loans	(866,562)	(1,375,729)	(346,267)
Net securities gains	(278,242)	(129,493)	(49,055)
Change in fair value of mortgage servicing rights	141,587	(195,101)	649,091
Federal Home Loan Bank stock dividends	-	-	(190,700)
Loss on sale or write-down of other real estate owned	255,044	29,911	68,716
Increase in cash surrender value of life insurance	(492,687)	(512,152)	(493,051)
Net amortization (accretion) of security premiums and discounts	382,312	(21,986)	(9,578)
Provision for deferred compensation	25,085	107,371	144,988
Loss (gain) on disposal or write-down of premises and equipment and other assets	1,550	(2,472)	275,925
Proceeds from sale of loans held-for-sale	36,038,510	66,651,013	16,300,343
Originations of loans held-for-sale	(35,486,987)	(65,645,945)	(15,992,527)
Decrease (increase) in other assets	1,846,312	(3,411,864)	248,732
Increase (decrease) in other liabilities	<u>(361,507)</u>	<u>(1,045,014)</u>	<u>502,285</u>
Net cash provided by operating activities	<u>10,343,392</u>	<u>5,560,143</u>	<u>8,295,033</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales of available-for-sale securities	9,399,659	3,228,921	1,565,930
Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities	41,493,304	29,800,007	28,149,767
Purchases of available-for-sale securities	(53,683,058)	(30,765,319)	(28,002,858)
Proceeds from branch acquisition	22,260,144	-	-
Net decrease (increase) in loans	20,017,232	(710,284)	(60,379,189)
Purchases of premises and equipment	(313,671)	(371,339)	(2,464,385)
Proceeds from sale of premises and equipment	-	39,471	15,634
Proceeds from sale of other real estate owned	2,733,862	168,650	179,299
Proceeds from sale of former branch	-	187,240	-
Insurance proceeds from casualty loss	<u>-</u>	<u>145,000</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>41,907,472</u>	<u>1,722,347</u>	<u>(60,935,802)</u>

---



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

United Bancshares, Inc. (the "Corporation") was incorporated in 1985 in the state of Ohio as a single-bank holding company for The Union Bank Company (the "Bank"). The Corporation subsequently acquired the Bank of Leipsic Company ("Leipsic") in 2000 and Citizens Bank of Delphos ("Citizens") in 2001. The Bank acquired the Gibsonburg and Pemberville, Ohio branch offices of RFC Banking Company in 2003. Effective February 1, 2007, the Bank 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. Effective December 4, 2009, the Bank formed a wholly-owned subsidiary, UBC Property, Inc. to hold and manage certain other real estate owned. The Bank acquired the Findlay, Ohio branch of The Home Savings and Loan Company in March 2010, as more fully described in Note 3. The operating results of the branch subsequent to the acquisition are included in the Corporation's consolidated financial statements.

The Corporation, through its wholly-owned subsidiary, the Bank, operates in one industry segment, the commercial banking industry. The Bank, organized in 1904 as an Ohio-chartered bank, is headquartered in Columbus Grove, Ohio, with branch offices in Bowling Green, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville Ohio.

The primary source of revenue of the Bank is providing loans to customers primarily located in Northwestern and West Central Ohio. Such customers are predominately small and middle-market businesses and individuals.

Significant accounting policies followed by the Corporation are presented below.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The estimates most susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of servicing assets and goodwill.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold which mature overnight or within four days.

**Restrictions on Cash**

The Bank was required to maintain cash on hand or on deposit with the Federal Reserve Bank in the amount of \$410,000 at December 31, 2010 and \$358,000 at December 31, 2009 to meet regulatory reserve and clearing requirements.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Securities and Federal Home Loan Bank Stock**

Securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses, net of applicable income taxes, excluded from income and reported as accumulated other comprehensive income (loss).

The cost of available-for-sale securities is adjusted for amortization of premiums and accretion of discounts to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of securities below their cost that are deemed to be other-than-temporary are reflected in income as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent to sell the securities and the more likely than not requirement for the Corporation will be required to sell the securities prior to recovery, (2) the length of time and the extent to which the fair value has been less than cost, and (3) the financial condition and near-term prospects of the issuer. Gains and losses on the sale of securities are recorded on the trade date, using the specific identification method, and are included in non-interest income.

Investment in Federal Home Loan Bank of Cincinnati stock is classified as a restricted security, carried at cost, and evaluated for impairment.

**Loans Held for Sale**

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined based on quoted market prices in the secondary market. Any net unrealized losses are recognized through a valuation allowance by charges to income. The Bank had no loans held for sale at December 31, 2010 and 2009.

**Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally stated at their outstanding principal amount adjusted for charge-offs and the allowance for loan losses. Interest is accrued as earned based upon the daily outstanding principal balance. Loan origination fees and certain direct obligation costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest on mortgage and commercial loans is generally discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than when they become 150 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. Interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in estimates will occur in the near term and that such changes could be material to the amounts reported in the Corporation's consolidated financial statements.

The allowance consists of specific, general and unallocated components. The specific component relates to impaired loans when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers classified loans (substandard or special mention) without specific reserves, as well as non-classified loans, and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Other Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and fair value adjustments are included in other operating expenses.

**Loan Sales and Servicing**

Certain mortgage loans are sold with mortgage servicing rights retained or released by the Bank. The carrying value of mortgage loans sold with servicing rights retained is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. The Bank generally estimates fair value for servicing rights based on the present value of future expected cash flows, using management's best estimates of the key assumptions – credit losses, prepayment speeds, servicing costs, and discount rates commensurate with the risks involved.

Capitalized servicing rights are reported at fair value and changes in fair value are reported in net income for the period the change occurs.

Servicing fee income is recorded for servicing loans, based on a contractual percentage of the outstanding principal, and is reported as other operating income. Amortization of mortgage servicing rights is charged against loan servicing fee income.

**Premises and Equipment**

Premises and equipment is stated at cost, less accumulated depreciation. Upon the sale or disposition of the assets, the difference between the depreciated cost and proceeds is charged or credited to income. Depreciation is determined based on the estimated useful lives of the individual assets (typically 20 to 40 years for buildings and 3 to 10 years for equipment) and is computed primarily using the straight-line method.

Premises and equipment is reviewed for impairment when events indicate the carrying amount may not be recoverable from future undiscounted cash flows. If impaired, premises and equipment is recorded at fair value and any corresponding write-downs are charged against current year earnings.

**Off-Balance Sheet Credit Related Financial Instruments**

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Goodwill and Core Deposit Intangible Assets**

Goodwill arising from the Gibsonburg, Pemberville and Findlay branch acquisitions is not amortized, but is subject to an annual impairment test to determine if an impairment loss has occurred. The core deposit intangible asset, resulting from the Gibsonburg and Pemberville branch acquisitions, was determined to have a definite life and was amortized on a straight-line basis over seven years through March 2010. The core deposit intangible asset resulting from the Findlay branch acquisition was also determined to have a definite life and is being amortized on a straight-line basis over seven years through March 2017. Future amortization of the core deposit intangible asset is \$40,857 for years 2011 through 2016 and \$10,215 in 2017.

**Supplemental Retirement Benefits**

Annual provisions are made for the estimated liability for accumulated supplemental retirement benefits under agreements with certain officers and directors. These provisions are determined based on the terms of the agreements, as well as certain assumptions, including estimated service periods and discount rates.

**Advertising Costs**

All advertising costs are expensed as incurred.

**Income Taxes**

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns.

Benefits from tax positions taken or expected to be taken in a tax return are not recognized if the likelihood that the tax position would be sustained upon examination by a taxing authority is considered to be 50% or less. The Corporation has adopted the policy of classifying any interest and penalties resulting from the filing of its income tax returns in the provision for income taxes.

The Bank is not currently subject to state or local income taxes.

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

---



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Comprehensive Income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

**Per Share Data**

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method.

The weighted average number of shares used for the years ended December 31, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Basic	<u>3,444,703</u>	<u>3,443,093</u>	<u>3,447,536</u>
Diluted	<u>3,444,703</u>	<u>3,443,283</u>	<u>3,448,467</u>

Dividends per share are based on the number of shares outstanding at the declaration date.

**Rate Lock Commitments**

Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale are accounted for as derivative instruments. The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are to be recorded at fair value as derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans.

Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. At December 31, 2010 and 2009, derivative assets and liabilities relating to rate lock commitments were not material to the consolidated financial statements.

**Fair Values of Financial Instruments**

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 21. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Subsequent Events**

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after December 31, 2010, but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010 but arose before the financial statements were issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2010.

**NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860-10 addresses accounting for transfers of financial assets. Among other requirements, ASC 860-10 removes the concept of a qualifying special-purpose entity and removes the exception from applying consolidation of variable interest entities to qualifying special-purpose entities. The objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASC 860-10 applies to any transfer of financial assets, which for the Corporation primarily relates to loan participations sold. The adoption of ASC 860-10 effective January 1, 2010 did not have any impact on the Corporation's December 31, 2010 consolidated financial statements since the Bank did not sell any loan participations during the year ended December 31, 2010.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06), which provides amendments to ASC 820-10 and is intended to improve disclosure requirements related to fair value measurements. ASU 2010-06 clarifies that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities measured at fair value. A class is often a subset of assets or liabilities within a line item in the statement of financial position. Reporting entities should also provide disclosures about the valuation techniques and inputs used to measure fair value for fair value measurements falling within Level 2 or 3. The new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Information on fair value measurements is included in Note 20 to the consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which increases disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures provide additional information about the nature of credit risk inherent in the Bank's loans portfolio, how credit risk is analyzed and assessed, and the reasons for the change in the allowance for loan losses. The expanded disclosure requirements are included in Note 5 of the Corporation's December 31, 2010 consolidated financial statements, except for activity occurring during the period, which will be required to be reported in 2011. The additional disclosure requirements relating to troubled debt restructurings were deferred by ASU 2011-01, issued in January 2011.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - BRANCH ACQUISITION**

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

Cash	\$22,260,144
Loans	1,804,505
Bank premises	1,021,000
Goodwill	1,272,966
Core deposit intangible asset	<u>286,000</u>
 Total assets acquired	 <u><u>\$ 26,644,615</u></u>
 Deposits assumed	 <u><u>\$ 26,644,615</u></u>

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

**NOTE 4 - SECURITIES**

The amortized cost and fair value of securities as of December 31, 2010 and 2009 are as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
Available for sale:				
U.S. Government and agencies	\$ -	\$ -	\$3,993,013	\$3,982,760
Obligations of states and political subdivisions	46,547,112	47,298,232	46,757,381	47,828,791
Mortgage-backed	90,647,900	92,632,687	83,758,593	86,270,563
Other	<u>501,888</u>	<u>509,442</u>	<u>501,888</u>	<u>504,248</u>
 Total	 <u><u>\$137,696,900</u></u>	 <u><u>\$140,440,361</u></u>	 <u><u>\$135,010,875</u></u>	 <u><u>\$138,586,362</u></u>

A summary of unrealized gains and losses on securities at December 31, 2010 and 2009 follows:

	<u>2010</u>		<u>2009</u>	
	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>
Available for sale:				
U.S. Government and agencies	\$ -	\$ -	\$ -	\$ 10,253
Obligations of states and political subdivisions	989,596	238,476	1,280,274	208,864
Mortgage-backed	2,529,120	544,333	2,756,975	245,005
Other	<u>7,554</u>	<u>-</u>	<u>2,360</u>	<u>-</u>
 Total	 <u><u>\$3,526,270</u></u>	 <u><u>\$782,809</u></u>	 <u><u>\$4,039,609</u></u>	 <u><u>\$ 464,122</u></u>







**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - SECURITIES (CONTINUED)**

There were 39 securities in an unrealized loss position at December 31, 2010, none of which were in a continuous unrealized loss position for twelve months or more. Management has considered industry analyst reports, whether downgrades by bond rating agencies have occurred, sector credit reports, issuer's financial condition, the Corporation's ability to hold securities to maturity, and volatility in the bond market, in concluding that the unrealized losses as of December 31, 2010 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2010 are considered to be temporary.

Gross realized gains from sale of securities, including securities calls, amounted to \$278,242 in 2010, \$130,600 in 2009, and \$50,887 in 2008, with the income tax provision applicable to such gains amounting to \$94,602 in 2010, \$44,404 in 2009, and \$17,301 in 2008. Gross realized losses from sale of securities amounted to \$1,107 in 2009 and \$1,832 in 2008 (none in 2010), with related income tax effect of \$376 in 2009, and \$623 in 2008.

**NOTE 5 – LOANS**

Loans at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Residential real estate	\$ 111,562,060	\$ 107,515,138
Commercial	198,013,634	215,457,166
Agriculture	65,818,468	71,027,689
Consumer	8,513,225	13,814,930
Total loans	<u>\$ 383,907,387</u>	<u>\$ 407,814,923</u>

Fixed rate loans approximated \$70,000,000 at December 31, 2010 and \$70,088,000 at December 31, 2009. Certain commercial and agricultural loans are secured by real estate.

The following represents a summary of the activity in the allowance for loan losses for the years ended December 31, 2010, 2009, and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 4,803,595	\$ 3,198,130	\$ 2,232,708
Provision charged to operations	6,550,000	7,525,000	2,195,000
Loans charged-off	(3,823,427)	(6,276,801)	(1,538,749)
Recoveries of loans charged-off	486,618	357,266	309,171
Total	<u>\$ 8,016,786</u>	<u>\$ 4,803,595</u>	<u>\$ 3,198,130</u>

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – LOANS (CONTINUED)**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010:

	<u>Commercial</u>	<u>Commercial and multi-family real estate</u>	<u>Residential 1 – 4 family real estate</u>	<u>Construction</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:						
Attributable to loans individually evaluated for impairment	\$ 252,263	\$ 439,517	\$ -	\$ -	\$ -	\$691,780
Collectively evaluated for impairment	2,634,204	3,475,806	886,879	67,590	260,527	7,325,006
Acquired with deteriorated credit quality	-	-	-	-	-	-
 Total allowance for loan losses	 \$ 2,886,467	 \$ 3,915,323	 \$ 886,879	 \$ 67,590	 \$ 260,527	 \$ 8,016,786
	=====	=====	=====	=====	=====	=====
 Loans:						
Individually evaluated for impairment	\$ 3,663,669	\$ 11,834,092	\$ 190,864	\$ -	\$ -	\$ 15,688,625
Collectively evaluated for impairment	76,178,015	208,473,683	68,582,003	6,471,836	8,513,225	368,218,762
Acquired with deteriorated credit quality	-	-	-	-	-	-
 Total ending loans balance	 \$ 79,841,684	 \$ 220,307,775	 \$ 68,772,867	 \$ 6,471,836	 \$ 8,513,225	 \$383,907,387
	=====	=====	=====	=====	=====	=====

Impaired loans were as follows as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Loans with no allowance for loan losses allocated	\$ 9,612,896	\$ 8,166,619
Loans with allowance for loan losses allocated	<u>6,075,729</u>	<u>5,009,477</u>
 Total impaired loans	 <u>\$ 15,688,625</u>	 <u>\$ 13,176,096</u>
 Amount of the allowance allocated to impaired loans	 <u>\$ 691,780</u>	 <u>\$ 1,228,814</u>



---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - LOANS (CONTINUED)**

The following is a summary of the activity in the allowance for loan losses of impaired loans, which is a part of the Bank's overall allowance for loan losses for the years ended December 31, 2010, 2009, and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 1,228,814	\$ 1,054,518	\$ 366,500
Provision charged to operations	2,157,658	5,640,681	1,281,943
Loans charged-off	<u>(2,694,692)</u>	<u>(5,466,385)</u>	<u>(593,925)</u>
Balance at end of year	<u>\$ 691,780</u>	<u>\$ 1,228,814</u>	<u>\$ 1,054,518</u>

No additional funds are committed to be advanced in connection with impaired loans.

The average balance of impaired loans approximated \$15,487,000 in 2010, \$7,851,000 in 2009, and \$3,617,000 in 2008. There was no interest income recognized by the Bank on impaired loans on an accrual or cash basis during 2010, 2009, and 2008.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	<u>Recorded investment</u>	<u>Allowance for loan losses allocated</u>
With no related allowance recorded:		
Commercial	\$ 2,381,774	\$ -
Commercial and multi-family real estate	7,040,258	-
Residential 1 – 4 family real estate	190,864	-
With an allowance recorded:		
Commercial	1,281,895	252,263
Commercial and multi-family real estate	4,793,834	439,517
Residential 1 – 4 family real estate	<u>-</u>	<u>-</u>
Total	<u>\$ 15,688,625</u>	<u>\$ 691,780</u>

Loans on non-accrual of interest approximated \$16,497,000 and \$12,937,000 at December 31, 2010 and 2009, respectively. Loans past due 90 days or more and still accruing interest approximated \$126,000 and \$2,456,000 at December 31, 2010 and 2009, respectively.

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - LOANS (CONTINUED)**

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2010:

	<u>Nonaccrual</u>	<u>Loans past due over 90 days still accruing</u>
Commercial	\$ 40,460	\$ -
Commercial real estate	9,604,525	-
Agricultural real estate	1,350,336	-
Agriculture	2,272,939	-
Consumer:		
Direct	3,244	29,083
Indirect	-	36,146
Residential:		
1 – 4 family	3,077,011	55,745
Home equity	148,902	4,992
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 16,497,417</u>	<u>\$ 125,966</u>

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans:

	<u>30 – 59 days past due</u>	<u>60 – 89 days past due</u>	<u>Greater than 90 days past due</u>	<u>Total past due</u>	<u>Loans not past due</u>	<u>Total</u>
Residential						
real estate	\$ 1,626,599	\$ 720,314	\$ 1,456,454	\$ 3,803,367	\$ 107,758,693	\$ 111,562,060
Commercial	2,294,126	641,607	6,367,537	9,303,270	188,710,364	198,013,634
Agriculture	772,012	134,361	2,237,295	3,143,668	62,674,800	65,818,468
Consumer:						
Direct	29,069	17,633	29,082	75,784	5,775,363	5,851,147
Indirect	<u>98,748</u>	<u>34,301</u>	<u>36,146</u>	<u>169,195</u>	<u>2,492,883</u>	<u>2,662,078</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 4,820,554</u>	<u>\$ 1,548,216</u>	<u>\$ 10,126,514</u>	<u>\$ 16,495,284</u>	<u>\$ 367,412,103</u>	<u>\$ 383,907,387</u>

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - LOANS (CONTINUED)**

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to the credit risk. This analysis generally includes loans with an outstanding balance greater than \$100,000 and non-homogenous loans, such as commercial and commercial real estate loans.

This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

- **Special Mention:** Loans which possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered "potential", versus "defined", impairments to the primary source of loan repayment.
- **Substandard:** These loans are inadequately protected by the current sound net worth and paying ability of the borrower. Loans of this type will generally display negative financial trends such as poor or negative net worth, earnings or cash flow. These loans may also have historic and/or severe delinquency problems, and bank management may depend on secondary repayment sources to liquidate these loans. The bank could sustain some degree of loss in these loans if the weaknesses remain uncorrected.
- **Doubtful:** Loans in this category display a high degree of loss, although the amount of actual loss at the time of classification is undeterminable. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally either less than \$100,000 or are included in groups of homogenous loans. As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Not rated</u>
Commercial	\$ 70,851,864	\$ 4,553,372	\$ 2,324,007	\$ 2,112,441	\$ -
Commercial and multi-family real estate	187,655,569	6,314,661	25,403,600	933,945	-
Construction	5,126,885	-	654,500	-	690,451
Residential 1 – 4 family	-	305,505	3,485,129	16,926	64,965,307
Consumer	-	-	-	-	<u>8,513,225</u>
Total	<u>\$ 263,634,318</u>	<u>\$ 11,173,538</u>	<u>\$ 31,867,236</u>	<u>\$ 3,063,312</u>	<u>\$ 74,168,983</u>
	=====	=====	=====	=====	=====



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - LOANS (CONTINUED)**

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential 1 – 4 family and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in non-impaired residential 1 – 4 family and consumer loans based on payment activity as of December 31, 2010:

	<u>Consumer</u>	<u>Residential 1 – 4 family</u>
Performing	\$ 8,447,997	\$ 67,281,976
Nonperforming	<u>65,228</u>	<u>1,300,027</u>
Total	<u>\$ 8,513,225</u>	<u>\$ 68,582,003</u>

**Purchased Loans:**

From time to time, the Company enters into loan participation agreements to purchase loans and also acquired loans through the Findlay branch acquisition described in Note 3. At December 31, 2010, the Bank held no loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Bank. Such loans are made in the ordinary course of business in accordance with the normal lending policies of the Bank, including the interest rate charged and collateralization. Such loans amounted to \$3,164,300 and \$3,353,452 at December 31, 2010 and 2009, respectively. The following is a summary of activity during 2010, 2009, and 2008 for such loans:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Beginning of year	\$ 3,353,452	\$ 3,988,374	\$ 3,657,288
Additions	60,997	1,999,262	629,002
Repayments	<u>(250,149)</u>	<u>(2,634,184)</u>	<u>(297,916)</u>
End of year	<u>\$ 3,164,300</u>	<u>\$ 3,353,452</u>	<u>\$ 3,988,374</u>

Additions and repayments include loan renewals, as well as net borrowings and repayments under revolving lines-of-credit.

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - LOANS (CONTINUED)**

Most of the Bank's lending activities are with customers located in Northwestern and West Central Ohio. As of December 31, 2010 and 2009, the Bank's loans from borrowers in the agriculture industry represent the single largest industry and amounted to \$65,818,468 and \$71,027,689, respectively. Agriculture loans are generally secured by property, equipment, and livestock. Repayment is primarily expected from cash flow generated through the harvest and sale of crops; milk production for dairy products; or the breeding, development, and sale of livestock. Agriculture customers are subject to various risks and uncertainties which can adversely impact the cash flow generated from their operations, including weather conditions; milk production; health and stability of livestock; costs of key operating items such as fertilizer, fuel, seed, or animal feed; and market prices for crops, milk, and livestock. Credit losses arising from the Bank's lending experience in the agriculture industry compare favorably with the Bank's loss experience on their loan portfolio as a whole. Credit evaluation of agricultural lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

**NOTE 6 - PREMISES AND EQUIPMENT**

The following is a summary of premises and equipment at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 2,479,913	\$ 2,076,054
Buildings	8,969,778	8,301,950
Equipment	<u>4,128,361</u>	<u>3,942,779</u>
	15,578,052	14,320,783
Less accumulated depreciation	<u>5,644,620</u>	<u>5,188,535</u>
Premises and equipment, net	<u>\$ 9,933,432</u>	<u>\$ 9,132,248</u>

During 2008, the Bank opened a new branch office on the southwestern side of Lima and closed its downtown Lima branch office. As a result of closing the facility, the Bank recognized an impairment loss of \$235,000 in 2008. In January 2009, the Bank received \$145,000 of insurance proceeds from water damage to the property and such amount was applied against the property's net carrying value. The property was sold in December 2009, and the Bank received net proceeds of \$187,240, resulting in a gain on sale of \$5,576.

Depreciation expense amounted to \$531,937 in 2010, \$493,130 in 2009 and \$458,814 in 2008.

**NOTE 7 - SERVICING**

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated \$175,931,000 and \$188,702,000 at December 31, 2010 and 2009, respectively.

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 - SERVICING (CONTINUED)**

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets. The Bank has elected to record its mortgage servicing rights using the fair value measurement method. Significant assumptions used in determining the fair value of servicing rights as of December 31, 2010 and 2009 include:

Prepayment assumptions:	Based on the PSA Standard Prepayment Model
Internal rate of return:	8% to 10%
Servicing costs:	\$40 – \$55 per loan, annually, increased at the rate of \$1 per 1% delinquency based on loan count
Inflation rate of servicing costs:	3%

Following is a summary of mortgage servicing rights activity for the years ended December 31, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fair value at beginning of year	\$ 1,273,525	\$ 703,388	\$ 1,531,225
Capitalized servicing rights – new loan sales	315,039	612,499	146,966
Disposals (amortization based on loan payments and payoffs)	(332,851)	(237,463)	(325,712)
Change in fair value	<u>(141,587)</u>	<u>195,101</u>	<u>(649,091)</u>
Fair value at end of year	<u>\$ 1,114,126</u>	<u>\$ 1,273,525</u>	<u>\$ 703,388</u>

The change in fair value of servicing rights for the year ended December 31, 2008 resulted from changes in external market conditions, including conditions that dramatically increased prepayment assumptions, which is a key valuation input used in determining the fair value of servicing. While prepayment assumptions are constantly changing, such changes are typically within a relatively small parameter from period to period. However, due to the declines in the secondary market mortgage rates experienced during the fourth quarter of 2008, the prepayment assumptions used in determining the fair value of servicing at December 31, 2008 was 630 compared to 321 at December 31, 2010 and 300 at December 31, 2009.

**NOTE 8 - PREPAID FDIC ASSESSMENTS**

On September 29, 2009, the FDIC adopted a Notice of Proposed Rule making it mandatory that insured depository institutions prepay their quarterly risk-based assessments to the FDIC on December 30, 2009 for the fourth quarter of 2009 and for the years 2010 through 2012. As a result, the Bank had prepaid FDIC assessments amounting to \$1,888,581 at December 31, 2010 and \$2,623,998 at December 31, 2009 and such amounts are included in other assets in the accompanying consolidated balance sheets.



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 - DEPOSITS**

Time deposits at December 31, 2010 and 2009 include individual deposits of \$100,000 or more approximating \$80,791,000 and \$82,026,000, respectively. Interest expense on time deposits of \$100,000 or more approximated \$1,520,000 for 2010, \$1,550,000 for 2009 and \$2,202,000 for 2008. Time deposits at December 31, 2009 include brokered deposits approximating \$14,990,000 (none at December 31, 2010). Interest expense on brokered deposits approximated \$158,000 in 2010, \$1,019,000 in 2009 and \$1,142,000 in 2008.

At December 31, 2010, time deposits approximated \$259,085,000 and were scheduled to mature as follows: 2011, \$117,594,000; 2012, \$105,661,000; 2013, \$6,947,000; 2014, \$10,155,000; 2015, \$17,691,000 and thereafter, \$1,037,000.

**NOTE 10 – OTHER BORROWINGS**

Other borrowings consists of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Federal Home Loan Bank borrowings:		
Secured note, with interest at 1.95%, due June 4, 2010	\$ -	\$ 5,000,000
Secured note, with interest at 6.55% due June 16, 2010	-	6,500,000
Secured note, with interest at 3.61%, due July 16, 2010	-	5,000,000
Secured note, with interest at 6.46%, due July 28, 2010	-	5,000,000
Secured note, with interest at 4.28%, due June 24, 2011	17,000,000	17,000,000
Secured note, with interest at 2.18%, due July 3, 2012	5,000,000	5,000,000
Secured note, with interest at 4.25% through February 28, 2008, thereafter putable back at the option of the holder, due August 28, 2012	5,000,000	5,000,000
Secured note, with interest at 4.20% through February 28, 2008, thereafter putable back at the option of the holder, due February 28, 2017	10,000,000	10,000,000
Secured note, with interest at 3.95% through September 11, 2008, thereafter putable back at the option of the holder, due September 11, 2017	7,500,000	7,500,000
Advances secured by individual residential mortgages under blanket agreement	100,197	150,497
	<u>44,600,197</u>	<u>66,150,497</u>
Total Federal Home Loan Bank borrowings	44,600,197	66,150,497
Customer repurchase agreements with an average outstanding rate of .25% at December 31, 2010 and .68% at December 31, 2009	11,177,637	11,756,091
	<u>11,177,637</u>	<u>11,756,091</u>
Total other borrowings	<u>\$ 55,777,834</u>	<u>\$ 77,906,588</u>

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – OTHER BORROWINGS (CONTINUED)**

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock, securities with an aggregate carrying value approximating \$17,474,000 and eligible mortgage loans approximating \$97,034,000 at December 31, 2010. The interest rates on advances outstanding at December 31, 2010, secured by individual mortgages under blanket agreement, ranged from 5.62% to 8.80%, with varying maturities through July 2019. At December 31, 2010, the Bank had \$6,700,000 of borrowing availability under various line-of-credit agreements with the Federal Home Loan Bank and other financial institutions.

Future contractual maturities of other borrowings, excluding short-term customer repurchase agreements, are as follows at December 31, 2010: 2011, \$17,021,464; 2012, \$10,019,974; 2013, \$16,929; 2014, \$11,817; 2015, \$8,851 and thereafter, \$17,521,162.

**NOTE 11 - 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. The interest rate of the debentures was fixed at 6.40% for a five-year period through March 26, 2008. Effective March 27, 2008, interest is at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 3.44% at December 31, 2010 and 3.52% at December 31, 2009, with interest payable quarterly. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures amounted to \$353,965 in 2010, \$409,971 in 2009, and \$626,897 in 2008, and is included in interest expense-borrowings in the accompanying consolidated statements of income.

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

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - OTHER OPERATING EXPENSES**

Other operating expenses consisted of the following for the years ended December 31, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Data processing	\$ 510,621	\$ 586,143	\$ 598,547
Professional fees	953,801	683,860	550,374
Franchise tax	452,185	522,909	570,468
Advertising	546,025	339,246	410,406
ATM processing and other fees	227,685	144,606	367,339
Amortization of core deposit intangible asset	94,218	253,980	253,980
Postage	192,699	192,138	186,894
Stationery and supplies	172,594	123,899	140,208
Loss on disposal or write-down of premises and equipment	-	-	275,925
FDIC assessment	806,533	1,150,962	74,099
Loan closing fees	191,951	154,230	152,330
Internet banking	175,683	181,640	140,976
Other real estate owned	427,712	53,283	120,197
Other	1,540,353	1,225,722	1,562,995
	<u>\$ 6,292,060</u>	<u>\$ 5,612,618</u>	<u>\$ 5,404,738</u>

**NOTE 13 - OTHER COMPREHENSIVE INCOME**

The components of other comprehensive income and related tax effects are as follows for the years ended December 31, 2010, 2009, and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Unrealized holding gains (losses) on available-for-sale securities	\$ (553,784)	\$ 4,329,683	\$ 297,178
Reclassification adjustments for net securities gains realized in income	(278,242)	(129,493)	(49,055)
Net unrealized gains (losses)	(832,026)	4,200,190	248,123
Tax effect	(282,889)	1,428,065	84,362
Net-of-tax amount	<u>\$ (549,137)</u>	<u>\$ 2,772,125</u>	<u>\$ 163,761</u>

**NOTE 14 - INCOME TAXES**

The provision for income taxes for the years ended December 31, 2010, 2009 and 2008 consist of the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current	\$ 1,008,711	\$ 436,565	\$ 1,554,362
Deferred	(865,711)	(280,565)	(543,362)
Total provision for income taxes	<u>\$ 143,000</u>	<u>\$ 156,000</u>	<u>\$ 1,011,000</u>

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - INCOME TAXES (CONTINUED)**

The income tax provision attributable to income from operations differed from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income taxes as a result of the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expected tax using statutory tax rate of 34%	\$ 1,003,200	\$ 1,033,100	\$ 1,846,100
Increase (decrease) in tax resulting from:			
Tax-exempt income on state and municipal securities and political subdivision loans	(696,800)	(706,800)	(666,800)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	5,000	8,600	76,400
Tax-exempt income on life insurance contracts	(167,500)	(174,100)	(167,600)
Deductible dividends paid to United Bancshares, Inc. ESOP	(48,400)	(61,700)	(54,500)
Other, net	47,500	56,900	(22,600)
Total provision for income taxes	<u>\$ 143,000</u>	<u>\$ 156,000</u>	<u>\$ 1,011,000</u>

The deferred income tax credit of \$865,711 in 2010, \$280,565 in 2009, and \$543,362 in 2008 resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 2,792,000	\$ 1,671,200
Deferred compensation	315,600	317,400
Alternative minimum tax credits	267,900	293,700
Accrued expenses and other	480,500	472,866
Total deferred tax assets	<u>3,856,000</u>	<u>2,755,166</u>
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	932,777	1,215,666
Federal Home Loan Bank stock dividends	877,500	877,500
Capitalized mortgage servicing rights	378,800	433,000
Depreciation and amortization	1,400,300	1,187,500
Other	119,523	43,000
Total deferred tax liabilities	<u>3,708,900</u>	<u>3,756,666</u>
Net deferred tax assets (liabilities)	<u>\$ 147,100</u>	<u>\$(1,001,500)</u>

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - INCOME TAXES (CONTINUED)**

Net deferred tax assets (liabilities) at December 31, 2010 and 2009 are included in other assets (liabilities) in the consolidated balance sheets.

At December 31, 2010, the Corporation has available alternative minimum tax credit carryforwards of approximately \$267,900 which may be utilized in the future to the extent computed regular tax exceeds the alternative minimum tax.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2010 and 2009.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2010, 2009, and 2008 is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at January 1	\$ 203,000	\$ 154,200	\$ 82,300
Additions based on tax positions related to the current year	<u>39,400</u>	<u>48,800</u>	<u>71,900</u>
Balance at December 31	<u>\$ 242,400</u>	<u>\$ 203,000</u>	<u>\$ 154,200</u>

There was no impact on unrecognized tax benefits for the years ended December 31, 2010, 2009, and 2008 as a result of additions or reductions of prior years or reductions due to statute of limitations or settlements.

The Corporation had unrecognized tax benefits of \$242,400 and \$203,000 at December 31, 2010 and 2009, respectively. Such unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods. The Corporation expects \$82,300 of unrecognized tax benefits will be recognized in 2011 as a result of statute of limitations.

The amount of accrued interest related to the Corporation's uncertain tax positions was \$15,700 at December 31, 2010 and \$8,100 at December 31, 2009, respectively.

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Corporation and its subsidiaries are no longer subject to examination by taxing authorities for years before 2007. The Corporation's 2009 tax year is currently under federal examination. Management anticipates no material impact to the Corporation's financial position as a result of this examination.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 - EMPLOYEE AND DIRECTOR BENEFITS**

The Corporation and Bank sponsor a salary deferral, defined contribution plan which provides for both profit sharing and employer matching contributions. The plan permits the investing in the Corporation's stock subject to certain limitations. Participants who meet certain eligibility conditions are eligible to participate and defer a specified percentage of their eligible compensation subject to certain income tax law limitations. The Corporation makes discretionary matching and profit sharing contributions, as approved annually by the Board of Directors, subject to certain income tax law limitations. Contribution expense for the plan amounted to \$511,935, \$487,745, and \$491,502 in 2010, 2009, and 2008, respectively. At December 31, 2010, the Plan owned 332,018 shares of the Corporation's common stock.

The Bank also sponsors nonqualified deferred compensation plans, covering certain directors and employees, which have been indirectly funded through the purchase of split-dollar life insurance policies. In connection with the policies, the Bank has provided an estimated liability for accumulated supplemental retirement benefits amounting to \$623,699 and \$616,307 at December 31, 2010 and 2009, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. The Bank has also purchased split-dollar life insurance policies for investment purposes to fund other employee benefit plans. The combined cash values of these policies aggregated \$12,322,390 and \$11,851,036 at December 31, 2010 and 2009, respectively.

Under an employee stock purchase plan, eligible employees may defer a portion of their compensation and use the proceeds to purchase stock of the Corporation at a discount determined semi-annually by the Board of Directors as stipulated in the plan. The Corporation sold from treasury 1,123 shares in 2010, 2,103 shares in 2009, and 7,258 shares in 2008 under the plan.

The Bank has an agreement with Leipsic's former President, who is the Corporation's current Chairman of the Board of Directors, to provide for retirement compensation benefits. Such benefits are to be paid over a period of twenty years commencing upon retirement effective December 31, 2001. At December 31, 2010 and 2009, the net present value (based on the 12% discount rate in effect at the time of origination of the agreement) of future deferred compensation payments amounted to \$304,625 and \$317,235, respectively. Such amounts are included in other liabilities in the December 31, 2010 and 2009 consolidated balance sheets. A split-dollar life insurance policy has been purchased and is available to fund a portion of the future deferred compensation payments. The cash value of the policy amounted to \$572,281 and \$550,948 at December 31, 2010 and 2009, respectively.

The Chief Executive Officer and Chief Financial Officer of the Corporation have employment agreements which provide for certain compensation and benefits should any triggering events occur, as specified in the agreements, including change of control or termination without cause.

---



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16 - STOCK OPTIONS**

The following summarizes stock options activity for the years ended December 31, 2010, 2009, and 2008:

	2010		2009		2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	5,146	\$ 9.66	5,146	\$ 9.66	12,006	\$12.95
Expired	(5,146)	9.66	-	-	(6,860)	15.42
Outstanding and exercisable at end of year	<u>-</u>	<u>\$ -</u>	<u>5,146</u>	<u>\$ 9.66</u>	<u>5,146</u>	<u>\$ 9.66</u>

Options outstanding at December 31, 2009 at an exercise price of \$9.66 expired May 5, 2010.

**NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are primarily loan commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amount of these instruments reflects the extent of involvement the Bank has in these financial instruments.

The Bank's exposure to credit loss in the event of the nonperformance by the other party to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of these instruments. The Bank uses the same credit policies in making loan commitments as it does for on-balance sheet loans.

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2010 and 2009:

	Contract amount	
	2010	2009
Commitments to extend credit	<u>\$ 67,433,000</u>	<u>\$ 66,271,000</u>
Letters of credit	<u>\$ 2,602,000</u>	<u>\$ 1,067,000</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties.



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)**

Letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. All letters of credit outstanding at December 31, 2010 expire in 2011. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank requires collateral supporting these commitments when deemed necessary.

**NOTE 18 - REGULATORY MATTERS**

The Corporation (on a consolidated basis) and Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Corporation and Bank meet all capital adequacy requirements to which they are subject. Furthermore, the Board of Directors of the Bank has adopted a resolution to maintain Tier I capital at or above 8% of total assets.

As of December 31, 2010, the most recent notification from federal and state banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank is currently working with regulatory agencies to address certain regulatory matters resulting from the Bank's most recent examination. The management of the Bank is actively working towards achieving a resolution of any and all matters identified by the regulators during this examination and management does not believe that compliance with these issues will have a material adverse effect on the operations or financial condition of the Bank.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 18 - REGULATORY MATTERS (CONTINUED)**

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2010 and 2009 are presented in the following table:

	<u>Actual</u>		<u>Minimum capital requirement</u>		<u>Minimum to be well capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>(Dollars in Thousands)</b>						
<b>As of December 31, 2010</b>						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 60,222	13.4%	\$ 35,972	≥ 8.0%	N/A	N/A
Bank	57,740	12.9%	35,890	≥ 8.0%	\$ 44,863	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	\$ 54,572	12.1%	\$ 17,986	≥ 4.0%	N/A	N/A
Bank	52,103	11.6%	17,945	≥ 4.0%	\$ 26,918	6.0%
Tier I Capital (to Average Assets)						
Consolidated	\$ 54,572	9.0%	\$ 24,338	≥ 4.0%	N/A	N/A
Bank	52,103	8.6%	24,311	≥ 4.0%	\$ 30,388	5.0%
<b>As of December 31, 2009</b>						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 59,549	12.7%	\$ 37,546	≥ 8.0%	N/A	N/A
Bank	55,134	11.8%	37,436	≥ 8.0%	\$ 46,795	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	\$ 54,745	11.7%	\$ 18,773	≥ 4.0%	N/A	N/A
Bank	50,330	10.8%	18,718	≥ 4.0%	\$ 28,077	6.0%
Tier I Capital (to Average Assets)						
Consolidated	\$ 54,745	9.2%	\$ 23,848	≥ 4.0%	N/A	N/A
Bank	50,330	8.3%	24,194	≥ 4.0%	\$ 30,243	5.0%

On a parent company only basis, the Corporation's primary source of funds is dividends paid by the Bank. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations, and to prudent and sound banking principles. Generally, subject to certain minimum capital requirements, the Bank may declare dividends without the approval of the State of Ohio Division of Financial Institutions, unless the total dividends in a calendar year exceed the total of the Bank's net profits for the year combined with its retained profits of the two preceding years.

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 18 - REGULATORY MATTERS (CONTINUED)**

The Board of Governors of the Federal Reserve System generally considers it to be an unsafe and unsound banking practice for a bank holding company to pay dividends except out of current operating income, although other factors such as overall capital adequacy and projected income may also be relevant in determining whether dividends should be paid.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"), which brings significant financial reform. Among other things, the law:

- Creates a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation;
- Creates a Consumer Financial Protection Agency authorized to promulgate and enforce consumer protection regulations relating to financial products, which would affect both banks and non-bank finance companies;
- Establishes strengthened capital standards for banks and bank holding companies, and disallows trust preferred securities from being included in the Tier 1 capital determination for certain financial institutions;
- Enhances regulation of financial markets, including derivatives and securitization markets;
- Contains a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards and prepayments;
- Grants the Board of Governors of the Federal Reserve System the power to regulate debit card interchange fees;
- Prohibits certain trading activities by banks;
- Permanently increases the maximum standard FDIC deposit insurance amount to \$250,000; and
- Creates an Office of National Insurance with the U.S. Department of Treasury.

While the provisions of the Act receiving the most public attention have generally been those more likely to affect larger institutions, the Act also contains many provisions which will affect smaller institutions such as the Corporation in substantial and unpredictable ways. Consequently, compliance with the Act's provisions may curtail the Corporation's revenue opportunities, increase its operating costs, require it to hold higher levels of regulatory capital and/or liquidity or otherwise adversely affect the Corporation's business or financial results in the future. The Corporation's management is actively reviewing the provisions of the Act and assessing its probable impact on the Corporation's business, financial condition, and results of operations. However, because many aspects of the Act are subject to future rulemaking, it is difficult to precisely anticipate its overall financial impact on the Corporation and the Bank at this time.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION**

A summary of condensed financial information of the parent company as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 is as follows:

<b>Condensed Balance Sheets</b>	<b>2010</b>	<b>2009</b>
Assets:		
Cash	\$416,912	\$2,800,432
Investment in bank subsidiary	62,835,606	60,163,521
Premises and equipment, net of accumulated depreciation	394,883	420,504
Other assets, including income taxes receivable from bank subsidiary of \$72,900 in 2010 and \$873,103 in 2009	<u>1,700,012</u>	<u>1,313,827</u>
Total assets	<u>\$65,347,413</u>	<u>\$64,698,284</u>
Liabilities:		
Accrued expenses	\$ 42,350	\$ 119,179
Junior subordinated deferrable interest debentures	<u>10,300,000</u>	<u>10,300,000</u>
Total liabilities	<u>10,342,350</u>	<u>10,419,179</u>
Shareholders' equity:		
Common stock	3,760,557	3,760,557
Surplus	14,660,000	14,659,661
Retained earnings	39,600,718	38,343,134
Accumulated other comprehensive income	1,810,684	2,359,821
Treasury stock, at cost	<u>(4,826,896)</u>	<u>(4,844,068)</u>
Total shareholders' equity	<u>55,005,063</u>	<u>54,279,105</u>
Total liabilities and shareholders' equity	<u>\$65,347,413</u>	<u>\$64,698,284</u>

<b>Condensed Statements of Income</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Income – including dividends from bank subsidiary	\$ 6,226	\$ 3,006,657	\$ 3,000,000
Expenses – interest expense, professional fees and other expenses, net of federal income tax benefit	<u>(419,766)</u>	<u>(511,641)</u>	<u>(642,937)</u>
Income (loss) before equity in undistributed net income of bank subsidiary	(413,540)	2,495,016	2,357,063
Equity in undistributed net income of bank subsidiaries	<u>3,221,222</u>	<u>387,580</u>	<u>2,061,534</u>
Net income	<u>\$ 2,807,682</u>	<u>\$ 2,882,596</u>	<u>\$ 4,418,597</u>



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)**

<b>Condensed Statements of Cash Flows</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:			
Net income	\$ 2,807,682	\$ 2,882,596	\$ 4,418,597
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of bank subsidiary	(3,221,222)	(387,580)	(2,061,534)
Credit for accrued compensation – stock options	-	-	(11,286)
Depreciation and amortization	25,621	25,622	39,038
Increase in other assets	(386,185)	(103,798)	(600,189)
Increase (decrease) in accrued expenses	(76,829)	614	(36,436)
Net cash provided by (used in) operating activities	<u>(850,933)</u>	<u>2,417,454</u>	<u>1,748,190</u>
Cash flows from financing activities:			
Purchase of common stock	-	-	(775,250)
Proceeds from sale of treasury shares	17,511	30,632	98,709
Cash dividends paid	(1,550,098)	(2,065,963)	(2,064,686)
Net cash used in financing activities	<u>(1,532,587)</u>	<u>(2,035,331)</u>	<u>(2,741,227)</u>
Net increase (decrease) in cash	(2,383,520)	382,123	(993,037)
Cash at beginning of the year	<u>2,800,432</u>	<u>2,418,309</u>	<u>3,411,346</u>
Cash at end of the year	<u>\$ 416,912</u>	<u>\$ 2,800,432</u>	<u>\$ 2,418,309</u>

During 2005, the Board of Directors approved a program whereby the Corporation purchases shares of its common stock in the open market. The decision to purchase shares, the number of shares to be purchased, and the price to be paid depends upon the availability of shares, prevailing market prices, and other possible considerations which may impact the advisability of purchasing shares. The Corporation purchased 55,000 shares in 2008 (none in 2010 and 2009) under the program.



**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 - FAIR VALUE MEASUREMENTS**

Fair value is defined 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.

FASB ASC 820-10, *Fair Value Measurements* (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.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<b><u>2010</u></b>	<b><u>Level 1</u></b> <b><u>inputs</u></b>	<b><u>Level 2</u></b> <b><u>inputs</u></b>	<b><u>Level 3</u></b> <b><u>inputs</u></b>	<b><u>Total</u></b> <b><u>fair value</u></b>
Recurring:				
Securities available-for-sale:				
Obligations of state and political subdivisions	\$ -	\$ 47,298,232	\$ -	\$ 47,298,232
Mortgage-backed	-	92,632,687	-	92,632,687
Other	-	509,442	-	509,442
Mortgage servicing rights	-	-	1,114,126	1,114,126
Total recurring	<u>\$ -</u>	<u>\$ 140,440,361</u>	<u>\$ 1,114,126</u>	<u>\$ 141,554,487</u>
Nonrecurring:				
Impaired loans	\$ -	\$ -	\$ 12,360,108	\$ 12,360,108
Other real estate owned	-	-	4,524,729	4,524,729
Total nonrecurring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,884,837</u>	<u>\$ 16,884,837</u>
<b><u>2009</u></b>				
Recurring:				
Securities available-for-sale	\$ -	\$ 138,586,362	\$ -	\$ 138,586,362
Mortgage servicing rights	-	-	1,273,525	1,273,525
Total recurring	<u>\$ -</u>	<u>\$ 138,586,362</u>	<u>\$ 1,273,525</u>	<u>\$ 139,859,887</u>
Nonrecurring:				
Impaired loans	\$ -	\$ -	\$ 11,947,282	\$ 11,947,282
Other real estate owned	-	-	5,170,635	5,170,635
Total nonrecurring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,117,917</u>	<u>\$ 17,117,917</u>

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

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The table below presents a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 1,273,525	\$ 703,388	\$1,531,225
Gains or losses, including realized and unrealized:			
Purchases, issuances, and settlements	315,039	612,499	146,966
Disposals – amortization based on loan payments and payoffs	(332,851)	(237,463)	(325,712)
Other changes in fair value	<u>(141,587)</u>	<u>195,101</u>	<u>(649,091)</u>
Balance at end of year	<u>\$ 1,114,126</u>	<u>\$1,273,525</u>	<u>\$703,388</u>

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

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

***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 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 may be classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 1 or Level 3 at December 31, 2010 and 2009.

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 - FAIR VALUE MEASUREMENTS (CONTINUED)**

***Impaired Loans***

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. Due to the significance of the level 3 inputs, impaired loans fair values have been classified as level 3.

Losses included in earnings before income taxes amounted to \$2,072,456 in 2010 and \$5,640,681 in 2009, relating to impaired loans, and such losses are included in the provision for loan losses. There were no gains or losses relating to securities available-for-sale included in earnings before income taxes that were attributable to changes in fair values of securities held at December 31, 2010 and 2009.

***Other Real Estate Owned***

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less expected selling costs. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3.

Certain 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 December 31, 2010.

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of recognized financial instruments at December 31, 2010 and 2009 are as follows:

	<b>2010</b>		<b>2009</b>	
	<b>Carrying amount</b>	<b>Estimated value</b>	<b>Carrying amount</b>	<b>Estimated value</b>
	<b>(dollars in thousands)</b>			
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$ 48,604	\$ 48,604	\$ 27,380	\$ 27,380
Securities, including Federal Home Loan Bank stock	145,334	145,334	143,480	143,480
Net loans	375,891	389,124	403,011	430,072
Mortgage servicing rights	1,114	1,114	1,274	1,274
	<u>\$570,943</u>	<u>\$ 584,176</u>	<u>\$ 575,145</u>	<u>\$ 602,206</u>

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

	2010		2009	
	Carrying amount	Estimated value	Carrying amount	Estimated value
	(dollars in thousands)			
FINANCIAL LIABILITIES				
Deposits	\$ 488,651	\$ 492,413	\$ 469,668	\$ 472,617
Other borrowings	55,778	58,415	77,907	80,649
Junior subordinated deferrable interest debentures	10,300	9,913	10,300	8,776
Other liabilities	2,883	2,963	4,251	4,341
	<u>\$ 557,612</u>	<u>\$ 563,704</u>	<u>\$ 562,126</u>	<u>\$ 566,383</u>

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

There are also unrecognized financial instruments at December 31, 2010 and 2009 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$70,035,000 at December 31, 2010 and \$67,338,000 at December 31, 2009. Such amounts are also considered to be the estimated fair values.

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

**Cash and cash equivalents:**

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

**Securities:**

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

**Loans:**

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

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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 year 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 financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount, since these financial instruments generally represent commitments at existing rates. The fair value of other borrowings is determined based on a discounted cash flow analysis using current interest rates. The fair value of the junior subordinated deferrable interest debentures is determined based on quoted market prices of similar instruments. The fair value of other liabilities is generally considered to be carrying value except for the deferred compensation agreement described in Note 17. The fair value of the contract is determined based on a discounted cash flow analysis using a current interest rate for a similar instrument.

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

**NOTE 22 - CONTINGENT LIABILITIES**

In the normal course of business, the Corporation and its subsidiary may be involved in various legal actions, but in the opinion of management and legal counsel, the ultimate disposition of such matters is not expected to have a material adverse effect on the consolidated financial statements.

---

**UNITED BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 23 - QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following represents a summary of selected unaudited quarterly financial data for 2010 and 2009:

	<u>Interest income</u>	<u>Net interest income</u>	<u>Net income (loss)</u>	<u>Income (loss) per common share</u>	
				<u>Basic</u>	<u>Diluted</u>
	(Dollars in thousands, except per share data)				
<b>2010</b>					
First quarter	\$ 7,712	\$ 5,223	\$ 1,024	\$ .30	\$ .30
Second quarter	7,789	5,406	307	.09	.09
Third quarter	7,522	5,420	879	.26	.26
Fourth quarter	7,241	5,256	598	.17	.17
<b>2009</b>					
First quarter	\$ 8,399	\$ 5,040	\$ 1,432	\$ .42	\$ .42
Second quarter	8,343	5,141	1,335	.39	.39
Third quarter	8,299	5,255	(777)	(.23)	(.23)
Fourth quarter	7,826	5,114	893	.26	.26

This information is an integral part of the accompanying  
consolidated financial statements.

---

**UNITED BANCSHARES, INC.**  
**Columbus Grove, Ohio**

**DIRECTORS – UNITED BANCSHARES, INC.**

<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE</u>	<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE</u>
Robert L. Benroth <i>Putnam County Auditor</i>	48	2003	David P. Roach <i>Vice President/GM, First Family Broadcasting of Ohio</i>	60	2001
Robert L. Dillhoff <i>Retired Administrator, Ohio Dept. of Transportation</i>	64	2001	Daniel W. Schutt <i>President/CEO</i>	63	2005
James N. Reynolds <i>Chairman, Retired Banker</i>	73	2000	R. Steven Unverferth <i>President, Unverferth Manufacturing Corporation, Inc.</i>	58	2005
H. Edward Rigel <i>Farmer, Rigel Farms, Inc</i>	68	2000			

**DIRECTORS – THE UNION BANK COMPANY**

<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE(a)</u>	<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE(a)</u>
Robert L. Benroth <i>Putnam County Auditor</i>	48	2001	H. Edward Rigel <i>Farmer, Rigel Farms, Inc.</i>	68	1979
Robert L. Dillhoff <i>Retired Administrator, Ohio Dept. of Transportation</i>	64	1991	David P. Roach <i>Vice President/GM, First Family Broadcasting of Ohio</i>	60	1997
Herbert H. Huffman <i>Retired - Educator</i>	60	1993	Robert M. Schulte, Sr. <i>Businessman/Spherion Services</i>	78	1994
Kevin L. Lammon <i>Village Administrator, Village of Leipsic</i>	56	1996	Daniel W. Schutt <i>Chairman/Chief Executive Officer</i>	63	2005
William R. Perry <i>Farmer</i>	52	1990	R. Steven Unverferth <i>President, Unverferth Manufacturing Corporation, Inc.</i>	58	1993
James N. Reynolds <i>Retired Banker</i>	73	1966	Brian D. Young <i>President/CFO/COO</i>	44	2008

(a) Indicates year first elected or appointed to the board of The Union Bank Company or any of the former affiliate banks, Bank of Leipsic or the Citizens Bank of Delphos.

**OFFICERS – UNITED BANCSHARES, INC.**

James N. Reynolds – Chairman

Daniel W. Schutt – President / Chief Executive Officer



**OFFICERS – THE UNION BANK COMPANY**

Daniel W. Schutt - CEO/Chairman  
 Brian D. Young - President/CFO/COO

John P. Miller	Senior Vice President	Lewis R. Renollet	Senior Vice President
Heather M. Oatman	Senior Vice President, Sec.	Norman V. Schnipke	Senior Vice President
Dan M. Best	Vice President	Jeffrey L. Point	Vice President
Mark G. Honigford	Vice President	Ricardo Rosado	Vice President
Dana F. Lawrence	Vice President	Mary L. Schroeder	Vice President
Max E. Long	Vice President		
Amy E. Blankemeyer	Assistant Vice President	Amy E. Reese	Assistant Vice President
Nancianne Carroll	Assistant Vice President	Kevin E. Rice	Assistant Vice President
Kimberly K. Dray	Assistant Vice President	Gary G. Ricker	Assistant Vice President
Amy C. Felter	Assistant Vice President	M. Chris Sanderson	Assistant Vice President
Vicky K. Gilbert	Assistant Vice President	Deborah R. Soldenwagner	Assistant Vice President
Erin W. Hardesty	Assistant Vice President	Suzanne L. St. Clair	Assistant Vice President
Susan A. Hojnacki	Assistant Vice President	Craig R. Stechschulte	Assistant Vice President
Kimberly J. Kandik	Assistant Vice President	Theresa A. Stein-Moenter	Assistant Vice President
Amy L. Laibe	Assistant Vice President	Stacia R. Thompson	Assistant Vice President
Shawn C. McFarland	Assistant Vice President	Jason R. Thornell	Assistant Vice President
Doris A. Neumeier	Assistant Vice President	Kimberly S. Verhoff	Assistant Vice President
Brent D. Nussbaum	Assistant Vice President	Troy M. Verhoff	Assistant Vice President
James C. Osmon	Assistant Vice President	Vikki L. Williams	Assistant Vice President
Peter J. Rafaniello	Assistant Vice President	Lisa D. Wiswasser	Assistant Vice President
Rose Ann Recker	Assistant Vice President		
Patricia S. Christman	Accounting Officer	Christina J. Hegemier	Assistant Manager of Bookkeeping

[\(Back To Top\)](#)

**Section 3: EX-21****Exhibit 21****United Bancshares, Inc. Subsidiaries**

The Union Bank Company  
 Ohio banking corporation  
 Columbus Grove, Ohio

United (OH) Statutory Trust I  
 Connecticut statutory trust  
 Columbus Grove, Ohio

UBC Investments, Inc. – a wholly-owned subsidiary of The Union Bank Company  
 Delaware corporation  
 Wilmington, Delaware

UBC Property, Inc. – a wholly-owned subsidiary of The Union Bank Company  
Ohio corporation  
Columbus Grove, Ohio

[\(Back To Top\)](#)

## **Section 4: EX-23**

### **Exhibit 23**

#### **Consent Of Independent Registered Public Accounting Firm**

The Board of Directors  
United Bancshares, Inc.

We hereby consent to the incorporation by reference in the Registration Statement (No. 333-106929) on Form S-8 of United Bancshares, Inc. of our report dated March 28, 2011, relating to the consolidated balance sheets of United Bancshares, Inc. and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010, which report is incorporated by reference in the December 31, 2010 Annual Report on Form 10-K of United Bancshares, Inc.

/s/ CLIFTON GUNDERSON LLP

Toledo, Ohio  
March 28, 2011

[\(Back To Top\)](#)

## **Section 5: EX-31**

### **Exhibit 31.1**

#### **CERTIFICATION - CEO**

In connection with the Annual Report of United Bancshares, Inc. on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel W. Schutt, President and Chief Executive Officer of United Bancshares, Inc., certify, that:

(1) I have reviewed this Annual Report on Form 10-K of United Bancshares, Inc.;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), and internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:

a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DANIEL W. SCHUTT

Daniel W. Schutt

President and Chief Executive Officer

March 28, 2011

[\(Back To Top\)](#)

## Section 6: EX-31

### Exhibit 31.2

#### CERTIFICATION - CFO

In connection with the Annual Report of United Bancshares, Inc. on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the

"Report"), I, Brian D. Young, Chief Financial Officer of United Bancshares, Inc., certify, that:

(1) I have reviewed this Annual Report on Form 10-K of United Bancshares, Inc.;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), and internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:

a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brian D. Young

Brian D. Young

Chief Financial Officer

March 28, 2011

[\(Back To Top\)](#)

## Section 7: EX-32

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of United Bancshares, Inc. (the "Corporation") on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel W. Schutt, Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ DANIEL W. SCHUTT

Daniel W. Schutt

Chief Executive Officer

Date: March 28, 2011

\*This certification is being furnished as required by Rule 13a –14(b) under the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

[\(Back To Top\)](#)

## **Section 8: EX-32**

### **Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of United Bancshares, Inc. (the "Corporation") on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Brian D. Young

Brian D. Young  
Chief Financial Officer

Date: March 28, 2011

\*This certification is being furnished as required by Rule 13a –14(b) under the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

[\(Back To Top\)](#)

## **Section 9: EX-99**

### **Exhibit 99**

#### **SAFE HARBOR UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. United Bancshares, Inc. ("Corporation") desires to take advantage of the "safe harbor" provisions of the Act. Certain information, particularly information regarding future economic performance and finances and plans and objectives of management, contained or incorporated by reference in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, is forward-looking. In some cases, information regarding certain important factors that could cause actual results of operations or outcomes of other events to differ materially from any such forward-looking statement appears together with such statement. In addition, forward-looking statements are subject to other risks and uncertainties affecting the financial institutions industry, including, but not limited to, the following:

#### **Interest Rate Risk**

The Corporation's operating results are dependent to a significant degree on its net interest income, which is the difference between interest income from loans, investments and other interest-earning assets and interest expense on deposits, borrowings and other interest-bearing liabilities. The interest income and interest expense of the Corporation change as the interest rates on interest-earning assets and interest-bearing liabilities change. Interest rates may change because of general economic conditions, the policies of various regulatory authorities and other factors beyond the Corporation's control. In a rising interest rate environment, loans tend to prepay slowly and new loans at higher rates increase slowly, while interest paid on deposits increases rapidly because the terms to maturity of deposits tend to be shorter than the terms to maturity or prepayment of loans. Such differences in the

adjustment of interest rates on assets and liabilities may negatively affect the Corporation's income.

### **Possible Inadequacy of the Allowance for Loan Losses**

The Corporation maintains an allowance for loan losses based upon a number of relevant factors, including, but not limited to, trends in the level of non-performing assets and classified loans, current economic conditions in the primary lending area, past loss experience, possible losses arising from specific problem loans and changes in the composition of the loan portfolio. While the Board of Directors of the Corporation believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in material adjustments, and net earnings could be significantly adversely affected if circumstances differ substantially from the assumptions used in making the final determination.

Loans not secured by one-to-four family residential real estate are generally considered to involve greater risk of loss than loans secured by one- to four-family residential real estate due, in part, to the effects of general economic conditions. The repayment of multifamily residential, nonresidential real estate and commercial loans generally depends upon the cash flow from the operation of the property or business, which may be negatively affected by national and local economic conditions. Construction loans may also be negatively affected by such economic conditions, particularly loans made to developers who do not have a buyer for a property before the loan is made. The risk of default on consumer loans increases during periods of recession, high unemployment and other adverse economic conditions. When consumers have trouble paying their bills, they are more likely to pay mortgage loans than consumer loans. In addition, the collateral securing such loans, if any, may decrease in value more rapidly than the outstanding balance of the loan.

---

## **Competition**

The Corporation competes for deposits with other savings associations, commercial banks and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. The primary factors in competing for deposits are interest rates and convenience of office location. In making loans, the Corporation competes with other commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors that are not readily predictable. The size of financial institutions competing with the Corporation is likely to increase as a result of changes in statutes and regulations eliminating various restrictions on interstate and inter-industry branching and acquisitions. Such increased competition may have an adverse effect upon the Corporation.

## **Legislation and Regulation that may Adversely Affect the Corporation's Earnings**

The Corporation is subject to extensive regulation by the State of Ohio, Division of Financial Institutions (the "ODFI"), the Federal Reserve Bank (the "FED"), and the Federal Deposit Insurance Corporation (the "FDIC") and is periodically examined by such regulatory agencies to test compliance with various regulatory requirements. Such supervision and regulation of the Corporation and the bank are intended primarily for the protection of depositors and not for the maximization of shareholder value and may affect the ability of the company to engage in various business activities. The assessments, filing fees and other costs associated with reports, examinations and other regulatory matters are significant and may have an adverse effect on the Corporation's net earnings.

[\(Back To Top\)](#)