

UNITED BANCSHARES INC/OH  
Form 10-Q  
May 01, 2012

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 March 31, 2012

Commission file number 000-29283

UNITED BANCSHARES, INC.  
(Exact name of Registrant as specified in its charter)

Ohio  
(State or other jurisdiction of incorporation or organization)

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

34-1516518  
(I.R.S. Employer Identification Number)

45830  
(Zip Code)

(419) 659-2141  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 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

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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 April 26, 2012:  
3,445,993

This document contains 34 pages. The Exhibit Index is on page 34 immediately preceding the filed exhibits.

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UNITED BANCSHARES, INC.

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## PART 1 - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

## United Bancshares, Inc. and Subsidiaries

## Consolidated Balance Sheets (Unaudited)

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$8,148,939	\$8,865,206
Interest-bearing deposits in other banks	44,855,788	48,389,046
Federal funds sold	-	32,722
Total cash and cash equivalents	53,004,727	57,286,974
<b>SECURITIES, available-for-sale</b>	158,864,210	151,955,957
<b>FEDERAL HOME LOAN BANK STOCK, at cost</b>	4,893,800	4,893,800
<b>CERTIFICATES OF DEPOSIT</b>	1,992,000	1,743,000
<b>LOANS HELD FOR SALE</b>	2,912,444	2,753,505
<b>LOANS</b>	331,246,531	337,946,708
Less allowance for loan losses	(7,374,376 )	(8,543,367 )
Net loans	323,872,155	329,403,341
<b>PREMISES AND EQUIPMENT, net</b>	9,456,268	9,581,311
<b>GOODWILL</b>	8,554,979	8,554,979
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	13,446,153	13,335,587
<b>OTHER REAL ESTATE OWNED</b>	1,799,500	2,833,500
<b>OTHER ASSETS, including accrued interest and intangible assets</b>	5,004,693	4,702,710
<b>TOTAL ASSETS</b>	<b>\$583,800,929</b>	<b>\$587,044,664</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>Deposits</b>		
Non-interest bearing	\$56,644,293	\$66,399,124
Interest bearing	420,287,179	414,086,441
Total deposits	476,931,472	480,485,565
Other borrowings	32,310,454	32,780,963
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Accrued expenses and other liabilities	3,508,963	3,730,422
Total liabilities	523,050,889	527,296,950
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1.00 stated value. Authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,661,025	14,660,579
Retained earnings	43,546,177	42,543,363
Accumulated other comprehensive income	3,592,296	3,598,031
Treasury stock 314,564 shares at March 31, 2012 and 314,878 shares at December 31, 2011, at cost	(4,810,015 )	(4,814,816 )
Total shareholders' equity	60,750,040	59,747,714
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$583,800,929</b>	<b>\$587,044,664</b>

See notes to consolidated financial statements

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United Bancshares, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income (Unaudited)

	Three months ended March 31,	
	2012	2011
<b>INTEREST INCOME</b>		
Loans, including fees	\$4,673,552	\$5,597,912
Securities:		
Taxable	655,049	820,235
Tax-exempt	457,112	487,679
Other	91,047	77,509
Total interest income	5,876,760	6,983,335
<b>INTEREST EXPENSE</b>		
Deposits	1,096,261	1,356,136
Other borrowings	363,867	534,211
Total interest expense	1,460,128	1,890,347
<b>NET INTEREST INCOME</b>	4,416,632	5,092,988
<b>PROVISION FOR LOAN LOSSES</b>	-	1,275,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	4,416,632	3,817,988
<b>NON-INTEREST INCOME</b>		
Gain on sales of loans	255,528	57,654
Gain on sales of securities	1,206	21,001
Change in fair value of mortgage servicing rights	112,134	14,625
Other	685,575	647,189
Total non-interest income	1,054,443	740,469
<b>NON-INTEREST EXPENSES</b>	4,235,261	3,776,389
Income before income taxes	1,235,814	782,068
<b>PROVISION FOR INCOME TAXES</b>	233,000	16,000
<b>NET INCOME</b>	\$1,002,814	\$766,068
<b>NET INCOME PER SHARE</b>		
Basic	\$0.29	\$0.22
Weighted average common shares outstanding	3,445,962	3,445,252
Diluted	\$0.29	\$0.22
Weighted average common shares outstanding	3,445,962	3,445,252

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended March 31,	
	2012	2011
<b>NET INCOME</b>	<b>\$ 1,002,814</b>	<b>\$ 766,068</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) during period	(7,484 )	689,365
Reclassification adjustments for gains included in net income	(1,206 )	(21,001 )
Other comprehensive income (loss), before income taxes	(8,690 )	668,364
Income tax expense related to items of other comprehensive income	2,955	(227,244 )
Other comprehensive income (loss)	(5,735 )	441,120
<b>COMPREHENSIVE INCOME</b>	<b>\$ 997,079</b>	<b>\$ 1,207,188</b>

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries  
Consolidated Statements of Shareholders' Equity (Unaudited)  
Three months ended March 31, 2012 and 2011

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	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
Net income			1,002,814			1,002,814
Change in unrealized gain on available-for-sale securities, net of income taxes				(5,735 )		(5,735 )
Total comprehensive income						997,079
314 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		446			4,801	5,247
BALANCE AT MARCH 31, 2012	\$3,760,557	\$14,661,025	\$43,546,177	\$ 3,592,296	\$(4,810,015)	\$60,750,040
BALANCE AT DECEMBER 31, 2010	\$3,760,557	\$14,661,025	\$39,600,718	\$1,810,684	\$(4,826,896)	\$55,005,063
Net income			766,068			766,068
Change in unrealized gain on available-for-sale securities, net of income taxes				441,120		441,120
Total comprehensive income						1,207,188
389 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		307			5,948	6,255
BALANCE AT MARCH 31, 2011	\$3,760,557	\$14,660,307	\$40,366,786	\$2,251,804	\$(4,820,948)	\$56,218,506

See notes to consolidated financial statements



United Bancshares, Inc. and Subsidiaries  
Condensed Consolidated Statement of Cash Flows (Unaudited)

	Three months ended March 31,	
	2012	2011
Cash flows provided by operating activities	\$785,856	\$2,275,223
Cash flows provided by investing activities:		
Proceeds from calls or maturities of securities	9,354,127	8,382,887
Proceeds from sales of available-for-sale securities	-	738,625
Purchases of available-for-sale securities	(16,504,011 )	(11,403,893 )
Net decrease in loans	5,531,186	11,552,895
Purchases of certificates of deposit	(249,000 )	-
Proceeds from sale of other real estate owned	818,950	1,085,083
Expenditures for premises and equipment	-	(26,836 )
Net cash provided (used) by investing activities	(1,048,748 )	10,328,761
Cash flows provided by financing activities:		
Net change in deposits	(3,554,093 )	(7,077,219 )
Long-term borrowings, net of repayments	(470,509 )	(6,326,711 )
Proceeds from issuance of common stock	5,247	6,255
Net cash used by financing activities	(4,019,355 )	(13,397,675 )
Net change in cash and cash equivalents	(4,282,247 )	(793,691 )
Cash and cash equivalents:		
At beginning of period	57,286,974	48,603,636
At end of period	\$53,004,727	\$47,809,945
Cash paid for:		
Interest	\$1,459,006	\$1,863,014
Income taxes	\$660,000	\$-
Non-cash investing activities:		
Change in net unrealized gain (losses) on available-for-sale securities	\$(7,484 )	\$689,365
Transfer of loans to other real estate owned	\$-	\$50,000

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
March 31, 2012

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 three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Complete audited consolidated financial statements with footnotes thereto are included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011.

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., to hold and manage certain property that is acquired in lieu of foreclosure. 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.

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

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement; amending ASC Topic 820 which eliminates terminology differences between U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS) on the measurement of fair value and the related fair value disclosures. While largely consistent with existing fair value measurement principles and disclosures, the changes were made as part of the continuing efforts to converge GAAP and IFRS. The adoption of this guidance was effective for interim and annual periods beginning after December 15, 2011, and its adoption did not have a significant impact on the Corporation's financial statements.

In June 2011, the FASB issued ASU 2011-05 Comprehensive Income; amending ASC Topic 220 to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the guidance requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. In December 2011, the FASB issued ASU 2011-12 to defer changes in ASU 2011-05 that relate to the presentation of reclassification adjustments until FASB has time to reconsider the presentation of such adjustments. The remaining portion of ASU 2011-05 was effective for annual periods beginning after December 15, 2011, and its adoption did not have a significant impact on the Corporation's financial statements.

In December 2011, The FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, amending ASC Topic 210 requiring an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment is effective for annual and interim periods beginning on or after January 1, 2013, and the Corporation has not yet determined the financial statement impact.

## NOTE 3 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of March 31, 2012 and December 31, 2011 are as follows (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Amortized cost	Fair value	Amortized cost	Fair value
U.S. Government and agencies	\$8,504	\$8,509	\$7,506	\$7,521
Obligations of states and political subdivisions	46,299	48,954	46,459	49,311
Mortgage-backed	98,116	100,877	92,037	94,599
Other	502	524	502	525
Total	\$153,421	\$158,864	\$146,504	\$151,956

United Bancshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
March 31, 2012

A summary of gross unrealized gains and losses on available-for-sale securities as of March 31, 2012 and December 31, 2011 follows (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
U.S. Government and agencies	\$13	\$8	\$16	\$1
Obligations of states and political subdivisions	2,663	8	2,856	4
Mortgage-backed	2,779	18	2,570	8
Other	22	-	23	-
<b>Total</b>	<b>\$5,477</b>	<b>\$34</b>	<b>\$5,465</b>	<b>\$13</b>

## NOTE 4 - LOANS

The following table presents the activity in the allowance for loan losses by portfolio segment for the periods ending March 31, 2012 and 2011:

	Commercial and multi-family real estate		Residential 1 – 4 family real estate	Consumer	Total
	Commercial				
Balance at December 31, 2011	\$2,596,629	\$4,847,234	\$998,941	\$100,563	\$8,543,367
Provision charged to expenses	(367,648 )	600,197	(198,533 )	(34,016 )	-
Losses charged off	(319,172 )	(993,165 )	-	(7,745 )	(1,320,082 )
Recoveries	30,663	104,495	575	15,358	151,091
<b>Balance at March 31, 2012</b>	<b>\$1,940,472</b>	<b>\$4,558,761</b>	<b>\$800,983</b>	<b>\$74,160</b>	<b>\$7,374,376</b>

	Commercial and multi-family real estate		Residential 1 – 4 family real estate	Consumer	Total
	Commercial				
Balance at December 31, 2010	\$2,886,467	\$3,915,323	\$886,879	\$328,117	\$8,016,786
Provision charged to expenses	796,447	289,208	204,210	(14,865 )	1,275,000
Losses charged off	(39,729 )	(199,663 )	(93,712 )	(41,358 )	(374,462 )
Recoveries	9,320	396	-	32,097	41,813
<b>Balance at March 31, 2011</b>	<b>\$3,652,505</b>	<b>\$4,005,264</b>	<b>\$997,377</b>	<b>\$303,991</b>	<b>\$8,959,137</b>

United Bancshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
March 31, 2012

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the periods ending March 31, 2012 and December 31 2011:

March 31, 2012	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
<b>Allowance for loan losses:</b>					
Attributable to loans individually evaluated for impairment	\$568,720	\$1,232,102	\$-	\$-	\$1,800,822
Collectively evaluated for impairment	1,371,752	3,326,659	800,983	74,160	5,573,554
<b>Total allowance for loan losses</b>	<b>\$1,940,472</b>	<b>\$4,558,761</b>	<b>\$800,983</b>	<b>\$74,160</b>	<b>\$7,374,376</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$3,648,792	\$14,861,429	\$172,394	\$-	\$18,682,615
Collectively evaluated for impairment	53,881,039	192,790,483	61,115,766	4,776,628	312,563,916
<b>Total ending loans balance</b>	<b>\$57,529,831</b>	<b>\$207,651,912</b>	<b>\$61,288,160</b>	<b>\$4,776,628</b>	<b>\$331,246,531</b>
December 31, 2011	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
<b>Allowance for loan losses:</b>					
Attributable to loans individually evaluated for impairment	\$754,874	\$1,235,351	\$-	\$-	\$1,990,225
Collectively evaluated for impairment	1,841,755	3,611,883	998,941	100,563	6,553,142
<b>Total allowance for loan losses</b>	<b>\$2,596,629</b>	<b>\$4,847,234</b>	<b>\$998,941</b>	<b>\$100,563</b>	<b>\$8,543,367</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$3,972,618	\$16,842,092	\$172,494	\$-	\$20,987,204
Collectively evaluated for impairment	58,349,383	191,290,270	61,962,130	5,357,721	316,959,504
<b>Total ending loans balance</b>	<b>\$62,322,001</b>	<b>\$208,132,362</b>	<b>\$62,134,624</b>	<b>\$5,357,721</b>	<b>\$337,946,708</b>

United Bancshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
March 31, 2012

Impaired loans were as follows as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Loans with no allowance for loan losses allocated	\$ 9,318,838	\$ 7,660,276
Loans with allowance for loan losses allocated	9,363,777	13,326,928
<b>Total impaired loans</b>	<b>\$ 18,682,615</b>	<b>\$ 20,987,204</b>
Amount of the allowance allocated to impaired loans	\$ 1,800,822	\$ 1,990,225

The average recorded investment in impaired loans for the three month period ended March 31, 2012 and 2011 was \$19.3 million and \$20.2 million, respectively. No additional funds are committed to be advanced in connection with impaired loans. There was \$60,000 and \$41,000 in interest income recognized by the Bank on impaired loans on an accrual or cash basis during the first quarter of 2012 and 2011, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Recorded investment	Allowance for loan losses allocated	Recorded investment	Allowance for loan losses allocated
<b>With no related allowance recorded:</b>				
Commercial	\$250,883	\$-	\$-	\$-
Agriculture	2,829,189	-	2,303,732	-
Commercial and multi-family real estate	4,935,775	-	5,184,050	-
Agricultural real estate	1,130,597	-	-	-
Residential 1 – 4 family real estate	172,394	-	172,494	-
<b>With an allowance recorded:</b>				
Commercial	568,720	568,720	619,618	619,618
Agriculture	-	-	1,836,985	135,256
Commercial and multi-family real estate	8,795,057	1,232,102	10,870,325	1,235,351
<b>Total</b>	<b>\$18,682,615</b>	<b>\$1,800,822</b>	<b>\$20,987,204</b>	<b>\$1,990,225</b>

United Bancshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
March 31, 2012

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 March 31, 2012 and December 31, 2011:

March 31, 2012	Nonaccrual	Loans past due over 90 days still accruing	Troubled Debt Restructurings
Commercial	\$619,749	\$-	\$803,203
Commercial real estate	13,846,380	-	8,994,426
Agriculture	905,003	-	2,123,816
Agricultural real estate	1,071,259	-	162,737
Consumer	246,473	1,705	-
Residential real estate	2,603,741	71,373	56,615
<b>Total</b>	<b>\$19,292,605</b>	<b>\$73,078</b>	<b>\$12,140,797</b>

December 31, 2011	Nonaccrual	Loans past due over 90 days still accruing	Troubled Debt Restructurings
Commercial	\$684,763	\$-	\$619,618
Commercial real estate	15,887,322	-	10,209,573
Agriculture	1,064,282	-	2,303,732
Agricultural real estate	1,074,694	-	-
Consumer	97	9,437	-
Residential real estate	2,988,983	46,005	57,192
<b>Total</b>	<b>\$21,700,141</b>	<b>\$55,442</b>	<b>\$13,190,115</b>

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

	30 – 59 days past due	60 – 89 days past due	Greater than 90 days past due	Total past due	Loans not past due	Total
Commercial	\$240,809	\$-	\$-	\$240,809	\$43,042,465	\$43,283,274
Commercial real estate	3,351,904	444,284	4,092,294	7,888,482	170,798,558	178,687,040
Agriculture	526	-	1,005,187	1,005,713	13,240,844	14,246,557
Agricultural real estate	-	-	933,945	933,945	28,030,927	28,964,872
Consumer	68,329	16,025	1,802	86,156	4,690,472	4,776,628
Residential real estate	2,108,086	114,199	339,979	2,562,264	58,725,896	61,288,160
<b>Total</b>	<b>\$5,769,654</b>	<b>\$574,508</b>	<b>\$6,373,207</b>	<b>\$12,717,369</b>	<b>\$318,529,162</b>	<b>\$331,246,531</b>





United Bancshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
March 31, 2012

The following table presents the aging of the recorded investment in past due loans as of December 31, 2011 by class of loans:

	30 – 59 days past due	60 – 89 days past due	Greater than 90 days past due	Total past due	Loans not past due	Total
Commercial	\$264,350	\$503,099	\$19,356	\$786,805	\$43,816,740	\$44,603,545
Commercial real estate	2,072,253	1,929,564	4,831,138	8,832,955	170,298,358	179,131,313
Agriculture	-	-	1,029,883	1,029,883	16,688,573	17,718,456
Agricultural real estate	-	-	933,945	933,945	28,067,104	29,001,049
Consumer	150,626	29,222	9,534	189,382	5,168,339	5,357,721
Residential real estate	2,244,462	877,860	544,990	3,667,312	58,467,312	62,134,624
<b>Total</b>	<b>\$4,731,691</b>	<b>\$3,339,745</b>	<b>\$7,368,846</b>	<b>\$15,440,282</b>	<b>\$322,506,426</b>	<b>\$337,946,708</b>

Credit Quality Indicators:

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

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

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Loans not meeting the previous criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally either less than \$100,000 or are included in groups of homogenous loans. As of March 31, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not rated
March 31, 2012					
Commercial	\$50,694,765	\$2,051,791	\$4,077,903	\$705,372	\$-
Commercial and multi-family real estate	173,860,808	6,670,272	26,319,246	801,586	-
Residential 1 – 4 family	-	258,718	245,142	12,426	60,771,874
Consumer	-	1,926	17,545	-	4,757,157
Total	\$224,555,573	\$8,982,707	\$30,659,836	\$1,519,384	\$65,529,031

	Pass	Special Mention	Substandard	Doubtful	Not rated
December 31, 2011					
Commercial	\$54,683,831	\$2,966,782	\$3,768,348	\$903,040	\$-
Commercial and multi-family real estate	170,750,804	9,245,517	27,202,096	933,945	-
Residential 1 – 4 family	-	257,860	245,204	12,976	61,618,584
Consumer	-	2,538	18,716	-	5,336,467
Total	\$225,434,635	\$12,472,697	\$31,234,364	\$1,849,961	\$66,955,051

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential 1 – 4 family and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in non-impaired residential 1 – 4 family and consumer loans based on payment activity as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Consumer	Residential 1 – 4 family	Consumer	Residential 1 – 4 family
Performing	\$4,508,979	\$58,096,760	\$5,326,933	\$60,070,730
Nonperforming	248,178	2,675,114	9,534	1,547,854
Total	\$4,757,157	\$60,771,874	\$5,336,467	\$61,618,584

Purchased Loans:

From time to time, the Company enters into loan participation agreements to purchase loans. At March 31, 2012 and December 31, 2011, the Bank held no loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.



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Modifications:

The Bank's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank'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 Bank 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 with the sole (remaining) source of repayment for the loan in 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 Bank did not have any loan modifications considered to be Troubled Debt Restructurings during the first quarter of 2012.

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 3.62% at March 31, 2012 and 3.46% at March 31, 2011. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures approximated \$94,000 and \$86,000 for the three month periods ended March 31, 2012 and 2011, respectively, and is included in interest expense-other 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, 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.

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.

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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 March 31, 2012 and December 31, 2011 include available-for-sale securities, which are all valued using Level 2 inputs, and mortgage servicing rights, amounting to \$888,317 at March 31, 2012 and \$727,240 at December 31, 2011, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at March 31, 2012 and December 31, 2011 include other real estate owned, as well as impaired loans approximating \$16,881,793 at March 31, 2012 and \$18,996,979 at December 31, 2011 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 periods presented due to the lack of observable quotes in inactive markets for those instruments at March 31, 2012 and December 31, 2011.

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The table below presents 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), for the three month period ended March 31, 2012 and year ended December 31, 2011:

	March 31, 2012	December 31, 2011
Balance at beginning of period	\$727,240	\$1,114,126
Gains or losses, including realized and unrealized:		
Disposals – amortization based on loan payments and payoffs	(52,453 )	(240,662 )
Purchases, issuances, and settlements	101,396	168,342
Other changes in fair value	112,134	(314,566 )
Balance at end of period	\$888,317	\$727,240

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

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

#### Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and 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. The Corporation did not have any securities classified as Level 1 or Level 3 at March 31, 2012 or December 31, 2011. 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 March 31, 2012 or December 31, 2011.

#### Impaired Loans

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if

repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. Due to the significance of the level 3 inputs, impaired loans fair values have been classified as level 3.



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### Other Real Estate Owned

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less expected selling costs. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3. In accordance with the provisions of ASC 360-10, other real estate owned was written down to its estimated fair value of \$1,799,500, resulting in impairment charges of \$169,000 which are included in earnings for the three month period ended March 31, 2012.

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 March 31, 2012 and December 31, 2011.

### NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at March 31, 2012 and December 31, 2011 were as follows (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Carrying amount	Estimated value	Carrying amount	Estimated value
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$53,005	\$53,005	\$57,287	\$57,287
Securities, including Federal Home Loan Bank stock	163,758	163,758	156,850	156,850
Net loans	323,872	324,557	329,403	330,286
Mortgage servicing rights	888	888	727	727
	\$541,523	\$542,208	\$544,267	\$545,150
<b>FINANCIAL LIABILITIES</b>				
Deposits	\$476,932	\$478,618	\$480,486	\$483,014
Other borrowings	32,310	34,839	32,781	35,484
Junior subordinated deferrable interest debentures	10,300	9,861	10,300	9,220
Other liabilities	3,509	3,577	3,730	3,801
	\$523,051	\$526,895	\$527,297	\$531,519

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.

There are also unrecognized financial instruments at March 31, 2012 and December 31, 2011 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$70,377,000 at March 31, 2012 and \$69,398,000 at December 31, 2011. Such amounts are also considered to be the

estimated fair values.

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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:

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 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 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.

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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 - SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after March 31, 2012 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at March 31, 2012 have been recognized in the consolidated financial statements for the period ended March 31, 2012. Events or transactions that provided evidence about conditions that did not exist at March 31, 2012 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended March 31, 2012.

## 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 March 31,	
	2012	2011
<b>SIGNIFICANT RATIOS (Unaudited)</b>		
Net income to:		
Average assets (a)	0.69%	0.51%
Average shareholders' equity (a)	6.66%	5.51%
Net interest margin (a)	3.43%	3.82%
Efficiency ratio (b)	74.22%	62.06%
Average shareholders' equity to average assets	10.39%	9.25%
Loans to deposits (end of period)	70.06%	77.22%
Allowance for loan losses to loans (end of period)	2.23%	2.41%
Book value per share	\$ 17.63	\$ 16.32

(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 100 S. High Street, 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, Hancock, Putnam, Sandusky, Van Wert and Wood counties in Ohio, with office locations in Bowling Green, Columbus Grove, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville, Ohio.

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

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

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

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

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

## RESULTS OF OPERATIONS

### Overview of the Income Statement

For the quarter ended March 31, 2012, the Corporation reported net income of \$1,003,000, or \$0.29 basic earnings per share. This compares to the first quarter of 2011 net income of \$766,000, or \$0.22 basic earnings per share. The increase in operating results for the first quarter of 2012 as compared to the same period in 2011 was primarily attributable to a \$1,275,000 decrease in the provision for loan losses and a \$314,000 increase in non-interest income offset by a decrease in net interest income of \$676,000, an increase in non-interest expenses of \$459,000, and the related income tax effects of these items.

### Net Interest Income

Net interest income is the amount by which interest 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 \$4,417,000 for the first quarter of 2012, compared to \$5,093,000 for the same period of 2011, a decrease of \$676,000 (13.3%).

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 three months ended March 31, 2012, the net interest margin (on a taxable equivalent basis) was 3.43%, compared with 3.82% for the same period in 2011.

Deposits comprised 90.7% of average interest-bearing liabilities for the three month period ended March 31, 2012, compared to 89% for the same period in 2011. A lower overall interest rate environment resulted in the Corporation's cost of funds being 1.27% for the first three months of 2012 compared to 1.54% for the same period in 2011. This decrease in cost of funds was offset by a decrease in the yield of interest-earning assets (4.51% for the first three months of 2012 compared to 5.17% for the same period of 2011) which negatively impacted the net interest margin.

### Provision for Loan Losses

The Corporation's provision for loan losses is determined based upon management's calculation of the allowance for loan 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 portfolio. Changes in the provision for loan losses are dependent, among other things, on loan delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's lending markets. No provision for loan losses was made for the first quarter of 2012 compared to a \$1,275,000 provision for the same period in 2011. The decrease in the provision for loan losses resulted primarily from declining historic loss rates, which are used to calculate the reserve for the homogenous pool of loans, a decrease in risk rated loans and an overall decrease in the loan portfolio. See "Allowance for Loan Losses" under Financial Condition for further discussion relating to the provision for loan 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 bank owned life insurance 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 March 31, 2012, non-interest income was \$1,054,000, compared to \$740,000 for the first quarter of 2011, a \$314,000 (42.4%) increase.

Gains on sales of loans amounted to \$256,000 for the quarter ended March 31, 2012, compared to \$58,000 for the first quarter of 2011, an increase of \$198,000. Quarterly gains on sale of loans included capitalized servicing rights of \$101,000 and \$14,000 for the periods ended March 31, 2012 and 2011, respectively. The increase in gain on sale of loans corresponds with the increase in loan sales activity. Loan sales for the first three months of 2012 were \$13 million, compared to \$1.7 million for the first three months of 2011.

The fair value of mortgage servicing rights increased \$112,000 for the quarter ended March 31, 2012, compared to a \$15,000 increase for the quarter ended March 31, 2011. The increase in fair value was largely attributable to slower prepayment speed assumptions as a result of increasing long-term interest rates. Amortization of mortgage servicing rights, which is reported as a reduction of servicing income (other non-interest income in the accompanying condensed consolidated statements of income), amounted to \$52,000 for the three months ended March 31, 2012, compared to \$39,000 for the three months ended March 31, 2011.

#### Non-Interest Expenses

For the quarter ended March 31, 2012, non-interest expenses were \$4,235,000, compared to \$3,776,000 for the first quarter of 2011, a \$459,000 (12.2%) increase. The \$459,000 increase in other non-interest expenses includes increases of \$254,000 in salaries and benefits, \$113,000 relating to other real estate owned, \$92,000 in miscellaneous expenses, and \$31,000 in loan closing fees, offset by a \$52,000 decrease in FDIC premium expenses. The increase in salaries and benefits resulted primarily from an increase in wages. The increase in other real estate owned and related asset management costs is attributable to an increase in impairment charges taken on other real estate owned assets during the first quarter of 2012, as well as an increase in asset management legal expenses.

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 March 31, 2012, the Corporation's efficiency ratio was 74.2%, compared to 62.1% for the same period of 2011.

#### Provision for Income Taxes

The provision for income taxes for the quarter ended March 31, 2012 was \$233,000, compared to \$16,000 for the comparable 2011 period. The effective tax rate for the three months ended March 31, 2012 was low due to tax exempt income from securities and loans, as well as bank-owned life insurance comprising approximately 46% of the Corporation's income before income taxes. For the quarter ended March 31, 2011, the provision for income taxes was also reduced by \$50,000 related to a FIN 48 reserve that was established under the Tax Equity and Fiscal Responsibility Act (TEFRA) being reversed back into income. This reversal resulted from a 2009 IRS exam that was closed with no adjustments.

#### Return on Assets

Return on average assets was 0.69% for the first quarter of 2012, compared to 0.51% for the first quarter of 2011.

#### Return on Equity

Return on average shareholders' equity for the first quarter of 2012 was 6.66%, compared to 5.51% for the same period of 2011.

The Corporation and Bank met all regulatory capital requirements as March 31, 2012, and the Bank is considered “well capitalized” under regulatory and industry standards of risk-based capital.

## FINANCIAL CONDITION

### Overview of Balance Sheet

Total assets amounted to \$583.8 million at March 31, 2012, compared to \$587 million at December 31, 2011, a decrease of \$3.2 million, or 0.6%. The decrease in total assets was primarily the result of a decrease of \$6.7 million (2%) in gross loans, and a decrease of \$4.3 million (7.5%) in cash and cash equivalents, offset by an increase in available-for-sale securities of \$6.9 million (4.6%). Deposits during this same period decreased \$3.6 million, or 0.7%.

Shareholders' equity increased from \$59.7 million at December 31, 2011 to \$60.8 million at March 31, 2012. This increase was the result of net income (\$1,003,000), the issuance of 314 treasury shares under the Corporation's Employee Stock Purchase Plan (\$5,000), and a \$5,000 decrease in unrealized securities gains, net of tax. The decrease in unrealized securities gains during the three month period ended March 31, 2012, was the result of customary and expected changes in the bond market. Net unrealized gains on securities are reported as accumulated other comprehensive income in the consolidated balance sheets.

### Cash and Cash Equivalents

Cash and cash equivalents totaled \$53 million at March 31, 2012, compared to \$57.3 million at December 31, 2011. Cash and cash equivalents at March 31, 2012 includes interest-bearing deposits in other banks of \$44.9 million compared to \$48.4 million at December 31, 2011. Management believes the current level of cash and cash equivalents is sufficient to meet the Corporation's present liquidity and performance needs. 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.

At March 31, 2012, available-for-sale securities totaled \$158.9 million, an increase of \$6.9 million from December 31, 2011. At March 31, 2012, the amortized cost of the Corporation's securities totaled \$153.4 million, resulting in net unrealized gains of \$5.4 million and a corresponding after tax increase in shareholders' equity of \$3.6 million.

### Loans

The Corporation's lending is primarily centered in Northwestern and West Central Ohio. Gross loans totaled \$331.2 million at March 31, 2012, compared to \$337.9 million at December 31, 2011, a decrease of \$6.7 million (2%). The Bank has continued to experience soft loan demand in its lending markets. The decrease in loan balances during the first three months of 2012 resulted primarily from a decline in loan origination activity, normal pay downs and runoff on current loans, and a continued focus by the Bank's credit administration department to identify and dispose of or

reduce problem credits.

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## Allowance for Loan Losses

The following table presents a summary of activity in the allowance for loan losses for the three months ended March 31, 2012 and 2011, respectively:

(dollars in thousands)

	2012	2011
Balance, beginning of period	\$ 8,543	\$ 8,017
Provision for loan losses	-	1,275
Charge offs	(1,320 )	(375 )
Recoveries	151	42
Net charge offs	(1,169 )	(333 )
Balance, end of period	\$ 7,374	\$ 8,959

The allowance for loan losses as a percentage of gross loans was 2.23% at March 31, 2012 and 2.53% at December 31, 2011. The increased allowance for loan losses as a percentage of gross loans over the past few years is attributable to the higher level of charge-offs experienced by the Bank, continued distress in the overall quality of the loan portfolio as evidenced by the level of classified credits, and continued concerns with the prolonged economic downturn.

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

Loans on non-accrual status amounted to \$19.6 million and \$21.7 million at March 31, 2012 and December 31, 2011, respectively. Non-accrual loans as a percentage of outstanding loans amounted to 5.9% at March 31, 2012, compared to 5.1% at December 31, 2011.

The Bank considers a loan to be impaired when it becomes probable that the Bank will be unable to collect under the contractual terms of the loan, based on current information and events. Impaired loans, principally consisting of commercial and commercial real estate credits, amounted to \$18.7 million at March 31, 2012 and \$21 million at December 31, 2011. Impaired loans at March 31, 2012 and December 31, 2011, included \$9.3 million and \$7.7 million, respectively of loans with no specific reserves included in the allowance for loan losses and \$9.4 million and \$11.3 million, respectively of loans with specific reserves of \$1.8 million and \$1.9 million included in the Bank's March 31, 2012 and December 31, 2011 allowance for loan losses.

In addition to impaired loans, the Bank had other potential problem credits of \$22.5 million at March 31, 2012 and \$24.6 million at December 31, 2011. The Bank's credit administration department continues to closely monitor these credits.

The Bank provides pooled reserves for potential problem loans using loss rates calculated considering historic net loan-charge off experience. The Bank has experienced \$1,169,000 of net loan charge-offs during the first three months of 2012 compared to annual net loan charge-offs of \$3.8 million in 2011, \$3.3 million in 2010, and \$5.9 million in 2009, with most of the charge-offs coming from the commercial and commercial real estate loan

portfolios. The Bank 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. Consequently, the loss rates applied to these loans have increased as a result of the increase in the Bank's historic net loan charge-offs.

## 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 \$476.9 million, or 91.2% of the Corporation's funding sources at March 31, 2012. Total deposits decreased \$3.6 million during the three months ending March 31, 2012.

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 11.9% of total deposits at March 31, 2012, compared to 10.5% at March 31, 2011.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling \$27.6 million at both March 31, 2012 and December 31, 2011, and customer repurchase agreements totaling \$4.8 million and \$5.2 million at March 31, 2012 and December 31, 2011, respectively. The Corporation also has outstanding junior subordinated deferrable interest debentures of \$10.3 million at March 31, 2012 and December 31, 2011. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

## Shareholders' Equity

For the three month period ended March 31, 2012, the Corporation had net income of \$1,003,000. The increase (decrease) in net unrealized gains on available-for-sale securities, net of income taxes, was (\$6,000) and \$441,000 for the three months ended March 31, 2012 and 2011, respectively. Since all of the securities in the Corporation's portfolio are classified as available-for-sale, both securities and the equity section of the consolidated balance sheets are sensitive to the changing market values of securities.

The Corporation has also complied with the standards of capital adequacy mandated by the banking industry. Bank regulators have established "risk-based" capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet and to certain off-balance sheet commitments.



### 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 Bank has not experienced a significant level of inflation or deflation during the three month period ended March 31, 2012. However, because of the depressed national real estate market and sluggish local economy, the Bank 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 Bank's allowance for loan 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, 2011.

ITEM 4

CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures.

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

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

Changes in Internal Control over Financial Reporting.

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

## PART II – Other Information

## Item 1: Legal Proceedings.

There are no pending legal proceedings to which the Corporation or its subsidiaries are a party or to which any of their property is subject except routine legal proceedings to which the Corporation or its subsidiaries are a party incident to the banking business. None of such proceedings are considered by the Corporation to be material.

## Item 1A: Risk Factors

There have been no material changes in the discussion pertaining to risk factors that was provided in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

## Item 2: Unregistered Sales of Equity Securities and Use of Proceeds.

The Corporation has not sold any of its securities which were not registered under the Securities Act during the period covered by this report. The table below includes certain information regarding the Corporation's purchase of United Bancshares, Inc. common stock during the quarterly period ended March 31, 2012:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program	Maximum number of shares that may yet be purchased under the plan or program (a)
01/01/12 - 01/31/12	None	None	302,058	97,942
02/01/12 - 02/28/12	None	None	302,058	97,942
03/01/12 - 03/31/12	None	None	302,058	97,942

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

## Item 3: Defaults upon Senior Securities.

None

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information.

None

Item 6: Exhibits

(a) Exhibits

Exhibit 3(i) Amended and Restated Articles of Incorporation

Exhibit 3(ii) Amended and Restated Code of Regulations

Exhibit 10.1 Employment Agreement – Daniel W. Schutt

Exhibit 10.2 Salary Continuation Agreement – Daniel W. Schutt

Exhibit 10.3 Agreement - Brian D. Young

Exhibit 10.4 Salary Continuation Agreement - Brian D. Young

Exhibit 10.5 Salary Continuation Agreement – Heather M. Oatman

Exhibit 10.6 Salary Continuation Agreement, First Amendment – Daniel W. Schutt

Exhibit 10.7 Preferred Trust Securities, Placement and Debenture agreements

Exhibit 10.8 Salary Continuation Agreement, Second Amendment – Daniel W. Schutt

Exhibit 10.9 Salary Continuation Agreement, First Amendment – Brian D. Young

Exhibit 10.10 Change in Control Agreement - Daniel W. Schutt

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification of CEO

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification of CFO

Exhibit 32.1 Section 1350 CEO's Certification

Exhibit 32.2 Section 1350 CFO's Certification

Exhibit 99 Safe Harbor under The Private Securities Litigation Reform Act of 1995

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation

Exhibit 101.DEF XBRL Taxonomy Extension Definition

Exhibit 101.LAB XBRL Taxonomy Extension Label

Exhibit 101.PRE XBRL Taxonomy Extension Presentation

SIGNATURES

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

UNITED BANCSHARES, INC.

Date: May 1, 2012

By: /s/ Brian D. Young  
Brian D. Young  
Chief Financial Officer

## EXHIBIT INDEX

UNITED BANCSHARES, INC. QUARTERLY REPORT ON FORM 10-Q  
FOR PERIOD ENDED MARCH 31, 2012

Exhibit Number	Description	Exhibit Location
3(i)	Amended and Restated Articles of Incorporation	Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002.
3(ii)	Amended and Restated Code of Regulations	Incorporated herein by reference to the Corporation's Form 10Q for the quarter ended June 30, 2007.
10.1	Employment Agreement – Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.2	Salary Continuation Agreement – Daniel W. Schutt	Incorporated by reference to Corporation's Form 10K filed March 23, 2007.
10.3	Agreement - Brian D. Young	Incorporated by reference to Corporation's Form 8-K filed July 20, 2006.
10.4	Salary Continuation Agreement - Brian D. Young	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.5	Salary Continuation Agreement – Heather M. Oatman	Incorporated herein by reference to the Corporation's 2008 Form 10K filed March 20, 2009.
10.6	Salary Continuation Agreement First Amendment – Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.7	Preferred Trust Securities, Placement and Debenture agreements	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.8	Salary Continuation Agreement, Second Amendment – Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.9	Salary Continuation Agreement, First Amendment – Brian D. Young	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.10	Change in Control Agreement - Daniel W. Schutt	Incorporated herein by reference to the Corporation's Form 8-K filed January 14, 2010.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO	Filed herewith
32.1	Section 1350 CEO's Certification	Filed herewith
32.2	Section 1350 CFO's Certification	Filed herewith
99	Safe Harbor under the Private Securities Litigation Reform Act of 1995	Filed herewith
101.INS	XBRL Instance Document (a)	Filed herewith

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101.SCH XBRL Taxonomy Extension Schema	Filed herewith
101.CAL XBRL Taxonomy Extension Calculation	Filed herewith
101.DEF XBRL Taxonomy Extension Definition	Filed herewith
101.LAB XBRL Taxonomy Extension Label	Filed herewith
101.PRE XBRL Taxonomy Extension Presentation	Filed herewith

(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.