UNITED BANCSHARES INC/OH
Form 10-Q
October 25, 2013

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 September 30, 2013

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 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

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 October 25, 2013: 3,447,051

This document contains 42 pages. The Exhibit Index is on page 36 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)

	September 30, 2013	**December 31,** 2012
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$10,878,723	$10,605,662
Interest-bearing deposits in other banks	16,766,871	39,306,145
Total cash and cash equivalents	27,645,594	49,911,807
SECURITIES, available-for-sale	192,430,619	177,607,765
FEDERAL HOME LOAN BANK STOCK, at cost	4,893,800	4,893,800
CERTIFICATES OF DEPOSIT	2,490,000	2,490,000
LOANS HELD FOR SALE	461,200	2,957,060
LOANS	299,362,537	304,445,298
Less allowance for loan losses	(4,750,536)	(6,917,605)
Net loans	294,612,001	297,527,693
PREMISES AND EQUIPMENT, net	9,101,912	9,217,876
GOODWILL	8,554,979	8,554,979
CASH SURRENDER VALUE OF LIFE INSURANCE	14,073,086	13,761,183
OTHER REAL ESTATE OWNED	712,954	1,568,000
OTHER ASSETS, including accrued interest and intangible assets	4,389,890	3,957,465
TOTAL ASSETS	$559,366,035	$572,447,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	$74,085,445	$77,924,051
Interest bearing	386,722,969	393,275,063
Total deposits	460,808,414	471,199,114

Other borrowings	22,100,525	22,557,220
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Accrued expenses and other liabilities	2,883,343	4,221,089
Total liabilities	496,092,282	508,277,423
SHAREHOLDERS' EQUITY		
Common stock, $1.00 stated value. Authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,663,861	14,661,664
Retained earnings	49,899,718	46,855,865
Accumulated other comprehensive income (loss)	(256,546)	3,697,363
Treasury stock, 313,506 shares at September 30, 2013 and 314,252 shares at December 31, 2012, at cost	(4,793,837)	(4,805,244)
Total shareholders' equity	63,273,753	64,170,205
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$559,366,035	$572,447,628

See notes to consolidated financial statements.

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Loans, including fees	$3,751,473	$4,416,036	$11,237,113	$13,562,202
Securities:				
Taxable	611,598	632,426	1,788,606	1,963,254
Tax-exempt	465,183	437,531	1,370,358	1,342,440
Other	84,538	78,502	253,276	255,349
Total interest income	4,912,792	5,564,495	14,649,353	17,123,245
INTEREST EXPENSE				
Deposits	539,418	745,459	1,622,919	2,734,491
Other borrowings	282,259	317,690	831,536	1,048,953
Total interest expense	821,677	1,063,149	2,454,455	3,783,444
NET INTEREST INCOME	4,091,115	4,501,346	12,194,898	13,339,801
Provision (credit) for loan losses	(300,000)	200,000	(300,000)	200,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,391,115	4,301,346	12,494,898	13,139,801
NON-INTEREST INCOME				
Gain on sales of loans	124,640	318,978	638,875	859,490
Gain on sales of securities	-	27,199	134,747	267,595
Change in fair value of mortgage servicing rights	(28,880)	(80,734)	288,908	(68,937)
Other	795,941	689,812	2,255,963	2,054,567
Total non-interest income	891,701	955,255	3,318,493	3,112,715
NON-INTEREST EXPENSES	3,879,367	3,988,810	11,270,511	12,197,033
INCOME BEFORE INCOME TAXES	1,403,449	1,267,791	4,542,880	4,055,483
Provision for income taxes	287,000	164,000	982,000	746,000
NET INCOME	$1,116,449	$1,103,791	$3,560,880	$3,309,483
NET INCOME PER SHARE				
Basic	$0.32	$0.32	$1.03	$0.96
Weighted average common shares outstanding	3,446,952	3,446,268	3,446,806	3,446,075
Diluted	$0.32	$0.32	$1.03	$0.96
Weighted average common shares outstanding	3,446,952	3,446,268	3,446,806	3,446,075

See notes to consolidated financial statements.

United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
NET INCOME	$1,116,449	$1,103,791	$3,560,880	$3,309,483
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) during period	(149,090)	1,058,743	(5,856,023)	1,238,473
Reclassification adjustments for gains included in net income	-	(27,199)	(134,747)	(267,595)
Other comprehensive income (loss), before income taxes	(149,090)	1,031,544	(5,990,770)	970,878
Income tax benefit (expense) related to items of other comprehensive income (loss)	50,691	(350,725)	2,036,861	(330,099)
Other comprehensive income (loss)	(98,399)	680,819	(3,953,909)	640,779
COMPREHENSIVE INCOME (LOSS)	$1,018,050	$1,784,610	$(393,029)	$3,950,262

See notes to consolidated financial statements.

United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (Unaudited)

Nine months ended September 30, 2013 and 2012

	Common Stock	**Surplus**	**Retained** Earnings	**Accumulated Other** Comprehensive Income (Loss)	**Treasury** Stock	**Total**
BALANCE AT DECEMBER 31, 2012	$3,760,557	$14,661,664	$46,855,865	$ 3,697,363	$(4,805,244)	$64,170,205
Net income			3,560,880			3,560,880
Other comprehensive loss				(3,953,909)		(3,953,909)
Dividends declared ($0.15 per share)			(517,027)			(517,027)
746 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		2,197			11,407	13,604
BALANCE AT SEPTMEBER 30, 2013	$3,760,557	$14,663,861	$49,899,718	$ (256,546)	$(4,793,837)	$63,273,753
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			3,309,483			3,309,483
Other comprehensive income				640,779		640,779
626 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		1,085			9,572	10,657
BALANCE AT SEPTEMBER 30, 2012	$3,760,557	$14,661,664	$45,852,846	$ 4,238,810	$(4,805,244)	$63,708,633

See notes to consolidated financial statements.

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United Bancshares, Inc. and Subsidiaries

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine months ended September 30, 2013	2012
Cash flows from operating activities	$6,998,487	$3,922,508
Cash flows from investing activities:		
Proceeds from calls or maturities of securities	29,756,692	32,804,632
Proceeds from sales of available-for-sale securities	8,821,116	12,067,541
Purchases of available-for-sale securities	(59,881,334)	(60,104,246)
Net decrease in loans	2,915,692	14,656,018
Purchases of certificates of deposit	-	(747,000)
Proceeds from sale of other real estate owned	694,272	1,058,535
Expenditures for premises and equipment	(220,320)	(79,049)
Net cash used by investing activities	(17,913,882)	(343,569)
Cash flows from financing activities:		
Net change in deposits	(10,390,700)	(24,458,441)
Long-term borrowings, net of repayments	(456,695)	(11,593,921)
Proceeds from issuance of common stock	13,604	10,657
Cash dividends paid	(517,027)	-
Net cash used by financing activities	(11,350,818)	(36,041,705)
Net change in cash and cash equivalents	(22,266,213)	(32,462,766)
Cash and cash equivalents:		
At beginning of period	49,911,807	57,286,974
At end of period	$27,645,594	$24,824,208
Cash paid for:		
Interest	$2,439,997	$3,846,431
Income taxes	$210,000	$1,090,000
Non-cash investing activities:		
Change in net unrealized gain (loss) on available-for-sale securities	$(5,990,770)	$970,878
Transfer of loans to other real estate owned	$-	$420,650

See notes to consolidated financial statements.

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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 accounting principles generally accepted in the United States of America. Operating results for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

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

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

NOTE 3 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of September 30, 2013 and December 31, 2012 are as follows (dollars in thousands):

	September 30, 2013		**December 31, 2012**	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
U.S. Government and agencies	$13,637	$13,380	$15,489	$15,554
Obligations of states and political subdivisions	62,207	62,635	51,122	53,919
Mortgage-backed	116,224	115,670	104,893	107,607
Other	752	746	502	528
Total	$192,820	$192,431	$172,006	$177,608

A summary of gross unrealized gains and losses on available-for-sale securities as of September 30, 2013 and December 31, 2012 follows (dollars in thousands):

	September 30, 2013		**December 31, 2012**	
	Gross unrealized gains	**Gross unrealized losses**	**Gross unrealized gains**	**Gross unrealized losses**
U.S. Government and agencies	$1	$ 258	$69	$ 3
Obligations of states and political subdivisions	1,355	927	2,863	67
Mortgage-backed	1,444	1,998	2,732	18

Other	-	6	26	-
Total	$2,800	$ 3,189	$5,690	$ 88

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

NOTE 4 – LOANS

The following table presents the activity in the allowance for loan losses by portfolio segment for the periods ending September 30, 2013 and 2012:

	Commercial	**Commercial** and multi-family real estate	**Residential real estate**	**Consumer**	**Total**
Balance at December 31, 2012	$ 1,027,837	$ 5,240,175	$ 602,291	$ 47,302	$ 6,917,605
Provision (credit) charged to expenses	(218,322)	132,417	(181,472)	(32,623)	(300,000)
Losses charged off	(201,297)	(2,207,937)	(3,896)	(12,868)	(2,425,998)
Recoveries	12,187	521,057	10,709	14,976	558,929
Balance at September 30, 2013	$ 620,405	$ 3,685,712	$ 427,632	$ 16,787	$ 4,750,536

	Commercial	**Commercial and multi-family real estate**	**Residential real estate**	**Consumer**	**Total**
Balance at December 31, 2011	$ 2,596,629	$ 4,847,234	$ 998,941	$ 100,563	$ 8,543,367
Provision (credit) charged to expenses	(1,293,097)	1,800,840	(231,161)	(76,582)	200,000
Losses charged off	(19,796)	(1,754,930)	(114,458)	(12,398)	(1,901,582)
Recoveries	34,190	275,400	10,753	39,444	359,787
Balance at September 30, 2012	$ 1,317,926	$ 5,168,544	$ 664,075	$ 51,027	$ 7,201,572

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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 September 30, 2013 and December 31 2012:

September 30, 2013	**Commercial**	**Commercial and multi-family real estate**	**Residential real estate**	**Consumer**	**Total**
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	$260,554	$633,887	$-	$-	$894,441
Collectively evaluated for impairment	359,851	3,051,825	427,632	16,787	3,856,095
Total allowance for loan losses	$620,405	$3,685,712	$427,632	$16,787	$4,750,536
Loans:					
Individually evaluated for impairment	$661,582	$5,747,325	$242,304	$-	$6,651,211
Collectively evaluated for impairment	51,853,793	179,728,632	57,062,316	4,066,585	292,711,326
Total ending loans balance	$52,515,375	$185,475,957	$57,304,620	$4,066,585	$299,362,537

December 31, 2012	**Commercial**	**Commercial and multi-family real estate**	**Residential real estate**	**Consumer**	**Total**
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	$415,010	$2,506,940	$-	$-	$2,921,950
Collectively evaluated for impairment	612,827	2,733,235	602,291	47,302	3,995,655
Total allowance for loan losses	$1,027,837	$5,240,175	$602,291	$47,302	$6,917,605
Loans:					

Individually evaluated for impairment	$1,241,149	$14,153,259	$169,904	$-	$15,564,312
Collectively evaluated for impairment	49,324,136	177,011,839	58,148,753	4,396,258	288,880,986
Total ending loans balance	$50,565,285	$191,165,098	$58,318,657	$4,396,258	$304,445,298

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

Impaired loans were as follows as of September 30, 2013 and December 31, 2012:

	September 30, 2013	**December 31, 2012**
Loans with no allowance for loan losses allocated	$2,620,029	$3,118,322
Loans with allowance for loan losses allocated	4,031,182	12,445,990
Total impaired loans	$6,651,211	$15,564,312
Amount of the allowance allocated to impaired loans	$894,441	$2,921,950

The average recorded investment in impaired loans for the nine month period ended September 30, 2013 and 2012 was $10.1 million and $17.4 million, respectively. There was approximately $150,000 and $162,000 in interest income recognized by the Bank on impaired loans on an accrual or cash basis during the nine month period ended September 30 2013 and 2012, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2013 and December 31, 2012:

	September 30, 2013		**December 31, 2012**	
	Recorded investment	**Allowance for loan losses allocated**	**Recorded investment**	**Allowance for loan losses allocated**
With no related allowance recorded:				
Agriculture	$401,028	$-	$607,462	$-
Commercial and multi-family real estate	1,327,661	-	1,539,370	-
Agricultural real estate	649,036	-	801,586	-

Residential real estate	242,304	-	169,904	-
With an allowance recorded:				
Commercial	260,554	260,554	415,010	415,010
Commercial and multi-family real estate	3,770,628	633,887	12,030,980	2,506,940
Total	$6,651,211	$894,441	$15,564,312	$2,921,950

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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 September 30, 2013 and December 31, 2012:

September 30, 2013	**Nonaccrual**	**Loans past due 90 days or more and still accruing**	**Troubled Debt Restructurings**
Commercial	$357,431	$-	$ 340,044
Commercial real estate	6,737,661	-	3,737,399
Agriculture	401,028	-	-
Agricultural real estate	920,008	-	-
Consumer	2,924	5,656	-
Residential real estate	1,940,249	125,448	158,803
Total	$10,359,301	$131,104	$ 4,236,246

December 31, 2012	**Nonaccrual**	**Loans past due 90 days or more and still accruing**	**Troubled Debt Restructurings**
Commercial	$475,909	$-	$ 475,909
Commercial real estate	12,986,469	-	8,098,958
Agriculture	623,325	-	193,964
Agricultural real estate	1,060,418	-	-
Consumer	-	899	-
Residential real estate	2,025,078	24,050	55,048

Total	$17,171,199	$ 24,949	$ 8,823,879

The following table presents the aging of the recorded investment in past due loans as of September 30, 2013 by class of loans:

	30 – 59 days past due	**60 – 89** days past due	**Past due 90 days or more**	**Total** past due	**Loans** not past due	**Total**
Commercial	$91,140	$358,987	$17,387	$467,514	$40,167,694	$40,635,208
Commercial real estate	1,797,017	125,756	2,692,132	4,614,905	155,625,482	160,240,387
Agriculture	-	-	401,028	401,028	11,479,139	11,880,167
Agricultural real estate	21,724	-	806,037	827,761	24,407,809	25,235,570
Consumer	25,082	6,054	8,580	39,716	4,026,869	4,066,585
Residential real estate	1,226,354	699,503	487,520	2,413,377	54,891,243	57,304,620
Total	$3,161,317	$1,190,300	$4,412,684	$8,764,301	$290,598,236	$299,362,537

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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

	30 – 59 days past due	**60 – 89 days past due**	**Past due 90 days or more**	**Total past due**	**Loans not past due**	**Total**
Commercial	$74,672	$2,543	$-	$77,215	$36,664,022	$36,741,237
Commercial real estate	2,509,318	503,382	3,937,774	6,950,474	154,970,400	161,920,874
Agriculture	-	-	597,525	597,525	13,226,523	13,824,048
Agricultural real estate	47,422	-	933,945	981,367	28,262,857	29,244,224
Consumer	53,065	2,655	899	56,619	4,339,639	4,396,258
Residential real estate	2,271,107	559,048	512,685	3,342,840	54,975,817	58,318,657
Total	$4,955,584	$1,067,628	$5,982,828	$12,006,040	$292,439,258	$304,445,298

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 $200,000 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 deserve 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.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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 $200,000 or are included in groups of homogenous loans. As of September 30, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Not rated**
September 30, 2013					
Commercial	$50,526,775	$969,122	$618,450	$401,028	$-
Commercial and multi-family real estate	164,138,018	8,759,662	11,929,241	649,036	-
Residential real estate	-	-	285,987	7,337	57,011,296
Consumer	-	-	9,629	-	4,056,956
Total	$214,664,793	$9,728,784	$12,843,307	$1,057,401	$61,068,252

	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Not rated**
December 31, 2012					
Commercial	$47,367,441	$1,505,099	$1,095,220	$597,525	$-
Commercial and multi-family real estate	160,592,238	8,624,114	21,147,160	801,586	-
Residential real estate	-	-	435,467	9,937	57,873,253
Consumer	-	-	13,923	-	4,382,335
Total	$207,959,679	$10,129,213	$22,691,770	$1,409,048	$62,255,588

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 that are not rated, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. Generally, consumer and residential 1-4 family loans not rated that are 90 days past due or are classified as nonaccrual and collectively evaluated for impairment are considered nonperforming. The following table presents the recorded investment in non-impaired residential 1 – 4 family and consumer loans based on payment activity as of September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Consumer	Residential real estate	Consumer	Residential real estate
Performing	$4,048,477	$55,283,837	$4,381,436	$56,091,352
Nonperforming	8,479	1,727,459	899	1,781,901
Total	$4,056,956	$57,011,296	$4,382,335	$57,873,253

Purchased Loans:

From time to time, the Company enters into loan participation agreements to purchase loans. At September 30, 2013 and December 31, 2012, 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.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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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 following table includes the recorded investment and number of modifications for TDR loans during the first nine months of 2013.

	Number of modifications	**Recorded investment**	**Allowance for loan losses allocated**
Troubled Debt Restructurings:			
Commercial real estate	2	$ 44,449	$ -
Residential real estate	1	105,781	-

The recorded investment in the loans did not change as a result of the modifications. There are not any troubled debt restructurings for which there was a payment default in the current reporting period.

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 3.4% at September 30, 2013 and 3.62% at September 30, 2012. 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 $267,000 and $279,000 for the nine month periods ended September 30, 2013 and 2012, 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.

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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 September 30, 2013 and December 31, 2012 include available-for-sale securities, which are all valued using Level 2 inputs, and mortgage servicing rights, amounting to $1,355,782 at September 30, 2013 and $930,760 at December 31, 2012, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at September 30, 2013 and December 31, 2012 include other real estate owned, as well as impaired loans approximating $5,757,000 at September 30, 2013 and $12,642,000 at December 31, 2012 all of which are valued using Level 3 inputs.

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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 September 30, 2013 and December 31, 2012.

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 nine month period ended September 30, 2013 and year ended December 31, 2012:

	September 30, 2013	**December 31, 2012**
Balance at beginning of period	$930,760	$727,240
Gains or losses, including realized and unrealized:		
Disposals – amortization based on loan payments and payoffs	(139,007)	(257,057)
Purchases, issuances, and settlements	275,121	444,646
Other changes in fair value	288,908	15,931
Balance at end of period	$1,355,782	$930,760

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 September 30, 2013 or December 31, 2012. 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 September 30, 2013 or December 31, 2012.

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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Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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 $713,000, resulting in impairment charges of $175,000 which are included in earnings for the nine month period ended September 30, 2013.

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 September 30, 2013 and December 31, 2012.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at September 30, 2013 and December 31, 2012 were as follows (dollars in thousands):

	September 30, 2013		**December 31, 2012**		
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**	**Input Level**
FINANCIAL ASSETS					
Cash and cash equivalents	$27,646	$27,646	$49,912	$49,912	1

Securities, including Federal Home Loan Bank stock	197,324	197,324	182,502	182,502	2
Loans held for sale	461	461	2,957	2,957	3
Net loans	294,612	295,101	297,528	297,879	3
Mortgage servicing rights	1,356	1,356	931	931	3
	$521,399	$521,888	$533,830	$534,181	
FINANCIAL LIABILITIES					
Deposits					
Maturity	$174,652	$175,473	$185,650	$187,436	3
Non-maturity	286,302	286,302	285,549	285,549	1
Other borrowings	22,101	24,061	22,557	24,947	3
Junior subordinated deferrable interest debentures	10,300	10,287	10,300	10,367	3
	$493,355	$496,123	$504,056	$508,299	

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 September 30, 2013 and December 31, 2012 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to $79,032,000 at September 30, 2013 and $85,643,000 at December 31, 2012. Such amounts are also considered to be the estimated fair values.

United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2013

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

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 September 30, 2013 but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at September 30, 2013 have been recognized in the consolidated financial statements for the period ended September 30, 2013. Events or transactions that provided evidence about conditions that did not exist at September 30, 2013 but arose before the financial statements were issued have not been recognized in the consolidated financial statements for the period ended September 30, 2013.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIALCONDITION 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 September 30,		As of or for the Nine Months Ended September 30,	
	2013	2012	2013	2012
SIGNIFICANT RATIOS (Unaudited)				
Net income to:				
Average assets (a)	0.80 %	0.76 %	0.85 %	0.77 %
Average shareholders' equity (a)	7.12 %	7.03 %	7.49 %	7.18 %
Net interest margin (a)	3.16 %	3.63 %	3.30 %	3.51 %
Efficiency ratio (b)	74.28%	70.20%	69.49%	71.14%
Average shareholders' equity to average assets	11.28%	10.83%	11.29%	10.77%
Loans to deposits (end of period)	65.06%	71.20%	65.06%	71.20%
Allowance for loan losses to loans (end of period)	1.59 %	2.24 %	1.59 %	2.24 %
Book value per share	$18.36	$18.49	$18.36	$18.49

(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.

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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 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.

RESULTS OF OPERATIONS

Overview of the Income Statement

For the quarter ended September 30, 2013, the Corporation reported net income of $1,116,000, or $0.32 basic earnings per share compared to third quarter 2012 net income of $1,104,000 or $0.32 per share. Compared with the same period in 2012, third quarter net income increased $12,000 (1.1%) primarily due to a $500,000 decrease in provision for loan losses and a $109,000 decrease in non-interest expenses offset by a $410,000 decrease in net interest income, a $64,000 decrease in non-interest income and a $123,000 increase in the provision for income taxes.

Net income for the nine months ended September 30, 2013 totaled $3,561,000, or $1.03 basic earnings per share compared to $3,309,000 or $0.96 basic earnings per share for the same period in 2012. Compared with the same period in 2012, net income increased $252,000, or 7.6%. The increase for the nine month period ended September 30, 2013, as compared to the nine month period ended September 30, 2012, was primarily the result of a decrease in provision for loan losses of $500,000, a decrease in non-interest expenses of $926,000 and an increase in non-interest income of $206,000 offset by a decrease in net interest income of $1,145,000, and an increase in the provision for income taxes of $236,000.

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 $4,091,000 for the third quarter of 2013, compared to $4,501,000 for the same period of 2012, a decrease of $410,000 (9.1%). For the nine months ended September 30, 2013, net interest income was $12,195,000 compared to $13,340,000 for the same period of 2012, a decrease of $1,145,000 (8.6%).

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 nine month periods ended September 30, 2013, the net interest margin (on a taxable equivalent basis) was 3.16% and 3.3%, respectively, compared with 3.63% and 3.51% for the same periods in 2012.

Deposits comprised 92.5% of average interest-bearing liabilities for the nine month period ended September 30, 2013, compared to 91.1% for the same period in 2012. A lower overall interest rate environment resulted in the Corporation's cost of funds being 0.77% for the first nine months of 2013 compared to 1.13% for the same period in 2012. This decrease in cost of funds was offset by a decrease in the yield of interest-earning assets (3.93% for the first nine months of 2013 compared to 4.46% for the same period of 2012) 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. A $300,000 negative provision for loan losses was made during the third quarter of 2013 compared to a $200,000 provision made in the third quarter of 2012. These provisions also represent the year to date amounts. 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. The negative provision during the third quarter of 2013 was also warranted as a result of an improving market value on collateral held against one impaired loan and an individual credit that had a specific reserve becoming pass rated during the third quarter. Troubled Debt Restructurings have also decreased $4.6 million during the nine month period ended September 30, 2013. Since all TDRs are classified as impaired loans, the decrease has positively impacted the balance of impaired loans. 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 September 30, 2013, non-interest income was $892,000, compared to $955,000 for the third quarter of 2012, a $63,000 (6.6%) decrease. For the nine months ended September 30, 2013, non-interest income was $3,318,000 compared to $3,113,000 for the same period of 2012, a $206,000 (6.6%) increase.

Gain on sales of loans amounted to $125,000 for the quarter ended September 30, 2013, compared to $319,000 for the third quarter of 2012, a decrease of $194,000 (60.9%). Quarterly gain on sale of loans was impacted by an increase in capitalized servicing rights of $57,000 in 2013 and an increase of $55,000 in 2012. Gain on sales of loans amounted to $639,000 for the nine months ended September 30, 2013 compared to $859,000 for the comparable period in 2012, a decrease of $220,000 (25.6%). Gain on sales of loans for the nine month period included capitalized servicing rights of $275,000 in 2013 and $251,000 in 2012. The decrease in gain on sale of loans corresponds with the decrease in loan sales activity. Loan sales for the first nine months of 2013 were $28.5 million, compared to $47.5 million for the first nine months of 2012.

The fair value of mortgage servicing rights decreased $29,000 for the quarter ended September 30, 2013, compared to an $81,000 decrease for the quarter ended September 30, 2012. For the nine month period ended September 30, 2013, there was an increase in fair value of mortgage servicing rights of $289,000, compared to a decrease in fair value of mortgage servicing rights of $69,000 for the nine months ended September 30, 2012. The increase in fair value of mortgage servicing rights resulted from the increased rate environment during the first nine months of 2013.

Gain on sales of securities amounted to $27,000 for the third quarter of 2012 (none during the third quarter of 2013). Gain on sales of securities amounted to $135,000 for the nine months ended September 30, 2013 compared to $268,000 for the comparable period in 2012, a decrease of $133,000 (49.6%).

Non-Interest Expenses

For the quarter ended September 30, 2013, non-interest expenses were $3,879,000, compared to $3,989,000 for the third quarter of 2012, a $110,000 (2.7%) decrease. For the nine month period ended September 30, 2013, non-interest expenses totaled $11,271,000, compared to $12,197,000 for the comparable period of 2012, a decrease of $926,000 (7.6%). The decrease in non-interest expenses for the nine month period ended September 30, 2013 was primarily attributable to a $305,000 decrease in salaries and benefits, a $226,000 decrease in other real estate owned expenses, a $299,000 decrease in FDIC premium expenses and a $152,000 decrease in data processing.

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 September 30, 2013, the Corporation's efficiency ratio was 74.28%, compared to 70.2% for the same period of 2012. For the nine month period ended September 30, 2013, the Corporation's efficiency ratio was 69.49% compared to 71.1% for the same period of 2012. For the quarter ended September 30, 2013, the Corporation's efficiency ratio was negatively impacted by the decreases in net interest income and non-interest income. For the nine month periods ended September 30, 2013 and 2012, the efficiency ratio was positively impacted by the increase in non-interest income and decrease in non-interest expenses.

Provision for Income Taxes

The provision for income taxes for the quarter ended September 30, 2013 was $287,000, compared to $164,000 for the comparable 2012 period. The provision for income taxes for the nine month period ended September 30, 2013 was $982,000, or 21.6% of income before income taxes, compared to $746,000 or 18.4% for the comparable 2012 period. The increase in the effective tax rate is attributable to tax-exempt interest income comprising a smaller portion of income before income taxes in 2013 than 2012.

Return on Assets

Return on average assets was 0.80% for the third quarter of 2013, compared to 0.76% for the third quarter of 2012. For the nine month period ended September 30, 2013, return on average assets was 0.85%, compared to 0.77% for the same period of 2012.

Return on Equity

Return on average shareholders' equity for the third quarter of 2013 was 7.12%, compared to 7.03% for the same period of 2012. Return on average equity for the nine months ended September 30, 2013 was 7.49%, compared to 7.18% for the same period in 2012.

The Corporation and Bank met all regulatory capital requirements as September 30, 2013, 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 $559.4 million at September 30, 2013, compared to $572.4 million at December 31, 2012, a decrease of $13 million, or 2.3%. The decrease in total assets was primarily the result of decreases in total cash and cash equivalents of $22.3 million (44.6%), gross loans of $5.1 million (1.7%), loans held for sale of $2.5 million (84.4%) and other real estate owned of $855,000 (54.5%) offset by an increase in available-for-sale securities of $14.8 million (8.4%), a decrease in the allowance for loan losses of $2.2 million (31.3%) and an increase in other assets of $432,000 (10.9%). Deposits during this same period decreased $10.4 million, or 2.2%.

Shareholders' equity decreased from $64.2 million at December 31, 2012 to $63.3 million at September 30, 2013, a decrease of $896,000, or 1.4%. This decrease was the result of a $4 million decrease in unrealized securities losses, net of tax, net income of $3,561,000, dividends paid of $517,000, and the issuance of 746 treasury shares under the Corporation's Employee Stock Purchase Plan of $14,000. The decrease in unrealized securities gains during the nine month period ended September 30, 2013, 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 in the consolidated balance sheets.

Cash and Cash Equivalents

Cash and cash equivalents totaled $27.6 million at September 30, 2013, compared to $49.9 million at December 31, 2012. Cash and cash equivalents at September 30, 2013 includes interest-bearing deposits in other banks of $16.8 million compared to $39.3 million at December 31, 2012. 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.

The amortized cost and fair value of available-for-sale securities as of September 30, 2013 totaled $192.8 million and $192.4 million, respectively, resulting in net unrealized losses of $389,000 and a corresponding after tax decrease in shareholders' equity of $4 million for the nine months ended September 30, 2013. The amortized cost of available-for-sale securities increased $20.8 million from December 31, 2012. The decrease in unrealized gains during the nine month period ended September 30, 2013 resulted from decreases in the fair value of mortgage back securities, which was driven by fluctuations in market lending rates.

Loans

The Corporation's lending is primarily centered in Northwestern and West Central Ohio. Gross loans totaled $299.4 million at September 30, 2013, compared to $304.4 million at December 31, 2012, a decrease of $5 million (1.7%). The Bank has continued to experience soft loan demand in its lending markets. The decrease in loan balances during the first nine months of 2013 resulted primarily from a decline in loan origination activity, normal pay downs and runoff on current loans.

Allowance for Loan Losses

The following table presents a summary of activity in the allowance for loan losses for the nine months ended September 30, 2013 and 2012, respectively:

	(dollars in thousands)	
	2013	2012
Balance, beginning of period	$6,918	$8,543
Provision for loan losses	(300)	200
Charge offs	(2,426)	(1,902)
Recoveries	559	360
Net charge offs	(1,867)	(1,542)
Balance, end of period	$4,751	$7,201

The allowance for loan losses as a percentage of gross loans was 1.59% at September 30, 2013 and 2.27% at December 31, 2012. 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 $10.4 million and $17.2 million at September 30, 2013 and December 31, 2012, respectively. Non-accrual loans as a percentage of outstanding loans amounted to 3.5% at September 30, 2013, compared to 5.6% at December 31, 2012.

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 $6.6 million at September 30, 2013 and $15.6 million at December 31, 2012. Impaired loans at September 30, 2013 and December 31, 2012, included $2.6 million and $3.1 million, respectively, of loans with no specific reserves included in the allowance for loan losses and $4.1 million and $12.5 million, respectively, of loans with specific reserves of $894,000 and $2.9 million included in the Bank's September 30, 2013 and December 31, 2012 allowance for loan losses.

In addition to impaired loans, the Bank had other potential problem credits of $18.7 million at September 30, 2013 and $20.4 million at December 31, 2012. 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 $1.9 million of net loan charge-offs during the first nine months of 2013 compared to annual net loan charge-offs of $1.8 million in 2012, $3.8 million in 2011, and $3.3 million in 2010, 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. Approximately $1 million of charge-offs in the first nine months of 2013 were specifically reserved for at December 31, 2012.

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 $461 million, or 93.4% of the Corporation's funding sources at September 30, 2013. Total deposits decreased $10.4 million during the nine months ending September 30, 2013. Non-interest bearing deposits comprised 16.1% of total deposits at September 30, 2013, compared to 14% at September 30, 2012.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. Other borrowings consisted of FHLB borrowings totaling $17.5 million at September 30, 2013 and December 31, 2012, and customer repurchase agreements totaling $4.6 million and $3.7 million at September 30, 2013 and December 31, 2012, respectively. The Corporation also has outstanding junior subordinated deferrable interest debentures of $10.3 million at September 30, 2013 and December 31, 2012. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

Shareholders' Equity

For the nine month period ended September 30, 2013, the Corporation had net income of $3,561,000. The decrease in net unrealized gains on available-for-sale securities, net of income taxes, was $3,954,000 for the nine month period ended September 30, 2013 compared to a $641,000 increase for the same period of 2012. 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 nine month period ended September 30, 2013. 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, 2012.

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, 2012.

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 September 30, 2013:

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)

07/01/13 - 07/31/13	None	None	302,058	97,942
08/01/13 - 08/31/13	None	None	302,058	97,942
09/01/13 - 09/30/13	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 Salary Continuation Agreement - Brian D. Young

Exhibit 10.2 Salary Continuation Agreement – Heather M. Oatman

Exhibit 10.3 Preferred Trust Securities, Placement and Debenture agreements

Exhibit 10.4 Salary Continuation Agreement, First Amendment – Brian D. Young

Exhibit 10.5 Change in Control Agreement – Diana L. Engelhardt

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:	October 25, 2013	By:/s/ Diana L. Engelhardt
		Diana L. Engelhardt
		Chief Financial Officer

EXHIBIT INDEX

UNITED BANCSHARES, INC. QUARTERLY REPORT ON FORM 10-Q

FOR PERIOD ENDED SEPTEMBER 30, 2013

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	Agreement - Brian D. Young	Incorporated by reference to Corporation's Form 8-K filed July 20, 2006.
10.2	Salary Continuation Agreement - Brian D. Young	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.3	Salary Continuation Agreement – Heather M. Oatman	Incorporated herein by reference to the Corporation's 2008 Form 10K filed March 20, 2009.
10.4	Preferred Trust Securities, Placement and Debenture agreements	Incorporated herein by reference to the Corporation’s 2004 Form 10K/A filed August 5, 2005.
10.5	Salary Continuation Agreement, First Amendment – Brian D. Young	Incorporated herein by reference to the Corporation’s 2007 Form 10Q filed April 27, 2007.
10.6	Change in Control Agreement - Diana L. Engelhardt	Incorporated herein by reference to the Corporation’s Form 8-K filed July 23, 2012.
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
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.

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