

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, 2014
Commission File No.: 000-29283

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

OHIO
(State or other jurisdiction of
incorporation or organization)

34-1516518
(I.R.S. Employer I.D. No.)

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

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

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

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

Indicate by check mark 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

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

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$43,622,290, based upon the last sales price as quoted on the NASDAQ Global Market as of June 30, 2014.

The number of shares of Common Stock, no par value outstanding as of January 31, 2015: 3,368,138

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2014 are incorporated by reference into Part II. Portions of the Proxy Statement dated March 18, 2015 for the 2015 Annual Meeting of Shareholders to be held on April 22, 2015 are incorporated by reference into Part III.

Forward Looking Statements

From time to time, we have made or will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as “goal,” “objective,” “outlook,” “plan,” “strategy,” “expect,” “anticipate,” “project,” “believe,” “estimate,” or other words of similar meaning, or by words or phrases indicating that an event or trend “may,” “should,” “will,” “is likely,” or that an event or trend is “probable” to occur or “continue,” has “begun,” “is scheduled,” or is “on track.” Forward-looking statements provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed with or furnished to the Securities and Exchange Commission (the “SEC”).

Forward-looking statements are not historical facts and, by their nature, are subject to assumptions, risks, and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ from those described in forward-looking statements, include, but are not limited to:

- deterioration of commercial real estate market fundamentals;
- defaults by our loan counterparties or trends;
- adverse changes in credit quality trends;
- declining asset prices;
- our ability to accurately estimate collateral values, future levels of nonperforming loans, and other borrower fundamentals as part of our credit review process;
- changes in local, regional and international business, economic or political conditions affecting the regions in which we operate;
- the extensive and increasing regulation of the U.S. financial services industry;
- changes in accounting policies, rules and interpretations;
- increasing capital and liquidity standards under applicable regulatory rules;
- unanticipated adverse effects related to our acquisition of The Ohio State bank or other acquisitions of assets or business units;
- increasing capital and liquidity standards under applicable regulatory rules;
- unanticipated changes in our liquidity position, including but not limited to, changes in the cost of liquidity, our ability to enter the financial markets and to secure alternative funding sources;
- our ability to receive dividends from our subsidiary, The Union Bank Company (the “Union Bank”);
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- operational or risk management failures by us or critical third-parties;
- adverse judicial proceedings;
- the occurrence of natural or man-made disasters or conflicts or terrorist attacks;
- a reversal of the U.S. economic recovery due to financial, political or other shocks;
- our ability to anticipate interest rate changes and manage interest rate risk;
- deterioration of economic conditions in the geographic regions where we operate;
- the soundness of other financial institutions;
- our ability to attract and retain talented executives and employees and to manage our reputational risks;
- our ability to timely and effectively implement our strategic initiatives;
- increased competitive pressure due to industry consolidation;

Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including this report on Form 10-K and our subsequent reports on Form 10-Q and 8-K and any other filings made with the SEC, all of which are or will upon filing be accessible on the SEC’s website at www.sec.gov and on our website at www.theubank.com.

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PART I

Item 1. Business

Overview

United Bancshares, Inc. (“UBOH”), an Ohio corporation, organized in 1985 is headquartered in Columbus Grove, Ohio. We are a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHCA”), with consolidated total assets of \$650.2 million at December 31, 2014. UBOH is regulated as a one-bank holding company by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), and its principal asset and operating subsidiary is The Union Bank Company, an Ohio state chartered commercial bank (“Union Bank”). As of December 31, 2014, UBOH and its subsidiary (collectively the “Corporation”) employed approximately 142 full-time equivalent employees.

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

Union Bank

Union Bank is an Ohio state-chartered bank supervised by the State of Ohio, Division of Financial Institutions (the “Division”), and the Federal Deposit Insurance Corporation (the “FDIC”). Through Union Bank, we provide a wide range of commercial and retail banking services. Union Bank offers a full range of commercial banking services, including checking accounts, savings and money market accounts; certificates of deposit; on-line banking and automatic teller machines; commercial, consumer, agricultural, residential mortgage and home equity loans; wealth management services; treasury management services; safe deposit box rentals; and other personalized banking services. Through our fifteen branch offices located in Bowling Green, Columbus Grove, Delaware, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Marion, Ottawa, and Pemberville, Ohio, we serve the Ohio counties of Allen, Delaware, Hancock, Marion, Putnam, Sandusky, Van Wert, and Wood. As a result of our acquisition of The Ohio State Bank, we added branch offices during 2014 in Delaware and Marion counties, growing the bank from having offices in six counties to eight counties in Northwest and Central Ohio. The acquisition also contributed total assets of \$83.4 million to our consolidated total assets.

In the operation of its business, Union Bank maintains a strong community orientation. Union Bank’s business model emphasizes personalized service, clients’ access to key decision makers, individualized-attention, tailored products, and access to on-line banking tools. Union Bank’s management has placed a special emphasis on personalized attention to its customers’ needs in order to better serve the members of the community and create opportunities for them. Union Bank concentrates its efforts on serving the financial needs of the business in the Ohio counties that it serves as well as on providing financing to customers seeking to purchase or build their own homes; routinely seeking opportunities to foster economic growth and wealth accumulation in local economies through the financing of local entrepreneurs and residences in the areas we serve.

Union Bank has two subsidiaries: UBC Investments, Inc. (“UBC”), an entity formed to hold its securities portfolio, and UBC Property, Inc. (“UBC Property”), an entity formed to hold and manage certain property that is acquired in lieu of foreclosure.

Additional information

Our executive offices are located at 100 S High Street, Columbus Grove, OH 45830 and our telephone number is (419) 659-2141. Our website is www.theubank.com.

We make available free of charge, on or through the United Bancshares link on our website (www.theubank.com), our annual reports on Form 10-K quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15 (d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website and available in print upon request are the charters for our Audit Committee, Compensation, and Nominating Committees and our Senior Officer Code of Ethics. Within the time period required by the SEC and the NASDAQ Global Market, we will post on our website any amendment to the Senior Officer Code of Ethics or the above-referenced governance documents or you may request the documents by writing to our Chief Financial Officer at The Union Bank Co., 100 South High Street, Columbus Grove, OH 45830 or by calling (419) 659-2141.

The public may read and copy any filed materials with the SEC at the SEC's Public Reference Room at 100 E. Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Referenced 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.

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 financial services industry is likely to become more competitive as further technology advances enable more companies to provide financial services. We compete by offering quality products and innovative services at competitive prices, and by maintaining our products and services offerings to keep pace with customer preferences in the regions that we operate.

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on our core banking products and services. Consolidation continued during 2014, primarily through private merger and acquisition transactions, and led to redistribution of deposits and certain banking assets to other financial institutions. We expect this trend to continue during 2015, due primarily to increased compliance costs. We, therefore, expect competition in the markets we serve to intensify with the advent of new technology and consolidation trends. As a matter of course, we continue to evaluate opportunities in the markets we serve or contiguous markets to improve our footprint, while balancing the efficiency of technology.

Supervision and Regulation

General

The following discussion addresses the material elements of the regulatory framework applicable to bank holding companies, like UBOH, and our subsidiary bank, Union Bank. This regulatory framework is intended primarily to protect customers and depositors, the Deposit Insurance Fund (the "DIF") of the FDIC, and the banking system as a whole, rather than for the protection of security holders and creditors. We cannot predict changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on our business, financial condition or results of operations.

UBOH

As a bank holding company, UBOH is subject to the regulation, supervision, and examination by the Federal Reserve Board under the BHCA. Pursuant to the BHCA, bank holding companies generally may not, in general, directly or indirectly own or control more than 5% of the voting shares, or substantially all of the assets, of any bank or savings association, without prior approval by the Federal Reserve Board. In addition, bank holding companies are generally prohibited from engaging in commercial or industrial activities.

Under federal law, a bank holding company, like UBOH, must serve as a source of financial strength to its subsidiary depository institutions by providing financial assistance to them in the event of their financial distress. This support may be required when we do not have the resources to, or would prefer not to, provide it. Certain loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank. In addition, federal law provides that in the bankruptcy of a bank holding company, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Union Bank

As an Ohio state-chartered bank, and a member of the Deposit Insurance Fund (the "DIF"), administered by the FDIC, Union Bank is supervised and regulated by the Division and the FDIC. As insurer, the FDIC imposes deposit insurance premiums and conducts examinations of and requires reporting by FDIC-insured institutions under the Federal Deposit Insurance Act, as amended (the "FDIA").

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of Union 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.

As a member of the FHLB, Union Bank is required to, among other things, maintain an investment in capital stock of the FHLB. Union Bank receives dividends on its investment in FHLB stock. Under certain conditions, secured advances to Union Bank are available from the FHLB to meet operational requirements. Such advances are renewable and can be obtained up to specified dollar amounts. These advances are secured primarily by Union Bank's eligible mortgage loans and FHLB stock.

Regulatory capital and liquidity

Current regulatory capital requirements

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to UBOH and Union Bank. The adequacy of regulatory capital is assessed periodically by federal banking agencies in their examination and supervision processes, and in the evaluation of applications in connection with certain expansion activities.

The risk-based capital guidelines adopted by the federal banking regulators and effective through December 31, 2014, 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. Each of the federal banking agencies also impose a minimum leverage ratio (Tier 1 capital to total assets) for banking organizations. The minimum leverage ratio is currently 3% for bank holding companies that are considered "strong" under the Federal Reserve Board's guidelines or which have implemented the Federal Reserve Board's risk-based capital measure for market risk. The minimum leverage ratio is 1%-2% higher for other bank holding companies and banks based on their particular circumstances and risk profiles and for those banks experiencing or anticipating significant growth. The FDIC imposes similar capital requirements on Union Bank adopted by the FDIC.

The Corporation currently satisfies all capital requirements. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC. The junior subordinated deferrable interest debentures issued in 2003 and the trust preferred securities from The Ohio State Bank acquisition, as described in Note 10 in the consolidated financial statements contained in the Corporation's Annual Report, currently qualify as Tier 1 capital for regulatory purposes. However, it is possible that regulations could change so that such securities do not qualify.

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

The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary bank and other subsidiaries. However, the Federal Reserve Board expects the Corporation to serve as a source of strength to its subsidiary bank, which may require it to retain capital for further investment in the subsidiary, rather than for dividends for shareholders of UBOH. The Bank may not pay dividends to UBOH 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 UBOH's ability to pay dividends on its outstanding common shares.

The FDIA requires the relevant federal banking regulator to take “prompt corrective action” with respect to an FDIC-insured depository institution that does not meet certain capital adequacy standards. Banks and savings associations are classified into one (1) of five (5) categories based upon capital adequacy, ranging from “well-capitalized” to “critically undercapitalized.” Restrictions on operations, management and capital distributions begin to apply at “adequately capitalized” status and become progressively stricter as the insured depository institutions approaches “critically undercapitalized” status. Generally, the regulations require the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes “undercapitalized” and to take additional actions if the institution becomes “significantly undercapitalized” or “critically undercapitalized.” Under the Prompt Corrective Action requirements effective through December 31, 2014, a depository institution is considered well-capitalized if it maintains total risk-based capital of greater than or equal to 10%; tier 1 risk-based capital of at least 6%; and a tier 1 leverage ratio of at least 5%. As of December 31, 2014, Union Bank has total risk-based capital of 15.8%, tier 1 risk-based capital of 15%, and tier 1 leverage of 11%. Effective January 1, 2015, final rules promulgated by the FDIC pursuant to Dodd-Frank, provide that for a depository institution to be considered well-capitalized it must maintain common equity tier 1 capital of at least 6.5%; tier 1 risk-based capital of at least 8%; total risk-based capital of at least 10%; and leverage ratio of at least 5%. While the Prompt Corrective Action requirements only apply to FDIC-insured depository institutions and not to bank holding companies, the mandatory Prompt Corrective Action “capital restoration plan” required of an undercapitalized institution by its relevant regulator must be guaranteed to a limited extent by the institution’s parent bank holding company.

In October 2013, the federal banking regulators published final rules establishing a new comprehensive capital framework for U.S. banking organizations (the “Regulatory Capital Rules”). The Regulatory Capital Rules implement the Basel Committee’s December 2010 framework known as “Basel III” for strengthening international capital standard as well as certain provisions of the Dodd-Frank Act. The implementation of the Regulatory Capital Rules will lead to higher capital requirements and more restrictive leverage liquidity ratios than those currently in place. In addition, in order to avoid limitations on capital distributions, such as dividend payments and certain bonus payments to executive officers, the Regulatory Capital Rules require insured financial institutions to hold a capital conservation buffer of common equity tier 1 capital above the minimum risk-based capital requirements. The capital conservation buffer will be phased in over time, beginning January 1, 2016, for non-advanced approach institutions, like Union Bank and UBOH, becoming fully effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. The Regulatory Capital Rules also revise the regulatory agencies’ prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of common equity. The Regulatory Capital Rules phase in beginning January 1, 2015, for non-advanced approaches banking organizations, like UBOH and Union Bank, and January 1, 2014, for advanced approach banking organizations, and will be fully phased in by January 1, 2019. Until the rules are fully phased in, we cannot predict the ultimate impact they will have upon the financial condition or results of operations of the Corporation.

Federal banking law and regulations impose limitations on the payment of dividends by our bank subsidiary (like Union Bank). Historically, dividends paid by Union Bank have been an important source of cash flow for UBOH to pay dividends on its equity securities and interest on its debt. Dividends by our bank subsidiary are limited to the lesser of the amounts calculated under an earnings retention test and an undivided profits test. Under the earnings retention test, without the prior approval of the FDIC, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year’s net income combined with the retained net income of the two preceding years. Under the undivided profits test, a dividend may not be paid in excess of a bank’s undivided profits. Moreover, under the FDIA, an insured depository institution may not pay a dividend if the payment would cause it to be in a less than “adequately capitalized” prompt corrective action capital category or if the institution is in default in the payment of an assessment due to the FDIC. For more information about the payment of dividends by Union Bank to UBOH, please see Note 15 in this report.

FDIA and Resolution Authority

Federal Deposit Insurance Act

The FDIC’s DIF provides insurance coverage for certain deposits, which insurance is funded through assessments on banks, like Union Bank. Pursuant to the Dodd-Frank act, the amount of deposit insurance coverage for deposits increased to \$250,000 per depositor.

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 (the “DRR”), that is, the ratio of the DIF 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 DIF 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 DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

Conservatorship and receivership of insured depository institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution’s affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution’s shareholders or creditors. These provisions would apply to obligations and liabilities of UBOH’s insured depository institution subsidiary, including any obligations under senior or subordinated debt issued to public investors.

Depositor preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims of its depositors that have subrogated to the FDIC) and certain claims for administrative expenses of the FDIC as receiver have priority over other general unsecured claims. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will be placed ahead of unsecured, nondeposit creditors, including the institution’s parent bank, holding company and subordinated creditors, in order of priority of payment.

Other Regulatory Developments under the Dodd-Frank Act

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than \$10 billion for compliance with federal consumer protection laws. While the Corporation is not subject to examination by the CFPB it is subject to rulemaking promulgated by the CFPB. The CFPB’s authority includes regulation of financial products and services sold to consumers and it has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to our consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive and abusive practices.

During 2013, the CFPB issued a series of final rules related to residential mortgage loan originating and servicing. In particular, in January 2013, the CFPB issued a final rule implementing the ability-to-repay rules and qualified mortgage provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act. Under these rules, a lender must make a reasonable, good faith determination that a borrower is able to repay a mortgage before extending the credit, based on a number of factors and consideration of financial information about the borrower. Loans meeting the definition of “qualified mortgage” are granted a presumption that the lender satisfied the ability-to-repay requirements. The CFPB has also issued rules affecting other aspects of the residential mortgage loan process, ranging from the customer application to servicing of the loan. These changes and additions to consumer mortgage banking rules have required enhancements to our compliance programs, as well as changes to Union Bank’s systems and loan processing practices. The ability to repay and qualified mortgage rules became effective on January 10, 2014.

Truth in Lending Act

The 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 is 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 require revisions to the capital requirements of the UBOH and the Union Bank could require them to seek other sources of capital in the future.

The Bank Secrecy Act

The BSA requires all financial institutions (including banks and securities broker-dealers) to, among other things, maintain a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence and know-your-customer documentation requirements. Union Bank has established and maintains an anti-money laundering program to comply with the BSA's requirements.

Bank transactions with affiliates

Federal banking law and regulation imposes qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank's parent bank holding company and certain companies the parent bank holding company may be deemed to control for these purposes. Transactions covered by these provisions must be on arm's-length terms, and cannot exceed certain amounts which are determined with reference to the bank's regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the bank holding company may be required to provide it.

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 2014 Annual Report.

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:

	2014	2013	2012
	(dollars in thousands)		
ASSETS			
Interest-earning assets			
Securities (1)			
Taxable	\$ 140,322	\$ 132,471	\$ 121,376
Non-taxable	61,155	60,107	46,390
Interest bearing deposits	31,653	29,770	37,625
Federal funds sold	-	23	46
Loans (2)	310,237	299,379	325,114
Total interest-earning assets	543,367	521,750	530,551
Non-interest-earning assets			
Cash and due from banks	13,625	8,487	7,242
Premises and equipment, net	9,053	9,174	9,385
Accrued interest receivable and other assets	27,727	28,027	28,773
Allowance for loan losses	(4,062)	(5,681)	(7,485)
	<u>\$ 589,710</u>	<u>\$ 561,757</u>	<u>\$ 568,466</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing liabilities			
Deposits			
Savings and interest-bearing demand deposits	\$ 251,825	\$ 212,464	\$ 194,590
Time deposits	164,461	180,110	208,982
Junior subordinated deferrable interest debentures	10,620	10,300	10,300
Other borrowings	11,601	21,589	27,488
Total interest-bearing liabilities	438,507	424,463	441,360
Non-interest-bearing liabilities			
Demand deposits	81,938	69,794	60,876
Accrued interest payable and other Liabilities	4,396	4,136	4,196
Shareholders' equity (3)	64,869	63,364	62,034
	<u>\$ 589,710</u>	<u>\$ 561,757</u>	<u>\$ 568,466</u>

- (1) Securities include securities available-for-sale, which are carried at fair value, and restricted bank 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.

	2014 Average Balance	Interest	Average Rate
	(dollars in thousands)		
Interest-earning assets			
Securities (1)			
Taxable	\$ 140,322	\$ 2,851	2.03%
Non-taxable (2)	61,155	2,554	4.18%
Loans (3, 4)	310,237	14,966	4.82%
Other	31,653	114	0.36%
Total interest-earning assets	<u>\$ 543,367</u>	<u>20,485</u>	<u>3.77%</u>
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing demand deposits	\$ 251,825	304	0.12%
Time deposits	164,461	1,665	1.01%
Junior subordinated deferrable interest debentures	10,620	356	3.35%
Other borrowings	11,601	343	2.96%
Total interest-bearing liabilities	<u>\$ 438,507</u>	<u>2,668</u>	<u>0.61%</u>
Net interest income, tax equivalent basis		<u>\$ 17,817</u>	
Net interest income as a percent of average interest-earning assets			<u>3.28%</u>

- (1) Securities include securities available-for-sale, which are carried at fair value, and restricted bank 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 \$700,578.

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

	2013 Average Balance	Interest	Average Rate
	(dollars in thousands)		
Interest-earning assets			
Securities (1)			
Taxable	\$ 132,471	\$ 2,690	2.03%
Non-taxable(2)	60,107	2,816	4.68%
Loans (3, 4)	299,379	15,243	5.09%
Other	29,793	102	0.34%
Total interest-earning assets	<u>\$ 521,750</u>	<u>\$ 20,851</u>	<u>4.00%</u>
INTEREST-BEARING LIABILITIES			
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>\$ 17,602</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 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 \$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)		
Interest-earning assets			
Securities available-for-sale (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>
INTEREST-BEARING LIABILITIES			
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 and loans held for sale.
- (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)

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	2014/2013	
		Variance Attributable To	
		Volume	Rate
		(dollars in thousands)	
INTEREST INCOME			
Securities -			
Taxable	\$ 161	\$ 160	\$ 1
Non-taxable	(262)	48	(310)
Loans	(277)	541	(818)
Other	12	7	5
Subtotal	(366)	756	(1,122)
INTEREST EXPENSE			
Deposits -			
Savings and interest-bearing demand deposits	-	52	(52)
Time deposits	(173)	(159)	(14)
Junior subordinated deferrable interest debentures	3	10	(7)
Other borrowings	(411)	(309)	(102)
Subtotal	(581)	(406)	(175)
NET INTEREST INCOME	<u>\$ 215</u>	<u>\$ 1,162</u>	<u>\$ (947)</u>

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

	Total Variance	2013/2012	
		Variance Attributable To	
		Volume	Rate
		(dollars in thousands)	
INTEREST INCOME			
Securities -			
Taxable	\$ (87)	\$ 241	\$ (328)
Non-taxable	108	706	(598)
Loans	(2,679)	(1,364)	(1,315)
Other	(12)	(26)	14
Subtotal	(2,670)	(443)	(2,227)
INTEREST EXPENSE			
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)
NET INTEREST INCOME	<u>\$ (1,244)</u>	<u>\$ (120)</u>	<u>\$ (1,364)</u>

II. INVESTMENT PORTFOLIO

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

	2014	2013	2012
	(dollars in thousands)		
U.S. Government agency securities	\$ 9,537	\$ 12,333	\$ 15,554
Obligations of states and political subdivisions	58,098	66,540	53,919
Mortgage-backed securities	137,819	117,472	107,607
Other	1,007	735	528
	<u>\$ 206,461</u>	<u>\$ 197,080</u>	<u>\$ 177,608</u>

The above excludes restricted bank stock amounting to \$4,829,500 in 2014 and \$4,893,800 in 2013, and 2012.

B. The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2014 are as follows (1):

	Within One Year	Maturing		After Ten Years
		After One Year But Within Five Years	After Five Years But Within Ten Years	
	(dollars in thousands)			
Agencies	\$ -	\$ 9,537	\$ -	\$ -
Obligations of states and political subdivisions	2,014	5,723	37,733	12,628
Mortgage-backed securities (2)	-	788	12,254	124,777
	<u>\$ 2,014</u>	<u>\$ 16,048</u>	<u>\$ 49,987</u>	<u>\$ 137,405</u>

	Weighted Average Yield			
Agencies	-	1.14%	-	-
Obligations of states and political subdivisions	4.59%	2.70%	2.81%	3.58%
Mortgage-backed securities (2)	-	4.38%	2.85%	2.58%
Weighted Average Yield - Portfolio	<u>4.59%</u>	<u>1.85%</u>	<u>2.82%</u>	<u>2.67%</u>

(1) Table excludes restricted bank stock and \$1,006,942 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, 2014.

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:

	2014	2013	2012	2011	2010
	(dollars in thousands)				
Commercial and agricultural	\$ 275,769	\$ 235,152	\$ 241,730	\$ 270,454	\$ 305,657
Real estate mortgage	80,598	56,651	61,276	64,888	70,331
Consumer loans	4,800	3,934	4,396	5,358	7,919
	<u>\$ 361,167</u>	<u>\$ 295,737</u>	<u>\$ 307,402</u>	<u>\$ 340,700</u>	<u>\$ 383,907</u>

Real estate mortgage loans include real estate construction loans of \$1.3 million in 2014, \$3.6 million in 2013, \$2.6 million in 2012, \$5.3 million in 2011, and \$6.5 million in 2010. 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, 2014, commercial and agricultural loans make up 76.36% of the loan portfolio; the loans are expected to be repaid from cash flow from operations of the businesses. As of December 31, 2014, real estate mortgage loans make up 22.32% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2014, consumer loans to individuals make up 1.32% 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, 2014 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	\$ 45,021
After one year but within five years	35,173
After five years	195,575
	<u>\$ 275,769</u>

III. LOAN PORTFOLIO (CONTINUED)

	Interest Sensitivity		Total
	Fixed Rate	Variable Rate	
	(dollars in thousands)		
Due after one year but within five years	\$ 21,492	\$ 13,681	\$ 35,173
Due after five years	11,435	184,140	195,575
	<u>\$ 32,927</u>	<u>\$ 197,821</u>	<u>\$ 230,748</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:

	2014	2013	2012	2011	2010
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	\$ 5,220	\$ 6,511	\$ 17,171	\$ 21,700	\$ 16,497
(b) Loans contractually past due 90 days or more as to interest or principal payments and still accruing interest	1,513	37	25	55	126
(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	2,121	495	2,139	4,479	3,092
	<u>\$ 8,854</u>	<u>\$ 7,043</u>	<u>\$ 19,335</u>	<u>\$ 26,234</u>	<u>\$ 19,715</u>

The following is reported for the year ended December 31:

	2014	2013	2012	2011	2010
	(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	\$ 596	\$ 633	\$ 1,143	\$ 1,438	\$ 987
Interest income actually recorded on non-accrual loans and included in net income for the period	-	-	-	-	-
Interest income not recognized during the period	<u>\$ 596</u>	<u>\$ 633</u>	<u>\$ 1,143</u>	<u>\$ 1,438</u>	<u>\$ 987</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, 2014, in addition to the \$8.9 million of loans reported under Item III C, there are approximately \$13.7 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, 2014, loans outstanding relating to agricultural operations or collateralized by agricultural real estate aggregated \$39,781,326. At December 31, 2014, there were three borrowers with loans totaling \$78,640 in agricultural loans, which were accounted for on a non-accrual basis; and there were no accruing agricultural 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, 2014, there were no other interest-bearing assets that are required to be disclosed.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(dollars in thousands)				
LOANS					
Loans outstanding at end of period (1)	\$ 361,167	\$ 295,737	\$ 307,402	\$ 340,700	\$ 383,907
Average loans outstanding during period (1)	\$ 310,237	\$ 299,379	\$ 325,114	\$ 360,669	\$ 398,378
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	\$ 4,014	\$ 6,918	\$ 8,543	\$ 8,017	\$ 4,804
Loans charged off -					
Commercial and agricultural	(368)	(2,614)	(2,103)	(3,635)	(3,107)
Real estate mortgage	(117)	(4)	(144)	(515)	(494)
Consumer loans to individuals	(12)	(23)	(14)	(88)	(223)
	(497)	(2,641)	(2,261)	(4,238)	(3,824)
Recoveries of loans previously charged off -					
Commercial and agricultural	738	541	379	162	282
Real estate mortgage	9	11	14	142	95
Consumer loans	5	18	43	85	110
	752	570	436	389	487
Net loans (charged off) recoveries	255	(2,071)	(1,825)	(3,849)	(3,337)
Provision for loan losses	(430)	(833)	200	4,375	6,550
Balance at end of period	\$ 3,839	\$ 4,014	\$ 6,918	\$ 8,543	\$ 8,017
Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	(0.08)%	0.69%	0.56%	1.07%	0.84%

(1) Including loans held for sale.

In 2014 the net recoveries of \$255,000 included seven commercial or agricultural borrowers, with the largest charge-off being \$181,000. 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.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

The Corporation recognized a negative provision for loan losses of \$430,000 in 2014 and \$833,000 in 2013. Problem and potential problem loans aggregated \$18.7 million at December 31, 2014 compared to \$16.2 million December 31, 2013. 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, 2014		December 31, 2013	
Commercial and agricultural	\$ 3,453	76.4%	\$ 3,651	79.5%
Real Estate mortgages	363	22.3%	345	19.2%
Consumer loans to individuals	23	1.3%	18	1.3%
	<u>\$ 3,839</u>	<u>100.0%</u>	<u>\$ 4,014</u>	<u>100.0%</u>
	December 31, 2012		December 31, 2011	
Commercial and agricultural	\$ 6,269	78.7%	\$ 7,444	79.4%
Real Estate mortgages	602	19.9%	999	19.0%
Consumer loans to individuals	47	1.4%	100	1.6%
Unallocated	\$ 6,918	100.0%	\$ 8,543	100.0%
	December 31, 2010			
Commercial and agricultural	\$ 7,134	79.6%		
Real Estate mortgages	323	18.3%		
Consumer loans to individuals	125	2.1%		
Unallocated	435	-		
	<u>\$ 8,017</u>	<u>100.0%</u>		

The allowance for loan losses at December 31, 2014 included specific reserves for impaired loans amounting to \$807,000 compared to \$179,000 at December 31, 2013.

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, 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)			
	2014 Average Amount	2014 Average Rate	2013 Average Amount	2013 Average Rate
Savings and interest-bearing demand deposits	\$ 251,825	0.12%	\$ 212,464	0.14%
Time deposits	164,461	1.01%	180,110	1.02%
Demand deposits (non-interest bearing)	81,938	-	69,794	-
	<u>\$ 498,224</u>		<u>\$ 462,368</u>	
	2012 Average Amount	2012 Average Rate		
Savings and interest-bearing demand deposits	\$ 194,590	0.15%		
Time deposits	208,982	1.47%		
Demand deposits (non-interest bearing)	60,876	-		
	<u>\$ 464,448</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, 2014 are summarized as follows:

Three months or less	\$ 12,442
Over three months and through six months	8,837
Over six months and through twelve months	12,380
Over twelve months	30,136
	<u>\$ 63,795</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:

	2014	2013	2012
	(dollars in thousands)		
Average total assets	\$ 589,710	\$ 561,757	\$ 568,466
Average shareholders' equity (1)	\$ 64,869	\$ 63,364	\$ 62,034
Net income	\$ 4,311	\$ 4,641	\$ 4,485
Cash dividends declared	\$ 1,193	\$ 689	\$ 172
Return on average total assets	0.73%	0.83%	0.79%
Return on average shareholders' equity	6.65%	7.33%	7.23%
Dividend payout ratio (2)	27.67%	14.85%	3.84%
Average shareholders' equity to average total assets	11.00%	11.28%	10.91%

(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, 2014, the Corporation did not have any federal funds purchased, out of the \$74 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, 2014, the Corporation had no 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 2014, 2013, and 2012.

	2014	2013	2012
	(dollars in thousands)		
Balance at year-end	\$ -	\$ 4,600	\$ 5,057
Maximum balance at month-end during the period	\$ 4,601	\$ 4,600	\$ 5,164
Average balance	\$ 2,952	\$ 4,226	\$ 4,126
Weighted average interest rate	0.14%	0.14%	0.17%

Item 1A.

RISK FACTORS

An investment in 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 Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation's ability to originate loans and obtain deposits, (ii) the fair value of the Corporation's financial assets and liabilities, and (iii) the average duration of the Corporation's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Changing interest rates may decrease our earnings and asset values.

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

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

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

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

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

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

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

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

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

Current accounting and tax rules, standards, policies and interpretations influence the methods by which financial institutions conduct business and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. Events that may not have a direct impact on the Corporation, such as bankruptcy of major U.S. companies, have resulted in legislators, regulators, and authoritative bodies, such as the Financial Accounting Standards Board, the Securities 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. 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.

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

Goodwill is tested for impairment annually 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, Delaware, Hancock, Putnam, Marion, 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.

Legislative or regulatory changes or actions could adversely impact our business

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. These laws and regulations are primarily intended for the protection of consumers, depositors, borrowers, and the DIF, not to benefit our shareholders. Changes to laws and regulations or other actions by regulatory agencies may negatively impact us, possibly limiting the services we provide, increasing the ability of non-banks to compete with us or requiring us to change the way we operate. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on the operation of an institution and the ability to determine the adequacy of an institution's allowance for loan losses. Failure by and bank or bank holding company to comply with applicable laws, regulations, and policies could result in sanctions being imposed by the regulatory agencies, including the imposition of civil money penalties, which could have a material adverse effect on our operations and financial condition.

In the last several years, Congress and the federal bank regulators have acted on an unprecedented scale in responding to the stresses experienced in the global financial markets. Some of the laws enacted by Congress and regulations promulgated by the federal bank regulators and the SEC subject us and other financial institutions to additional restrictions, oversight, and costs that may have an adverse impact on our business and results of operations.

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.

UBOH Relies On Dividends from Its Subsidiaries for Most of Its Revenue

UBOH 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 UBOH common stock, interest and principal on UBOH debt, and other operating expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Union Bank may pay to the UBOH. Under these law and regulations, the amount of dividends that may be paid by Union Bank in any calendar year is generally limited to the current year's net profits, combined with the retained net profits of the preceding two years. In addition, the FDIC has issued policy statements that provide that insured banks should generally only pay dividends out of current operating earnings. Thus, the ability of Union Bank to pay dividends to UBOH in the future will be subject to Union Bank's ability to earn profits in the future, and the federal statutory provisions, regulations, regulatory policies, and capital guidelines which are applicable to UBOH and Union Bank. Furthermore, the Federal Reserve's Small Bank Holding Company Policy Statement provides, *inter alia*, that it is expected that dividends by a holding company will be eliminated in the event that a holding company is: (1) not reducing its debt consistent with the requirement that the debt to equity ratio be reduced to 30:1, or (2) not meeting the requirements of its loan agreement(s). Also, UBOH'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 Union Bank is unable to pay dividends to UBOH, UBOH may not be able to service debt, pay obligations or pay dividends on the UBOH's common stock or trust preferred securities. The inability to receive dividends from the Union Bank could have a material adverse effect on UBOH'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.

Damage to the Corporation's reputation could damage its businesses.

Maintaining trust in the Corporation is critical to our ability to attract and maintain customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, security breaches, compliance failures, litigation or regulatory outcomes or governmental investigations. Our reputation could also be harmed by the failure of an affiliate, a vendor or other third party with which we do business, to comply with laws or regulations. In addition, a failure or perceived failure to deliver appropriate standards of service and quality, to treat customers and clients fairly, or to handle or use confidential information of customers or clients appropriately or in compliance with applicable privacy laws and regulations can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity or negative information posted on social media websites regarding the Corporation, whether or not true, may result in harm to the prospects. Should any of these or other events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the reputational harm could not adversely affect our earnings and results of operations, or that damage to our reputation will not impair our ability to retain our existing or attract new customers, investors and employees.

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. All of the 16 properties are suitable for their intended use. In total, the facilities represent approximately 101,643 square feet.

FULL-SERVICE BRANCH LOCATIONS

Main Office: Columbus Grove

100 South High Street

Branch Locations:

Bowling Green

1300 North Main Street

Ottawa

245 West Main Street

Delaware

30 Coal Bend

Delphos

114 East 3rd Street

Marion

111 South Main Street

220 Richland Road

Findlay

1500 Bright Road

Gibsonburg

230 West Madison Street

Kalida

110 East North Street

DRIVE-THRU FACILITY

Columbus Grove

101 Progressive Drive

Leipsic

318 South Belmore Street

Lima Locations

3211 Elida Road

1410 Bellefontaine Avenue

701 Shawnee Road

OPERATIONS FACILITY

Columbus Grove

102 – 106 South High Street

Item 3. Legal Proceedings

As of March 18, 2015, 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

Additional information required herein is incorporated by reference from (“Market Price and Dividends on Common Stock”) United Bancshares’ Annual Report to Shareholders for 2014 (“Annual Report”), which is included herein as Exhibit 13.

Stock Repurchase Program

The table below includes certain information regarding the Corporation’s repurchase of United Bancshares, Inc. common stock during the quarterly period ended December 31, 2014:

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number shares purchased as part of publicly announced plan or program</u>	<u>Maximum number of shares that may yet be purchased under the plan or program(i)</u>
10/01/14- 10/31/14	None	-	294,558	305,442
11/01/14 - 11/30/14	None	-	294,558	305,442
12/01/14 - 12/31/14	None	-	294,558	305,442

(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 2014 (“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 2014 (“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 15 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2014 (“Annual Report”), which is included herein as Exhibit 13.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We hereby incorporate information relating to market risk by reference to pages 15 through 16 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2014 (“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 pages 17 through 66 of United Bancshares’ Annual Report to Shareholders for 2014 (“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 13a-15(e) and 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, 2014. 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) and 15d-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, 2014, 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, 2014, the Corporation's internal control over financial reporting met the criteria.

There were no changes in the Corporation's internal control over financial reporting that occurred during the Corporation's fiscal quarter ended December 31, 2014, 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 18, 2015, which is incorporated herein by reference.

Information required by this item concerning the Corporation’s Audit Committee is contained under the captions “Audit Committee” and “Audit Committee Report” of the Corporation’s definitive proxy statement dated March 18, 2015, 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 18, 2015, 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 18, 2015, 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 2015. A copy of the Code of Ethics is available on the Corporation’s website at 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 18, 2015, 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 18, 2015, 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 18, 2015, 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 18, 2015, 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 17 through 66 of the Corporation’s 2014 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, 2014 and 2013
Consolidated Statements of Income - Years ended December 31, 2014, 2013, and 2012
Consolidated Statements of Comprehensive Income (Loss) - Years ended December 31, 2014, 2013, and 2012
Consolidated Statements of Shareholders' Equity - Years ended December 31, 2014, 2013, and 2012
Consolidated Statements of Cash Flows - Years ended December 31, 2014, 2013, and 2012
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.		
2.1	Stock Purchase Agreement by and among United Bancshares, Inc., Ohio State Bancshares, Inc. and Rbancshares, Inc., dated July 1, 2014	(8)

3.1	Articles of Incorporation	(1)
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	2014 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.
- (8) Incorporated herein by reference to the Corporation's Form 8-K filed July 1, 2014.

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 18, 2015

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 18, 2015
<u>/s/ JAMES N. REYNOLDS</u> James N. Reynolds	Director	March 18, 2015
<u>/s/ H. EDWARD RIGEL</u> H. Edward Rigel	Director	March 18, 2015
<u>/s/ R. STEVEN UNVERFERTH</u> R. Steven Unverferth	Director	March 18, 2015
<u>/s/ ROBERT L. BENROTH</u> Robert L. Benroth	Director	March 18, 2015
<u>/s/ DAVID P. ROACH</u> David P. Roach	Director	March 18, 2015
<u>/s/ DANIEL W. SCHUTT</u> Daniel W. Schutt	Director	March 18, 2015

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Section 2: EX-13 (EXHIBIT 13)

Exhibit 13

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Shareholders, Customers, and Employees:

I am proud to report that your Company had another prosperous year in 2014. Our continued successes were only possible because of the unceasing passion, hard work and dedication of my fellow team members and the ongoing support of our Board of Directors. Throughout 2014, they faithfully served our customers, colleagues, and communities with their time and talents. As a direct result of their efforts, I am pleased to report that your Company reported positive financial results for 2014 including: net income of \$4.3 million (\$1.27 basic earnings per share), a \$94 million increase in total assets, \$65.6 million growth in gross loan balances, a \$97.4 million increase in customer deposit balances, \$1.1 million in share repurchases, a \$3.1 million increase in retained earnings and a 75% increased dividend payment back to you, our shareholders, as compared to 2013.

A big part of that success was the acquisition of The Ohio State Bank. Team members' efforts enabled your Company to maintain profitability despite approximately \$935,000 in acquisition related costs. The acquisition not only allowed your Company to increase total assets, loans, and deposits by \$83.5, \$58.5 and \$71.1 million, respectively, but it also provides the Company an opportunity to further expand in Marion, Delaware and surrounding counties. We are excited not only for the opportunities provided by the added branch locations, but more importantly for our newest team members who showed incredible resilience while weathering the changes that came with joining the Union Bank family and their passion to increase our Company's positive influence in their communities.

We also continue to develop internal efficiencies and enhance customer tools and resources through improved technology and streamlined workflows. Such efforts have yielded positive results in both our customers' use of technology-based products and our overall core operational cost structure. One example of that success is the continued growth of our mobile banking product, including the most recent addition of deposit capture. We continue to believe that effective implementation of technology will remain not only a vital tool for attracting and retaining new customers, but also a significant contributor to controlling our core operational costs going forward.

I remain optimistic about the long-term future of our Company. It is an optimism based not on the ability to predict when rates will move higher or whether the economy will continue to grow, but one based firmly on the character and abilities of my fellow team members. Despite the ever-increasing speed of change in our industry, the foundation for continued success for our Company is derived from their exceptional ability to identify the best growth opportunities, balance risk with return, adapt to rapidly changing technologies and threats, and our shared cultural values of respect and accountability toward our customers, shareholders, colleagues, and communities.

As always, we greatly appreciate your continued support and the trust you have placed in us.

Respectfully,

Brian D. Young

President & CEO

UNITED BANCSHARES, INC.

DESCRIPTION OF THE CORPORATION

United Bancshares, Inc., an Ohio corporation (the “Corporation”), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. Following the merger of the Company’s other two bank subsidiaries into The Union Bank Company, Columbus Grove, Ohio (“Bank”) in March 2003, the Company is now a one-bank holding company, as that term is defined by the Federal Reserve Board. Effective February 1, 2007, the Bank formed a wholly-owned subsidiary, UBC Investments, Inc. (“UBC”) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. Effective, December 4, 2009, the Bank formed a wholly-owned subsidiary UBC Property, Inc. to hold and manage certain property that was acquired in lieu of foreclosure. Through its subsidiary, the Bank, the Corporation is engaged in the business of commercial banking and offers a full range of commercial banking services.

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

MARKET PRICE AND DIVIDENDS ON COMMON STOCK

United Bancshares, Inc. has traded its common stock on the Nasdaq Markets Exchange under the symbol “UBOH” since March 2001. From January 2000 to March 2001, the Corporation’s common stock was traded on the Nasdaq Over-The-Counter Bulletin Board. Prior to January 2000, there was no established public trading market for United Bancshares, Inc. common stock. As of February 27, 2015, the common stock was held by 1,282 shareholders of record. Below are the trading highs and lows for the periods noted.

Year 2014	High	Low
First Quarter	\$ 16.32	\$ 14.25
Second Quarter	\$ 16.00	\$ 13.07
Third Quarter	\$ 15.73	\$ 13.54
Fourth Quarter	\$ 15.00	\$ 14.14
Year 2013	High	Low
First Quarter	\$ 13.00	\$ 9.67
Second Quarter	\$ 12.25	\$ 11.50
Third Quarter	\$ 13.22	\$ 11.77
Fourth Quarter	\$ 14.74	\$ 11.81

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

	2014	2013
First Quarter	\$.15	\$.05
Second Quarter	.05	.05
Third Quarter	.07	.05
Fourth Quarter	.08	.05
Total	\$.35	\$.20

AVAILABILITY OF MORE INFORMATION

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

Heather Oatman, Secretary

United Bancshares, Inc.
100 S. High Street
Columbus Grove, Ohio 45830
800-837-8111

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

	Years ended December 31,				
	2014	2013	2012	2011	2010
(Dollars in thousands, except per share data)					
Statements of income:					
Total interest income	\$ 19,620	\$ 19,854	\$ 22,591	\$ 26,461	\$ 30,264
Total interest expense	2,668	3,250	4,675	7,326	8,959
Net interest income	16,952	16,604	17,916	19,135	21,305
Provision (credit) for loan losses	(430)	(833)	200	4,375	6,550
Net interest income after					
provision for loan losses	17,382	17,437	17,716	14,760	14,755
Total non-interest income	4,387	4,468	4,353	3,831	3,718
Total non-interest expenses	16,375	16,024	16,513	15,546	15,522
Income before federal income taxes	5,394	5,881	5,556	3,045	2,951
Federal income taxes	1,083	1,240	1,071	102	143
Net income	<u>\$ 4,311</u>	<u>\$ 4,641</u>	<u>\$ 4,485</u>	<u>\$ 2,943</u>	<u>\$ 2,808</u>
Per share of common stock:					
Net income - basic	\$ 1.27	\$ 1.35	\$ 1.30	\$ 0.85	\$ 0.82
Dividends	0.35	0.20	0.05	-	0.45
Book value	\$ 20.12	\$ 18.31	\$ 18.62	\$ 17.34	\$ 15.97
Average shares outstanding – basic	3,406,194	3,446,662	3,446,133	3,445,469	3,444,703
Year end balances:					
Loans (1)	361,167	\$ 295,737	\$ 307,402	\$ 340,700	\$ 383,907
Securities (2)	211,291	201,974	182,502	156,850	145,334
Total assets	650,200	556,235	572,448	587,045	612,617
Deposits	565,445	468,000	471,199	480,486	488,651
Shareholders' equity	67,772	63,008	64,170	59,748	55,005
Average balances:					
Loans (1)	310,237	299,379	325,114	360,669	398,378
Securities (2)	201,477	192,578	167,766	151,736	149,748
Total assets	589,710	561,757	568,466	593,465	625,281
Deposits	498,224	462,368	464,448	481,600	493,089
Shareholders' equity	64,869	63,364	62,034	57,429	55,846
Selected ratios:					
Net yield on average interest-earning assets (3)	3.29%	3.38%	3.55%	3.64%	3.85%
Return on average assets	0.73%	0.83%	0.79%	0.50%	0.45%
Return on average shareholders equity	6.65%	7.33%	7.23%	5.12%	5.03%
Net loan charge-offs (recoveries) as a percentage of average					
outstanding net loans	-0.08%	0.71%	0.58%	1.07%	0.84%
Allowance for loan losses as a percentage of year end loans	1.06%	1.36%	2.27%	2.51%	2.09%
Shareholders' equity as a percentage of total assets	10.42%	11.33%	11.21%	10.18%	8.98%

Notes:

- 1) Includes loans held for sale.
- 2) Includes Restricted Bank Stock.
- 3) Net yield on average interest-earning assets was computed on a tax-equivalent basis.
- 4) Financial data for 2014 includes the impact of The Ohio State Bank acquisition, and financial data for 2010 includes the impact of the Findlay branch acquisition.

Forward-looking Statements

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

The following discussion provides additional information relating to the financial condition and results of operations of United Bancshares, Inc. Results for 2014 were affected by the completion of the acquisition of The Ohio State Bank on November 14, 2014. This section should be read in conjunction with the consolidated financial statements and the supplemental data contained elsewhere in the Annual Report on Form 10-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

United Bancshares, Inc. (the "Corporation") is a one-bank holding company that conducts business through its wholly-owned subsidiary, The Union Bank Company (the "Bank"). The Bank is an Ohio state-chartered commercial bank that provides financial services to communities based in northwest Ohio and central Ohio, where it operates fifteen full-service branches.

As a commercial bank, the Bank concentrates its efforts on serving the financial needs of the businesses in and around the counties it serves. The Bank also provides financing to customers seeking to purchase or build their own homes. The Bank provides deposit, treasury management, wealth management, and other traditional banking products through its full-service branch office network and its electronic banking services.

Financial Condition

The Corporation and subsidiary consolidated assets totaled \$650.2 million at December 31, 2014, compared to \$556.2 million at December 31, 2013, representing an increase of \$94 million or 16.9% from the year-ago period. This increase in total assets was driven in large part by our acquisition of The Ohio State Bank, which was completed on November 14, 2014. The asset category increases driving the overall increase in assets from the year-ago period include gross loans, cash and cash equivalents, available-for-sale securities and premises and equipment, with increases from the year-ago period of \$65.6 million (22.2%), \$9.9 million (44.4%), \$9.4 million (4.8%), and \$3.2 million (35.1%), respectively. The increase in total assets from the year-ago period was also improved by the increase in cash surrender value of life insurance, goodwill, and other intangible assets of \$2.2 million (15.8%), \$1.5 million (17.7%), \$908,000 (683.6%), as well as increase of \$1.6 million in other assets, which were partially offset by \$249,000 (9.1%) decrease in certificates of deposit, a \$64,000 (1.3%) decrease in Federal Home Loan Bank Stock, and a \$132,000 (19.8%) decrease in other real estate owned.

Deposits likewise increased from the year-ago period by \$97.4 million (20.8%). Overall, the assets acquired and liabilities assumed as a result of The Ohio State Bank acquisition are as follows:

**SUMMARY OF ASSETS ACQUIRED AND LIABILITIES
ASSUMED IN THE OHIO STATE BANK ACQUISITION**

Assets	(\$ in millions)
Loans	\$ 58.5
Securities	6.9
Cash	6.6
Other Stock, at cost	.7
Premises and Equipment	3.4
Goodwill	1.5
Cash surrender value of life insurance	1.8
Other intangible assets	1.0
Other assets, including accrued interest receivable	3.0
Liabilities	
Deposits	71.1
Federal Home Loan bank borrowings	8.7
Junior subordinated deferrable interest debentures	2.4
Accrued expenses and other liabilities	1.2

The acquisition expands the geographical footprint of the Corporation to include Marion and Delaware counties and adds an additional three full-service branches.

Loans

At December 31, 2014, total loans, including loans held for sale, amounted to \$361.2 million compared to \$295.7 million at December 31, 2013, an increase of \$65.5 million (22.2%). All categories within the loan portfolio increased during 2014, with residential real estate increasing \$24.1 million (42.9%), commercial loans increasing \$39.2 million (20%), agriculture loans increasing \$1.4 million (3.8%), and consumer loans increasing \$866,000 (22%). The increase in the loan portfolio is primarily attributable to the \$58.5 million in loans acquired with The Ohio State Bank acquisition.

Securities

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

Securities, including restricted bank stock, totaled \$211.3 million at December 31, 2014 compared to \$202 million at December 31, 2013, an increase of \$9.3 million (4.6%). The amortized cost of the securities portfolio increased \$5.2 million in 2014, and the Corporation experienced net unrealized gains on securities of \$4.6 million during 2014.

The Corporation is required to maintain a certain level of FHLB stock based on outstanding borrowings from the FHLB. FHLB stock is considered a restricted security which is carried at cost and evaluated periodically for impairment. The FHLB stock balance was reduced by \$749,600 in 2014 as a result of a stock repurchase initiated by FHLB. The Corporation also acquired \$641,600 in FHLB stock, and \$43,740 in other bank restricted stock with The Ohio State Bank acquisition.

Securities - Continued

At December 31, 2014, the Corporation's investment securities portfolio included \$58.1 million in U.S. states and political subdivisions, which comprises 85.7% of shareholders' equity. The largest exposure to any one state is \$9 million, or 16%, issued within the state of Ohio. The Corporation's procedures for evaluating investments in securities issued by states, municipalities and political subdivisions are in accordance with guidance issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies" (SR 12-15) and other regulatory guidance. Credit ratings are considered in our analysis only as a guide to the historical default rate associated with similarly-rated bonds. There have been no significant differences in our internal analyses compared with the ratings assigned by the third party credit rating agencies.

At December 31, 2014, net unrealized gains on available-for-sale securities amounted to \$2.1 million compared to net unrealized losses on available for sale securities of \$2.1 million at December 31, 2013. At December 31, 2014, the Corporation held one hundred securities which were in a loss position with the fair value and gross unrealized losses of such securities amounting to \$75.2 million and \$1.1 million, respectively. Management has considered the current interest rate environment, typical volatilities in the bond market, and the Corporation's liquidity needs in the near term in concluding that the impairment on these securities is temporary.

Other Assets

During 2014, other real estate owned (OREO) decreased \$132,000 to \$536,000 at December 31, 2014, compared to \$668,000 million at December 31, 2013. During 2014, no loans were transferred to OREO, although \$52,000 was acquired with the acquisition. Throughout 2014, the Corporation evaluated its OREO portfolio and made \$184,000 of impairment adjustments.

Deposits

Total deposits at December 31, 2014 amounted to \$565.4 million, an increase of \$97.4 million (20.8%) compared with total deposits of \$468 million at December 31, 2013. The increase in deposits includes a \$91.7 million increase in interest bearing deposits and a \$5.7 million increase in non-interest bearing deposits. \$71.1 million in deposits were assumed with The Ohio State Bank acquisition.

Other Borrowings

The Corporation also utilizes other borrowings as an alternative source of funding, as necessary, to support asset growth and periodic deposit shrinkage. Other borrowings, consisting of FHLB advances and customer repurchase agreements, amounted to \$12.1 million at December 31, 2013 (none at December 31, 2014). The decrease in other borrowings included \$16.1 million of repayments of FHLB borrowings, and a \$4.6 million decrease in customer repurchase agreements. The Corporation assumed and paid off \$8.7 million in FHLB borrowings with the acquisition, which is included in the repayment amount above.

Results of Operation – 2014 Compared to 2013

Performance Summary

Consolidated net income for the Corporation and the Bank was \$4.3 million in 2014 compared to \$4.6 million in 2013 and \$4.5 million in 2012.

Net income in 2014 as compared to 2013 was negatively impacted by a \$430,000 increase in the provision for loan losses, a \$351,000 increase in non-interest expenses and an \$80,000 decrease in non-interest income, and favorably impacted by a \$348,000 increase in net interest income and a \$157,000 decrease in the provision for income taxes. The increase in the provision for loan losses is more fully explained in the "Provision for Loan Losses and the Allowance for Loan Losses" section. The increase in net interest income is primarily due to decreased interest expense on borrowings offset by a decline in the Corporation's net interest margin from 3.38% in 2013 to 3.29% in 2014.

The Corporation's return on average assets was .73% in 2014, compared to .83% in 2013, and .79% in 2012. The Corporation's return on average shareholders' equity was 6.65% in 2014, 7.33% in 2013, and 7.23% in 2012. Basic net income per share was \$1.27 per share in 2014, a decrease of \$0.08 per share from \$1.35 in 2013. Basic net income per share of \$1.35 in 2013 represented an increase of \$0.05 per share from \$1.30 in 2012. Changes in these amounts from year to year were generally reflective of changes in the level of net income.

Net Interest Income

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

Net interest income for 2014 was \$16.9 million, an increase of \$300,000 (1.8%) from 2013. The increase in net interest income was primarily due to the Corporation paying off borrowings which reduced interest expense. Although net interest income increased, it was negatively impacted by a decrease in the net interest margin. The net interest yield on average interest-earning assets, on a tax-equivalent basis, decreased in 2014 to 3.78% from 3.99% in 2013. A majority of this decrease was a result of the average yield on loans for 2014 decreasing to 4.82% compared to 5.09% in 2013. The average rate on interest-bearing liabilities decreased to 0.61% in 2014 from 0.77% in 2013.

Provision for Loan Losses and the Allowance for Loan Losses

The Corporation's loan policy provides guidelines for managing both credit risk and asset quality. The policy details acceptable lending practices, establishes loan-grading classifications, and prescribes the use of a loan review process. The Corporation has a credit administration department that performs regular credit file reviews which facilitate the timely identification of problem or potential problem credits, ensure sound credit decisions, and assist in the determination of the allowance for loan losses. The Corporation also engages an outside credit review firm to supplement the credit analysis function and to provide an independent assessment of the loan review process. The loan policy, loan review process, and credit analysis function facilitate management's evaluation of the credit risk inherent in the lending function.

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

Provision for Loan Losses and the Allowance for Loan Losses - Continued

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

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

The allowance for loan losses at December 31, 2014 was \$3.8 million, or 1.06% of total loans, compared to \$4.0 million, or 1.36% of total loans at December 31, 2013. The 2014 ratio was impacted by the loans acquired in The Ohio State Bank acquisition. The change in the allowance for loan losses during 2014 included a \$430,000 negative provision for loan losses charged to operations and loan recoveries, net of charge-offs, of \$255,000.

The provision for loan losses charged to operations is determined by management after considering the amount of net losses incurred as well as management's estimation of losses inherent in the portfolio based on an evaluation of loan portfolio risk and current economic factors. The negative provision for loan losses of \$430,000 in 2014 compares to a negative provision of \$833,000 in 2013. The negative provisions have been warranted as a result of improving market values on certain collateral, and impaired loans with specific reserves becoming pass-rated or paying off.

Impaired loans, principally consisting of commercial and commercial real estate credits, amounted to \$3.7 million at December 31, 2014 compared to \$2.8 million at December 31, 2013, an increase of \$900,000. Impaired loans at December 31, 2014 included \$1.0 million of loans with no specific reserves included in the allowance for loan losses and \$2.7 million of loans with specific reserves of \$807,000 included in the Corporation's December 31, 2014 allowance for loan losses. Impaired loans at December 31, 2014 with no specific reserves include \$181,000 of loan charge-offs during 2014. Impaired loans at December 31, 2013 included \$2.1 million of loans with no specific reserves included in the allowance for loan losses and \$660,000 of loans with specific reserves of \$179,000 included in the Corporation's December 31, 2013 allowance for loan losses. Impaired loans at December 31, 2013 with no specific reserves include \$2.2 million of loan charge-offs during 2013.

In addition to impaired loans, the Corporation had other potential problem credits of \$18.7 million at December 31, 2014 compared to \$13.4 million at December 31, 2013, an increase of \$5.3 million (39.6%). The Corporation's credit administration department continues to closely monitor these credits.

Non-Interest Income

Total non-interest income decreased \$80,000 (1.8%) to \$4.39 million in 2014 from \$4.47 million in 2013. With the exception of net securities gains, most of the components of non-interest income are recurring, although certain components are more susceptible to change than others. Net securities gains increased in 2014 to \$400,000 compared to \$134,000 in 2013.

Significant recurring components of non-interest income include service charges on deposit accounts, secondary market lending activities, and increases in the cash surrender value of life insurance. Service charges on deposit accounts increased \$73,000 (5.8%) to \$1,325,000 in 2014 compared to \$1,252,000 in 2013.

Non-Interest Income - Continued

The Corporation has elected to sell in the secondary market substantially all fixed rate residential real estate loans originated, and typically retains the servicing rights relating to such loans. During 2014, gain on sale of loans was \$610,000, including \$134,000 of capitalized servicing rights. Gain on sale of loans was \$719,000 in 2013, including \$313,000 of capitalized servicing rights. The decrease in gain on sale of loans was attributable to a decrease in loan demand during 2014 with loan sales in 2014 amounting to \$15.6 million compared to \$31.9 million in 2013. The Corporation's serviced portfolio decreased \$5.5 million during 2014 to \$171.3 million at December 31, 2014.

The Corporation reports its mortgage servicing rights using the fair value measurement method. As a result, the Corporation recognized a \$147,000 decrease in the fair value of mortgage servicing rights during 2014, compared to a \$316,000 increase in the fair value of mortgage servicing rights in 2013. Prepayment assumptions are a key valuation input used in determining the fair value of mortgage servicing rights. While prepayment assumptions are constantly subject to change, such changes typically occur within a relatively small parameter from period to period. The prepayment assumptions used in determining the fair value of servicing are based on the Public Securities Association (PSA) Standard Prepayment Model. At December 31, 2014 the PSA factor was 195 compared to 164 at December 31, 2013.

Other operating income increased \$168,000 (10.3%) to \$1.8 million in 2014 from \$1.6 million in 2013. The increase in non-interest income for the year ended December 31, 2014 was primarily attributable to an \$87,000 increase in income generated by the investment department and a \$63,000 increase in debit card fee income offset by a \$30,000 decrease in miscellaneous income.

Non-Interest Expenses

Total non-interest expenses amounted to \$16,375,000 in 2014, compared to \$16,024,000 in 2013, an increase of \$351,000 (2.2%). Expense increases for the quarter and year ended December 31, 2014 included increases of \$549,000 and \$735,000, respectively, in acquisition related costs from The Ohio State Bank acquisition. These increases were partially offset by a \$456,000 decrease in miscellaneous expenses resulting from prepayment penalties on Federal Home Loan Bank advances in 2014 that were lower than such prepayment penalties in 2013.

The significant components of other operating expenses are summarized in Note 11 to the consolidated financial statements.

Provision for Income Taxes

The provision for income taxes for 2014 was \$1,083,000, an effective tax rate of 20.1%, compared to \$1,240,000 in 2013, an effective rate of 21.1%. The Corporation's effective tax rate was reduced from the federal statutory rate of 34% as a result of tax-exempt securities and loan interest income (10.6%) and life insurance contracts (2.5%). At December 31, 2014, the Corporation has available alternative minimum tax credits of \$657,300 which can be used in the future to the extent regular tax exceeds the alternative minimum tax.

Financial Position – 2013 Compared to 2012

At December 31, 2013, total loans, including loans held for sale, amounted to \$295.7 million compared to \$307.4 million at December 31, 2012, a decrease of \$11.7 million (3.8%). All categories within the loan portfolio decreased during 2013, with residential real estate decreasing \$2.1 million (3.6%), commercial loans decreasing \$1.9 million (1%), agriculture loans decreasing \$4.7 million (10.9%), and consumer loans decreasing \$462,000 (10.5%). The overall decrease in the loan portfolio is attributable to continued slow economic conditions experienced throughout the Corporation's market area.

Securities, including FHLB stock, totaled \$202 million at December 31, 2013 compared to \$182.5 million at December 31, 2012, an increase of \$19.5 million (10.7%). The amortized cost of the securities portfolio increased \$27.1 million in 2013, and the Corporation experienced net unrealized losses on securities of \$7.5 million during 2013.

Financial Position – 2013 Compared to 2012 - Continued

The Corporation is required to maintain a certain level of FHLB stock based on outstanding borrowings from the FHLB. FHLB stock is considered a restricted security which is carried at cost and evaluated periodically for impairment. There were no purchases or sales of FHLB stock during 2013.

At December 31, 2013, net unrealized losses on available-for-sale securities amounted to \$2.1 million compared to net unrealized gains on available for sale securities of \$5.6 million at December 31, 2012. At December 31, 2013, the Corporation held one hundred and sixty securities which were in a loss position with the fair value and gross unrealized losses of such securities amounting to \$118.6 million and \$4.3 million, respectively.

During 2013, other real estate owned (OREO) decreased \$900,000 to \$668,000 at December 31, 2013, compared to \$1.6 million at December 31, 2012. During 2013, no loans were transferred to OREO. Throughout 2013, the Corporation evaluated its OREO portfolio and made \$220,000 of impairment adjustments. The Corporation also sold two properties from OREO and received net proceeds of \$694,000 resulting in net gain on sales of \$14,000.

Total deposits at December 31, 2013 amounted to \$468 million, a decrease of \$3.2 million (0.7%) compared with total deposits of \$471.2 million at December 31, 2012. The decrease in deposits includes a \$12 million decrease in interest bearing deposits offset by an \$8.8 million increase in non-interest bearing deposits.

Other borrowings, consisting of FHLB advances and customer repurchase agreements, amounted to \$12.1 million at December 31, 2013, compared to \$22.6 million at December 31, 2012, a decrease of \$10.5 million (46.5%). The decrease in other borrowings included \$10 million of repayments of FHLB borrowings, and a \$457,000 decrease in customer repurchase agreements.

Results of Operation – 2013 Compared to 2012

Net income in 2013 as compared to 2012 was favorably impacted by a \$1.0 million decrease in the provision for loan losses, a \$489,000 decrease in non-interest expenses and a \$114,000 increase in non-interest income, and unfavorably impacted by a \$1.3 million decrease in net interest income and a \$169,000 increase in the provision for income taxes. The decrease in the provision for loan losses is more fully explained in the "Provision for Loan Losses and the Allowance for Loan Losses" section. The decrease in net interest income is due to a decline in the Corporation's net interest margin from 3.55% in 2012 to 3.38% in 2013, as well as a decrease in the level of average interest-earning assets in 2013 as compared to 2012.

The allowance for loan losses at December 31, 2013 was \$4.0 million, or 1.36% of total loans, compared to \$6.9 million, or 2.27% of total loans at December 31, 2012. The change in the allowance for loan losses during 2013 included an \$833,000 negative provision for loan losses charged to operations and loan charge-offs, net of recoveries, of \$2.1 million.

Impaired loans, principally consisting of commercial and commercial real estate credits, amounted to \$2.8 million at December 31, 2013 compared to \$15.6 million at December 31, 2012, a decrease of \$12.8 million. Impaired loans at December 31, 2013, included \$2.1 million of loans with no specific reserves included in the allowance for loan losses and \$660,000 of loans with specific reserves of \$179,000 included in the Corporation's December 31, 2013 allowance for loan losses. Impaired loans at December 31, 2013 with no specific reserves include \$2.2 million of loan charge-offs during 2013. Impaired loans at December 31, 2012, included \$3.1 million of loans with no specific reserves included in the allowance for loan losses and \$12.5 million of loans with specific reserves of \$2.9 million included in the Corporation's December 31, 2012 allowance for loan losses. Impaired loans at December 31, 2012 with no specific reserves include \$359,000 of loans which were charged down during 2012.

In addition to impaired loans, the Corporation had other potential problem credits of \$13.4 million at December 31, 2013 compared to \$17.1 million at December 31, 2012, a decrease of \$3.7 million (21.6%). The Corporation's credit administration department continues to closely monitor these credits.

Total non-interest income increased \$115,000 (2.6%) to \$4.5 million in 2013 from \$4.4 million in 2012. With the exception of net securities gains, most of the components of non-interest income are recurring, although certain components are more susceptible to change than others. Net securities gains decreased in 2013 to \$134,000 compared to \$268,000 in 2012.

Results of Operation – 2013 Compared to 2012 - Continued

Significant recurring components of non-interest income include service charges on deposit accounts, secondary market lending activities, and increases in the cash surrender value of life insurance. Service charges on deposit accounts increased \$106,000 (9.2%) to \$1,252,000 in 2013 compared to \$1,146,000 in 2012. This increase is largely attributable to changes in customer overdraft behaviors.

During 2013, gain on sale of loans was \$719,000, including \$313,000 of capitalized servicing rights. Gain on sale of loans was \$1,297,000 in 2012, including \$445,000 of capitalized servicing rights. The significant decrease in gain on sale of loans was attributable to a decrease in loan demand during 2013 with loan sales in 2013 amounting to \$31.9 million compared to \$68.9 million in 2012. The Corporation's serviced portfolio increased \$1.2 million during 2013 to \$176.8 million at December 31, 2013. 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. The earnings rate was decreased to reflect changes in the observable market.

The Corporation recognized a \$316,000 increase in the fair value of mortgage servicing rights during 2013, compared to a \$16,000 increase in the fair value of mortgage servicing rights in 2012. Prepayment assumptions are a key valuation input used in determining the fair value of mortgage servicing rights. While prepayment assumptions are constantly subject to change, such changes typically occur within a relatively small parameter from period to period. The prepayment assumptions used in determining the fair value of servicing are based on the Public Securities Association (PSA) Standard Prepayment Model. At December 31, 2013 the PSA factor was 164 compared to 398 at December 31, 2012.

Total non-interest expenses amounted to \$16,024,000 in 2013, compared to \$16,513,000 in 2012, a decrease of \$489,000 (3%). The decrease in non-interest expenses for the year ended December 31, 2013 was primarily attributable to a \$317,000 decrease in salaries and benefits, a \$455,000 decrease in other real estate owned expenses, a \$372,000 decrease in FDIC premium expenses, a \$285,000 decrease in deposit losses and recoveries and a \$191,000 decrease in data processing offset by a \$1,111,000 increase in miscellaneous expenses resulting from a \$985,000 prepayment penalty for payment of a \$10 million Federal Home Loan Corporation advance during the fourth quarter of 2013.

The provision for income taxes for 2013 was \$1,240,000, an effective tax rate of 21.1%, compared to \$1,071,000 in 2012, an effective rate of 19.3%. The Corporation's effective tax rate was reduced from the federal statutory rate of 34% as a result of tax-exempt securities and loan interest income (10.7%) and life insurance contracts (2.4%). At December 31, 2013, the Corporation has available alternative minimum tax credits of \$614,000 which can be used in the future to the extent regular tax exceeds the alternative minimum tax.

Liquidity

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

The consolidated statements of cash flows for the years presented provide an indication of the Corporation's sources and uses of cash as well as an indication of the ability of the Corporation to maintain an adequate level of liquidity. A discussion of cash flows for 2014, 2013, and 2012 follows.

The Corporation generated cash from operating activities of \$4.8 million in 2014, \$5.1 million in 2013, and \$7.3 million in 2012.

Net cash flows from investing activities amounted to \$2 million in 2014, \$(18.1) million in 2013, and \$5.1 million in 2012. Significant investing cash inflow activities in 2014 included \$1.3 million of net cash inflows resulting from securities purchases, net of proceeds received from sales and maturities, along with \$6.7 million in net proceeds from the bank acquisition. Significant investing cash outflow activities in 2014 included a \$6.6 million increase in loans. Significant investing cash flow activities in 2013 included \$27.8 million of net cash outflows resulting from securities purchases, net of proceeds received from sales and maturities. Significant investing cash inflow activities in 2013 resulted from a \$9.6 million decrease in loans. Significant investing cash outflow activities in 2012 included \$26.2 million of net cash outflows resulting from securities purchases, net of proceeds received from sales and maturities. Investing cash inflows of \$31 million resulted from a decrease in loans and \$1 million from the sale of other real estate owned.

Net cash flows from financing activities amounted to \$3.1 million in 2014, \$(14.5) million in 2013, and \$(19.7) million in 2012. Net cash used in financing activities in 2014 primarily resulted from \$16.2 million of repayment on FHLB borrowings, a \$4.6 million decrease in customer repurchase agreements, a \$1.1 million purchase of treasury stock, and \$1.2 million in cash dividends paid. Net cash provided by financing activities included a \$26.3 million increase in deposits. Net cash used in financing activities in 2013 primarily resulted from \$10 million of repayment on FHLB borrowings and a \$3.2 million decrease in deposits. Net cash used in financing activities in 2012 primarily resulted from \$10 million of repayment on FHLB borrowings and a \$9.3 million decrease in deposits.

Asset Liability Management

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

The difference between a financial institution's interest rate sensitive assets (assets that will mature or reprice within a specific time period) and interest rate sensitive liabilities (liabilities that will mature or reprice within the same time period) is commonly referred to as its "interest rate sensitivity gap" or, simply, its "gap". An institution having more interest rate sensitive assets than interest rate sensitive liabilities within a given time interval is said to have a "positive gap". This generally means that, when interest rates increase, an institution's net interest income will increase and, when interest rates decrease, the institution's net interest income will decrease. An institution having more interest rate sensitive liabilities than interest rate sensitive assets within a given time interval is said to have a "negative gap". This generally means that, when interest rates increase, the institution's net interest income will decrease and, when interest rates decrease, the institution's net interest income will increase. The Corporation's one year cumulative gap (ratio of risk-sensitive assets to risk-sensitive liabilities) at December 31, 2014 is approximately 86% which means the Corporation has more liabilities than assets re-pricing within one year.

Effects of Inflation

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

Significant Accounting Policies

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

Significant Accounting Policies - Continued

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

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

Management considers the valuation of goodwill resulting from the 2003 Gibsonburg and Pemberville and the 2010 Findlay branch acquisitions through an annual impairment test which considers, among other things, the assets and equity of the Corporation as well as price multiples for sales transactions involving other local financial institutions. Management engaged an independent valuation specialist to perform a goodwill impairment evaluation as of September 30, 2014, which supported management's assessment that no impairment adjustments to goodwill were warranted. To date, none of the goodwill evaluations have revealed the need for an impairment charge. Management does not believe that any significant conditions have changed relating to the goodwill assessment through December 31, 2014, including goodwill related to the acquisition related to The Ohio State Bank.

Mortgage servicing rights are recognized when acquired through sale of mortgage loans and are reported at fair value. Changes in fair value are reported in net income for the period the changes occur. The 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. The Corporation has engaged an independent consultant to calculate the fair value of mortgage servicing rights on a quarterly basis. Management regularly reviews the calculation, including assumptions used in making the calculation, and discusses with the consultant. Management also reconciles information used by the consultant, with respect to the Corporation's serviced portfolio, to the Corporation's accounting records.

The Corporation reviews securities prices and fair value estimates of other financial instruments supplied by an independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. The Corporation's securities portfolio primarily consists of U.S. Government agencies, and political subdivision obligations, and mortgage backed securities. Pricing for such instruments is typically based on models with observable inputs. From time to time, the Corporation will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from other third-party sources or derived using internal models. The Corporation also considers the reasonableness of inputs for financial instruments that are priced using unobservable inputs.

Impact of Recent Accounting Pronouncements

A summary of new accounting standards adopted or subject to adoption in 2014, as well as newly-issued but not effective accounting standards at December 31, 2014, is presented in Note 2 to the consolidated financial statements.

Off-balance Sheet Arrangements, Contractual Obligations, and Contingent Liabilities and Commitments

The following table summarizes loan commitments, including letters of credit, as of December 31, 2014:

	Amount of commitment to expire per period				
	<u>Total Amount</u>	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>4 – 5 Years</u>	<u>Over 5 years</u>
	(Dollars in thousands)				
Type of commitment					
Commercial lines-of-credit	\$ 46,133	\$ 42,102	\$ 1,285	\$ 101	\$ 2,645
Real estate lines-of-credit	45,062	2,031	6,173	4,005	32,853
Consumer lines-of-credit	666	85	-	-	581
Letters of Credit	<u>1,060</u>	<u>1,030</u>	<u>30</u>	<u>-</u>	<u>-</u>
Total commitments	<u>\$ 92,921</u>	<u>\$ 45,248</u>	<u>\$ 7,488</u>	<u>\$ 4,106</u>	<u>\$ 36,079</u>

As indicated in the preceding table, the Corporation had \$92.9 million in total loan commitments at December 31, 2014, with \$45.2 million of that amount expiring within one year. All lines-of-credit represent either fee-paid or legally binding loan commitments for the loan categories noted. Letters-of-credit are also included in the amounts noted in the table since the Corporation requires that each letter-of-credit be supported by a loan agreement. The commercial and consumer lines represent both unsecured and secured obligations. The real estate lines are secured by mortgages in residential and nonresidential property. Many of the commercial lines are due on a demand basis, and are established for seasonal operating purposes. It is anticipated that a significant portion of these lines will expire without being drawn upon.

Off-balance Sheet Arrangements, Contractual Obligations, and Contingent Liabilities and Commitments – Continued

The following table summarizes the Corporation's contractual obligations as of December 31, 2014:

	Payments due by period				
	Total Amount	Less than 1 year	1– 3 years	4 – 5 years	Over 5 years
(Dollars in thousands)					
Contractual obligations					
Long-term debt	\$ 12,739	\$ -	\$ -	\$ -	\$ 12,739
Capital leases	-	-	-	-	-
Operating leases	67,500	45,000	22,500	-	-
Unconditional purchase obligations	-	-	-	-	-
Time deposits	174,928	96,627	68,624	9,069	608
Deposits without stated maturities	390,517	-	-	-	390,517
Future deferred compensation payments, including interest	1,721	116	232	232	1,141
Total obligations	<u>\$ 647,405</u>	<u>\$ 141,743</u>	<u>\$ 91,356</u>	<u>\$ 9,301</u>	<u>\$ 405,005</u>

Long-term debt presented in the preceding table is comprised of \$12.7 million of junior subordinated deferrable interest debentures. \$10.3 million was issued by the Corporation, and \$2.4 million was assumed from The Ohio State Bank acquisition.

Time deposits and deposits without stated maturities included in the preceding table are comprised of customer deposit accounts. Management believes that they have the ability to attract and retain deposit balances by adjusting the interest rates offered.

The future deferred compensation payments, including interest, as noted in the preceding table, includes the Corporation's agreement with its current Chairman of the Board of Directors to provide for retirement compensation benefits. A deferred compensation liability was also assumed with The Ohio State Bank acquisition for the benefit of the Bank's retired president, with payment that began on May 1, 2010. At December 31, 2014, the net present value of future deferred compensation payments amounted to \$1,036,000, which is included in other liabilities in the December 31, 2014 consolidated balance sheet.

As indicated in the table, the Corporation had no capital lease obligations as of December 31, 2014. The Corporation also has a non-qualified deferred compensation plan covering certain directors and officers, and has provided an estimated liability of \$613,000 at December 31, 2014 for supplemental retirement benefits. Since substantially all participants under the plan are still active, it is not possible to determine the terms of the contractual obligations and, consequently, such liability is not included in the table.

Quantitative and Qualitative Disclosures About Market Risk

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

Quantitative and Qualitative Disclosures About Market Risk - Continued

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

The Corporation monitors its interest rate risk through a sensitivity analysis, whereby it measures potential changes in its future earnings and the fair values of its financial instruments that may result from one or more hypothetical changes in interest rates. This analysis is performed by estimating the expected cash flows of the Corporation's financial instruments using interest rates in effect at year-end. For the fair value estimates, the cash flows are then discounted to year-end to arrive at an estimated present value of the Corporation's financial instruments. Hypothetical changes in interest rates are then applied to the financial instruments, and the cash flows and fair values are again estimated using these hypothetical rates. For the net interest income estimates, the hypothetical rates are applied to the financial instruments based on the assumed cash flows. The Corporation applies these interest rate "shocks" to its financial instruments up and down 100, 200 and 300 and up 400 basis points.

The following table shows the Corporation's estimated earnings sensitivity profile as of December 31, 2014:

<u>Change in Interest Rates (basis points)</u>	<u>Percentage Change in Net Interest Income</u>	<u>Percentage Change in Net Income</u>
+100	-2.5%	-5.8%
-100	-4.3%	-10.2%
+200	-5.5%	-12.7
-200	-7.1%	-16.9%
+300	-8.7%	-20.2%
-300	N/A	N/A
+400	-11.9%	-27.8%

Given a linear 100bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 2.5% and net income would decrease by 5.8%. A 100bp decrease in interest rates would decrease net interest income by 4.3% and decrease net income by 10.2%. Given a linear 200bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 5.5% and net income would decrease by 12.7%. A 200bp decrease in interest rates would decrease net interest income by 7.1% and decrease net income by 16.9%. Given a linear 300bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 8.7% and net income would decrease by 20.2%. A 300bp decrease in interest rates cannot be simulated at this time due to the historically low interest rate environment. A 400bp increase in interest rates would decrease net interest income by 11.9% and decrease net income by 27.8%. Management does not expect any significant adverse effect to net interest income in 2015 based on the composition of the portfolio and anticipated trends in rates.

Other Information

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.

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, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ CliftonLarsonAllen LLP

Toledo, Ohio
March 18, 2015

UNITED BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	\$ 11,444,096	\$ 13,698,325
Interest-bearing deposits in other banks	20,910,484	8,709,133
Total cash and cash equivalents	<u>32,354,580</u>	<u>22,407,458</u>
SECURITIES, available-for-sale	206,461,063	197,079,925
RESTRICTED BANK STOCK, at cost	4,829,540	4,893,800
CERTIFICATES OF DEPOSIT, at cost	2,490,000	2,739,000
LOANS HELD FOR SALE	<u>229,425</u>	<u>423,720</u>
LOANS	360,937,164	295,313,069
Less allowance for loan losses	<u>3,839,508</u>	<u>4,014,391</u>
Net loans	<u>357,097,656</u>	<u>291,298,678</u>
PREMISES AND EQUIPMENT, net	12,385,556	9,165,532
GOODWILL	10,072,399	8,554,979
CORE DEPOSIT INTANGIBLE ASSETS, net	1,040,547	132,786
CASH SURRENDER VALUE OF LIFE INSURANCE	16,406,846	14,173,138
OTHER REAL ESTATE OWNED	535,999	667,954
OTHER ASSETS, including accrued interest receivable	<u>6,296,050</u>	<u>4,697,774</u>
TOTAL ASSETS	\$ <u>650,199,661</u>	\$ <u>556,234,744</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 92,499,725	\$ 86,752,995
Interest-bearing	<u>472,945,234</u>	<u>381,247,070</u>
Total deposits	<u>565,444,959</u>	<u>468,000,065</u>
Other borrowings	-	12,100,552
Junior subordinated deferrable interest debentures	12,738,549	10,300,000
Other liabilities	<u>4,243,876</u>	<u>2,826,262</u>
Total liabilities	<u>582,427,384</u>	<u>493,226,879</u>
SHAREHOLDERS' EQUITY		
Common stock, stated value \$1.00, authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,665,845	14,663,861
Retained earnings	53,925,768	50,807,689
Accumulated other comprehensive income (loss)	1,412,115	(1,358,205)
Treasury stock, at cost, 392,822 shares in 2014 and 318,506 shares in 2013	<u>(5,992,008)</u>	<u>(4,866,037)</u>
Total shareholders' equity	<u>67,772,277</u>	<u>63,007,865</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ <u>650,199,661</u>	\$ <u>556,234,744</u>

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

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013	2012
INTEREST INCOME			
Loans, including fees	\$ 14,965,582	\$ 15,243,402	\$ 17,912,408
Securities:			
Taxable	2,610,954	2,429,043	2,543,299
Tax-exempt	1,688,577	1,858,801	1,787,431
Other	354,695	322,681	348,274
Total interest income	<u>19,619,808</u>	<u>19,853,927</u>	<u>22,591,412</u>
INTEREST EXPENSE			
Deposits	1,969,296	2,142,274	3,347,697
Borrowings	698,434	1,107,098	1,328,093
Total interest expense	<u>2,667,730</u>	<u>3,249,372</u>	<u>4,675,790</u>
Net interest income	16,952,078	16,604,555	17,915,622
PROVISION (CREDIT) FOR LOAN LOSSES	<u>(430,000)</u>	<u>(832,925)</u>	<u>200,000</u>
Net interest income after provision (credit) for loan losses	<u>17,382,078</u>	<u>17,437,480</u>	<u>17,715,622</u>
NON-INTEREST INCOME			
Service charges on deposit accounts	1,325,440	1,252,379	1,146,263
Gain on sale of loans	610,419	719,289	1,296,875
Net securities gains	399,760	134,177	267,513
Change in fair value of mortgage servicing rights	(147,050)	315,758	15,931
Increase in cash surrender value of life insurance	396,646	411,955	425,596
Other operating income	1,802,288	1,634,438	1,201,374
Total non-interest income	<u>4,387,503</u>	<u>4,467,996</u>	<u>4,353,552</u>
NON-INTEREST EXPENSES			
Salaries, wages and employee benefits	8,414,792	8,237,152	8,554,404
Occupancy expenses	1,584,863	1,555,242	1,474,140
Other operating expenses	6,375,428	6,231,878	6,484,813
Total non-interest expenses	<u>16,375,083</u>	<u>16,024,272</u>	<u>16,513,357</u>
Income before income taxes	5,394,498	5,881,204	5,555,817
PROVISION FOR INCOME TAXES	<u>1,083,000</u>	<u>1,240,000</u>	<u>1,071,000</u>
NET INCOME	<u>\$ 4,311,498</u>	<u>\$ 4,641,204</u>	<u>\$ 4,484,817</u>
NET INCOME PER SHARE (basic and diluted)	<u>\$ 1.27</u>	<u>\$ 1.35</u>	<u>\$ 1.30</u>

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

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
NET INCOME	<u>\$ 4,311,498</u>	<u>\$ 4,641,204</u>	<u>\$ 4,484,817</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) during period	4,597,215	(7,525,775)	418,016
Reclassification adjustments for gains included in net income	<u>(399,760)</u>	<u>(134,177)</u>	<u>(267,513)</u>
Other comprehensive income (loss), before income taxes	4,197,455	(7,659,952)	150,503
Income tax benefit (expense) related to items of other comprehensive income (loss)	<u>(1,427,135)</u>	<u>2,604,384</u>	<u>(51,171)</u>
Other comprehensive income (loss)	2,770,320	(5,055,568)	99,332
COMPREHENSIVE INCOME (LOSS)	<u>\$ 7,081,818</u>	<u>\$ (414,364)</u>	<u>\$ 4,584,149</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, 2014, 2013 and 2012

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
BALANCE AT DECEMBER 31, 2011	\$ 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)
BALANCE AT DECEMBER 31, 2012	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)
BALANCE AT DECEMBER 31, 2013	3,760,557	14,663,861	50,807,689	(1,358,205)	(4,866,037)	63,007,865
Comprehensive income:						
Net income	-	-	4,311,498	-	-	4,311,498
Other comprehensive income	-	-	-	2,770,320	-	2,770,320
Repurchase of 75,000 shares	-	-	-	-	(1,136,430)	(1,136,430)
Sale of 684 treasury shares	-	1,984	-	-	10,459	12,443
Cash dividends declared, \$0.35 per share	-	-	(1,193,419)	-	-	(1,193,419)
BALANCE AT DECEMBER 31, 2014	<u>\$ 3,760,557</u>	<u>\$ 14,665,845</u>	<u>\$ 53,925,768</u>	<u>\$ 1,412,115</u>	<u>\$ (5,992,008)</u>	<u>\$ 67,772,277</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, 2014, 2013 and 2012

	Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 4,311,498	\$ 4,641,204	\$ 4,484,817
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	701,025	649,056	772,483
Deferred income taxes	298,500	1,032,000	516,431
Provision (credit) for loan losses	(430,000)	(832,925)	200,000
Gain on sale of loans	(610,419)	(719,289)	(1,296,875)
Net securities gains	(399,760)	(134,177)	(267,513)
Change in fair value of mortgage servicing rights	147,050	(315,758)	(15,931)
Loss on sale or write-down of other real estate owned	183,955	205,775	627,615
Increase in cash surrender value of life insurance	(396,646)	(411,955)	(425,596)
Net amortization of security premiums and discounts	764,073	791,464	958,776
Provision for deferred compensation	63,724	33,806	44,293
Loss on disposal or write-down of premises and equipment and other assets	-	-	2,920
Proceeds from sale of loans held-for-sale	16,089,781	32,273,717	69,737,183
Originations of loans held-for-sale	(15,613,686)	(31,867,179)	(68,884,954)
(Increase) decrease in other assets	1,224,349	(446,316)	907,909
Increase (decrease) in other liabilities	(1,499,003)	197,896	(81,127)
Net cash provided by operating activities	<u>4,834,441</u>	<u>5,097,319</u>	<u>7,280,431</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of available-for-sale securities	9,121,368	8,821,116	12,067,541
Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities	27,222,959	36,658,316	44,030,808
Purchases of available-for-sale securities	(35,010,991)	(73,268,830)	(82,290,917)
Proceeds from sale of FHLB stock	749,600	-	-
Net proceeds from (purchase of) certificates of deposits	249,000	(249,000)	(747,000)
Proceeds from acquisition, net	6,628,035	-	-
Net (increase) decrease in loans	(6,638,114)	9,595,280	31,051,443
Purchases of premises and equipment	(314,059)	(394,982)	(114,054)
Proceeds from sale of other real estate owned	-	694,271	1,058,535
Net cash provided by (used in) investing activities	<u>2,007,798</u>	<u>(18,143,829)</u>	<u>5,056,356</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	26,348,871	(3,199,049)	(9,286,451)
Other borrowings:			
Repayments	(16,240,666)	(10,000,000)	(10,064,985)
Change in customer repurchase agreements	(4,600,552)	(456,668)	(158,758)
Purchase of treasury stock	(1,136,430)	(72,200)	-
Proceeds from sale of treasury shares	12,443	13,604	10,657
Payments of deferred compensation	(85,364)	(54,146)	(40,101)
Cash dividends paid	(1,193,419)	(689,380)	(172,315)
Net cash provided by (used in) financing activities	<u>3,104,883</u>	<u>(14,457,839)</u>	<u>(19,711,953)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>9,947,122</u>	<u>(27,504,349)</u>	<u>(7,375,167)</u>
CASH AND CASH EQUIVALENTS			
At beginning of year	22,407,458	49,911,807	57,286,974
At end of year	<u>\$ 32,354,580</u>	<u>\$ 22,407,458</u>	<u>\$ 49,911,807</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Cash paid during the year for:			
Interest	\$ 2,687,135	\$ 3,256,188	\$ 4,780,422
Federal income taxes	\$ 660,000	\$ 350,000	\$ 1,230,000
Non-cash operating activity:			
Change in deferred income taxes on net unrealized gain or loss on available-for-sale securities	\$ 1,427,135	\$ (2,604,383)	\$ 51,171
Non-cash investing activities:			

Transfer of loans to other real estate owned	\$	-	\$	-	\$	420,650
Change in net unrealized gain or loss on available-for-sale securities	\$	(4,197,455)	\$	7,659,952	\$	(150,503)

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, Delaware, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Marion, 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 \$2,623,000 and \$657,000 at December 31, 2014 and 2013, 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, 2014 and 2013.

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.

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.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses, Continued

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 individually 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.

Acquired Loans

Purchased loans acquired in a business combination are segregated into three types: pass rated loans with no discount attributable to credit quality, non-impaired loans with a discount attributable at least in part to credit quality and impaired loans with evidence of significant credit deterioration.

- Pass rated loans (typically performing loans) are accounted for in accordance with ASC 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of credit deterioration since origination.
- Non-impaired loans (typically past-due loans, special mention loans and performing substandard loans) are accounted for in accordance with ASC 310-30 "Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality" as they display at least some level of credit deterioration since origination.
- Impaired loans (typically substandard loans on non-accrual status) are accounted for in accordance with ASC 310-30 as they display significant credit deterioration since origination.

In accordance with ASC 310-30, for both purchased non-impaired loans and purchased impaired loans, the difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. This amount is not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. If the Corporation does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less 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.

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.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2014, the Corporation believes the Bank 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 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 2015 through 2016 and \$10,215 in 2017. The core deposit intangible asset resulting from The Ohio State Bank acquisition was also determined to have a definite life and is being amortized on a straight-line basis over ten years through October 2024. Future amortization of the core deposit intangible asset is \$96,470 annually for years 2015 through 2023 and \$80,388 in 2024.

Supplemental Retirement Benefits

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

Advertising Costs

All advertising costs are expensed as incurred.

Income Taxes

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and 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.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes, Continued

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, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Basic	<u>3,406,194</u>	<u>3,446,662</u>	<u>3,446,133</u>
Diluted	<u>3,406,194</u>	<u>3,446,662</u>	<u>3,446,133</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, 2014 and 2013, 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 18. 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, 2014, but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at December 31, 2014, have been recognized in the financial statements for the year ended December 31, 2014. Events or transactions that provided evidence about conditions that did not exist at December 31, 2014 but arose before the financial statements were issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2014.

On January 22, 2015, United Bancshares, Inc. issued a release announcing that its Board of Directors approved a cash dividend of \$0.09 per common share payable March 16, 2015 to shareholders of record at the close of business on February 27, 2015.

Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current presentation.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

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 did not have a material impact on the financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors. The FASB issued ASU 2014-04 to reduce diversity by clarifying 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 loan receivable should be derecognized and the real property recognized. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation has determined the provisions for ASU 2014-04 will not have a material impact on future financial statements.

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, amending ASC topic 860. The FASB issued ASU 2014-11 to change the accounting for repurchase-to-maturity transactions and linked repurchase financials to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this update are effective for the first interim or annual period beginning after December 15, 2014, and the Corporation has determined the provisions for ASU 2014-11 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 August 2014, the FASB issued ASU 2014-14, Receivables – Troubled Debt Restructurings by Creditors. The FASB issued ASU 2014-14 to reduce the diversity of how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure.; 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.; and 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The amendments in this update are effective for annual periods, and interim periods within those periods, beginning after December 15, 2014. The Corporation has determined the provisions for ASU 2014-04 will not have a material impact on future financial statements.

In November 2014, the FASB issued ASU 2014-17, Business Combinations – Pushdown Accounting. The FASB issued ASU 2014-17 to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments in this update were effective on November 18, 2014. The Corporation has determined the provisions for ASU 2014-17 did not have a material impact on the financial statements.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – ACQUISITION

On July 1, 2014, the Corporation, Ohio State Bancshares, Inc. (“OSB”) and Rbancshares, Inc. (“Rbancshares”) entered into a Stock Purchase Agreement (the “Purchase Agreement”) pursuant to which the Corporation purchased from OSB all of the issued and outstanding shares of The Ohio State Bank (“The Ohio State Bank”), an Ohio banking corporation and wholly-owned subsidiary of OSB (the “Acquisition”). Immediately following the acquisition, The Ohio State Bank was merged into the Bank. The Ohio State Bank operated three full-service branches with a main office and one other facility in Marion, Ohio and one branch in Delaware, Ohio. These offices became branches of the Bank after the acquisition. The transaction was completed in November, 2014 with assets acquired and deposits assumed being recorded at their estimated fair values as follows:

Cash	\$ 6,628,035
Loans	58,536,569
Securities	6,881,331
Other stock, at cost	685,340
Premises and equipment	3,382,316
Goodwill	1,517,420
Cash surrender value of life insurance	1,837,062
Other intangible assets	964,697
Other real estate owned	52,000
Other assets, including accrued interest receivable	3,003,090
Total assets acquired	<u>\$ 83,487,860</u>
Deposits assumed	\$ 71,096,023
Federal Home Loan Bank borrowings	8,740,666
Junior subordinated deferrable interest debentures	2,438,549
Accrued expenses and other liabilities	1,212,622
Total liabilities assumed	<u>\$ 83,487,860</u>

Consideration paid for the transaction was \$1,197,237, which included the repayment of debt of \$1,190,856 that was owed by The Ohio State Bank. Cash acquired at closing is presented above net of the repayment of debt that occurred at closing. Acquisition-related costs of approximately \$935,000 are included in other non-interest operating expenses in the accompanying 2014 consolidated statements of income. This acquisition is intended to expand the geographical footprint of the Corporation, which will help grow the balance sheet and future earnings.

Cash proceeds from the acquisition were used to repay the Federal Home Loan Bank borrowings that were assumed in the acquisition.

Goodwill of \$1,517,420 arising from the acquisition consists largely of synergies and the cost savings expected to result from the combining of operations and is not expected to be deductible for income tax purposes.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – SECURITIES

The amortized cost and fair value of securities as of December 31, 2014 and 2013 are as follows:

	2014		2013	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
Available-for-sale:				
U.S. Government and agencies	\$ 9,640,249	\$ 9,537,052	\$ 12,637,310	\$ 12,333,009
Obligations of states and political subdivisions	56,605,455	58,098,524	66,584,990	66,540,342
Mortgage-backed	137,073,902	137,818,544	119,163,624	117,471,538
Other	<u>1,001,888</u>	<u>1,006,943</u>	<u>751,888</u>	<u>735,036</u>
Total	<u>\$ 204,321,494</u>	<u>\$ 206,461,063</u>	<u>\$ 199,137,812</u>	<u>\$ 197,079,925</u>

A summary of unrealized gains and losses on securities at December 31, 2014 and 2013 follows:

	2014		2013	
	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>
Available-for-sale:				
U.S. Government and agencies	\$ -	\$ 103,197	\$ -	\$ 304,301
Obligations of states and political subdivisions	1,674,221	181,152	1,113,422	1,158,070
Mortgage-backed	1,556,536	811,894	1,164,346	2,856,432
Other	<u>5,055</u>	<u>-</u>	<u>-</u>	<u>16,852</u>
Total	<u>\$ 3,235,812</u>	<u>\$ 1,096,243</u>	<u>\$ 2,277,768</u>	<u>\$ 4,335,655</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – SECURITIES (CONTINUED)

The amortized cost and fair value of securities at December 31, 2014, 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.

	Amortized cost	Fair value
Due in one year or less	\$ 1,993,011	\$ 2,014,372
Due after one year through five years	15,993,661	16,047,665
Due after five years through ten years	48,795,493	49,987,324
Due after ten years	136,537,441	137,404,759
Other securities having no maturity date	1,001,888	1,006,943
Total	\$ 204,321,494	\$ 206,461,063

Securities with a carrying value of approximately \$20,168,000 at December 31, 2014 and \$34,271,000 at December 31, 2013 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, 2014 and 2013:

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Total Fair value
2014						
U.S. Government and agencies	\$ 9,932	\$ 990,000	\$ 93,265	\$ 8,547,052	\$ 103,197	\$ 9,537,052
Obligations of states and political subdivisions	9,008	2,523,529	172,145	11,140,718	181,152	13,664,247
Mortgage-backed	47,257	14,086,483	764,637	37,948,535	811,894	52,035,018
Total temporarily impaired securities	<u>\$ 66,197</u>	<u>\$17,600,012</u>	<u>\$ 1,030,047</u>	<u>\$57,636,305</u>	<u>\$ 1,096,243</u>	<u>\$75,236,317</u>
	Less than 12 months	12 months or more	Total			
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Total Fair value
2013						
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
Total temporarily impaired securities	<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>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – SECURITIES (CONTINUED)

There were 100 securities in an unrealized loss position at December 31, 2014, 75 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, 2014 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2014 are considered to be temporary.

Gross realized gains from sale of securities, including securities calls, amounted to \$412,812 in 2014, \$134,848 in 2013, and \$293,226 in 2012, with the income tax provision applicable to such gains amounting to \$140,356 in 2014, \$45,848 in 2013, and \$99,697 in 2012. Gross realized losses from sale of securities amounted to \$13,052 in 2014, \$671 in 2013, and \$25,713 in 2012 with related income tax effect of \$4,438 in 2014, \$228 in 2013, and \$8,742 in 2012.

NOTE 5 - LOANS

Loans at December 31, 2014 and 2013 consist of the following:

	2014	2013
Residential real estate	\$ 80,367,773	\$ 56,227,548
Commercial	235,988,490	196,808,249
Agriculture	39,781,326	38,343,403
Consumer	4,799,575	3,933,869
Total loans	\$ 360,937,164	\$ 295,313,069

Fixed rate loans approximated \$65,287,000 at December 31, 2014 and \$48,206,000 at December 31, 2013. 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, 2014 and 2013, the Corporation’s loans from borrowers in the agriculture industry represent the single largest industry and amounted to \$39,781,326 and \$38,343,403, 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 5 - 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 5 - LOANS (CONTINUED)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014, 2013 and 2012:

	Commercial	Commercial and multi- family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2013	\$ 305,434	\$ 3,346,286	\$ 344,803	\$ 17,868	\$ 4,014,391
Provision (credit) charged to expenses	(563,961)	(4,254)	125,961	12,254	(430,000)
Losses charged off	(97,901)	(270,032)	(116,812)	(12,197)	(496,942)
Recoveries	554,795	183,148	8,943	5,173	752,059
Balance at December 31, 2014	<u>\$ 198,367</u>	<u>\$ 3,255,148</u>	<u>\$ 362,895</u>	<u>\$ 23,098</u>	<u>\$ 3,839,508</u>

	Commercial	Commercial and multi- family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2012	\$ 1,027,837	\$ 5,240,175	\$ 602,291	\$ 47,302	\$ 6,917,605
Provision (credit) 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>

	Commercial	Commercial and multi- family real estate	Residential 1 – 4 family real estate	Consumer	Total
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>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - 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, 2014 and 2013:

	<u>Commercial</u>	<u>Commercial and multi-family real estate</u>	<u>Residential 1 – 4 family real estate</u>	<u>Consumer</u>	<u>Total</u>
2014					
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	\$ -	\$ 806,944	\$ -	\$ -	\$ 806,944
Collectively evaluated for impairment	198,367	2,448,204	362,895	23,098	3,032,564
Total allowance for loan losses	<u>\$ 198,367</u>	<u>\$ 3,255,148</u>	<u>\$ 362,895</u>	<u>\$ 23,098</u>	<u>\$ 3,839,508</u>

Loans:					
Individually evaluated for impairment	\$ 197,803	\$ 3,483,640	\$ -	\$ -	\$ 3,681,443
Acquired with deteriorated credit quality	20,573	1,060,927	201,343	652	1,283,495
Collectively evaluated for impairment	63,604,790	207,402,083	80,166,430	4,798,923	355,972,226
Total ending loans balance	<u>\$ 63,823,166</u>	<u>\$ 211,946,650</u>	<u>\$ 80,367,773</u>	<u>\$ 4,799,575</u>	<u>\$ 360,937,164</u>

	<u>Commercial</u>	<u>Commercial and multi-family real estate</u>	<u>Residential 1 – 4 family real estate</u>	<u>Consumer</u>	<u>Total</u>
2013					
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
Total allowance for loan losses	<u>\$ 305,434</u>	<u>\$ 3,346,286</u>	<u>\$ 344,803</u>	<u>\$ 17,868</u>	<u>\$ 4,014,391</u>

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
Total ending loans balance	<u>\$ 51,305,236</u>	<u>\$ 183,846,416</u>	<u>\$ 56,227,548</u>	<u>\$ 3,933,869</u>	<u>\$ 295,313,069</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LOANS (CONTINUED)

The following is a summary of the activity in the allowance for loan losses of impaired loans, which is a part of the Corporation's overall allowance for loan losses for the years ended December 31, 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 179,016	\$ 2,921,950	\$ 1,990,225
Provision charged to expenses	262,834	(573,330)	2,497,649
Loans charged off	(230,905)	(2,419,873)	(1,574,114)
Recoveries	595,999	250,269	8,190
Balance at end of year	<u>\$ 806,944</u>	<u>\$ 179,016</u>	<u>\$ 2,921,950</u>

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

The average balance of impaired loans (excluding loans acquired with deteriorated credit quality) approximated \$3,851,000, \$9,761,000, and \$17,188,000, during 2014, 2013, and 2012, respectively. There was approximately \$197,000, \$203,000, and \$214,000 in interest income recognized by the Corporation on impaired loans on an accrual or cash basis during 2014, 2013, and 2012, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Recorded investment</u>	<u>Allowance for loan losses allocated</u>	<u>Recorded investment</u>	<u>Allowance for loan losses allocated</u>
With no related allowance recorded:				
Commercial	\$ -	\$ -	\$ -	\$ -
Commercial and multi-family real estate	1,005,067	-	1,007,702	-
Agriculture	-	-	401,028	-
Agricultural real estate	-	-	649,036	-
Consumer	-	-	-	-
Residential 1-4 family real estate	-	-	81,437	-
With an allowance recorded:				
Commercial	197,803	85,561	-	-
Commercial and multi-family real estate	2,478,573	721,383	660,231	179,016
Agriculture	-	-	-	-
Agricultural real estate	-	-	-	-
Consumer	-	-	-	-
Residential 1-4 family real estate	-	-	-	-
Total	<u>\$ 3,681,443</u>	<u>\$ 806,944</u>	<u>\$ 2,799,434</u>	<u>\$ 179,016</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - 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, 2014 and 2013:

	2014			2013		
	Loans past due over 90 days		Troubled Debt Restructurings	Loans past due over 90 days		Troubled Debt Restructurings
	Nonaccrual	still accruing		Nonaccrual	still accruing	
Commercial	\$ 199,160	\$ 25,284	\$ -	\$ 294,475	\$ -	\$ 294,475
Commercial real estate	3,351,521	1,253,936	1,967,898	2,966,751	-	43,508
Agricultural real estate	78,640	-	-	915,992	-	-
Agriculture	-	-	-	401,028	-	-
Consumer	4,450	758	-	7,551	3,112	-
Residential:						
1 – 4 family	1,355,060	210,793	153,260	1,722,107	17,010	157,715
Home equity	231,885	22,228	-	203,520	16,748	-
Total	<u>\$ 5,220,716</u>	<u>\$ 1,512,999</u>	<u>\$ 2,121,158</u>	<u>\$ 6,511,424</u>	<u>\$ 36,870</u>	<u>\$ 495,698</u>

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, 2014 and 2013 by class of loans:

	30 – 59 days	60 – 89 days	Greater than 90	Total past due	Loans not past	Total
	past due	past due	days past due		due	
2014						
Commercial	\$ 212,495	\$ 210,541	\$ 36,494	\$ 459,530	\$ 48,300,122	\$ 48,759,652
Commercial real estate	1,150,611	1,852,191	3,053,809	6,056,611	181,172,227	187,228,838
Agriculture	49,312	-	-	49,312	15,014,202	15,063,514
Agricultural real estate	-	-	17,535	17,535	24,700,277	24,717,812
Consumer	26,295	44,537	2,941	73,773	4,725,802	4,799,575
Residential real estate	249,963	386,278	732,913	1,369,154	78,998,619	80,367,773
Total	<u>\$ 1,688,676</u>	<u>\$ 2,493,547</u>	<u>\$ 3,843,692</u>	<u>\$ 8,025,915</u>	<u>\$ 352,911,249</u>	<u>\$360,937,164</u>
	30 – 59 days	60 – 89 days	Greater than 90	Total past due	Loans not past	Total
	past due	past due	days past due		due	
2013						
Commercial	\$ 130,843	\$ 4,021	\$ -	\$ 134,864	\$ 37,970,866	\$ 38,105,730
Commercial real estate	212,864	115,269	2,465,193	2,793,326	155,909,193	158,702,519
Agriculture	-	-	401,028	401,028	12,798,477	13,199,505
Agricultural real estate	-	-	805,868	805,868	24,338,030	25,143,898
Consumer	68,583	24,514	10,663	103,760	3,830,109	3,933,869
Residential real estate	501,003	930,154	479,098	1,910,255	54,317,293	56,227,548
Total	<u>\$ 913,293</u>	<u>\$ 1,073,958</u>	<u>\$ 4,161,850</u>	<u>\$ 6,149,101</u>	<u>\$ 289,163,968</u>	<u>\$295,313,069</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - 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, 2014 and 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Not rated</u>
2014					
Commercial	\$ 61,929,304	\$ 1,515,485	\$ 180,574	\$ 197,803	\$ -
Commercial and multi-family real estate	193,153,694	9,780,593	8,902,162	110,202	-
Residential 1 - 4 family	-	-	110,759	-	80,257,013
Consumer	-	-	758	-	4,798,817
Total	<u>\$255,082,998</u>	<u>\$11,296,078</u>	<u>\$ 9,194,253</u>	<u>\$ 308,005</u>	<u>\$85,055,830</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LOANS (CONTINUED)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Not rated</u>
2013					
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>

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, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Consumer</u>	<u>Residential 1 - 4 family</u>	<u>Consumer</u>	<u>Residential 1 - 4 family</u>
Performing	\$ 4,788,985	\$ 78,045,118	\$ 3,914,625	\$ 54,501,907
Nonperforming	9,832	2,211,895	10,500	1,644,204
Total	<u>\$ 4,798,817</u>	<u>\$ 80,257,013</u>	<u>\$ 3,925,125</u>	<u>\$ 56,146,111</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LOANS (CONTINUED)

Modifications:

The Corporation's loan portfolio also includes certain loans that have been modified in a 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, 2014 and December 31, 2013

	<u>Number of modifications</u>	<u>Recorded investment</u>	<u>Allowance for loan losses allocated</u>
2014			
Commercial Real Estate	1	\$ 1,967,706	\$ 606,179
2013			
Commercial Real Estate	2	148,920	-

In 2014, the concession granted which resulted in the TDR was the Bank agreed to extend an interest only period to the borrower. In 2013, one borrower was given a below-market interest rate, and the other was granted an interest only period. In 2013, there was no allowance allocated due to the difference between the recorded investment and present value of future cash flows not being significant.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LOANS (CONTINUED)

The following is additional information with respect to loans acquired with The Ohio State Bank acquisition:

	Outstanding balance as of December 31, 2014	Related carrying amount as of December 31, 2014	Contractually required principal payments receivable as of November 14, 2014	Cash flows expected to be collected as of November 14, 2014	Fair Value as of November 14, 2014
Commercial	\$ 6,442,145	\$ 6,319,832	\$ 6,445,939	\$ 6,608,680	\$ 6,267,652
Commercial and mult family real estate	31,085,938	27,352,145	33,034,992	34,331,713	28,939,614
Residential 1 -4 family	21,607,438	21,146,818	22,218,730	25,154,590	21,475,734
Consumer	1,206,674	1,174,493	1,324,979	1,400,009	1,290,738
Total	\$ 60,342,195	\$ 55,993,288	\$ 63,024,640	\$ 67,494,992	\$ 57,973,738

There was not a significant change in the amount of accretable yield at the beginning and end of the period since the date of the acquisition and end of the period were so close.

As a result of The Ohio State Bank acquisition, the Corporation has loans, for which there was at acquisition, evidence of deterioration of credit quality since origination and for which it was probable at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans as of November 14, 2014 and December 31, 2014 was \$958,744 and \$870,037, respectively.

No provision for loan losses was recognized during the year ended December 31, 2014 related to the acquired loans as there was no significant change to the valuation of loans acquired from November 14, 2014 to December 31, 2014.

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 \$34,391, \$45,480, and \$989,194 at December 31, 2014, 2013, and 2012, respectively. The following is a summary of activity during 2014, 2013, and 2012 for such loans:

	2014	2013	2012
Beginning of year	\$ 45,480	\$ 989,194	\$ 3,013,156
Additions	4,045	-	-
Repayments	(15,134)	(943,714)	(2,023,962)
End of year	<u>\$ 34,391</u>	<u>\$ 45,480</u>	<u>\$ 989,194</u>

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2014 and 2013:

	2014	2013
Land and improvements	\$ 3,401,312	\$ 2,479,913
Buildings	11,587,176	9,188,883
Equipment	4,295,575	3,977,234
	19,284,063	15,646,030
Less accumulated depreciation	6,898,507	6,480,498
Premises and equipment, net	<u>\$ 12,385,556</u>	<u>\$ 9,165,532</u>

Depreciation expense amounted to \$450,729 in 2014, \$447,326 in 2013, and \$474,569 in 2012.

NOTE 7 - SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated \$171,255,000 and \$176,855,000 at December 31, 2014 and 2013, 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, 2014 and 2013 include:

Prepayment assumptions:	Based on the PSA Standard Prepayment Model
Internal rate of return:	8% to 10%
Servicing costs:	\$40 – \$55 per loan, annually, increased at the rate of \$1 per 1% delinquency based on loan count
Inflation rate of servicing costs:	3%
Earnings rate:	0.25% in 2014 and 2013

Following is a summary of mortgage servicing rights activity for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Fair value at beginning of year	\$ 1,398,396	\$ 930,760	\$ 727,240
Capitalized servicing rights – new loan sales	134,324	312,751	444,646
Disposals (amortization based on loan payments and payoffs)	(167,739)	(160,873)	(257,057)
Change in fair value	(147,050)	315,758	15,931
Fair value at end of year	<u>\$ 1,217,931</u>	<u>\$ 1,398,396</u>	<u>\$ 930,760</u>

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - SERVICING (CONTINUED)

The change in fair value of servicing rights for the year ended December 31, 2014 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, 2014 was 195 compared to 164 at December 31, 2013 and 398 at December 31, 2012. The earnings rate used in determining the fair value of servicing at December 31, 2014 and 2013 was 0.25% compared to 1.0% at December 31, 2012. The earnings rate was decreased in 2013 to reflect changes in the observable market.

NOTE 8 - DEPOSITS

Time deposits at December 31, 2014 and 2013 include individual deposits greater than \$250,000 approximating \$3,046,208 and \$3,560,196, respectively. Interest expense on time deposits greater than \$250,000 approximated \$37,123 for 2014, and \$38,614 for 2013.

At December 31, 2014, time deposits approximated \$174,928,199 and were scheduled to mature as follows: 2015, \$96,626,880; 2016, \$48,718,062; 2017, \$19,905,958; 2018, \$4,482,229; 2019, \$4,587,066; and thereafter, \$608,003.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are depositors of the Corporation. Such deposits amounted to \$4,616,970, and \$4,978,178 at December 31, 2014, and 2013, respectively.

Overdrafted deposit accounts reclassified as loans amounted to \$126,804 and \$172,888 at December 31, 2014 and 2013, respectively.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – OTHER BORROWINGS

Other borrowings consists of the following at December 31, 2013 (none at December 31, 2014):

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

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, 2014, the Corporation had \$74,331,985 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 10 - 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, 2014 and 2013 and 3.46% at December 31, 2012, 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.

The Corporation assumed \$3,093,000 of trust preferred securities from The Ohio State Bank acquisition. \$3,000,000 of the liability is guaranteed by the Corporation, and the remaining \$93,000 is secured by an investment in the trust preferred securities. The trust preferred securities have a carrying value of \$2,438,549 at December 31, 2014. The difference between the principal owed and the carrying value is due to the below-market interest rate on the debentures. The debentures have a stated maturity date of April 23, 2034. Interest is at a floating rate adjustable quarterly and equal to 285 basis points over the 3-month LIBOR amounting to 3.08% at December 31, 2014. The effective cost of the debentures was 6.61% at December 31, 2014.

Interest expense on the debentures amounted to \$355,000, in 2014, \$353,000 in 2013, and \$368,000 in 2012, and is included in interest expense-borrowings in the accompanying consolidated statements of income.

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - OTHER OPERATING EXPENSES

Other operating expenses consisted of the following for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Data processing	\$ 699,942	\$ 434,175	\$ 599,327
Professional fees	1,053,907	692,375	636,286
Franchise tax	436,530	436,955	375,259
Advertising	404,558	462,758	614,312
ATM processing and other fees	448,250	446,017	341,640
Amortization of core deposit intangible asset	56,935	40,857	40,857
Postage	100,241	165,439	188,653
Stationery and supplies	172,303	177,947	210,332
FDIC assessment	330,479	379,587	751,799
Loan closing fees	233,068	174,564	275,212
Other real estate owned	273,243	250,632	705,910
Deposit losses (recoveries), net	(19,928)	28,720	314,473
Prepayment penalty on borrowings	528,750	984,566	-
Other	1,657,150	1,557,286	1,430,753
Total other operating expenses	\$ 6,375,428	\$ 6,231,878	\$ 6,484,813

NOTE 12 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2014, 2013 and 2012 consist of the following:

	2014	2013	2012
Current	\$ 784,500	\$ 208,000	\$ 554,569
Deferred	298,500	1,032,000	516,431
Total provision for income taxes	\$ 1,083,000	\$ 1,240,000	\$ 1,071,000

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:

	2014	2013	2012
Expected tax using statutory tax rate of 34%	\$ 1,834,100	\$ 1,999,600	\$ 1,889,000
Increase (decrease) in tax resulting from:			
Tax-exempt income on state and municipal securities and political subdivision loans	(574,200)	(630,600)	(608,900)
Tax-exempt income on life insurance contracts	(134,900)	(140,100)	(144,700)
Deductible dividends paid to United Bancshares, Inc. ESOP	(39,600)	(23,700)	(6,000)
Uncertain tax position reserves	(29,800)	7,600	(66,700)
Merger and Acquisition Costs	52,800	-	-
Other, net	(25,400)	27,200	8,300
Total provision for income taxes	\$ 1,083,000	\$ 1,240,000	\$ 1,071,000

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (CONTINUED)

The deferred income tax expense of \$298,500 in 2014, \$1,032,000 in 2013, and \$516,431 in 2012 resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 are presented below:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,318,700	\$ 1,378,600
Deferred compensation	560,600	292,600
Alternative minimum tax credits	657,300	614,000
Nonaccrual loan interest	408,600	284,000
Deferred loan fees	154,400	161,000
Other real estate owned	367,500	257,600
Accrued vacation expense	126,500	122,400
Unrealized loss on securities available-for-sale	-	699,700
Accrued profit sharing	117,300	33,200
Loans fair value adjustments	1,534,800	-
Depreciation	30,800	-
Other	179,000	67,000
Net operating loss carryforward	<u>852,200</u>	<u>202,000</u>
Total deferred tax assets	<u>6,307,700</u>	<u>4,112,100</u>
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	727,500	-
Federal Home Loan Bank stock dividends	769,600	877,500
Capitalized mortgage servicing rights	414,100	475,500
Depreciation	-	2,248,400
Prepaid expenses	55,800	27,900
Acquisition intangibles	2,230,300	-
Bad debt reserve recapture	298,400	-
Trust preferred fair value adjustment	222,500	-
Other	55,500	19,300
Total deferred tax liabilities	<u>4,773,700</u>	<u>3,648,600</u>
Net deferred tax assets	<u>\$ 1,534,000</u>	<u>\$ 463,500</u>

Net deferred tax assets at December 31, 2014 and 2013 are included in other assets in the consolidated balance sheets. At December 31, 2014, the Corporation had \$657,300 of federal alternative minimum tax credits with an indefinite life.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (CONTINUED)

The Corporation acquired over \$15 million in federal loss carryforwards with the acquisition of The Ohio State Bank, which losses expire in years ranging from 2026 to 2033. Use of these losses is limited to \$126,000 per year under Section 382 of the Internal Revenue Code; therefore Management has recorded in deferred tax assets the tax benefit of only \$2.5 million of the losses that are more likely than not to be utilized before expiration. There are no other acquired tax losses associated with The Ohio State Bank acquisition that will be limited by Section 382. The Corporation's federal losses carried forward from 2013 were fully utilized in 2014.

Management believes it is more likely than not that the benefit of recorded deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2014 and 2013.

Unrecognized Tax Benefits

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

	<u>2014</u>	<u>2013</u>
Balance at January 1	\$ 72,100	\$ 66,000
Additions based on tax positions related to the current year	3,200	6,100
Reductions due to the statute of limitation	(32,000)	-
Balance at December 31	<u>\$ 43,300</u>	<u>\$ 72,100</u>

The Corporation had unrecognized tax benefits of \$43,300, and \$72,100 at December 31, 2014 and 2013, 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.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (CONTINUED)

The amount of accrued interest, net of federal tax, related to the Corporation's uncertain tax positions was \$3,500 at December 31, 2014 and \$4,500 at December 31, 2013, 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 2011. There are no current federal examinations of the Corporation's open tax years.

NOTE 13 - 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 \$542,160, \$530,989, and \$564,654, in 2014, 2013, and 2012, respectively. At December 31, 2014, the Plan owned 316,272 shares of the Corporation's common stock.

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 \$1,648,770 and \$860,679 at December 31, 2014 and 2013, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. The increase in the liability in 2014 relates to a deferred compensation liability assumed with The Ohio State Bank acquisition for the benefit of the Bank's retired president, with payments that began on May 1, 2010. 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 \$15,738,797 and \$13,530,890 at December 31, 2014 and 2013, 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 684 shares in 2014, 746 shares in 2013, and 626 shares in 2012 under the plan.

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 14 - 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, 2014 and 2013:

	Contract amount	
	2014	2013
Commitments to extend credit	\$ 91,861,000	\$ 75,097,000
Letters of credit	\$ 1,060,000	\$ 1,225,000

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, 2014 expire in 2015. 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 15 - 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, 2014 and 2013, 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, 2014, 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.

In July 2013 the U.S federal banking authorities approved the final rules (the "Basel III Capital Rules") which established a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules have maintained the general structure of the current prompt corrective action framework, while incorporating provisions which will increase both the quality and quantity of the Bank's capital. Generally, the Bank becomes subject to the new rules on January 1, 2015 with phase-in periods for many of the new provisions. Management believes the Bank will comply with the new capital requirements as they are phased-in.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - REGULATORY MATTERS (CONTINUED)

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2014 and 2013 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
(Dollars in thousands)						
As of December 31, 2014						
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 71,742	15.8%	\$ 36,307	≥ 8.0%	N/A	N/A
Bank	\$ 70,319	15.5%	\$ 36,191	≥ 8.0%	\$ 45,239	10.0%
Tier 1 Capital (to Risk weighted Assets)						
Consolidated	\$ 67,863	15.0%	\$ 18,154	≥ 4.0%	N/A	N/A
Bank	\$ 66,440	14.7%	\$ 18,096	≥ 4.0%	27,143	6.0%
Tier 1 Capital (to Average Assets)						
Consolidated	\$ 67,863	11.0%	\$ 24,624	≥ 4.0%	N/A	N/A
Bank	\$ 66,440	10.7%	\$ 24,735	≥ 4.0%	\$ 30,919	5.0%
As of December 31, 2013						
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 1 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 1 Capital (to Average Assets)						
Consolidated	\$ 65,816	11.9%	\$ 22,118	≥ 4.0%	N/A	
Bank	\$ 63,378	11.5%	\$ 22,091	≥ 4.0%	\$ 27,614	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 16 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the parent company as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, 2013 and 2012 is as follows:

Condensed Balance Sheets

	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$ 118,632	\$ 1,070,196
Investment in bank subsidiary	79,085,666	70,869,641
Premises and equipment, net of accumulated depreciation	292,396	318,017
Other assets, including income taxes receivable from bank subsidiary of \$632,480 in 2014 and \$757,993 in 2013	1,185,649	1,310,749
Total assets	\$ 80,682,343	\$ 73,568,603
Liabilities:		
Accrued expenses	54,968	\$ 47,190
Federal income taxes payable	116,548	213,548
Junior subordinated deferrable interest debentures	12,738,550	10,300,000
Total liabilities	12,910,066	10,560,738
Shareholders' equity:		
Common stock	3,760,557	3,760,557
Surplus	14,665,845	14,663,861
Retained earnings	53,925,768	50,807,689
Accumulated other comprehensive income (loss)	1,412,115	(1,358,205)
Treasury stock, at cost	(5,992,008)	(4,866,037)
Total shareholders' equity	67,772,277	63,007,865
Total liabilities and shareholders' equity	\$ 80,682,343	\$ 73,568,603

Condensed Statements of Income	<u>2014</u>	<u>2013</u>	<u>2012</u>
Income – including dividends from bank subsidiary	\$ 3,200,105	\$ 975,356	\$ 800,155
Expenses – interest expense, professional fees and other expenses, net of federal income tax benefit	(587,451)	(523,271)	(462,333)
Income before equity in undistributed net income of bank subsidiary	2,612,654	452,085	337,822
Equity in undistributed net income of bank subsidiaries	1,698,844	4,189,119	4,146,995
Net income	\$ 4,311,498	\$ 4,641,204	\$ 4,484,817

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

Condensed Statements of Cash Flows	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 4,311,498	\$ 4,641,204	\$ 4,484,817
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiary	(1,698,844)	(4,189,119)	(4,146,995)
Depreciation and amortization	25,622	25,622	25,622
(Increase) decrease in other assets	(4,412)	(665,429)	45,914
Increase (decrease) in other liabilities, including accrued expenses	(70,785)	201,086	(24,521)
Net cash provided by operating activities	<u>2,563,079</u>	<u>13,364</u>	<u>384,837</u>
Cash flows from investing activities:			
Payment for acquisition	(1,197,237)	-	-
Net cash (used in) investing activities	<u>(1,197,237)</u>	<u>-</u>	<u>-</u>
Cash flows from financing activities:			
Purchase treasury stock	(1,136,430)	(72,200)	-
Proceeds from sale of treasury shares	12,443	13,604	10,657
Cash dividends paid	(1,193,419)	(689,380)	(172,315)
Net cash (used in) provided by financing activities	<u>(2,317,406)</u>	<u>(747,976)</u>	<u>(161,658)</u>
Net increase (decrease) in cash	(951,564)	(734,612)	223,179
Cash at beginning of the year	1,070,196	1,804,808	1,581,629
Cash at end of the year	<u>\$ 118,632</u>	<u>\$ 1,070,196</u>	<u>\$ 1,804,808</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 75,000 shares in 2014 and 5,000 shares in 2013 (none in 2012) under the program.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - 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 17 - 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:

2014	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>	<u>Total fair value</u>
Recurring:				
Securities available-for-sale:				
U.S. Government and Agencies	\$ -	\$ 9,537,052	\$ -	\$ 9,537,052
Obligations of state and political subdivisions	-	55,562,707	2,535,817	58,098,524
Mortgage-backed	-	137,818,544	-	137,818,544
Other	1,005,055	1,888	-	1,006,943
Mortgage servicing rights	-	-	1,217,931	1,217,931
Total recurring	<u>\$ 1,005,055</u>	<u>\$ 202,920,191</u>	<u>\$ 3,753,748</u>	<u>\$ 207,678,994</u>
Nonrecurring:				
Impaired loans, net	\$ -	\$ -	\$ 2,874,499	\$ 2,874,499
Other real estate owned	-	-	535,999	535,999
Total nonrecurring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,410,498</u>	<u>\$ 3,410,498</u>
2013				
	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>	<u>Total fair value</u>
Recurring:				
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
Total recurring	<u>\$ -</u>	<u>\$ 197,079,925</u>	<u>\$ 1,398,396</u>	<u>\$ 198,478,321</u>
Nonrecurring:				
Impaired loans, net	\$ -	\$ -	\$ 2,620,418	\$ 2,620,418
Other real estate owned	-	-	667,954	667,954
Total nonrecurring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,288,372</u>	<u>\$ 3,288,372</u>

There was one security measured at fair value that moved to a lower level in the fair value hierarchy during 2014 due to the lack of observable quotes in inactive markets for the instrument (none during 2013).

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - 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, 2014, 2013 and 2012:

Mortgage Servicing Rights	2014	2013	2012
Balance at beginning of year	\$ 1,398,396	\$ 930,760	\$ 727,240
Gains or losses, including realized and unrealized:			
Purchases, issuances, and settlements	134,324	312,751	444,646
Disposals – amortization based on loan payments and payoffs	(167,739)	(160,873)	(257,057)
Changes in fair value	(147,050)	315,758	15,931
Balance at end of year	<u>\$ 1,217,931</u>	<u>\$ 1,398,396</u>	<u>\$ 930,760</u>

Securities valued using Level 3 inputs

Balance at beginning of year	\$ 2,673,424
Principal payments received	(139,400)
Changes in fair value	1,793
Balance at end of year	<u>\$ 2,535,817</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.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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 -0.03% and 1.01%, in addition to assumptions disclosed in note 7 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 40% 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 90% 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, 2014.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at December 31, 2014 and 2013 are as follows:

	2014		2013		Input Level
	Carrying Amount	Estimated Value	Carrying Amount	Estimated Value	
(dollars in thousands)					
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 32,355	\$ 32,355	\$ 22,407	\$ 22,407	1
Securities, including Federal Home Loan Bank stock	211,291	211,291	201,974	201,974	2
Certificates of deposit	2,490	2,490	2,739	2,739	2
Loans held for sale	229	229	424	424	3
Net loans	357,098	357,066	291,299	292,257	3
Mortgage servicing rights	1,218	1,218	1,398	1,398	3
	\$ 604,681	\$ 604,649	\$ 520,241	\$ 521,199	
(dollars in thousands)					
FINANCIAL LIABILITIES					
Deposits					
Maturity	\$ 174,929	\$ 174,263	\$ 172,349	\$ 172,956	3
Non-maturity	390,516	390,516	295,651	295,651	1
Other borrowings	-	-	12,101	13,036	3
Junior subordinated deferrable interest debentures	12,739	12,627	10,300	10,294	3
	\$ 578,184	\$ 577,406	\$ 490,401	\$ 491,937	

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, 2014 and 2013 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$92,921,000 at December 31, 2014 and \$76,322,000 at December 31, 2013. 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 18 - 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 had one security that was classified as Level 3 at December 31, 2014. The Corporation did not have any securities classified as Level 1 or Level 3 at December 31, 2013.

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 18 - 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 19 – LEASING ARRANGEMENTS

The Corporation acquired a branch that is operated from a facility that is leased under a twenty-year cancelable operating lease expiring in June 2016. There is an option to renew the lease for two successive periods of five years each, but otherwise on the same terms.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2014:

Year ending December 31	Amount
2015	\$ 45,000
2016	\$ 22,500

NOTE 20 - CONTINGENT LIABILITIES

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents a summary of selected unaudited quarterly financial data for 2014 and 2013:

	<u>Interest</u>	<u>Net</u>	<u>Net</u>	<u>Income per</u>	
	<u>Income</u>	<u>Interest</u>	<u>Income</u>	<u>common share</u>	<u>Diluted</u>
	(Dollars in thousands,	except per share data)			
2014					
First quarter	\$ 4,859	\$ 4,188	\$ 901	\$ 0.262	\$ 0.262
Second quarter	\$ 4,814	\$ 4,013	\$ 1,325	\$ 0.387	\$ 0.387
Third quarter	\$ 4,799	\$ 4,144	\$ 1,038	\$ 0.306	\$ 0.306
Fourth quarter	\$ 5,148	\$ 5,037	\$ 1,047	\$ 0.311	\$ 0.311
2013					
First quarter	\$ 4,834	\$ 4,018	\$ 1,098	\$ 0.318	\$ 0.318
Second quarter	\$ 4,902	\$ 4,086	\$ 1,347	\$ 0.391	\$ 0.391
Third quarter	\$ 4,913	\$ 4,091	\$ 1,116	\$ 0.324	\$ 0.324
Fourth quarter	\$ 5,205	\$ 4,410	\$ 1,080	\$ 0.312	\$ 0.312

UNITED BANCSHARES, INC.
Columbus Grove, Ohio

DIRECTORS – UNITED BANCSHARES, INC.

<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE</u>	<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE</u>
Robert L. Benroth <i>Putnam County Auditor</i>	52	2003	Daniel W. Schutt <i>Retired Banker</i>	67	2005
James N. Reynolds <i>Chairman, Retired Banker</i>	77	2000	R. Steven Unverferth <i>President, Unverferth Manufacturing Corporation, Inc.</i>	62	2005
H. Edward Rigel <i>Farmer, Rigel Farms, Inc.</i>	72	2000	Brian D. Young <i>President/CEO</i>	48	2012
David P. Roach <i>Vice-President/GM, First Family Broadcasting of Ohio</i>	64	2001			

DIRECTORS – THE UNION BANK COMPANY

<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE (a)</u>	<u>NAME</u>	<u>AGE</u>	<u>DIRECTOR SINCE (a)</u>
Robert L. Benroth <i>Putnam County Auditor</i>	52	2001	David P. Roach <i>Vice-President/GM, First Family Broadcasting of Ohio</i>	64	1997
Herbert H. Huffman <i>Retired - Educator</i>	64	1993	Robert M. Schulte, Sr. <i>Businessman/Spherion Services</i>	82	1994
Kevin L. Lammon <i>Village Administrator, Village of Leipsic</i>	60	1996	Daniel W. Schutt <i>Retired Banker</i>	67	2005
William R. Perry <i>Farmer</i>	56	1990	R. Steven Unverferth <i>President, Unverferth Manufacturing Corporation, Inc.</i>	62	1993
James N. Reynolds <i>Retired Banker</i>	77	1966	Brian D. Young <i>President/CEO/Chairman</i>	48	2008
H. Edward Rigel <i>Farmer, Rigel Farms, Inc.</i>	72	1979			

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

OFFICERS – UNITED BANCSHARES, INC.

James N. Reynolds – Chairman Brian D. Young – President / Chief Executive Officer
Heather M. Oatman – Secretary Diana L. Engelhardt – Chief Financial Officer

OFFICERS – THE UNION BANK COMPANY

Diana L. Engelhardt	Senior Vice President, CFO	Norman V. Schnipke	Senior Vice President
John P. Miller	Senior Vice President	Curtis E. Shepherd	Senior Vice President
Heather M. Oatman	Senior Vice President, Sec.		
Janice C. Acerro	Vice President	Doris A. Neumeier	Vice President
Dan M. Best	Vice President	Brent D. Nussbaum	Vice President
Teresa M. Deitering	Vice President	Ricardo Rosado	Vice President
Erin W. Hardesty	Vice President	Jason R. Thornell	Vice President
Blair J. Lane	Vice President	Paul A. Walker	Vice President
Max E. Long	Vice President		
David G. Anderson	Assistant Vice President	Sarah E. Klausung	Assistant Vice President
Kathi J. Amstutz	Assistant Vice President	Karen M. Maag	Assistant Vice President
Donna J. Brown	Assistant Vice President	Bart H. Mills	Assistant Vice President
Nancianne Carroll	Assistant Vice President	Ellen M. Neiling	Assistant Vice President
Paul M. Cira	Assistant Vice President	Peter J. Rafaniello	Assistant Vice President
Elizabeth J. Cooper	Assistant Vice President	Amy E. Reese	Assistant Vice President
David M. Cornwell	Assistant Vice President	Craig R. Stechschulte	Assistant Vice President
Chase H. Doll	Assistant Vice President	Theresa A. Stein-Moenter	Assistant Vice President
Amy C. Felter	Assistant Vice President	Stacia R. Thompson	Assistant Vice President
Adina S. Fugate	Assistant Vice President	Kyle L. Unverferth	Assistant Vice President
Deborah A. Gaines	Assistant Vice President	Kimberly S. Verhoff	Assistant Vice President
Christina J. Hegemier	Assistant Vice President	Vikki L. Williams	Assistant Vice President
Machiel K. Hindall	Assistant Vice President	Pamela J. Workman	Assistant Vice President
Susan A. Hojnacki	Assistant Vice President		
Patricia S. Christman	Accounting Officer	Megan M. Sexton	Assistant Controller, Officer
Zachary P. Nycz	Trainer, Officer		

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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

Ohio State Bancshares Capital Trust 1
Delaware statutory trust
Acquired thru The Ohio State Bank acquisition
Columbus Grove, OH

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

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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 18, 2015, relating to the consolidated balance sheets of United Bancshares, Inc. and subsidiaries as of December 31, 2014 and 2013 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, 2014, which report is incorporated by reference in the December 31, 2014 Annual Report on Form 10-K of United Bancshares, Inc.

/s/ CliftonLarsonAllen LLP

Toledo, Ohio
March 18, 2015

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Section 5: EX-31.1 (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, 2014, 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 18, 2015

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Section 6: EX-31.2 (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, 2014, 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 18, 2015

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Section 7: EX-32.1 (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, 2014, 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 18, 2015

*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.

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Section 8: EX-32.2 (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, 2014, 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 18, 2015

*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.

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Section 9: EX-99.1 (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, 2014, 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.

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