UNITED BANCSHARES INC/OH
Form 10-Q
July 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

Commission file number 333-86453

UNITED BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

105 Progressive Drive, Columbus Grove, Ohio

(Address of principal executive offices)

34-1516518

(I.R.S. Employer Identification Number)

45830

(Zip Code)

(419) 659-2141

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company x
Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ¨ No x

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

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2017: 3,267,049.

This document contains 45 pages. The Exhibit Index is on page 39 immediately preceding the filed exhibits.

UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

United Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)

	(in thousands except share data)	
	June 30, 2017	December 31, 2016
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$9,663	$9,926
Interest-bearing deposits in other banks	3,247	4,260
Total cash and cash equivalents	12,910	14,186
SECURITIES, available-for-sale	183,975	190,205
FEDERAL HOME LOAN BANK STOCK, at cost	4,830	4,830
CERTIFICATES OF DEPOSIT, at cost	1,245	1,494
LOANS HELD FOR SALE	1,465	1,510
LOANS AND LEASES	384,311	376,086
Less allowance for loan and lease losses	2,829	3,345
Net loans and leases	381,482	372,741
PREMISES AND EQUIPMENT, net	17,008	13,395
GOODWILL	10,072	10,072
CORE DEPOSIT INTANGIBLE ASSETS, net	708	766
CASH SURRENDER VALUE OF LIFE INSURANCE	17,548	17,351
OTHER REAL ESTATE OWNED	344	578
OTHER ASSETS, including accrued interest receivable	5,091	5,991
TOTAL ASSETS	$636,678	$633,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$96,137	$98,134
Interest bearing	441,166	426,546
Total deposits	537,303	524,680
Other borrowings	7,571	18,774
Junior subordinated deferrable interest debentures	12,823	12,806
Other liabilities	3,424	4,301
Total liabilities	561,121	560,561
SHAREHOLDERS' EQUITY		

Common stock, stated value $1.00, authorized 10,000,000 shares; issued 3,760,557 shares	3,761	3,761
Surplus	14,713	14,674
Retained earnings	64,511	62,717
Accumulated other comprehensive income (loss)	291	(866)
Treasury stock, at cost, 493,508 shares at June 30, 2017 and 494,040 shares at December 31, 2016	(7,719)	(7,728)
Total shareholders' equity	75,557	72,558
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$636,678	$633,119

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

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United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	(in thousands except share data)			
	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Loans and leases, including fees	$4,788	$4,283	$9,132	$8,482
Securities:				
Taxable	619	534	1,252	1,071
Tax-exempt	429	404	846	834
Other	84	82	158	161
Total interest income	5,920	5,303	11,388	10,548
INTEREST EXPENSE				
Deposits	475	426	907	812
Borrowings	175	131	352	259
Total interest expense	650	557	1,259	1,071
Net interest income	5,270	4,746	10,129	9,477
CREDIT FOR LOAN AND LEASE LOSSES	-	(300)	(350)	(700)
Net interest income after credit for loan and lease losses	5,270	5,046	10,479	10,177
NON-INTEREST INCOME				
Gain on sale of loans	114	138	231	207
Net securities gains (losses)	(1)	16	81	136
Other operating income	1,012	909	2,073	1,838
Total non-interest income	1,125	1,063	2,385	2,181
NON-INTEREST EXPENSES	4,889	4,361	9,522	8,917
INCOME BEFORE INCOME TAXES	1,506	1,748	3,342	3,441
PROVISION FOR INCOME TAXES	321	412	763	798
NET INCOME	$1,185	$1,336	$2,579	$2,643
NET INCOME PER SHARE (basic and diluted)	$0.36	$0.40	$0.79	$0.80
Weighted average common shares outstanding (basic)	3,267,049	3,296,922	3,267,020	3,299,064
Weighted average common shares outstanding (diluted)	3,271,506	3,296,922	3,271,477	3,299,064

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

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United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

	(in thousands) Three months ended June 30,		(in thousands) Six months ended June 30,	
	2017	2016	2017	2016
NET INCOME	$1,185	$1,336	$2,579	$2,643
OTHER COMPREHENSIVE INCOME				
Unrealized gains on securities:				
Unrealized holding gains during period	1,190	1,085	1,834	3,261
Reclassification adjustments for (gains) losses included in net income	1	(16)	(81)	(136)
Other comprehensive income, before income taxes	1,191	1,069	1,753	3,125
Income tax expense related to items of other comprehensive income	405	364	596	1,062
Other comprehensive income	786	705	1,157	2,063
COMPREHENSIVE INCOME	$1,971	$2,041	$3,736	$4,706

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

United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (Unaudited)

Six months ended June 30, 2017 and 2016

	(in thousands except share data)					
	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
BALANCE AT DECEMBER 31, 2016	$3,761	$14,674	$62,717	$ (866)	$ (7,728)	$72,558
Comprehensive income:						
Net income	-	-	2,579	-	-	2,579
Other comprehensive income	-	-	-	1,157	-	1,157
532 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	4	-	-	9	13
Stock option expense	-	35	-	-	-	35
Cash dividends declared, $0.24 per share	-	-	(785)	-	-	(785)
BALANCE AT JUNE 30, 2017	$3,761	$14,713	$64,511	$ 291	$ (7,719)	$75,557
BALANCE AT DECEMBER 31, 2015	$3,761	$14,669	$58,642	$ 1,397	$ (6,908)	$71,561
Comprehensive income:						
Net income	-	-	2,643	-	-	2,643
Other comprehensive income	-	-	-	2,063	-	2,063
Repurchase of 12,901 shares	-	-	-	-	(216)	(216)
307 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	2	-	-	5	7
Cash dividends declared, $0.22 per share	-	-	(726)	-	-	(726)
BALANCE AT JUNE 30, 2016	$3,761	$14,671	$60,559	$ 3,460	$ (7,119)	$75,332

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United Bancshares, Inc. and Subsidiaries

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Six months ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	$2,207	$1,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, calls and maturities of available-for-sale securities	30,270	16,964
Purchases of available-for-sale securities	(22,631)	(16,035)
Proceeds from certificates of deposit	249	-
Proceeds from sale of other real estate owned	252	123
Net increase in loans and leases	(8,363)	(4,937)
Purchases of premises and equipment	(3,908)	(11)
Net cash used in investing activities	(4,131)	(3,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	12,623	(6,440)
Change in other borrowings	(11,203)	9,961
Purchase of treasury shares	-	(216)
Proceeds from sale of treasury shares	13	7
Cash dividends paid	(785)	(726)
Net cash provided by financing activities	648	2,586
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,276)	18
CASH AND CASH EQUIVALENTS		
At beginning of period	14,186	22,922
At end of period	$12,910	$22,940
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid during the period for:		
Interest	$1,208	$1,024
Federal income taxes	$425	$240
Non-cash investing activities:		
Transfer of loans to other real estate owned	$28	$644
Change in net unrealized gain or loss on available-for-sale securities	$1,753	$3,125

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

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2017

NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of United Bancshares, Inc. and subsidiaries (the "Corporation") have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The balance sheet as of December 31, 2016 is derived from completed audited consolidated financial statements with footnotes, which are included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016.

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

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The guidance does not apply to revenues associated with financial instruments, including loans and securities that are accounted for under U.S. GAAP. The Corporation does not expect the guidance will have a material impact on its consolidated financial statements.

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

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

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. Management has begun the process of determining the potential impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The guidance in this update eliminates the Step 2 from the goodwill impairment test. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual goodwill impairment test with a measurement date after January 1, 2017. The Corporation does not expect the guidance to have a material impact on the consolidated financial statements

NOTE 3 – SECURITIES

The amortized cost and fair value of available-for-sale securities as of June 30, 2017 and December 31, 2016 are as follows:

	(in thousands) June 30, 2017 Amortized cost	June 30, 2017 Fair value	December 31, 2016 Amortized cost	December 31, 2016 Fair value
Available-for-sale:				
Obligations of states and political subdivisions	$70,389	$71,392	$70,757	$70,624
Mortgage-backed	112,143	111,592	119,758	118,595
Other	1,002	991	1,002	986
Total	$183,534	$183,975	$191,517	$190,205

A summary of gross unrealized gains and losses on available-for-sale securities as of June 30, 2017 and December 31, 2016 follows:

	June 30, 2017 Gross unrealized gains	June 30, 2017 Gross unrealized losses	December 31, 2016 Gross unrealized gains	December 31, 2016 Gross unrealized losses
Available-for-sale:				
Obligations of states and political subdivisions	$1,256	$ 253	$644	$ 777
Mortgage-backed	608	1,159	769	1,932
Other	-	11	-	16
Total	$1,864	$ 1,423	$1,413	$ 2,725

NOTE 4 – LOANS AND LEASES

The following tables present the activity in the allowance for loan and lease losses by portfolio segment for the periods ending June 30, 2017 and 2016:

(in thousands)	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2016	$896	$ 1,876	$ 542	$ 31	$3,345
Provision (credit) charged to expenses	(274)	(136)	37	23	(350)
Losses charged off	(30)	(493)	(27)	(23)	(573)
Recoveries	76	319	6	6	407
Balance at June 30, 2017	$668	$ 1,566	$ 558	$ 37	$2,829

	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2015	$ 893	$ 2,540	$ 373	$ 28	$3,834
Provision (credit) charged to expenses	106	(809)	7	(4)	(700)
Losses charged off	-	(11)	(24)	(8)	(43)
Recoveries	18	251	-	8	277
Balance at June 30, 2016	$ 1,017	$ 1,971	$ 356	$ 24	$3,368

The following tables present the balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and based on impairment method for the periods ending June 30, 2017 and December 31, 2016:

June 30, 2017	(in thousands) Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	$79	$ 97	$ -	$ -	$176
Collectively evaluated for impairment	589	1,469	558	37	2,653
Total allowance for loan and lease losses	$668	$ 1,566	$ 558	$ 37	$2,829
Loans and leases:					
Individually evaluated for impairment	$533	$ 408	$ -	$ -	$941
Acquired with deteriorated credit quality	-	436	89	-	525
Collectively evaluated for impairment	60,765	229,977	87,968	4,135	382,845
Total ending loans and leases balance	$61,298	$ 230,821	$ 88,057	$ 4,135	$384,311

December 31, 2016	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Allowance for loan and lease losses:					
Attributable to loans and leases individually evaluated for impairment	$ 399	$ 619	$ -	$ -	$1,018
Collectively evaluated for impairment	497	1,257	542	31	2,327
Total allowance for loan and lease losses	$ 896	$ 1,876	$ 542	$ 31	$3,345
Loans and leases:					
Individually evaluated for impairment	$ 937	$ 1,980	$ -	$ -	$2,917
Acquired with deteriorated credit quality	-	573	51	-	624
Collectively evaluated for impairment	62,782	216,933	88,818	4,012	372,545
Total ending loans and leases balance	$ 63,719	$ 219,486	$ 88,869	$ 4,012	$376,086

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Impaired loans and leases were as follows as of June 30, 2017 and December 31, 2016:

	(in thousands)	
	June 30, 2017	December 31, 2016
Loans and leases with no allowance for loan and lease losses allocated	$-	$ -
Loans and leases with allowance for loan and lease losses allocated	941	2,917
Total impaired loans and leases	941	2,917
Amount of the allowance allocated to impaired loans and leases	$176	$ 1,018

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

The average recorded investment in impaired loans and leases (excluding loans and leases acquired with deteriorated credit quality) for the six month periods ended June 30, 2017 and 2016 was approximately $2.1 million and $4.2 million, respectively. There was $66,000 and $182,000 in interest income recognized by the Corporation on impaired loans and leases on an accrual or cash basis for the six month periods ended June 30, 2017 and 2016, respectively.

The following table presents loans and leases individually evaluated for impairment by class of loans as of June 30, 2017 and December 31, 2016:

(in thousands)	June 30, 2017		December 31, 2016	
	Recorded investment	Allowance for loan and lease losses allocated	Recorded investment	Allowance for loan and lease losses allocated
With no related allowance recorded:				
Commercial	$-	$ -	$-	$ -
Commercial and multi-family real estate	-	-	-	-
Agriculture	-	-	-	-
Agricultural real estate	-	-	-	-
Consumer	-	-	-	-
Residential 1-4 family real estate	-	-	-	-
With an allowance recorded:				
Commercial	533	79	937	399
Commercial and multi-family real estate	408	97	1,980	619
Agriculture	-	-	-	-
Agricultural real estate	-	-	-	-
Consumer	-	-	-	-
Residential 1-4 family real estate	-	-	-	-
Total	$941	$ 176	$2,917	$ 1,018

The following tables present the recorded investment in nonaccrual loans and leases, loans and leases past due over 90 days still on accrual and troubled debt restructurings by class of loans as of June 30, 2017 and December 31, 2016:

(in thousands) June 30, 2017	Nonaccrual	Loans and leases past due over 90 days still accruing	Troubled Debt Restructurings
Commercial	$673	$ -	$ 28
Commercial real estate	1,845	-	619
Agricultural real estate	236	-	-
Agriculture	-	-	19
Consumer	-	-	-
Residential:			

1 – 4 family	806	47	443
Home equity	-	-	-
Total	$3,560	$ 47	$ 1,109

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December 31, 2016	(in thousands) Nonaccrual	Loans and leases past due over 90 days still accruing	Troubled Debt Restructurings
Commercial	$1,295	$ -	$ 29
Commercial real estate	3,462	-	722
Agricultural real estate	277	-	-
Agriculture	-	73	-
Consumer	3	-	-
Residential:			
1 – 4 family	966	81	457
Home equity	-	-	-
Total	$6,003	$ 154	$ 1,208

The nonaccrual balances in the tables 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 and leases as of June 30, 2017 by class of loans and leases:

	(in thousands) 30 – 59 days past due	60 – 89 days past due	Greater than 90 days past due	Total past due	Loans and leases not past due	Total
Commercial	$204	$ -	$ 79	$ 283	$48,194	$48,477
Commercial real estate	138	-	636	774	201,876	202,650
Agriculture	145	-	-	145	12,676	12,821
Agricultural real estate	-	-	-	-	28,171	28,171
Consumer	2	-	-	2	4,133	4,135
Residential real estate	1,005	566	149	1,720	86,337	88,057
Total	$1,494	$ 566	$ 864	$ 2,924	$381,387	$384,311

The following table presents the aging of the recorded investment in past due loans and leases as of December 31, 2016 by class of loans and leases:

	(in thousands) 30 – 59 days past due	60 – 89 days past due	Greater than 90 days past due	Total past due	Loans and leases not past due	Total
Commercial	$326	$ 71	$ 79	$ 476	$49,988	$50,464
Commercial real estate	103	147	553	803	192,830	193,633
Agriculture	227	-	-	227	13,026	13,253
Agricultural real estate	-	-	5	5	25,850	25,855
Consumer	10	2	-	12	4,000	4,012
Residential real estate	1,770	484	462	2,716	86,153	88,869
Total	$2,436	$ 704	$ 1,099	$ 4,239	$371,847	$376,086

Credit Quality Indicators:

The Corporation categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current final financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans and leases individually by classifying the loans and leases as to the credit risk. This analysis generally includes loans and leases with an outstanding balance greater than $500,000 and non-homogenous loans and leases, such as commercial and commercial real estate loans and leases. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

- **Special Mention:** Loans and leases which possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans and leases pose unwarranted financial risk that, if not corrected, could weaken the loan or lease and increase risk in the future. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered "potential", versus "defined", impairments to the primary source of loan repayment.

- **Substandard:** These loans and leases are inadequately protected by the current sound net worth and paying ability of the borrower. Loans and leases of this type will generally display negative financial trends such as poor or negative net worth, earnings or cash flow. These loans and leases may also have historic and/or severe delinquency problems, and Corporation management may depend on secondary repayment sources to liquidate these loans and leases. The Corporation could sustain some degree of loss in these loans and leases if the weaknesses remain uncorrected.

- **Doubtful:** Loans and leases in this category display a high degree of loss, although the amount of actual loss at the time of classification is undeterminable. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification.

Loans and leases not meeting the previous criteria that are analyzed individually as part of the above described process are considered to be pass rated loans and leases. Loans and leases listed as not rated are generally either less than $500,000 or are included in groups of homogenous loans and leases. As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans and leases is as follows:

	(in thousands)				
June 30, 2017	Pass	Special Mention	Substandard	Doubtful	Not rated
Commercial	$42,185	$ -	$ 1,977	$ -	$17,136
Commercial and multi-family real estate	176,050	4,133	1,886	-	48,752
Residential 1 - 4 family	203	-	-	-	87,854

Consumer	-	-	-	-	4,135
Total	$218,438	$4,133	$ 3,863	$ -	$157,877

December 31, 2016	Pass	Special Mention	Substandard	Doubtful	Not rated
Commercial	$41,233	$ -	$ 3,666	$ -	$18,819
Commercial and multi-family real estate	162,399	4,239	3,850	-	48,999
Residential 1 - 4 family	210	-	-	-	88,659
Consumer	-	-	-	-	4,012
Total	$203,842	$4,239	$ 7,516	$ -	$160,489

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The Corporation considers the performance of the loan and lease portfolio and its impact on the allowance for loan and lease losses. For all loan classes that are not rated, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. Generally, all loans and leases not rated that are 90 days past due or are classified as nonaccrual and collectively evaluated for impairment, are considered nonperforming. The following table presents the recorded investment in all loans and leases that are not risk rated, based on payment activity as of June 30, 2017 and December 31, 2016:

	(in thousands)			
June 30, 2017	Commercial	Commercial and multi-family real estate	Residential 1-4 family	Consumer
Performing	$17,057	$ 48,116	$ 87,705	$ 4,135
Nonperforming	79	636	149	-
Total	$17,136	$ 48,752	$ 87,854	$ 4,135

December 31, 2016	Commercial	Commercial and multi-family real estate	Residential 1-4 family	Consumer
Performing	$ 18,740	$ 48,441	$ 88,197	$ 4,012
Nonperforming	79	558	462	-
Total	$ 18,819	$ 48,999	$ 88,659	$ 4,012

Modifications:

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

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

The following table includes the recorded investment and number of modifications for TDR loans and leases during the six month period ended June 30, 2017:

	(dollars in thousands)		
	Number of modifications	Recorded investment	Allowance for loan and lease losses allocated
Troubled Debt Restructurings:			
Residential Real Estate	1	$ 4	$ -
Agricultural	1	$ 18	$ -
Total	2	$ 22	$ -

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The concessions granted in the above TDR's were a modification of the original term. One note was unable to be refinanced due to the borrower not having any income. One note was termed out after previously having the term extended. The recorded investment in the loans did not change as a result of the modification. There are not any troubled debt restructurings for which there was a payment default in the current reporting period.

The following is additional information with respect to loans and leases acquired through The Ohio State Bank ("OSB") acquisition (as described below):

	(in thousands) Contractual Principal Receivable	Accretable Difference	Carrying Amount
Purchased Performing Loans and Leases			
Balance at December 31, 2016	$34,416	$ (1,476)	$32,940
Change due to payments received	(4,546)	338	(4,208)
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	-	-	-
Balance at June 30, 2017	$29,870	$ (1,138)	$28,732

	Contractual Principal Receivable	Non Accretable Difference	Carrying Amount
Purchased Impaired Loans and Leases			
Balance at December 31, 2016	$ 1,520	$ (896)	$ 624
Change due to payments received	(7)	9	2
Transfer to foreclosed real estate	-	-	-
Change due to loan charge-off	(208)	107	(101)
Balance at June 30, 2017	$ 1,305	$ (780)	$ 525

Effective November 14, 2014, the Corporation acquired OSB, which was merged into The Bank. As a result of the OSB 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 June 30, 2017 and December 31, 2016 was $525,000 and $624,000, respectively.

A $101,000 provision for loan and lease losses was recognized during the six month period ended June 30, 2017 related to one purchase credit impaired commercial loan for which the sheriff's appraisal was substantially below the expected collateral value. There was no provision for loan and lease losses recognized during the six month period ended June 30, 2016 related to the acquired loans as there has been no significant change to the credit quality of the loans during the period.

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NOTE 5 – JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Corporation has formed and invested $300,000 in a business trust, United (OH) Statutory Trust (“United Trust”) which is not consolidated by the Corporation. United Trust issued $10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation’s capital investment, to purchase $10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures have a stated maturity date of March 26, 2033. As of March 26, 2008, and quarterly thereafter, the debentures may be shortened at the Corporation’s option. Interest is payable quarterly at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR, amounting to 4.46% at June 30, 2017 and 3.79% at June 30, 2016. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods.

The Corporation assumed $3,093,000 of trust preferred securities through the OSB acquisition with $3,000,000 of the liability guaranteed by the Corporation and the remaining $93,000 secured by an investment in the trust preferred securities. The trust preferred securities carrying value as of June 30, 2017 and December 31, 2016 was $2,523,000 and $2,506,000, respectively. The difference between the principal owed and the carrying value is due to the below-market interest rate on the debentures. The debentures have a stated maturity date of April 23, 2034. Interest is at a floating rate adjustable quarterly and equal to 285 basis points over the 3-month LIBOR, amounting to 4.00% at June 30, 2017 and 3.49% at June 30, 2016.

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

Interest expense on the debentures amounted to $271,000 and $241,000 for the six month periods ended June 30, 2017 and 2016, respectively, and is included in interest expense-other borrowings in the accompanying consolidated statements of income.

NOTE 6 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at June 30, 2017 and December 31, 2016 include available-for-sale securities, which are valued using Level 2 inputs except for one other security which is valued using Level 3 inputs that was redeemed during the second quarter 2017, as well as mortgage servicing rights, amounting to $1,227,000 at June 30, 2017 and $1,247,000 at December 31, 2016, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at June 30, 2017 and December 31, 2016 include impaired loans net of specific reserves, approximating $765,000 at June 30, 2017 and $1,899,000 at December 31, 2016, all of which are valued using Level 3 inputs.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the period ended June 30, 2017, due to the lack of observable quotes in inactive markets for those instruments at June 30, 2017.

The tables below present a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), and certain securities which are valued using Level 3 inputs, for the six month period ended June 30, 2017 and year ended December 31, 2016:

	(in thousands)	
	June 30, 2017	December 31, 2016
Mortgage Servicing Rights		
Balance at beginning of period	$1,247	$ 1,181
Gains or losses, including realized and unrealized:		
Purchases, issuances, and settlements	98	273
Disposals - amortization based on loan payments and payoffs	(67)	(195)
Changes in fair value	$(51)	$ (12)
Balance at end of period	1,227	1,247
Securities valued using Level 3 inputs		
Balance at beginning of period	$2,238	$ 2,389
Principal payments received	(2,238)	(151)
Changes in fair value	-	-
Balance at end of period	$-	$ 2,238

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

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

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U. S. Government and agencies securities, municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. There were no gains or losses relating to securities available-for-sale included in earnings before income taxes that were attributable to changes in fair values of securities held at June 30, 2017 and December 31, 2016.

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 15% and 35% 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.

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 9% and 11%, in addition to prepayment, internal rate of return, servicing costs, inflation rate of servicing costs and earnings rate assumptions that are considered to be unobservable inputs. Due to the significance of the Level 3 inputs, mortgage servicing rights have been classified as Level 3.

Other Real Estate Owned

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less appraisal adjustments between 10% and 70% of appraised value, and expected selling costs between 10% and 20% of adjusted appraised value. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3.

Certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Financial assets and financial liabilities, excluding impaired loans and other real estate owned, measured at fair value on a nonrecurring basis were not significant at June 30, 2017 and December 31, 2016.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at June 30, 2017 and December 31, 2016 were as follows:

	(in thousands)				
	June 30, 2017		December 31, 2016		
	Carrying amount	Estimated value	Carrying amount	Estimated value	Input Level
FINANCIAL ASSETS					
Cash and cash equivalents	$12,910	$12,910	$14,186	$14,186	1
Securities, including FHLB stock	188,805	188,805	195,035	195,035	2,3
Certificates of deposit	1,245	1,245	1,494	1,494	2
Loans held for sale	1,465	1,465	1,510	1,510	3
Net loans and leases	381,482	380,398	372,741	371,493	3
Mortgage servicing rights	1,227	1,227	1,247	1,247	3
	$587,134	$586,050	$586,213	$584,965	
FINANCIAL LIABILITIES					
Deposits					
Maturity	$125,958	125,025	$129,460	$128,592	3
Non-maturity	411,345	411,345	395,220	395,220	1
Other borrowings	7,571	7,571	18,774	18,774	3
Junior subordinated deferrable interest debentures	12,823	9,893	12,806	9,295	3
	$557,697	$553,834	$556,260	$551,881	

The above summary does not include accrued interest receivable or cash surrender value of life insurance, which are also considered financial instruments. The estimated fair value of such items is considered to be their carrying amounts and would be considered Level 1 inputs.

There are also unrecognized financial instruments at June 30, 2017 and December 31, 2016 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounted to $96,788,000 at June 30, 2017 and $91,023,000 at December 31, 2016. Such amounts are also considered to be the estimated fair values.

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

Cash and cash equivalents:

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

Securities:

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

Loans and leases:

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

Mortgage servicing rights:

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

Deposit liabilities:

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

Other borrowings and junior subordinated deferrable interest debentures:

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

Other financial instruments:

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

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

NOTE 8 – STOCK OPTIONS

At the 2016 Annual Shareholders Meeting, the shareholders of the Corporation adopted the United Bancshares, Inc. 2016 Stock Option Plan (the "Plan"), which permits the Corporation to award non-qualified stock options to eligible participants. A total of 250,000 shares are available for issuance pursuant to the Plan.

The Corporation issued 33,352 options during the fourth quarter of 2016 at an exercise price of $19.32 under the Plan. Following is a summary of activity for stock options for the quarter ended June 30, 2017.

	June 30, 2017
Outstanding, beginning of period	33,352
Granted	-
Exercised	-
Outstanding, end of period	33,352

The options vest over a three-year period on the anniversary of the date of grant. At June 30, 2017, no options were exercisable and outstanding options had a weighted average remaining contractual term of 6.5 years.

The fair value of options granted is estimated at the date of grant using the Black Scholes option pricing model. Following are assumptions used in calculating the fair value of the options granted in 2016:

Weighted-average fair value of options granted	$6.27
Average dividend yield	2.31 %
Expected volatility	40.00 %
Rick-free interest rate	1.58 %
Expected term (years)	7

Total compensation expense related to the stock options granted in 2016 is expected to be $209,000 and is being recognized ratably over the 36 month period beginning January, 2017. The expense for the quarter and six month periods ended June 30, 2017 was $18,000 and $35,000, respectively.

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NOTE 9 – ACQUISITION

On March 22, 2017 United Bancshares, Inc. (“United”) and Benchmark Bancorp, Inc. (“Benchmark”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which United will purchase from Benchmark all of the issued and outstanding shares of Benchmark and whereby Benchmark will merge with and into United (the “Merger”) with United being the surviving entity. Immediately following the Merger, Benchmark Bank, an Ohio banking corporation and wholly-owned subsidiary of Benchmark, will merge with and into The Union Bank Company, an Ohio banking corporation and wholly-owned subsidiary of United, with The Union Bank Company as the surviving entity (the “Bank Merger”). The Boards of Directors of United and Benchmark have approved the Merger, Bank Merger and the Merger Agreement. At the effective time and as a result of the Merger, a shareholder of Benchmark will receive approximately $8.59 per share, subject to certain adjustments. The all-cash transaction is valued at $29.5 million. The transaction is expected to be completed during the third quarter of 2017. Through June 30, 2017, the Corporation has incurred $144,000 of expenses in 2017 relating to the acquisition.

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after June 30, 2017 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at June 30, 2017 have been recognized in the consolidated financial statements for the period ended June 30, 2017. Events or transactions that provided evidence about conditions that did not exist at June 30, 2017 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended June 30, 2017.

On July 18, 2017, the Corporation's Board of Directors approved a cash dividend of $0.12 per common share payable September 15, 2017 to shareholders of record at the close of business on August 31, 2017.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

SELECTED FINANCIAL DATA

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

	As of or for the Three months ended June 30, 2017		As of or for the Three months ended June 30, 2016		As of or for the Six months ended June 30, 2017		As of or for the Six months ended June 30, 2016	
SIGNIFICANT RATIOS (Unaudited)								
Net income to:								
Average assets (a)	0.74	%	0.87	%	0.81	%	0.86	%
Average shareholders' equity (a)	6.32	%	7.23	%	6.97	%	7.21	%
Net interest margin (a)	3.73	%	3.50	%	3.62	%	3.51	%
Efficiency ratio (b)	74.58	%	73.18	%	73.89	%	74.50	%
Average shareholders' equity to average assets	11.72	%	12.03	%	11.61	%	11.99	%
Loans to deposits (end of period)	71.53	%	70.27	%	71.53	%	70.27	%
Allowance for loan losses to loans (end of period)	0.74	%	0.94	%	0.74	%	0.94	%
Book value per share	$ 23.13		$ 22.85		$ 23.13		$ 22.85	

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

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

Introduction

United Bancshares, Inc. (the “Corporation”), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 105 Progressive Drive, Columbus Grove, Ohio 45830. The Corporation is a one-bank holding company, as that term is defined by the Federal Reserve Board.

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

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

On March 22, 2017 United Bancshares, Inc. (“United”) and Benchmark Bancorp, Inc. (“Benchmark”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which United will purchase from Benchmark all of the issued and outstanding shares of Benchmark and whereby Benchmark will merge with and into United (the “Merger”) with United being the surviving entity. Immediately following the Merger, Benchmark Bank, an Ohio banking corporation and wholly-owned subsidiary of Benchmark, will merge with and into The Union Bank Company, an Ohio banking corporation and wholly-owned subsidiary of United, with The Union Bank Company as the surviving entity (the “Bank Merger”). The Boards of Directors of United and Benchmark have approved the Merger, Bank Merger and the Merger Agreement. At the effective time and as a result of the Merger, a shareholder of Benchmark will receive approximately $8.59 per share, subject to certain adjustments. The all-cash transaction is valued at $29.5 million. The Merger is expected to close in the third quarter of 2017, pending adoption of the Merger Agreement by the shareholders of Benchmark, the satisfaction of various closing conditions, including the receipt of all necessary bank regulatory approvals, the accuracy of the representations and warranties of each party (subject to certain exceptions), the performance in all material respects by each party of its obligations under the Agreement, and other conditions customary for transactions of this type.

When or if used in the Corporation’s Securities and Exchange Commission filings or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases: “anticipate,” “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipa estimated,” “is projected,” or similar expressions are intended to identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Any such statements are subject to the risks and uncertainties that include but are not limited to: changes in economic conditions in the Corporation’s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Corporation’s market area, and competition. All or some of these factors could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

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

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

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

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RESULTS OF OPERATIONS

Overview of the Income Statement

For the quarter ended June 30, 2017, the Corporation reported net income of $1,185,000, or $0.36 basic earnings per share. This compares to the second quarter of 2016 net income of $1,336,000, or $0.40 basic earnings per share. The decrease in operating results for the second quarter of 2017 as compared to the same period in 2016 was primarily attributable to increases in non-interest expenses of $528,000 and interest expense of $93,000 offset by increases in interest income of $617,000 and non-interest income of $62,000, as well as a decrease in provision for income taxes of $91,000. Additionally, operating results for the quarter ended June 30, 2016 were positively impacted by a credit for loan and lease losses of $300,000.

Net income for the six months ended June 30, 2017 totaled $2,579,000, or $.79 basic earnings per share compared to $2,643,000, or $.80 basic earnings per share for the same period in 2016. Compared with the same period in 2016, net income decreased $64,000, or 2.4%. The decrease in operating results for the six month period ended June 30, 2017 as compared to the six month period ended June 30, 2016 was primarily attributable to an increase in non-interest expenses of $605,000 and interest expense of $188,000, as well as a reduction in the credit for loan and lease losses of $350,000, offset by an increase in interest income of $840,000 and non-interest income of $204,000, as well as a decrease in provision for income taxes of $35,000.

Net Interest Income

Net interest income is the amount by which income from interest-earning assets exceeds interest incurred on interest-bearing liabilities. Interest-earning assets consist principally of loans and investment securities while interest-bearing liabilities include interest-bearing deposit accounts and borrowed funds. Net interest income remains the primary source of revenue for the Corporation. Changes in market interest rates, as well as changes in the mix and volume of interest-bearing assets and interest-bearing liabilities impact net interest income. Net interest income was $5,270,000 for the second quarter of 2017, compared to $4,746,000 for the same period of 2016, an increase of $524,000 (11.0%).

The increase in net interest income was largely attributable to an increase in interest income for the six months ended June 30, 2017 of $617,000, as compared to the same period in 2016, including a $505,000 increase in interest income from loans and leases and an $110,000 increase in interest income from securities.

Net interest margin is calculated by dividing net interest income (adjusted to reflect tax-exempt interest income on a taxable equivalent basis) by average interest-earning assets. The resulting percentage serves as a measurement for the Corporation in comparing its results with those of past periods as well as those of peer institutions. For the quarterly and six months ended June 30, 2017, the net interest margin (on a taxable equivalent basis) was 3.73% and 3.62% compared with 3.50% and 3.51% for the same periods in 2016.

Interest-bearing deposits comprised 93.8% of average interest-bearing liabilities for the six months ended June 30, 2017, compared to 96.6% for the same period in 2016.

Provision (Credit) for Loan and Lease Losses

The Corporation's provision (credit) for loan and lease losses is determined based upon management's calculation of the allowance for loan and lease losses and is reflective of management's assessment of the quality of the portfolio and overall management of the inherent credit risk of the loan and lease portfolio. Changes in the provision (credit) for loan and lease losses are dependent, among other things, on loan and lease delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's lending markets. A $300,000 credit for loan and lease losses was recognized for the three months ended March 31, 2016 (none for the three months ended March 31, 2017). A $350,000 credit for loan and lease losses was recognized during the six month period ended June 30, 2017 compared to a $700,000 credit during the six month period ended June 30, 2016. See "Allowance for Loan and Lease Losses" under Financial Condition for further discussion relating to the provision for loan and lease losses.

Non-Interest Income

The Corporation's non-interest income is largely generated from activities related to the origination, servicing and gain on sales of fixed rate mortgage loans; customer deposit account fees; earnings on life insurance policies; income arising from sales of investment products to customers; and occasional security sale transactions. Income related to customer deposit accounts and life insurance policies provides a relatively steady flow of income while the other sources are more volume or transaction related and consequently can vary from quarter to quarter. For the quarter ended June 30, 2017, non-interest income was $1,125,000, compared to $1,063,000 for the second quarter of 2016, a $62,000 (5.8%) increase.

Gain on sales of loans amounted to $114,000 for the quarter ended June 30, 2017, compared to $138,000 for the second quarter of 2016, a decrease of $24,000 (17.4%). Gain on sales of loans amounted to $231,000 for the six month period ended June 30, 2017, compared to $207,000 for the same period in 2016, an increase of $24,000 (11.6%). The changes in gain on sales of loans resulted primarily from the changes in the volume of loans sold during the respective periods.

Loss on sales of securities amounted to $1,000 for the quarter ended June 30, 2017, compared to a gain of $16,000 for the same period in 2016. Gains on sale of securities amounted to $81,000 for the six month period ended June 30, 2017 compared to $136,000 for the comparable period in 2016, a decrease of $55,000.

Other operating income increased $103,000 (11.3%) for the quarter ended June 30, 2017 and $235,000 for the six months ended June 30, 2017. The increase in other operating income was largely attributable to the impact of changes in fair value of mortgage servicing rights. During the six months ended June 30, 2017, the fair value of mortgage servicing rights asset decreased $51,000 compared to a decrease of $223,000 for the same period in 2016 primarily due to an increase in prepayment speeds caused by a decrease in mortgage loan interest rates.

Non-Interest Expenses

For the quarter ended June 30, 2017, non-interest expenses were $4,889,000, compared to $4,361,000 for the second quarter of 2016, a $528,000 (12.1%) increase. For the six month period ended June 30, 2017, non-interest expenses totaled $9,522,000, compared to $8,917,000 for the same period of 2016, an increase of $605,000 (6.8%). The increase in non-interest expenses for the quarter and six month periods ended June 30, 2017 was primarily attributable to increases in salary and benefits of $379,000 and $565,000 respectively. Other non-interest expenses contributing to the increase for the quarter and six month periods includes occupancy, data processing, advertising and promotion, legal fees and Ohio financial institutions tax, offset by a decrease in loan closing fee expenses. Also contributing to the increase in non-interest expenses were costs incurred relating to the Benchmark merger, which is expected to be completed during the third quarter of 2017. Such costs aggregated $106,000 and $144,000 for the quarter and six month periods ended June 30, 2017, respectfully.

Maintaining acceptable levels of non-interest expenses and operating efficiency are key performance indicators for the Corporation in its strategic initiatives. The financial services industry uses the efficiency ratio (total non-interest expense as a percentage of the aggregate of fully-tax equivalent net interest income and non-interest income) as a key indicator of performance. For the quarter ended June 30, 2017, the Corporation's efficiency ratio was 74.58%, compared to 73.18% for the same period of 2016. For the six month period ended June 30, 2017, the Corporation's efficiency ratio improved to 73.89% compared to 74.50% for the same period of 2016.

Provision for Income Taxes

The provision for income taxes for the quarter ended June 30, 2017 was $321,000 (effective rate of 21.3%), compared to $412,000 (effective rate of 23.6%) for the comparable 2016 period.

FINANCIAL CONDITION

Overview of Balance Sheet

Total assets amounted to $636.7 million at June 30, 2017, compared to $633.1 million at December 31, 2016, an increase of $3.6 million (0.6%). The increase in total assets was primarily the result of an increase of $8.7 million (2.3%) in net loans and leases and $3.6 million (27.0%) in premises and equipment offset by decreases in securities of $6.2 million (3.3%) and $1.3 million (9.0%) in cash and cash equivalents. Deposits during this same period increased $12.6 million, or 2.4%. The decrease in securities was largely due to sales and maturities of securities occurring during the latter part of the quarter ended June 30, 2017, including the $2.2 million redemption of the Bank's only level 3 available-for-sale security. The increase in premises and equipment includes the impact of $3.8 million expended in 2017 to complete the construction of the Corporation's new operations center located in Columbus Grove.

Shareholders' equity increased from $72.6 million at December 31, 2016 to $75.6 million at June 30, 2017. This increase was primarily the result of net income of $2,579,000 and $1,157,000 of other comprehensive income from available-for-sale securities market value changes, net of tax, offset by dividends paid of $785,000. The market value changes for available-for-sale securities during the six month period ended June 30, 2017, was the result of customary and expected changes in the bond market. Net unrealized gains and losses on securities are reported as accumulated other comprehensive income or loss in the consolidated balance sheets.

Cash and Cash Equivalents

Cash and cash equivalents totaled $12.9 million at June 30, 2017 and $14.2 million at December 31, 2016, including interest-bearing deposits in other banks of $3.2 million at June 30, 2017 and $4.3 million at December 31, 2016. Management believes the current level of cash and cash equivalents is sufficient to meet the Corporation's present liquidity and performance needs especially considering the availability of other funding sources. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and corresponding liquidity sources and uses. Management believes the Corporation's liquidity needs in the near term will be satisfied by the current level of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that will mature within one year. These sources of funds should enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due. In addition, the Corporation has access to various sources of additional borrowings by virtue of long-term assets that can be used as collateral for such borrowings.

Securities

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

The amortized cost and fair value of available-for-sale securities as of June 30, 2017 totaled $183.5 million and $184.0 million, respectively, resulting in a net unrealized gain before tax of $441,000 and a corresponding after-tax increase in shareholders' equity of $291,000.

Loans and Leases

The Corporation's primary lending areas are Northwestern, West Central, and Central Ohio. Gross loans and leases totaled $384.3 million at June 30, 2017, compared to $376.1 million at December 31, 2016, an increase of $8.2 million (2.2%).

There are also unrecognized financial instruments at June 30, 2017 and December 31, 2016 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments approximated $96.8 million at June 30, 2017 and $91.0 million at December 31, 2016.

Allowance for Loan and Lease Losses

The following table presents a summary of activity in the allowance for loan and lease losses for the six months ended June 30, 2017 and 2016:

	(in thousands)	
	2017	2016
Balance, beginning of period	$3,345	$3,834
Credit for loan and lease losses	(350)	(700)
Charge offs	(573)	(43)
Recoveries	407	277
Net (charge offs) recoveries	(166)	234
Balance, end of period	$2,829	$3,368

The allowance for loan and lease losses as a percentage of gross loans and leases was .74% at June 30, 2017, .89% at December 31, 2016, and .94% at June 30, 2016. Regular provisions are made in amounts sufficient to maintain the balance in the allowance for loan and lease losses at a level considered by management to be adequate for losses within the portfolio. Even though management uses all available information to assess possible loan and lease losses, future additions or reductions to the allowance may be required as changes occur in economic conditions and specific borrower circumstances. The regulatory agencies that periodically review the Corporation's allowance for loan and lease losses may also require additions to the allowance or the charge-off of specific loans and leases based upon the information available to them at the time of their examinations.

Loans and leases on non-accrual status amounted to $3.6 million and $6.0 million at June 30, 2017 and December 31, 2016, respectively. Non-accrual loans and leases as a percentage of outstanding loans amounted to .9% at June 30, 2017 and 1.6% at December 31, 2016.

The Corporation considers a loan or lease to be impaired when it becomes probable that the Corporation will be unable to collect under the contractual terms of the loan or lease, as the case may be, based on current information and events. Impaired loans and leases, all consisting of commercial and commercial real estate credits, amounted to $941,000 at June 30, 2017 and $2.9 million at December 31, 2016. All impaired loans and leases at June 30, 2017 and December 31, 2016 had specific reserves, with such reserves amounting to $176,000 and $1.0 million at June 30, 2017 and December 31, 2016, respectively, and included in the Corporation's allowance for loan and lease losses.

In addition to impaired loans, the Corporation had other potential problem credits of $7.7 million at June 30, 2017 and $9.7 million at December 31, 2016. The Corporation's credit administration department continues to closely monitor these credits.

The Corporation provides pooled reserves for potential problem loans and leases using loss rates calculated considering historic net loan charge-off experience. The Corporation has experienced $573,000 of loan charge-offs during the first six months of 2017 compared to annual loan charge-offs of $160,000 in 2016, $638,000 in 2015, and $497,000 in 2014, with most of the charge-offs coming from the commercial and commercial real estate loan portfolios. The Corporation also provides general reserves for the remaining portion of its loan portfolio not considered to be problem or potential problem loans. These general reserves are also calculated considering, among other things, the historic net charge-off experience for the relative loan type.

Funding Sources

The Corporation considers a number of alternatives, including but not limited to, deposits, as well as short-term and long-term borrowings when evaluating funding sources. Deposits, including customer deposits, brokered certificates of deposit, and public funds deposits continue to be the most significant source of funds for the Corporation, totaling $537.3 million, or 95.8% of the Corporation’s outstanding funding sources at June 30, 2017. Total deposits increased $12.6 million during the six months ended June 30, 2017.

Non-interest bearing deposits remain a smaller portion of the funding source for the Corporation than for most of its peers. Non-interest bearing deposits comprised 17.9% of total deposits at June 30, 2017, compared to 18.7% at December 31, 2016.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling $7.6 million at June 30, 2017 and $18.8 million at December 31, 2016. The Corporation also has outstanding junior subordinated deferrable interest debentures of $12.8 million at June 30, 2017 and December 31, 2016. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

Shareholders' Equity

Shareholders' equity increased from $72.6 million at December 31, 2016 to $75.6 million at June 30, 2017, principally due to net income of $2.6 million and other comprehensive income of $1.2 million, net of dividends paid.

For the six month period ended June 30, 2016, shareholder's equity increased from $71.6 million at December 31, 2015 to $75.3 million, principally due to net income of $2.6 million and other comprehensive income of $2.1 million, net of dividends paid.

The Corporation and Bank met all regulatory capital requirements as of June 30, 2017, and the Bank is considered "well capitalized" under regulatory and industry standards of risk-based capital.

Liquidity and Interest Rate Sensitivity

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

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

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

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

Effects of Inflation on Financial Statements

All of the Corporation’s assets relate to commercial banking operations and are generally monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss of purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the commercial banking industry, monetary assets typically exceed monetary liabilities. The Corporation has not experienced a significant level of inflation or deflation during the six month period ended June 30, 2017. However, because of the depressed national real estate market and sluggish local economy, the Corporation has experienced declines in the value of collateral securing commercial and non-commercial real estate loans. Management continues to closely monitor these trends in calculating the Corporation’s allowance for loan and lease losses.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

There have been no material changes in the quantitative and qualitative information about market risk from the information provided in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.