

# Section 1: 10-K (FORM 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, 2013  
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 Market**  
(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 X No \_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 \$39,785,746, based upon the last sales price as quoted on the NASDAQ Global Market as of June 30, 2013.

The number of shares of Common Stock, no par value outstanding as of January 31, 2014: 3,442,364.



## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2013 are incorporated by reference into Part II. Portions of the Proxy Statement dated March 19, 2014 for the 2014 Annual Meeting of Shareholders to be held on April 23, 2014 are incorporated by reference into Part III.

### INDEX

	Page(s)
<b>Part I</b>	
Item 1. Business	3-24
Item 1A. Risk Factors	24-33
Item 1B. Unresolved Staff Comments	33
Item 2. Properties	33-34
Item 3. Legal Proceedings	34
Item 4. Mine Safety Disclosures	34
<b>Part II</b>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6. Selected Financial Data	36
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	36
Item 8. Financial Statements and Supplementary Data	36
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	36
Item 9A. Controls and Procedures	36-37
Item 9B. Other Information	37
<b>Part III</b>	
Item 10. Directors, Executive Officers and Corporate Governance of the Registrant	38
Item 11. Executive Compensation	38
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	38
Item 13. Certain Relationships and Related Transactions and Director Independence	38
Item 14. Principal Accountant Fees and Services	39
<b>Part IV</b>	
Item 15. Exhibits and Financial Statement Schedules	39-40
Signatures	41

## 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, 2013, the Corporation employed approximately 137 full-time equivalent employees.

United Bancshares, Inc.'s common stock has traded 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) and other financial instruments, 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; 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 commercial banks, savings associations 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. 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

### 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 regulatory 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 9 to the consolidated financial statements contained in the Corporation's Annual Report, qualify as Tier I capital under current regulations.

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. 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. The FDIC applied the Bank's first two quarterly assessments in 2013 against the remaining prepaid balance and refunded \$171,034 to the Bank at the end of the second quarter of 2013.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the Deposit Insurance Fund to insured deposits. The Dodd-Frank Act directs the FDIC to amend its assessment regulations so that future assessments will generally be based upon a depository institution's average total consolidated assets minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution's insured deposits. The minimum deposit insurance fund rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of \$10 billion or more. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

The Consumer Financial Protection Bureau ("CFPB"), pursuant to the Dodd-Frank Act, issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring creditors to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Creditors are required to determine consumers' ability to repay in one of two ways. The first alternative requires the creditor to consider the following eight underwriting factors when making the credit decision: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) the monthly payment on the covered transaction; (iv) the monthly payment on any simultaneous loan; (v) the monthly payment for mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) the monthly debt-to-income ratio or residual income; and (viii) credit history. Alternatively, the creditor can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Qualified mortgages that are "higher-priced" (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g. prime loans) are given a safe harbor of compliance. To meet the mortgage credit needs of a broader customer base, the Corporation and its subsidiary are predominantly an originator of mortgages that are in compliance with the Ability-to-Pay rules.



Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Corporation's business, results of operations and financial condition. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that require revisions to the capital requirements of the Corporation and the Bank could require the Corporation and the Bank to seek other sources of capital in the future.

In July 2013, the federal banking agencies issued a final rule that will revise the leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the international Basel Committee on Banking Supervision and the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), adopts a uniform minimum leverage requirement of 4% of total assets, increases the minimum tier 1 capital to risk-weighted assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weighting (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available for sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional restraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interests. The rule limits a banking organization's capital distributions and certain discretionary bonus payments to executives if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective on January 1, 2015. The capital conservation buffer requirements will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

#### 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 2013 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:

	2013	2012	2011
	(dollars in thousands)		
<b>ASSETS</b>			
<b>Interest-earning assets</b>			
Securities (1)			
Taxable	\$ 132,471	\$ 121,376	\$ 104,755
Non-taxable	60,107	46,390	46,981
Interest bearing deposits	29,770	37,625	41,802
Federal funds sold	23	46	82
Loans (2)	299,379	325,114	360,669
Total interest-earning assets	521,750	530,551	554,289
<b>Non-interest-earning assets</b>			
Cash and due from banks	8,487	7,242	6,944
Premises and equipment, net	9,174	9,385	9,728
Accrued interest receivable and other assets	28,027	28,773	31,266
Allowance for loan losses	(5,681)	(7,485)	(8,762)
	<u>\$ 561,757</u>	<u>\$ 568,466</u>	<u>\$ 593,465</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Interest-bearing liabilities</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 212,464	\$ 194,590	\$ 171,142
Time deposits	180,110	208,982	256,953
Junior subordinated deferrable interest debentures	10,300	10,300	10,300
Other borrowings	21,589	27,488	41,058
Total interest-bearing liabilities	424,463	441,360	479,453
<b>Non-interest-bearing liabilities</b>			
Demand deposits	69,794	60,876	53,505
Accrued interest payable and other Liabilities	4,136	4,196	3,078
Shareholders' equity (3)	63,364	62,034	57,429
	<u>\$ 561,757</u>	<u>\$ 568,466</u>	<u>\$ 593,465</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 fair 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.

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.

	2013 Average Balance	Interest	Average Rate
(dollars in thousands)			
<b>INTEREST-EARNING ASSETS</b>			
Securities (1)			
Taxable	\$ 132,471	\$ 2,690	2.03%
Non-taxable (2)	60,107	2,816	4.68%
Loans (3, 4)	299,379	15,248	5.09%
Other	29,793	102	0.34%
Total interest-earning assets	<u>\$ 521,750</u>	<u>20,856</u>	<u>4.00%</u>
<b>INTEREST-BEARING LIABILITIES</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 212,464	304	0.14%
Time deposits	180,110	1,838	1.02%
Junior subordinated deferrable interest debentures	10,300	353	3.43%
Other borrowings	21,589	754	3.49%
Total interest-bearing liabilities	<u>\$ 424,463</u>	<u>3,249</u>	<u>0.77%</u>
Net interest income, tax equivalent basis		<u>\$ 17,607</u>	
Net interest income as a percent of average interest-earning assets			<u>3.38%</u>

(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 fair 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 \$798,786.

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

	2012 Average Balance	Interest	Average Rate
(dollars in thousands)			
<b>INTEREST-EARNING ASSETS</b>			
Securities (1)			
Taxable	\$ 121,376	\$ 2,777	2.29%
Non-taxable (2)	46,390	2,708	5.84%
Loans (3, 4)	325,114	17,922	5.51%
Other	37,671	114	0.30%
Total interest-earning assets	<u>\$ 530,551</u>	<u>23,521</u>	<u>4.43%</u>
<b>INTEREST-BEARING LIABILITIES</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 194,590	286	0.15%
Time deposits	208,982	3,062	1.47%
Junior subordinated deferrable interest debentures	10,300	368	3.57%
Other borrowings	27,488	960	3.49%
Total interest-bearing liabilities	<u>\$ 441,360</u>	<u>4,676</u>	<u>1.06%</u>
Net interest income, tax equivalent basis		<u>\$ 18,845</u>	
Net interest income as a percent of average interest-earning assets			<u>3.55%</u>

- (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 \$1,213,462.

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

	2011 Average Balance	Interest	Average Rate
(dollars in thousands)			
<b>INTEREST-EARNING ASSETS</b>			
Securities available-for-sale (1)			
Taxable	\$ 104,755	\$ 3,257	3.11%
Non-taxable (2)	46,981	2,933	6.24%
Loans (3, 4)	360,669	21,198	5.88%
Other	41,884	99	0.24%
Total interest-earning assets	<u>\$ 554,289</u>	<u>27,487</u>	<u>4.96%</u>
<b>INTEREST-BEARING LIABILITIES</b>			
Deposits			
Savings and interest-bearing demand deposits	\$ 171,142	249	0.15%
Time deposits	256,953	5,291	2.06%
Junior subordinated deferrable interest debentures	10,300	350	3.40%
Other borrowings	41,058	1,436	3.50%
Total interest-bearing liabilities	<u>\$ 479,453</u>	<u>7,326</u>	<u>1.53%</u>
Net interest income, tax equivalent basis		<u>\$ 20,161</u>	
Net interest income as a percent of average interest-earning assets			<u>3.64%</u>

- (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 \$922,947.

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.

	Total Variance	2013/2012	
		Variance Attributable To Volume	Rate
(dollars in thousands)			
<b>INTEREST INCOME</b>			
Securities -			
Taxable	\$ (87)	\$ 241	\$ (328)
Non-taxable	108	706	(598)
Loans	(2,674)	(1,364)	(1,310)
Other	(12)	(26)	14
Subtotal	(2,665)	(443)	(2,222)
<b>INTEREST EXPENSE</b>			
Deposits -			
Savings and interest-bearing demand deposits	18	26	(8)
Time deposits	(1,223)	(383)	(840)
Junior subordinated deferrable interest debentures	(15)	-	(15)
Other borrowings	(206)	(206)	-
Subtotal	(1,426)	(563)	(863)
<b>NET INTEREST INCOME</b>	<b>\$ (1,239)</b>	<b>\$ 120</b>	<b>\$ (1,359)</b>

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

	2012/2011		
	Total Variance	Variance Attributable To	
		Volume	Rate
	(dollars in thousands)		
<b>INTEREST INCOME</b>			
Securities -			
Taxable	\$ (480)	\$ 466	\$ (946)
Non-taxable	(225)	(37)	(188)
Loans	(3,276)	(2,010)	(1,266)
Other	15	(11)	26
Subtotal	<u>(3,966)</u>	<u>(1,592)</u>	<u>(2,374)</u>
<b>INTEREST EXPENSE</b>			
Deposits -			
Savings and interest-bearing demand deposits	37	34	3
Time deposits	(2,229)	(876)	(1,353)
Junior subordinated deferrable interest debentures	18	-	18
Other borrowings	(476)	(474)	(2)
Subtotal	<u>(2,650)</u>	<u>(1,316)</u>	<u>(1,334)</u>
<b>NET INTEREST INCOME</b>	<u>\$ (1,316)</u>	<u>\$ (276)</u>	<u>\$ (1,040)</u>

II. INVESTMENT PORTFOLIO

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

	2013	2012	2011
	(dollars in thousands)		
U.S. Government agency securities	\$ 12,333	\$ 15,554	\$ 7,521
Obligations of states and political subdivisions	66,540	53,919	49,311
Mortgage-backed securities	117,472	107,607	94,599
Other	735	528	525
	<u>\$ 197,080</u>	<u>\$ 177,608</u>	<u>\$ 151,956</u>

The above excludes Federal Home Loan Bank stock amounting to \$4,893,800 in 2013, 2012, and 2011.

B. The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2013 are as follows (1):

	Maturing			
	Within One Year	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years
	(dollars in thousands)			
Agencies	\$ -	\$ 8,489	\$ 3,844	\$ -
Obligations of states and political subdivisions	2,450	6,295	34,169	23,626
Mortgage-backed securities (2)	-	726	10,858	105,888
	<u>\$ 2,450</u>	<u>\$ 15,510</u>	<u>\$ 48,871</u>	<u>\$ 129,514</u>

	Weighted Average Yield			
Agencies	-	1.04%	1.58%	-
Obligations of states and political subdivisions	3.97%	3.74%	2.86%	3.54%
Mortgage-backed securities (2)	-	4.51%	2.77%	2.50%
Weighted Average Yield - Portfolio	<u>3.97%</u>	<u>2.30%</u>	<u>2.74%</u>	<u>2.69%</u>

(1) Table excludes Federal Home Loan Bank stock and \$735,036 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, 2013.

### 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:

	2013	2012	2011	2010	2009
	(dollars in thousands)				
Commercial and agricultural	\$ 235,152	\$ 241,730	\$ 270,454	\$ 305,657	\$ 286,485
Real estate mortgage	56,651	61,276	64,888	70,331	107,515
Consumer loans	3,934	4,396	5,358	7,919	13,815
	<u>\$ 295,737</u>	<u>\$ 307,402</u>	<u>\$ 340,700</u>	<u>\$ 383,907</u>	<u>\$ 407,815</u>

Real estate mortgage loans include real estate construction loans of \$3.6 million in 2013, \$2.6 million in 2012, \$5.3 million in 2011, \$6.5 million in 2010, and \$4.8 million in 2009. 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 farm equipment. As of December 31, 2013, commercial and agricultural loans make up 79.51% of the loan portfolio; the loans are expected to be repaid from cash flow from operations of the businesses. As of December 31, 2013, real estate mortgage loans make up 19.16% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2013, consumer loans to individuals make up 1.33% 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, 2013 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.)

Maturing	Commercial and Agricultural
	(dollars in thousands)
Within one year	\$ 30,608
After one year but within five years	34,961
After five years	169,583
	<u>\$ 235,152</u>

III. LOAN PORTFOLIO (CONTINUED)

	Interest Sensitivity		Total
	Fixed Rate	Variable Rate	
Due after one year but within five years	\$ 20,284	\$ 14,677	\$ 34,961
Due after five years	9,481	160,102	169,583
	<u>\$ 29,765</u>	<u>\$ 174,779</u>	<u>\$ 204,544</u>

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:

	2013	2012	2011	2010	2009
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	\$ 6,511	\$ 17,171	\$ 21,700	\$ 16,497	\$ 12,937
(b) Loans contractually past due 90 days or more as to interest or principal payments and still accruing interest	37	25	55	126	2,456
(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	201	2,139	4,479	3,092	-
	<u>\$ 6,749</u>	<u>\$ 19,355</u>	<u>\$ 26,234</u>	<u>\$ 19,715</u>	<u>\$ 15,393</u>

The following is reported for the year ended December 31:

	2013	2012	2011	2010	2009
	(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	\$ 633	\$ 1,143	\$ 1,438	\$ 987	\$ 1,015
Interest income actually recorded on non-accrual loans and included in net income for the period	-	-	-	-	-
Interest income not recognized during the period	<u>\$ 633</u>	<u>\$ 1,143</u>	<u>\$ 1,438</u>	<u>\$ 987</u>	<u>\$ 1,015</u>

### III. LOAN PORTFOLIO (CONTINUED)

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

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.

#### 2. Potential problem loans

As of December 31, 2013, in addition to the \$6.7 million of loans reported under Item III C, there are approximately \$9.5 million 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, 2013, loans outstanding relating to agricultural operations or collateralized by agricultural real estate aggregated \$38,343,403. At December 31, 2013, there were four borrowers with loans totaling \$1,317,020 in agricultural 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, 2013, 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:

	2013	2012	2011	2010	2009
	(dollars in thousands)				
<b>LOANS</b>					
Loans outstanding at end of period (1)	\$ 295,737	\$ 307,402	\$ 340,700	\$ 383,907	\$ 407,815
Average loans outstanding during period (1)	\$ 299,379	\$ 325,114	\$ 360,669	\$ 398,378	\$ 417,913
<b>ALLOWANCE FOR LOAN LOSSES</b>					
Balance at beginning of period	\$ 6,918	\$ 8,543	\$ 8,017	\$ 4,804	\$ 3,198
Loans charged off -					
Commercial and agricultural	(2,614)	(2,103)	(3,635)	(3,107)	(5,471)
Real estate mortgage	(4)	(144)	(515)	(494)	(431)
Consumer loans to individuals	(23)	(14)	(88)	(223)	(366)
	(2,641)	(2,261)	(4,238)	(3,824)	(6,268)
Recoveries of loans previously charged off -					
Commercial and agricultural	541	379	162	282	53
Real estate mortgage	11	14	142	95	17
Consumer loans	18	43	85	110	279
	570	436	389	487	349
Net loans charged off	(2,071)	(1,825)	(3,849)	(3,337)	(5,919)
Provision for loan losses	(833)	200	4,375	6,550	7,525
Balance at end of period	\$ 4,014	\$ 6,918	\$ 8,543	\$ 8,017	\$ 4,804
Ratio of net charge-offs during the period to average loans outstanding during the period	0.69%	0.56%	1.07%	0.84%	1.42%

(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 2013 loan charge-offs included nine commercial or agricultural credits, with the largest individual charge-off being \$1,269,000. The 2012 loan charge-offs included twenty-three commercial or agricultural credits, with the largest individual charge-off being \$509,000. The 2011 loan charge-offs included twenty-seven commercial or agricultural credits, with the largest individual charge-off being \$1,400,000. The 2010 loan charge-offs included nine commercial or agricultural credits, 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 Corporation 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, with the largest individual credit charge-off being \$775,000.

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

The Corporation recognized a negative provision for loan losses of \$833,000 in 2013. Problem and potential problem loans aggregated \$16.2 million at December 31, 2013 compared to \$34.2 million at December 31, 2012. 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 Amount	Percentage of Loans in Each Category to Total Loans	Allowance Amount	Percentage of Loans in Each Category to Total Loans
(dollars in thousands)				
	December 31, 2013		December 31, 2012	
Commercial and agricultural	\$ 3,651	79.5%	\$ 6,269	78.7%
Real Estate mortgages	345	19.2%	602	19.9%
Consumer loans to individuals	18	1.3%	47	1.4%
	<u>\$ 4,014</u>	<u>100.0%</u>	<u>\$ 6,918</u>	<u>100.0%</u>
	December 31, 2011		December 31, 2010	
Commercial and agricultural	\$ 7,444	79.4%	\$ 7,134	79.6%
Real Estate mortgages	999	19.0%	323	18.3%
Consumer loans to individuals	100	1.6%	125	2.1%
Unallocated	-	-	435	-
	<u>\$ 8,543</u>	<u>100.0%</u>	<u>\$ 8,017</u>	<u>100.0%</u>
	December 31, 2009			
Commercial and agricultural	\$ 3,714	70.2%		
Real Estate mortgages	379	26.4%		
Consumer loans to individuals	277	3.4%		
Unallocated	434	-		
	<u>\$ 4,804</u>	<u>100.0%</u>		

The allowance for loan losses at December 31, 2013 included specific reserves for impaired loans amounting to \$179,000 compared to \$2,922,000 at December 31, 2012.

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 Corporation's primary funding source for use in lending and other investment activities. In addition to deposits, the Corporation 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 Corporation's designated market area by offering a variety of deposit instruments, including regular savings accounts, demand deposit 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 Corporation's management based on the Corporation's liquidity requirements, growth goals, and market trends. From time to time, the Corporation may also acquire brokered deposits. The amount of deposits from outside the Corporation'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)			
	2013 Average Amount	2013 Average Rate	2012 Average Amount	2012 Average Rate
Savings and interest-bearing demand deposits	\$ 212,464	0.14%	\$ 194,590	0.15%
Time deposits	180,110	1.02%	208,982	1.47%
Demand deposits (non-interest bearing)	69,794	-	60,876	-
	<u>\$ 462,368</u>		<u>\$ 464,448</u>	
	2011 Average Amount	2011 Average Rate		
Savings and interest-bearing demand deposits	\$ 171,142	0.15%		
Time deposits	256,953	2.06%		
Demand deposits (non-interest bearing)	53,505	-		
	<u>\$ 481,600</u>			

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

V. DEPOSITS (CONTINUED)

D. Maturities of certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2013 are summarized as follows:

Three months or less	\$	5,965
Over three months and through six months		7,079
Over six months and through twelve months		13,744
Over twelve months		26,854
	\$	<u>53,642</u>

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>2013</u>	<u>2012</u>	<u>2011</u>
	(dollars in thousands)		
Average total assets	\$ 561,757	\$ 568,466	\$ 593,465
Average shareholders' equity (1)	\$ 63,364	\$ 62,034	\$ 57,429
Net income	\$ 4,641	\$ 4,485	\$ 2,943
Cash dividends declared	\$ 689	\$ 172	\$ -
Return on average total assets	<u>0.83%</u>	<u>0.79%</u>	<u>0.50%</u>
Return on average shareholders' equity	<u>7.33%</u>	<u>7.23%</u>	<u>5.12%</u>
Dividend payout ratio (2)	<u>14.85%</u>	<u>3.84%</u>	<u>-</u>
Average shareholders' equity to average total assets	<u>11.28%</u>	<u>10.91%</u>	<u>9.68%</u>

(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 Corporation has established lines of credit with its major correspondent banks to purchase federal funds to meet liquidity needs. At December 31, 2013, the Corporation did not have any federal funds purchased, out of the \$49.0 million available under such lines. The Corporation also uses repurchase agreements as a source of funds. These agreements essentially represent borrowings by the Corporation from customers with maturities of three months or less. Certain securities are pledged as collateral for these agreements. At December 31, 2013, the Corporation had \$4,600,000 of repurchase agreements.

The following table sets forth the maximum month-end balance for the Corporation's outstanding short-term borrowings (federal funds purchased and repurchase agreements), along with the average aggregate balances and weighted average interest for 2013, 2012, and 2011.

	2013	2012	2011
	(dollars in thousands)		
Balance at year-end	\$ 4,600	\$ 5,057	\$ 5,216
Maximum balance at month-end during the period	\$ 4,600	\$ 5,164	\$ 6,784
Average balance	\$ 4,226	\$ 4,126	\$ 5,372
Weighted average interest rate	0.14%	0.17%	0.14%

### 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 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 disruption of the financial markets or negative expectations about the prospects for the financial services industry as a whole.

*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 and 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 governing financial reporting and disclosure. 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 Corporation 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 Corporation is unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, the Corporation'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.*

The Corporation generally sells the fixed rate long-term residential mortgage loans it originates on the secondary market and retains adjustable rate mortgage loans for its portfolios. In response to the financial crisis, the Corporation believes 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, the Corporation may face increasing pressure from historical purchasers of its residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans and the Corporation may face increasing expenses to defend against such claims. If the Corporation is required in the future to repurchase loans previously sold, reimburse purchasers for losses related to loans previously sold, or if the Corporation incurs increasing expenses to defend against such claims, its financial condition and results of operations would be negatively affected. Additionally, such actions would lower the Corporation's capital ratios as a result of increased assets and reduced income through expenses and any losses incurred.

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

The Dodd-Frank Act, enacted in 2010, is complex and several of its provisions are still being implemented. The Dodd-Frank Act established the Consumer Financial Protection Bureau, which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also required the issuance of numerous regulations, many of which have not yet been issued. The regulations will continue to take effect over several more years, continuing to make it difficult to anticipate the overall impact.

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

Goodwill is tested for impairment annually as of September 30th. 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 such 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 Corporation's 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 stockholders to resell their common stock at prices they 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, individuals that acquire the Corporation's common stock may lose some or all of their 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 7,300 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 2,200 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 4,500 square feet.
5. A drive-thru facility containing approximately 900 square feet located at 101 Progressive Drive, Columbus Grove, Ohio was completed and opened in February 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 16,100 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 and contains approximately 6,100 square feet.

9. A full service branch office is located at 132 East Front Street, Pemberville, Ohio. The building was acquired as part of the RFCBC branch Acquisition in March 2003 and contains approximately 6,400 square feet.
10. A full service branch office is located at 230 West Madison Street, Gibsonburg, Ohio. The building was acquired as part of the RFCBC branch Acquisition in March 2003 and contains approximately 2,300 square feet.
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, and the building contains approximately 3,200 square feet.
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 2,500 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 and contains approximately 3,200 square feet.

All of the properties are suitable for their intended use.

Item 3. Legal Proceedings

As of March 19, 2014, 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. Mine Safety Disclosures

Not applicable

PART II

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

(a) None.

(b) None.

(c) The table below includes certain information regarding the Corporation’s repurchase of United Bancshares, Inc. common stock during the quarterly period ended December 31, 2013:

Period	Total number of shares purchased	Average price paid per share	Total Number shares purchased as part of publicly announced plan or program	Maximum number of shares that may yet be purchased under the plan or program(i)
10/01/13-10/31/13	None	-	214,558	185,442
11/01/13 - 11/30/13	None	-	214,558	185,442
12/01/13 - 12/31/13	5,000	\$ 14.44	219,558	380,442

(i) 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, 200,000 shares on March 20, 2007, and 200,000 shares on December 17, 2013. The Plan authorizes the Corporation to repurchase up to 600,000 of the Corporation’s common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

Additional information required herein is incorporated by reference from (“Market Price and Dividends on Common Stock”) United Bancshares’ Annual Report to Shareholders for 2013 (“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 2013 (“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 18 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2013 (“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 18 through 19 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2013 (“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 22 through 65 of United Bancshares’ Annual Report to Shareholders for 2013 (“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, 2013. 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-15(f). 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, 2013, in relation to criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" (1992) issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2013, 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, 2013, 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 19, 2014, 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 19, 2014, 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 19, 2014, 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 19, 2014, which is incorporated herein by reference.

On February 17, 2004, the Corporation adopted a Code of Ethics that is applicable to the Corporation’s Chief Executive Officer, Chief Financial Officer, and other Senior Financial Officers. The Board of Directors reviews the Code of Ethics annually with the most recent review performed in February 2014. A copy of the Code of Ethics is available on the Corporation’s website at [www.theubank.com](http://www.theubank.com).

### 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 19, 2014, 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 19, 2014, 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 and do not involve more than the normal risk of collectability or present any other unfavorable features.

Information required by this item concerning director independence is contained under the caption “Board of Directors Independence” in the Corporation’s definitive proxy statement dated March 19, 2014, which is incorporated herein by reference.

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 19, 2014, 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 22 through 65 of the Corporation's 2013 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, 2013 and 2012  
Consolidated Statements of Income - Years ended December 31, 2013, 2012, and 2011  
Consolidated Statements of Comprehensive Income - Years ended December 31, 2013, 2012, and 2011  
Consolidated Statements of Shareholders' Equity - Years ended December 31, 2013, 2012, and 2011  
Consolidated Statements of Cash Flows - Years ended December 31, 2013, 2012, and 2011  
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	Agreement – Brian D. Young	(4)
10.3	Salary Continuation Agreement - Brian D. Young	(2)
10.4	Salary Continuation Agreement – Heather M. Oatman	(6)
10.6	Change in Control Agreement – Diana L. Engelhardt	(7)
13	2013 Annual Report to Shareholders	(3)
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)
99	Safe Harbor under The Private Securities Litigation Reform Act of 1995	(3)
101.INS	XBRL Instance Document (a)	(3)
101.SCH	XBRL Taxonomy Extension Schema	(3)
101.CAL	XBRL Taxonomy Extension Calculation	(3)
101.DEF	XBRL Taxonomy Extension Definition	(3)
101.LAB	XBRL Taxonomy Extension Label	(3)
101.PRE	XBRL Taxonomy Extension Presentation	(3)

(a) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(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 July 23, 2012.

## 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/ BRIAN D. YOUNG  
Brian D. Young, CEO, President

By: /s/ DIANA L. ENGELHARDT  
Diana L. Engelhardt  
Chief Financial Officer

Date: March 19, 2014

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/ BRIAN D. YOUNG</u> Brian D. Young	Director	March 19, 2014
<u>/s/ JAMES N. REYNOLDS</u> James N. Reynolds	Director	March 19, 2014
<u>/s/ H. EDWARD RIGEL</u> H. Edward Rigel	Director	March 19, 2014
<u>/s/ R. STEVEN UNVERFERTH</u> R. Steven Unverferth	Director	March 19, 2014
<u>/s/ ROBERT L. BENROTH</u> Robert L. Benroth	Director	March 19, 2014
<u>/s/ DAVID P. ROACH</u> David P. Roach	Director	March 19, 2014
<u>/s/ DANIEL W. SCHUTT</u> Daniel W. Schutt	Director	March 19, 2014

41

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

## **Section 2: EX-13 (EXHIBIT 13)**

### **Exhibit 13**

#### **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, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. 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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, reading "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Toledo, Ohio  
March 19, 2014

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$ 13,698,325	\$ 10,605,662
Interest-bearing deposits in other banks	8,709,133	39,306,145
Total cash and cash equivalents	22,407,458	49,911,807
<b>SECURITIES, available-for-sale</b>	197,079,925	177,607,765
<b>FEDERAL HOME LOAN BANK STOCK, at cost</b>	4,893,800	4,893,800
<b>CERTIFICATES OF DEPOSIT, at cost</b>	2,739,000	2,490,000
<b>LOANS HELD FOR SALE</b>	423,720	2,957,060
<b>LOANS</b>	295,313,069	304,445,298
Less allowance for loan losses	4,014,391	6,917,605
Net loans	291,298,678	297,527,693
<b>PREMISES AND EQUIPMENT, net</b>	9,165,532	9,217,876
<b>GOODWILL</b>	8,554,979	8,554,979
<b>CORE DEPOSIT INTANGIBLE ASSETS, net</b>	132,786	173,643
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	14,173,138	13,761,183
<b>OTHER REAL ESTATE OWNED</b>	667,954	1,568,000
<b>OTHER ASSETS, including accrued interest receivable</b>	4,697,774	3,783,822
<b>TOTAL ASSETS</b>	<u>\$ 556,234,744</u>	<u>\$ 572,447,628</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 86,752,995	\$ 77,924,051
Interest-bearing	381,247,070	393,275,063
Total deposits	468,000,065	471,199,114
Other borrowings	12,100,552	22,557,220
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Other liabilities	2,826,262	4,221,089
Total liabilities	493,226,879	508,277,423
<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	14,663,861	14,661,664
Retained earnings	50,807,689	46,855,865
Accumulated other comprehensive income (loss)	(1,358,205)	3,697,363
Treasury stock, at cost, 318,506 shares in 2013 and 314,252 shares in 2012	(4,866,037)	(4,805,244)
Total shareholders' equity	63,007,865	64,170,205
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 556,234,744</u>	<u>\$ 572,447,628</u>

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

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2013, 2012 and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>INTEREST INCOME</b>			
Loans, including fees	\$ 15,243,402	\$ 17,912,408	\$ 21,169,719
Securities:			
Taxable	2,429,043	2,543,299	3,018,435
Tax-exempt	1,858,801	1,787,431	1,935,623
Other	<u>322,681</u>	<u>348,274</u>	<u>337,218</u>
Total interest income	<u>19,853,927</u>	<u>22,591,412</u>	<u>26,460,995</u>
<b>INTEREST EXPENSE</b>			
Deposits	2,142,274	3,347,697	5,540,060
Borrowings	<u>1,107,098</u>	<u>1,328,093</u>	<u>1,785,806</u>
Total interest expense	<u>3,249,372</u>	<u>4,675,790</u>	<u>7,325,866</u>
Net interest income	16,604,555	17,915,622	19,135,129
<b>PROVISION (CREDIT) FOR LOAN LOSSES</b>			
	<u>(832,925)</u>	<u>200,000</u>	<u>4,375,000</u>
Net interest income after provision for loan losses	<u>17,437,480</u>	<u>17,715,622</u>	<u>14,760,129</u>
<b>NON-INTEREST INCOME</b>			
Service charges on deposit accounts	1,252,379	1,146,263	1,099,424
Gain on sale of loans	719,289	1,296,875	492,747
Net securities gains	134,177	267,513	896,764
Change in fair value of mortgage servicing rights	315,758	15,931	(314,566)
Increase in cash surrender value of life insurance	411,955	425,596	456,584
Other operating income	<u>1,634,438</u>	<u>1,201,374</u>	<u>1,199,969</u>
Total non-interest income	<u>4,467,996</u>	<u>4,353,552</u>	<u>3,830,922</u>
<b>NON-INTEREST EXPENSES</b>			
Salaries, wages and employee benefits	8,237,152	8,554,404	7,932,975
Occupancy expenses	1,555,242	1,474,140	1,505,033
Other operating expenses	<u>6,231,878</u>	<u>6,484,813</u>	<u>6,108,398</u>
Total non-interest expenses	<u>16,024,272</u>	<u>16,513,357</u>	<u>15,546,406</u>
Income before income taxes	5,881,204	5,555,817	3,044,645
<b>PROVISION FOR INCOME TAXES</b>			
	<u>1,240,000</u>	<u>1,071,000</u>	<u>102,000</u>
<b>NET INCOME</b>	<u>\$ 4,641,204</u>	<u>\$ 4,484,817</u>	<u>\$ 2,942,645</u>
<b>NET INCOME PER SHARE</b> (basic and diluted)	<u>\$ 1.35</u>	<u>\$ 1.30</u>	<u>\$ .85</u>

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

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years Ended December 31, 2013, 2012 and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>NET INCOME</b>	\$ 4,641,204	\$ 4,484,817	\$ 2,942,645
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) during period	(7,525,775)	418,016	3,604,866
Reclassification adjustments for gains included in net income	(134,177)	(267,513)	(896,764)
Other comprehensive income (loss), before income taxes	(7,659,952)	150,503	2,708,102
Income tax benefit (expense) related to items of other comprehensive income (loss)	2,604,384	(51,171)	(920,755)
Other comprehensive income (loss)	(5,055,568)	99,332	1,787,347
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ (414,364)</u>	<u>\$ 4,584,149</u>	<u>\$ 4,729,992</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, 2013, 2012 and 2011

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
<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
Comprehensive income:						
Net income	-	-	2,942,645	-	-	2,942,645
Other comprehensive income	-	-	-	1,787,347	-	1,787,347
Sale of 790 treasury shares	-	579	-	-	12,080	12,659
<b>BALANCE AT DECEMBER 31, 2011</b>	3,760,557	14,660,579	42,543,363	3,598,031	(4,814,816)	59,747,714
Comprehensive income:						
Net income	-	-	4,484,817	-	-	4,484,817
Other comprehensive income	-	-	-	99,332	-	99,332
Sale of 626 treasury shares	-	1,085	-	-	9,572	10,657
Cash dividends declared, \$0.05 per share	-	-	(172,315)	-	-	(172,315)
<b>BALANCE AT DECEMBER 31, 2012</b>	3,760,557	14,661,664	46,855,865	3,697,363	(4,805,244)	64,170,205
Comprehensive income:						
Net income	-	-	4,641,204	-	-	4,641,204
Other comprehensive loss	-	-	-	(5,055,568)	-	(5,055,568)
Repurchase of 5,000 shares	-	-	-	-	(72,200)	(72,200)
Sale of 746 treasury shares	-	2,197	-	-	11,407	13,604
Cash dividends declared, \$0.20 per share	-	-	(689,380)	-	-	(689,380)
<b>BALANCE AT DECEMBER 31, 2013</b>	<u>\$ 3,760,557</u>	<u>\$ 14,663,861</u>	<u>\$ 50,807,689</u>	<u>\$ (1,358,205)</u>	<u>\$ (4,866,037)</u>	<u>\$ 63,007,865</u>

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

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2013, 2012 and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 4,641,204	\$ 4,484,817	\$ 2,942,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	649,056	772,483	697,967
Deferred income taxes	1,032,000	516,431	(232,354)
Provision for loan losses	(832,925)	200,000	4,375,000
Gain on sale of loans	(719,289)	(1,296,875)	(492,747)
Net securities gains	(134,177)	(267,513)	(896,764)
Change in fair value of mortgage servicing rights	(315,758)	(15,931)	314,566
Loss on sale or write-down of other real estate owned	205,775	627,615	334,840
Increase in cash surrender value of life insurance	(411,955)	(425,596)	(456,584)
Net amortization of security premiums and discounts	791,464	958,776	679,290
Provision for deferred compensation	33,806	44,293	25,396
Loss on disposal or write-down of premises and equipment and other assets	-	2,920	-
Proceeds from sale of loans held-for-sale	32,273,717	69,737,183	26,963,182
Originations of loans held-for-sale	(31,867,179)	(68,884,954)	(26,638,777)
(Increase) decrease in other assets	(446,316)	907,909	1,765,560
Increase (decrease) in other liabilities	197,896	(81,127)	208,695
Net cash provided by operating activities	<u>5,097,319</u>	<u>7,280,431</u>	<u>9,589,915</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales of available-for-sale securities	8,821,116	12,067,541	18,370,945
Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities	36,658,316	44,030,808	38,561,926
Purchases of available-for-sale securities	(73,268,830)	(82,290,917)	(65,522,891)
Purchase of certificates of deposit	(249,000)	(747,000)	(1,743,000)
Net decrease in loans	9,595,280	31,051,443	38,855,755
Purchases of premises and equipment	(394,982)	(114,054)	(168,327)
Proceeds from sale of other real estate owned	694,271	1,058,535	1,854,389
Net cash provided by (used in) investing activities	<u>(18,143,829)</u>	<u>5,056,355</u>	<u>30,208,797</u>

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



**UNITED BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2013, 2012 and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net decrease in deposits	\$ (3,199,049)	\$ (9,286,451)	\$ (8,056,061)
Other borrowings:			
Repayments	(10,000,000)	(10,064,985)	(17,035,212)
Change in customer repurchase agreements	(456,668)	(158,758)	(5,961,659)
Purchase of treasury stock	(72,200)	-	-
Proceeds from sale of treasury shares	13,604	10,657	12,659
Payments of deferred compensation	(54,146)	(40,101)	(75,101)
Cash dividends paid	(689,380)	(172,315)	-
Net cash used in financing activities	<u>(14,457,839)</u>	<u>(19,711,953)</u>	<u>(31,115,374)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(27,504,349)</u>	<u>(7,375,167)</u>	<u>8,683,338</u>
<b>CASH AND CASH EQUIVALENTS</b>			
At beginning of year	49,911,807	57,286,974	48,603,636
At end of year	<u>\$ 22,407,458</u>	<u>\$ 49,911,807</u>	<u>\$ 57,286,974</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>			
Cash paid during the year for:			
Interest	<u>\$ 3,256,188</u>	<u>\$ 4,780,422</u>	<u>\$ 7,436,939</u>
Federal income taxes	<u>\$ 350,000</u>	<u>\$ 1,230,000</u>	<u>\$ -</u>
Non-cash operating activity:			
Change in deferred income taxes on net unrealized gain or loss on available-for-sale securities	<u>\$ (2,604,383)</u>	<u>\$ 51,171</u>	<u>\$ 920,755</u>
Non-cash investing activities:			
Transfer of loans to other real estate owned	<u>\$ -</u>	<u>\$ 420,650</u>	<u>\$ 498,000</u>
Change in net unrealized gain or loss on available-for-sale securities	<u>\$ 7,659,952</u>	<u>\$ (150,503)</u>	<u>\$ (2,708,102)</u>

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

**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 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. The Bank has also formed a wholly-owned subsidiary, UBC Property, Inc. to hold and manage certain property that is acquired in lieu of foreclosure.

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 Corporation 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 accounting principles generally accepted in the United States of America 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 consolidated 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 include the determination of the allowance for loan losses, valuation of servicing assets and goodwill, and fair value of securities and other financial instruments.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, the Bank, and its wholly-owned 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 Corporation was required to maintain cash on hand or on deposit with the Federal Reserve Bank in the amount of \$657,000 and \$653,000 at December 31, 2013 and 2012, respectively, to meet regulatory reserve and clearing requirements.

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

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

**Securities, Federal Home Loan Bank Stock and Certificates of Deposits**

The Corporation has designated all securities as available-for-sale. Such securities are 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 debt 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 that 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.

Investment in certificates of deposit are carried at cost and evaluated for impairment annually or when circumstances change that may have a significant effect on fair value.

**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 Corporation had no unrealized losses at December 31, 2013 and 2012.

**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 its 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.

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

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

**Loans, Continued**

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.

**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 Corporation 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 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.

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**Allowance for Loan Losses, Continued**

Under certain circumstances, the Corporation will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Corporation, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt.

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

**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 estimated cost to sell, at the date of foreclosure, establishing a new cost basis with loan balances in excess of fair value charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and subsequent valuation 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 Corporation. The 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 Corporation 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, earnings rate, 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.

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**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 Corporation 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. The Corporation maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments is included in other liabilities.

**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. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. At December 31, 2013, the Company believes the Bank Subsidiary does not have any indicators of potential impairment based on the estimated fair value of this reporting unit.

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 annually for years 2014 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.

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

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

**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 its 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 Corporation 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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

**Comprehensive Income**

Recognized revenue, expenses, gains and losses are 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.

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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.

The weighted average number of shares used for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Basic	<u>3,446,662</u>	<u>3,446,133</u>	<u>3,445,469</u>
Diluted	<u>3,446,662</u>	<u>3,446,133</u>	<u>3,445,469</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 Corporation 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, 2013 and 2012, 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 17. 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, 2013, but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at December 31, 2013, have been recognized in the financial statements for the year ended December 31, 2013. Events or transactions that provided evidence about conditions that did not exist at December 31, 2013 but arose before the financial statements were issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2013.

On January 15, 2014, United Bancshares, Inc. issued a release announcing that its Board of Directors approved a special cash dividend of \$0.10 per common share payable February 14, 2014 to shareholders of record at the close of business on January 30, 2014.

**NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS**

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, amending ASC Topic 210 requiring an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB issued ASU 2013-01 to amend and clarify that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with ASC Topic 815, derivatives and hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting arrangement. The amendments are effective for annual and interim periods beginning on or after January 1, 2013, and the adoption did not impact the Corporation's financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The FASB issued ASU 2013-11 to eliminate the diversity in the presentation of unrecognized tax benefits in those instances. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Corporation has determined the provisions for ASU 2013-11 will not have a material impact on future financial statements.

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

**NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors*. The FASB issued ASU 2014-04 to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the receivable should be derecognized and the real estate property recognized. The amendments in this update apply to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The amendments in this Update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, and the Corporation has not yet determined the financial statement impact.

**NOTE 3 – SECURITIES**

The amortized cost and fair value of securities as of December 31, 2013 and 2012 are as follows:

	<b>2013</b>		<b>2012</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
Available-for-sale:				
U.S. Government and agencies	\$ 12,637,310	\$ 12,333,009	\$ 15,488,836	\$ 15,554,085
Obligations of states and political subdivisions	66,584,990	66,540,342	51,122,041	53,918,499
Mortgage-backed	119,163,624	117,471,538	104,892,935	107,607,325
Other	751,888	735,036	501,888	527,856
<b>Total</b>	<b>\$ 199,137,812</b>	<b>\$ 197,079,925</b>	<b>\$ 172,005,700</b>	<b>\$ 177,607,765</b>

A summary of unrealized gains and losses on securities at December 31, 2013 and 2012 follows:

	<b>2013</b>		<b>2012</b>	
	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>
Available-for-sale:				
U.S. Government and agencies	\$ -	\$ 304,301	\$ 68,479	\$ 3,230
Obligations of states and political subdivisions	1,113,422	1,158,070	2,863,159	66,701
Mortgage-backed	1,164,346	2,856,432	2,732,160	17,770
Other	-	16,852	25,968	-
<b>Total</b>	<b>\$ 2,277,768</b>	<b>\$ 4,335,655</b>	<b>\$ 5,689,766</b>	<b>\$ 87,701</b>

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

**NOTE 3 - SECURITIES (CONTINUED)**

The amortized cost and fair value of securities at December 31, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized cost</u>	<u>Fair value</u>
Due in one year or less	\$ 2,425,053	\$ 2,450,241
Due after one year through five years	15,488,226	15,509,833
Due after five years through ten years	49,127,594	48,871,386
Due after ten years	131,345,051	129,513,429
Other securities having no maturity date	751,888	735,036
<b>Total</b>	<u>\$ 199,137,812</u>	<u>\$ 197,079,925</u>

Securities with a carrying value of approximately \$34,271,000 at December 31, 2013 and \$42,139,000 at December 31, 2012 were pledged to secure public deposits and for other purposes as required or permitted by law.

The following table presents gross unrealized losses and fair value of debt securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012:

	<u>Securities in a continuous unrealized loss position</u>					
	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized Losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>
<b>2013</b>						
U.S. Government and agencies	\$ 304,301	\$ 12,333,009	\$ -	\$ -	\$ 304,301	\$ 12,333,009
Obligations of states and political subdivisions	910,564	23,218,005	247,506	3,225,869	1,158,070	26,443,874
Mortgage-backed	2,613,715	74,745,579	242,717	4,330,945	2,856,432	79,076,524
Other	16,852	735,036	-	-	16,852	735,036
<b>Total temporarily impaired securities</b>	<u>\$ 3,845,432</u>	<u>\$ 111,031,629</u>	<u>\$ 490,223</u>	<u>\$ 7,556,814</u>	<u>\$ 4,335,655</u>	<u>\$ 118,588,443</u>
<b>2012</b>						
U.S. Government and agencies	\$ 3,230	\$ 996,770	\$ -	\$ -	\$ 3,230	\$ 996,770
Obligations of states and political subdivisions	66,701	5,484,740	-	-	66,701	5,484,740
Mortgage-backed	17,770	7,593,495	-	-	17,770	7,593,495
<b>Total temporarily impaired securities</b>	<u>\$ 87,701</u>	<u>\$ 14,075,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,701</u>	<u>\$ 14,075,005</u>

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

**NOTE 3 - SECURITIES (CONTINUED)**

There were 160 securities in an unrealized loss position at December 31, 2013, 13 of which were in a continuous unrealized loss position for 12 months or more. Management has considered industry analyst reports, whether downgrades by bond rating agencies have occurred, sector credit reports, issuer's financial condition and prospects, the Corporation's ability and intent to hold securities to maturity, and volatility in the bond market, in concluding that the unrealized losses as of December 31, 2013 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2013 are considered to be temporary.

Gross realized gains from sale of securities, including securities calls, amounted to \$134,848 in 2013, \$293,226 in 2012, and \$897,086 in 2011, with the income tax provision applicable to such gains amounting to \$45,848 in 2013, \$99,697 in 2012, and \$305,009 in 2011. Gross realized losses from sale of securities amounted to \$671 in 2013, \$25,713 in 2012, and \$322 in 2011 with related income tax effect of \$228 in 2013, \$8,742 in 2012, and \$109 in 2011.

**NOTE 4 - LOANS**

Loans at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Residential real estate	\$ 56,227,548	\$ 58,318,657
Commercial	196,808,249	198,662,111
Agriculture	38,343,403	43,068,272
Consumer	<u>3,933,869</u>	<u>4,396,258</u>
Total loans	<u>\$ 295,313,069</u>	<u>\$ 304,445,298</u>

Fixed rate loans approximated \$48,206,000 at December 31, 2013 and \$56,494,000 at December 31, 2012. Certain commercial and agricultural loans are secured by real estate.

Most of the Corporation's lending activities are with customers located in Northwestern and West Central Ohio. As of December 31, 2013 and 2012, the Corporation's loans from borrowers in the agriculture industry represent the single largest industry and amounted to \$38,343,403 and \$43,068,272, respectively. Agriculture loans are generally secured by property and equipment. Repayment is primarily expected from cash flow generated through the harvest and sale of crops or milk production for dairy products. 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 evaluation of agricultural lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

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

**NOTE 4 – LOANS (CONTINUED)**

The Corporation originates 1-4 family real estate and consumer loans utilizing credit reports to supplement the underwriting process. The Corporation's underwriting standards for 1-4 family loans are generally in accordance with the Federal Home Loan Mortgage Corporation (FHLMC) manual underwriting guidelines. Properties securing 1-4 family real estate loans are appraised by fee appraisers, which is independent of the loan origination function and has been approved by the Board of Directors and the Loan Policy Committee. The loan-to-value ratios normally do not exceed 80% without credit enhancements such as mortgage insurance. The Corporation will lend up to 100% of the lesser of the appraised value or purchase price for conventional 1-4 family real estate loans, provided private mortgage insurance is obtained. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. To monitor and manage loan risk, policies and procedures are developed and modified, as needed by management. This activity, coupled with smaller loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis. The Corporation's 1-4 family real estate loans are secured primarily by properties located in its primary market area.

Commercial and agricultural real estate loans are subject to underwriting standards and processes similar to commercial and agricultural operating loans, in addition to those unique to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial and agricultural real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loan to value is generally 75% of the cost or appraised value of the assets. Appraisals on properties securing these loans are performed by fee appraisers approved by the Board of Directors. Because payments on commercial and agricultural real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial and agricultural real estate loans based on collateral and risk rating criteria. The Corporation may require guarantees on these loans. The Corporation's commercial and agricultural real estate loans are secured primarily by properties located in its primary market area.

Commercial and agricultural operating loans are underwritten based on the Corporation's examination of current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. This underwriting includes the evaluation of cash flows of the borrower, underlying collateral, if applicable and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans may fluctuate in value after the initial evaluation. A first priority lien on the general assets of the business normally secures these types of loans. Loan to value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and/or hail insurance may be required for agricultural borrowers. Loans are generally guaranteed by the principal(s). The Corporation's commercial and agricultural operating lending is primarily in its primary market area.

The Corporation maintains an internal audit department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The internal audit process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Corporation's policies and procedures.

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

**NOTE 4 – LOANS (CONTINUED)**

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2013, 2012 and 2011:

	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential 1 – 4 family real estate</b>	<b>Consumer</b>	<b>Total</b>
Balance at December 31, 2012	\$ 1,027,837	\$ 5,240,175	\$ 602,291	\$ 47,302	\$ 6,917,605
Provision charged to expenses	(518,117)	(25,938)	(264,301)	(24,569)	(832,925)
Losses charged off	(218,394)	(2,394,884)	(3,896)	(23,305)	(2,640,479)
Recoveries	14,108	526,933	10,709	18,440	570,190
Balance at December 31, 2013	<u>\$ 305,434</u>	<u>\$ 3,346,286</u>	<u>\$ 344,803</u>	<u>\$ 17,868</u>	<u>\$ 4,014,391</u>

	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential 1 – 4 family real estate</b>	<b>Consumer</b>	<b>Total</b>
Balance at December 31, 2011	\$ 2,596,629	\$ 4,847,234	\$ 998,941	\$ 100,563	\$ 8,543,367
Provision charged to expenses	(1,525,666)	2,073,148	(265,675)	(81,807)	200,000
Losses charged off	(78,636)	(2,023,969)	(144,443)	(14,223)	(2,261,271)
Recoveries	35,510	343,762	13,468	42,769	435,509
Balance at December 31, 2012	<u>\$ 1,027,837</u>	<u>\$ 5,240,175</u>	<u>\$ 602,291</u>	<u>\$ 47,302</u>	<u>\$ 6,917,605</u>

	<b>Commercial</b>	<b>Commercial and multi-family real estate</b>	<b>Residential 1 – 4 family real estate</b>	<b>Consumer</b>	<b>Total</b>
Balance at December 31, 2010	\$ 2,886,467	\$ 3,915,323	\$ 886,879	\$ 328,117	\$ 8,016,786
Provision charged to expenses	195,588	3,918,741	485,876	(225,205)	4,375,000
Losses charged off	(503,218)	(3,131,582)	(515,469)	(87,934)	(4,238,203)
Recoveries	17,792	144,752	141,655	85,585	389,784
Balance at December 31, 2011	<u>\$ 2,596,629</u>	<u>\$ 4,847,234</u>	<u>\$ 998,941</u>	<u>\$ 100,563</u>	<u>\$ 8,543,367</u>

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 4 - LOANS (CONTINUED)**

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2013 and 2012:

	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
<b>2013</b>					
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	\$ -	\$ 179,016	\$ -	\$ -	\$ 179,016
Collectively evaluated for impairment	305,434	3,167,270	344,803	17,868	3,835,375
<b>Total allowance for loan losses</b>	<b>\$ 305,434</b>	<b>\$ 3,346,286</b>	<b>\$ 344,803</b>	<b>\$ 17,868</b>	<b>\$ 4,014,391</b>
Loans:					
Individually evaluated for impairment	\$ 401,028	\$ 2,316,969	\$ 81,437	\$ -	\$ 2,799,434
Collectively evaluated for impairment	50,904,208	181,529,447	56,146,111	3,933,869	292,513,635
<b>Total ending loans balance</b>	<b>\$ 51,305,236</b>	<b>\$ 183,846,416</b>	<b>\$ 56,227,548</b>	<b>\$ 3,933,869</b>	<b>\$ 295,313,069</b>
	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
<b>2012</b>					
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	\$ 415,010	\$ 2,506,940	\$ -	\$ -	\$ 2,921,950
Collectively evaluated for impairment	612,827	2,733,235	602,291	47,302	3,995,655
<b>Total allowance for loan losses</b>	<b>\$ 1,027,837</b>	<b>\$ 5,240,175</b>	<b>\$ 602,291</b>	<b>\$ 47,302</b>	<b>\$ 6,917,605</b>
Loans:					
Individually evaluated for impairment	\$ 1,241,149	\$ 14,153,259	\$ 169,904	\$ -	\$ 15,564,312
Collectively evaluated for impairment	49,324,136	177,011,839	58,148,753	4,396,258	288,880,986
<b>Total ending loans balance</b>	<b>\$ 50,565,285</b>	<b>\$ 191,165,098</b>	<b>\$ 58,318,657</b>	<b>\$ 4,396,258</b>	<b>\$ 304,445,298</b>

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

**NOTE 4 - 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 Corporation's overall allowance for loan losses for the years ended December 31, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 2,921,950	\$ 1,990,225	\$ 691,780
Provision charged to operations	(573,330)	2,497,649	4,409,468
Loans charged-off	(2,169,604)	(1,565,924)	(3,111,023)
Balance at end of year	<u>\$ 179,016</u>	<u>\$ 2,921,950</u>	<u>\$ 1,990,225</u>

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

The average balance of impaired loans approximated \$9,761,000, \$17,188,000, and \$19,429,000 during 2013, 2012, and 2011, respectively. There was approximately \$203,000, \$214,000 and \$229,000 in interest income recognized by the Corporation on impaired loans on an accrual or cash basis during 2013, 2012 and 2011, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Recorded investment</u>	<u>Allowance for loan losses allocated</u>	<u>Recorded investment</u>	<u>Allowance for loan losses allocated</u>
<b>With no related allowance recorded:</b>				
Commercial	\$ -	\$ -	\$ -	\$ -
Commercial and multi-family real estate	1,007,702	-	1,539,370	-
Agriculture	401,028	-	607,462	-
Agricultural real estate	649,036	-	801,586	-
Consumer	-	-	-	-
Residential 1 – 4 family real estate	81,437	-	169,904	-
<b>With an allowance recorded:</b>				
Commercial	-	-	415,010	415,010
Commercial and multi-family real estate	660,231	179,016	12,030,980	2,506,940
Agriculture	-	-	-	-
Agricultural real estate	-	-	-	-
Consumer	-	-	-	-
Residential 1 – 4 family real estate	-	-	-	-
<b>Total</b>	<u>\$ 2,799,434</u>	<u>\$ 179,016</u>	<u>\$ 15,564,312</u>	<u>\$ 2,921,950</u>



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

**NOTE 4 - LOANS (CONTINUED)**

The following table presents the recorded investment in nonaccrual loans, loans past due over 90 days still on accrual and troubled debt restructurings by class of loans as of December 31, 2013 and 2012:

	2013			2012		
	Nonaccrual	Loans past due over 90 days still accruing	Troubled Debt Restructurings	Nonaccrual	Loans past due over 90 days still accruing	Troubled Debt Restructurings
Commercial	\$ 294,475	\$ -	\$ 294,475	\$ 475,909	\$ -	\$ 475,909
Commercial real estate	2,966,751	-	43,508	12,986,469	-	8,098,958
Agricultural real estate	915,992	-	-	1,060,418	-	-
Agriculture	401,028	-	-	623,325	-	193,964
Consumer	7,551	3,112	-	-	899	-
Residential:						
1 – 4 family	1,722,107	17,010	157,715	1,953,505	-	55,048
Home equity	203,520	16,748	-	71,573	24,050	-
<b>Total</b>	<b>\$ 6,511,424</b>	<b>\$ 36,870</b>	<b>\$ 495,698</b>	<b>\$ 17,171,199</b>	<b>\$ 24,949</b>	<b>\$ 8,823,879</b>

The nonaccrual balances in the table above include troubled debt restructurings that have been classified as nonaccrual.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2013 and 2012 by class of loans:

	30 – 59 days past due	60 – 89 days past due	Greater than 90 days past due	Total past due	Loans not past due	Total
	<b>2013</b>					
Commercial	\$ 149,250	\$ 4,021	\$ -	\$ 153,271	\$ 37,952,459	\$ 38,105,730
Commercial real estate	223,934	115,269	2,465,193	2,804,396	155,898,123	158,702,519
Agriculture	-	-	401,028	401,028	12,798,477	13,199,505
Agricultural real estate	508,125	-	805,868	1,313,993	23,829,905	25,143,898
Consumer	68,583	24,514	10,663	103,760	3,830,109	3,933,869
Residential real estate	1,420,956	930,154	479,098	2,830,208	53,397,340	56,227,548
<b>Total</b>	<b>\$ 2,370,848</b>	<b>\$ 1,073,958</b>	<b>\$ 4,161,850</b>	<b>\$ 7,606,656</b>	<b>\$ 287,706,413</b>	<b>\$ 295,313,069</b>
<b>2012</b>						
Commercial	\$ 74,672	\$ 2,543	\$ -	\$ 77,215	\$ 36,664,022	\$ 36,741,237
Commercial real estate	2,509,318	503,382	3,937,774	6,950,474	154,970,400	161,920,874
Agriculture	-	-	597,525	597,525	13,226,523	13,824,048
Agricultural real estate	47,422	-	933,945	981,367	28,262,857	29,244,224
Consumer	53,065	2,655	899	56,619	4,339,639	4,396,258
Residential real estate	2,271,107	559,048	512,685	3,342,840	54,975,817	58,318,657
<b>Total</b>	<b>\$ 4,955,584</b>	<b>\$ 1,067,628</b>	<b>\$ 5,982,828</b>	<b>\$ 12,006,040</b>	<b>\$ 292,439,258</b>	<b>\$ 304,445,298</b>

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 4 - LOANS (CONTINUED)**

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to the credit risk. This analysis generally includes loans with an outstanding balance greater than \$250,000 and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

- **Special Mention:** Loans which possess some credit deficiency or potential weakness which 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 Corporation management may depend on secondary repayment sources to liquidate these loans. The Corporation could sustain some degree of loss in these loans if the weaknesses remain uncorrected.
- **Doubtful:** Loans in this category display a high degree of loss, although the amount of actual loss at the time of classification is undeterminable. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification.

Loans not meeting the 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 \$250,000 or are included in groups of homogenous loans. As of December 31, 2013 and 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not rated
<b>2013</b>					
Commercial	\$ 49,943,918	\$ 960,289	\$ -	\$ 401,028	\$ -
Commercial and multi-family real estate	169,094,313	5,755,107	8,347,961	649,036	-
Residential 1 – 4 family	-	-	75,000	6,437	56,146,111
Consumer	-	-	8,744	-	3,925,125
Total	<u>\$ 219,038,231</u>	<u>\$ 6,715,396</u>	<u>\$ 8,431,705</u>	<u>\$ 1,056,501</u>	<u>\$ 60,071,236</u>

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS (CONTINUED)

	Pass	Special Mention	Substandard	Doubtful	Not rated
<b>2012</b>					
Commercial	\$ 47,367,441	\$ 1,505,099	\$ 1,095,220	\$ 597,525	\$ -
Commercial and multi-family real estate	160,592,238	8,624,114	21,147,160	801,586	-
Residential 1 – 4 family	-	-	435,467	9,937	57,873,253
Consumer	-	-	13,923	-	4,382,335
Total	<u>\$ 207,959,679</u>	<u>\$ 10,129,213</u>	<u>\$ 22,691,770</u>	<u>\$ 1,409,048</u>	<u>\$ 62,255,588</u>

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential 1 – 4 family and consumer loan classes that are not rated, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. Generally, consumer and residential 1-4 family loans not rated that are 90 days past due or are classified as nonaccrual and collectively evaluated for impairment, are considered nonperforming. The following table presents the recorded investment in residential 1 – 4 family and consumer loans that are not risk rated, based on payment activity as of December 31, 2013 and 2012:

	2013		2012	
	Consumer	Residential 1 – 4 family	Consumer	Residential 1 – 4 family
Performing	\$ 3,914,625	\$ 54,501,907	\$ 4,381,436	\$ 56,091,352
Nonperforming	10,500	1,644,204	899	1,781,901
Total	<u>\$ 3,925,125</u>	<u>\$ 56,146,111</u>	<u>\$ 4,382,335</u>	<u>\$ 57,873,253</u>

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

**NOTE 4 - LOANS (CONTINUED)**

Modifications:

The Corporation's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Corporation's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. All TDRs are also classified as impaired loans.

When the Corporation modifies a loan, management evaluates any possible concession based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), an impairment is recognized through a specific reserve in the allowance or a direct write down of the loan balance if collection is not expected.

The following table includes the recorded investment and number of modifications for TDR loans during the year ended December 31, 2013. There were no modifications classified as TDR loans during 2012.

	<b>Number of modifications</b>	<b>Recorded investment</b>	<b>Allowance for loan losses allocated</b>
<b>Troubled Debt Restructurings:</b>			
Commercial Real Estate	2	\$ 148,920	\$ -

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Corporation. Such loans are made in the ordinary course of business in accordance with the normal lending policies of the Corporation, including the interest rate charged and collateralization. Such loans amounted to \$45,480, \$989,194, and \$3,013,156 at December 31, 2013, 2012, and 2011 respectively. The following is a summary of activity during 2013, 2012, and 2011 for such loans:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Beginning of year	\$ 989,194	\$ 3,013,156	\$ 3,164,300
Additions	-	-	35,000
Repayments	(943,714)	(2,023,962)	(186,144)
End of year	<u>\$ 45,480</u>	<u>\$ 989,194</u>	<u>\$ 3,013,156</u>

Additions and repayments include loan renewals, as well as net borrowings and repayments under revolving lines-of-credit. The increase in repayments in 2012 was partially due to a pay down in a line of credit of approximately \$1.5 million.

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

**NOTE 5 - PREMISES AND EQUIPMENT**

The following is a summary of premises and equipment at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 2,479,913	\$ 2,479,913
Buildings	9,188,883	9,011,523
Equipment	3,977,234	3,999,020
	15,646,030	15,490,456
Less accumulated depreciation	6,480,498	6,272,580
<b>Premises and equipment, net</b>	<b>\$ 9,165,532</b>	<b>\$ 9,217,876</b>

Depreciation expense amounted to \$447,326 in 2013, \$474,569 in 2012 and \$520,448 in 2011.

**NOTE 6 - 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 \$176,855,000 and \$175,583,000 at December 31, 2013 and 2012, respectively.

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets. The Corporation 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, 2013 and 2012 include:

Prepayment assumptions:	Based on the PSA Standard Prepayment Model
Internal rate of return:	8% to 10%
Servicing costs (per loan, annually, increased at the rate of \$1 per 1% delinquency based on loan count):	\$40 – \$55
Inflation rate of servicing costs:	3%
Earnings rate:	0.25% in 2013 and 1% in 2012

Following is a summary of mortgage servicing rights activity for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Fair value at beginning of year	\$ 930,760	\$ 727,240	\$ 1,114,126
Capitalized servicing rights – new loan sales	312,751	444,646	168,342
Disposals (amortization based on loan payments and payoffs)	(160,873)	(257,057)	(240,662)
Change in fair value	315,758	15,931	(314,566)
<b>Fair value at end of year</b>	<b>\$ 1,398,396</b>	<b>\$ 930,760</b>	<b>\$ 727,240</b>

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

**NOTE 6 - SERVICING (CONTINUED)**

The change in fair value of servicing rights for the year ended December 31, 2013 resulted from changes in external market conditions, including 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. The prepayment assumption factor used in determining the fair value of servicing at December 31, 2013 was 164 compared to 398 at December 31, 2012 and 465 at December 31, 2011. The earnings rate used in determining the fair value of servicing at December 31, 2013 was 0.25% compared to 1.0% at December 31, 2012 and 2011. The earnings rate was decreased to reflect changes in the observable market.

**NOTE 7 - DEPOSITS**

Time deposits at December 31, 2013 and 2012 include individual deposits of \$100,000 or more approximating \$53,642,036 and \$57,112,173, respectively. Interest expense on time deposits of \$100,000 or more approximated \$638,098 for 2013, and \$784,218 for 2012.

At December 31, 2013, time deposits approximated \$172,347,668 and were scheduled to mature as follows: 2014, \$86,975,644; 2015, \$50,506,506; 2016, \$16,157,832; 2017, \$13,415,377; 2018, \$4,061,999; and thereafter, \$1,230,310.

**NOTE 8 – OTHER BORROWINGS**

Other borrowings consists of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<b>Federal Home Loan Bank borrowings:</b>		
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
Secured note, with interest at 3.95% through September 11, 2008, thereafter putable back at the option of the holder, due September 11, 2017	<u>7,500,000</u>	<u>7,500,000</u>
<b>Total Federal Home Loan Bank borrowings</b>	<b>7,500,000</b>	<b>17,500,000</b>
<b>Customer repurchase agreements with an average outstanding rate of .14% at December 31, 2013 and .17% at December 31, 2012</b>		
	<u>4,600,552</u>	<u>5,057,220</u>
<b>Total other borrowings</b>	<b><u>\$ 12,100,552</u></b>	<b><u>\$ 22,557,220</u></b>

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock and eligible mortgage loans approximating \$65,574,000 at December 31, 2013. The interest rate on the advance outstanding at December 31, 2013, secured by individual mortgages under blanket agreement was 3.95%, with maturity in September 2017. At December 31, 2013, the Corporation had \$81,641,030 of borrowing availability under various line-of-credit agreements with the Federal Home Loan Bank and other financial institutions.

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

**NOTE 9 - 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 3.40% at December 31, 2013, 3.46% at December 31, 2012 and 3.72% at December 31, 2011, 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 \$353,000 in 2013, \$368,000 in 2012, and \$350,180 in 2011, 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.

**NOTE 10 - OTHER OPERATING EXPENSES**

Other operating expenses consisted of the following for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Data processing	\$ 183,863	\$ 374,366	\$ 360,003
Professional fees	692,375	636,286	856,712
Franchise tax	436,955	375,259	397,210
Advertising	462,758	614,312	615,033
ATM processing and other fees	446,017	341,640	249,996
Amortization of core deposit intangible asset	40,857	40,857	40,857
Postage	165,439	188,653	175,993
Stationery and supplies	177,947	210,332	191,832
FDIC assessment	379,587	751,799	995,252
Loan closing fees	174,564	275,212	193,151
Internet banking	250,312	224,961	233,961
Other real estate owned	250,632	705,910	505,833
Deposit losses & recoveries	28,720	314,473	4,758
Prepayment penalty on borrowings	984,566	-	-
Other	1,557,286	1,430,753	1,287,807
<b>Total other operating expenses</b>	<u>\$ 6,231,878</u>	<u>\$ 6,484,813</u>	<u>\$ 6,108,398</u>

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

**NOTE 11 - INCOME TAXES**

The provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current	\$ 208,000	\$ 554,569	\$ 334,354
Deferred	1,032,000	516,431	(232,354)
Total provision for income taxes	<u>\$ 1,240,000</u>	<u>\$ 1,071,000</u>	<u>\$ 102,000</u>

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>2013</u>	<u>2012</u>	<u>2011</u>
Expected tax using statutory tax rate of 34%	\$ 1,999,600	\$ 1,889,000	\$ 1,035,200
Increase (decrease) in tax resulting from:			
Tax-exempt income on state and municipal securities and political subdivision loans	(630,600)	(608,900)	(670,000)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	1,100	1,800	3,000
Tax-exempt income on life insurance contracts	(140,100)	(144,700)	(155,200)
Deductible dividends paid to United Bancshares, Inc. ESOP	(23,700)	(6,000)	(1,500)
Uncertain tax position reserves	7,600	(66,700)	(115,100)
Other, net	<u>26,100</u>	<u>6,500</u>	<u>5,600</u>
Total provision for income taxes	<u>\$ 1,240,000</u>	<u>\$ 1,071,000</u>	<u>\$ 102,000</u>

The deferred income tax expense (benefit) of \$1,032,000 in 2013, \$516,431 in 2012, and \$(232,354) in 2011 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.



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

**NOTE 11 - INCOME TAXES (CONTINUED)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2013 and 2012 are presented below:

	<u>2013</u>	<u>2012</u>
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 1,378,600	\$ 2,370,000
Deferred compensation	292,600	299,500
Alternative minimum tax credits	614,000	432,400
Nonaccrual loan interest	284,000	464,000
Deferred loan fees	161,000	161,600
Other real estate owned	257,600	182,800
Accrued vacation expense	122,400	118,300
Unrealized loss on securities available-for-sale	699,700	-
Other	100,200	94,600
Net operating loss	202,000	-
<b>Total deferred tax assets</b>	<u>\$ 4,112,100</u>	<u>\$ 4,123,200</u>
<b>Deferred tax liabilities:</b>		
Unrealized gain on securities available-for-sale	\$ -	\$ 1,904,700
Federal Home Loan Bank stock dividends	877,500	877,500
Capitalized mortgage servicing rights	475,500	316,500
Depreciation and amortization	2,248,400	2,020,500
Prepaid expenses	27,900	95,800
Other	19,300	17,100
<b>Total deferred tax liabilities</b>	<u>3,648,600</u>	<u>5,232,100</u>
<b>Net deferred tax assets (liabilities)</b>	<u>\$ 463,500</u>	<u>\$ (1,108,900)</u>

Net deferred tax assets (liabilities) at December 31, 2013 and 2012 are included in other assets (liabilities) in the consolidated balance sheets.

The Corporation has \$594,000 of federal losses which, for administrative ease, Management is electing to carry forward since carryback would only increase our alternative minimum tax credit carryforward. These losses will expire in 2033; the alternative minimum tax credit has an indefinite life.

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, 2013 and 2012.

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 11 - INCOME TAXES (CONTINUED)**

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2013</u>	<u>2012</u>
Balance at January 1	\$ 66,000	\$ 126,800
Additions based on tax positions related to the current year	6,100	11,100
Reductions due to the statute of limitation	-	(71,900)
Balance at December 31	<u>\$ 72,100</u>	<u>\$ 66,000</u>

The Corporation had unrecognized tax benefits of \$72,100 and \$66,000 at December 31, 2013 and 2012, respectively. Such unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods. The Corporation does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

The amount of accrued interest, net of federal tax, related to the Corporation's uncertain tax positions was \$4,500 at December 31, 2013 and \$3,000 at December 31, 2012, 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 2010. There are no current federal examinations of the Corporations open tax years.

**NOTE 12 - EMPLOYEE AND DIRECTOR BENEFITS**

The Corporation sponsors a salary deferral, defined contribution plan which provides for both profit sharing and employer matching contributions. The plan permits 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 \$530,989, \$564,654, and \$519,300 in 2013, 2012, and 2011, respectively. At December 31, 2013, the Plan owned 340,606 shares of the Corporation's common stock.

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

**NOTE 12 - EMPLOYEE AND DIRECTOR BENEFITS (CONTINUED)**

The Corporation 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 Corporation has provided an estimated liability for accumulated supplemental retirement benefits amounting to \$604,316 and \$606,604 at December 31, 2013 and 2012, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. The Corporation 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 \$13,530,890 and \$13,143,375 at December 31, 2013 and 2012, 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 746 shares in 2013, 626 shares in 2012, and 790 shares in 2011 under the plan.

The Corporation has an agreement with The Bank of 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, 2013 and 2012, 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 \$256,363 and \$274,405, respectively. Such amounts are included in other liabilities in the December 31, 2013 and 2012 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 \$642,248 and \$617,808 at December 31, 2013 and 2012, 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 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Corporation 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 Corporation has in these financial instruments.

The Corporation'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 Corporation 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, 2013 and 2012:

	<u>Contract amount</u>	
	<u>2013</u>	<u>2012</u>
Commitments to extend credit	\$ 75,097,000	\$ 83,151,000
Letters of credit	\$ 1,225,000	\$ 2,492,000

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 Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Corporation 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.

Letters of credit are written conditional commitments issued by the Corporation 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, 2013 expire in 2014. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation requires collateral supporting these commitments when deemed necessary.

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

**NOTE 14 - 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, 2013 and 2012, 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, 2013, 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.

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

**NOTE 14 - REGULATORY MATTERS (CONTINUED)**

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2013 and 2012 are presented in the following table:

	Actual		Minimum capital requirement			Minimum to be well capitalized under prompt Corrective action provisions	
	Amount	Ratio	Amount	Ratio		Amount	Ratio
<b>As of December 31, 2013</b>							
(Dollars in Thousands)							
Total Capital (to Risk- Weighted Assets)							
Consolidated	\$ 69,871	18.3%	\$ 30,607	≥	8.0%	N/A	N/A
Bank	\$ 67,432	17.7%	\$ 30,534	≥	8.0%	\$ 38,168	10.0%
Tier I Capital (to Risk- Weighted Assets)							
Consolidated	\$ 65,816	17.2%	\$ 15,304	≥	4.0%	N/A	N/A
Bank	\$ 63,378	16.6%	\$ 15,267	≥	4.0%	\$ 22,901	6.0%
Tier I Capital (to Average Assets)							
Consolidated	\$ 65,816	11.9%	\$ 22,118	≥	4.0%	N/A	N/A
Bank	\$ 63,378	11.5%	\$ 22,091	≥	4.0%	\$ 27,614	5.0%
<b>As of December 31, 2012</b>							
Total Capital (to Risk- Weighted Assets)							
Consolidated	\$ 66,720	17.6%	\$ 30,346	≥	8.0%	N/A	N/A
Bank	\$ 63,968	16.9%	\$ 30,291	≥	8.0%	\$ 37,864	10.0%
Tier I Capital (to Risk- Weighted Assets)							
Consolidated	\$ 61,951	16.3%	\$ 15,173	≥	4.0%	N/A	N/A
Bank	\$ 59,217	15.6%	\$ 15,145	≥	4.0%	\$ 22,178	6.0%
Tier I Capital (to Average Assets)							
Consolidated	\$ 61,951	11.2%	\$ 22,127	≥	4.0%	N/A	N/A
Bank	\$ 59,217	10.7%	\$ 22,099	≥	4.0%	\$ 27,623	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 15 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION**

A summary of condensed financial information of the parent company as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 is as follows:

<b>Condensed Balance Sheets</b>	<u>2013</u>	<u>2012</u>
<b>Assets:</b>		
Cash	\$ 1,070,196	\$ 1,804,808
Investment in bank subsidiary	70,869,641	71,736,089
Premises and equipment, net of accumulated depreciation	318,017	343,639
Other assets, including income taxes receivable from bank subsidiary of \$757,993 in 2013 and \$137,993 in 2012	1,310,749	645,320
<b>Total assets</b>	<u>\$ 73,568,603</u>	<u>\$ 74,529,856</u>
<b>Liabilities:</b>		
Accrued expenses	\$ 47,190	\$ 59,651
Federal income taxes payable	213,548	-
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
<b>Total liabilities</b>	<u>10,560,738</u>	<u>10,359,651</u>
<b>Shareholders' equity:</b>		
Common stock	3,760,557	3,760,557
Surplus	14,663,861	14,661,664
Retained earnings	50,807,689	46,855,865
Accumulated other comprehensive income (loss)	(1,358,205)	3,697,363
Treasury stock, at cost	(4,866,037)	(4,805,244)
<b>Total shareholders' equity</b>	<u>63,007,865</u>	<u>64,170,205</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 73,568,603</u>	<u>\$ 74,529,856</u>

<b>Condensed Statements of Income</b>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Income – including dividends from bank subsidiary	\$ 975,356	\$ 800,155	\$ 575,099
Expenses – interest expense, professional fees and other expenses, net of federal income tax benefit	(523,271)	(462,333)	(499,263)
Income before equity in undistributed net income of bank subsidiary	452,085	337,822	75,836
Equity in undistributed net income of bank subsidiaries	4,189,119	4,146,995	2,866,809
<b>Net income</b>	<u>\$ 4,641,204</u>	<u>\$ 4,484,817</u>	<u>\$ 2,942,645</u>

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

Condensed Statements of Cash Flows	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>			
Net income	\$ 4,641,204	\$ 4,484,817	\$ 2,942,645
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Equity in undistributed net income of bank subsidiary	(4,189,119)	(4,146,995)	(2,866,809)
Depreciation and amortization	25,622	25,622	25,622
(Increase) decrease in other assets	(665,429)	45,914	1,008,778
Increase (decrease) in other liabilities, including accrued expenses	201,087	(24,521)	41,822
<b>Net cash provided by operating activities</b>	<u>13,364</u>	<u>384,837</u>	<u>1,152,058</u>
<b>Cash flows from financing activities:</b>			
Purchase treasury stock	72,200	-	-
Proceeds from sale of treasury shares	13,604	10,657	12,659
Cash dividends paid	(689,380)	(172,315)	-
<b>Net cash (used in) provided by financing activities</b>	<u>(747,976)</u>	<u>(161,658)</u>	<u>12,659</u>
<b>Net increase (decrease) in cash</b>	<u>(734,612)</u>	<u>223,179</u>	<u>1,164,717</u>
Cash at beginning of the year	1,804,808	1,581,629	416,912
<b>Cash at end of the year</b>	<u>\$ 1,070,196</u>	<u>\$ 1,804,808</u>	<u>\$ 1,581,629</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 5,000 shares in 2013 (none in 2012 or 2011) under the program.



UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 16 - 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 16 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2013 and 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<b>2013</b>	<b>Level 1 inputs</b>	<b>Level 2 inputs</b>	<b>Level 3 inputs</b>	<b>Total fair value</b>
<b>Recurring:</b>				
Securities available-for-sale:				
U.S. Government and Agencies	\$ -	\$ 12,333,009	\$ -	\$ 12,333,009
Obligations of state and political subdivisions	-	66,540,342	-	66,540,342
Mortgage-backed	-	117,471,538	-	117,471,538
Other	-	735,036	-	735,036
Mortgage servicing rights	-	-	1,398,396	1,398,396
<b>Total recurring</b>	<b>\$ -</b>	<b>\$ 197,079,925</b>	<b>\$ 1,398,396</b>	<b>\$ 198,478,321</b>
<b>Nonrecurring:</b>				
Impaired loans, net	\$ -	\$ -	\$ 2,620,418	\$ 2,620,418
Other real estate owned	-	-	667,954	667,954
<b>Total nonrecurring</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,288,372</b>	<b>\$ 3,288,372</b>

**2012**

<b>Recurring:</b>				
Securities available-for-sale:				
U.S. Government and Agencies	\$ -	\$ 15,554,085	\$ -	\$ 15,554,085
Obligations of state and political subdivisions	-	53,918,499	-	53,918,499
Mortgage-backed	-	107,607,325	-	107,607,325
Other	-	527,856	-	527,856
Mortgage servicing rights	-	-	930,760	930,760
<b>Total recurring</b>	<b>\$ -</b>	<b>\$ 177,607,765</b>	<b>\$ 930,760</b>	<b>\$ 178,538,525</b>
<b>Nonrecurring:</b>				
Impaired loans, net	\$ -	\$ -	\$ 12,642,362	\$ 12,642,362
Other real estate owned	-	-	1,568,000	1,568,000
<b>Total nonrecurring</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,210,362</b>	<b>\$ 14,210,362</b>

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during 2013 and 2012 due to the lack of observable quotes in inactive markets for those instruments at December 31, 2013 and 2012.

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

**NOTE 16 - 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, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 930,760	\$ 727,240	\$ 1,114,126
Gains or losses, including realized and unrealized:			
Purchases, issuances, and settlements	312,751	444,646	168,342
Disposals – amortization based on loan payments and payoffs	(160,873)	(257,057)	(240,662)
Changes in fair value	<u>315,758</u>	<u>15,931</u>	<u>(314,566)</u>
Balance at end of year	<u>\$ 1,398,396</u>	<u>\$ 930,760</u>	<u>\$ 727,240</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, and disclosure of unobservable inputs follows.

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

***Securities Available-for-Sale***

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. Government and agencies, 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, 2013 and 2012.

UNITED BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 16 - FAIR VALUE MEASUREMENTS (CONTINUED)**

***Mortgage Servicing Rights***

The Corporation records mortgage servicing rights at estimated fair value based on a discounted cash flow model which includes discount rates between -0.14% and 1.31%, in addition to assumptions disclosed in note 6 that are considered to be unobservable inputs. Due to the significance of the level 3 inputs, mortgage servicing rights have been classified as level 3.

***Impaired Loans***

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral less estimated cost to sell, if repayment is expected solely from collateral. Collateral values are estimated using level 2 inputs, including recent appraisals and level 3 inputs based on customized discounting criteria such as additional appraisal adjustments to consider deterioration of value subsequent to appraisal date and estimated cost to sell. Additional appraisal adjustments range between 10% and 70% of appraised value, and estimated selling cost ranges between 10% and 20% of the adjusted appraised value. Due to the significance of the level 3 inputs, impaired loans fair values have been classified as level 3.

***Other Real Estate Owned***

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less appraisal adjustments between 10% and 20% of appraised value, and expected selling costs between 10% and 20% of adjusted appraised value. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3.

Certain 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, 2013.

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

**NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of recognized financial instruments at December 31, 2013 and 2012 are as follows:

	<u>2013</u>		<u>2012</u>		<u>Input level</u>
	<u>Carrying amount</u>	<u>Estimated value</u>	<u>Carrying amount</u>	<u>Estimated value</u>	
<b>(dollars in thousands)</b>					
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	\$ 22,407	\$ 22,407	\$ 49,912	\$ 49,912	1
Securities, including Federal Home Loan Bank stock	201,974	201,974	182,502	182,502	2
Certificates of deposit	2,739	2,739	2,490	2,490	
Loans held for sale	424	424	2,957	2,957	3
Net loans	291,299	292,257	297,528	297,879	3
Mortgage servicing rights	1,398	1,398	931	931	3
	<u>\$ 520,241</u>	<u>\$ 521,199</u>	<u>\$ 536,320</u>	<u>\$ 536,671</u>	

	<u>2013</u>		<u>2012</u>		<u>Input level</u>
	<u>Carrying amount</u>	<u>Estimated value</u>	<u>Carrying amount</u>	<u>Estimated value</u>	
<b>(dollars in thousands)</b>					
<b>FINANCIAL LIABILITIES</b>					
Deposits					
Maturity	\$ 172,349	\$ 172,956	\$ 185,650	\$ 187,436	3
Non-maturity	295,651	295,651	285,549	285,549	1
Other borrowings	12,101	13,036	22,557	24,947	3
Junior subordinated deferrable interest debentures	10,300	10,294	10,300	10,367	3
	<u>\$ 490,401</u>	<u>\$ 491,937</u>	<u>\$ 504,056</u>	<u>\$ 508,299</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, and would be considered level 1 inputs.

There are also unrecognized financial instruments at December 31, 2013 and 2012 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$76,322,000 at December 31, 2013 and \$85,643,000 at December 31, 2012. 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.

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

**NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Securities:

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, 2013 and 2012.

Certificates of deposit:

Carrying value of certificates of deposit estimates fair value.

Loans:

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

Mortgage servicing rights:

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

Deposit liabilities:

The fair value of core deposits, including demand deposits, savings accounts, and certain money market deposits, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates offered at 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.

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

**NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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 18 - 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.

**NOTE 19 - QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following represents a summary of selected unaudited quarterly financial data for 2013 and 2012:

	<u>Interest income</u>	<u>Net interest income</u>	<u>Net income</u>	<u>Income per common share</u>	
				<u>Basic</u>	<u>Diluted</u>
<b>(Dollars in thousands, except per share data)</b>					
<b>2013</b>					
First quarter	\$ 4,834	\$ 4,018	\$ 1,098	\$ .318	\$ .318
Second quarter	\$ 4,902	\$ 4,086	\$ 1,347	\$ .391	\$ .391
Third quarter	\$ 4,913	\$ 4,091	\$ 1,116	\$ .324	\$ .324
Fourth quarter	\$ 5,205	\$ 4,410	\$ 1,080	\$ .312	\$ .312
<b>2012</b>					
First quarter	\$ 5,877	\$ 4,417	\$ 1,003	\$ .291	\$ .291
Second quarter	\$ 5,682	\$ 4,422	\$ 1,203	\$ .349	\$ .349
Third quarter	\$ 5,564	\$ 4,501	\$ 1,104	\$ .320	\$ .320
Fourth quarter	\$ 5,468	\$ 4,576	\$ 1,175	\$ .341	\$ .341

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

**Section 3: EX-21 (EXHIBIT 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

## Section 4: EX-23 (EXHIBIT 23)

### Exhibit 23

#### Consent of Independent Registered Public Accounting Firm

The Board of Directors  
United Bancshares, Inc.

We 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 19, 2014, relating to the consolidated balance sheets of United Bancshares, Inc. and subsidiaries as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013, which report is incorporated by reference in the December 31, 2013 Annual Report on Form 10-K of United Bancshares, Inc.

/s/ CliftonLarsonAllen LLP

Toledo, Ohio  
March 19, 2014

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

## Section 5: EX-31 (EXHIBIT 31.1)

### 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, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, 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/ BRIAN D. YOUNG

Brian D. Young

President and Chief Executive Officer

March 19, 2014

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

## Section 6: EX-31 (EXHIBIT 31.2)

### 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, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Diana L. Engelhardt, 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/ Diana L. Engelhardt

Diana L. Engelhardt

Chief Financial Officer

March 19, 2014

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

## Section 7: EX-32 (EXHIBIT 32.1)

### Exhibit 32.1

**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, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, 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/ BRIAN D. YOUNG  
Brian D. Young  
Chief Executive Officer

Date: March 19, 2014

\*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)

### 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, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Diana L. Engelhardt, 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/ Diana L. Engelhardt  
Diana L. Engelhardt  
Chief Financial Officer

Date: March 19, 2014

\*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)**

### **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, 2011, 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.

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