

UNITED BANCSHARES INC/OH  
Form 10-K  
March 27, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-K**

Annual report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934, as amended

For the year ended December 31, 2007

Commission File No.: 000-29283

**UNITED BANCSHARES, INC.**

(exact name of registrant as specified in its charter)

**OHIO**

**34-1516518**

(State or other jurisdiction of

(I.R.S. Employer I.D. No.)

incorporation or organization)

**100 S. High Street, Columbus Grove, Ohio 45830**

(Address of principal executive offices)

Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-K

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

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, no par value NASDAQ Global Markets**

(Title of class)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicated by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small Reporting Company

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

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant, was \$46,341,048, based upon the last sales price as quoted on the Nasdaq National Market as of June 30, 2007.

The number of shares of Common Stock outstanding as of February 22, 2008: 3,443,128.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

**Portions of the Annual Report to Shareholders for the year ended December 31, 2007 are incorporated by reference into Part II. Portions of the Proxy Statement dated March 20, 2008 for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III.**

## INDEX

	<u>Page(s)</u>
Part I	
Item 1. Business	3-23
Item 1A. Risk Factors	24-30
Item 2. Properties	31-32
Item 3. Legal Proceedings	32
Item 4. Submission of Matters to a Vote of Security Holders	32
Part II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6. Selected Financial Data	34
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	34
Item 8. Financial Statements and Supplementary Data	34
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	34
Item 9A. Controls and Procedures	34
Item 9A (T).. Controls and Procedures	34-35
Item 9B. Other Information	35
Part III	
Item 10. Directors, Executive Officers and Corporate Governance of the Registrant	36
Item 11. Executive Compensation	36
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	36
Item 13. Certain Relationships and Related Transactions and Director Independence	36
Item 14. Principal Accountant Fees and Services	36

Part IV

Item 15. Exhibits and Financial Statement Schedules 37

Signatures 38

PART I

Item 1.

Business

General

United Bancshares, Inc. (the Corporation), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. As of December 31, 2007, the Corporation employed approximately 135 employees. On March 7, 2003, following the receipt of approval from the appropriate regulatory authorities, the Corporation collapsed the charters of Citizens Bank of Delphos and the Bank of Leipsic and merged them into the charter of The Union Bank Company (the Bank). Following the merger of the Corporation's other two bank subsidiaries into The Union Bank Company; the Corporation is now a one-bank holding company, as that term is defined by the Federal Reserve Board.

United Bancshares, Inc. has traded its common stock on the Nasdaq Markets Exchange under the symbol UBOH since March 2001.

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

Forward Looking Statements

Certain matters disclosed herein may be deemed to be forward-looking statements that involve risks and uncertainties, including regulatory policy changes, interest rate fluctuations, loan demand, loan delinquencies and losses, general economic conditions, and other risks. Forward-looking statements are often characterized by the use of qualifying words and their derivatives such as expects, anticipates, believes, estimates, plans, projects, and other statements concerning opinions or judgments of the Corporation and its management about future events. Actual strategies and results in future time periods may differ materially from those currently expected. Such forward-looking statements represent management's judgment as of the current date. The Corporation disclaims, however, any intent or obligation to update such forward-looking statements.

General Description of Bank Subsidiary

The Bank is engaged in the business of commercial banking. The Bank is an Ohio state-chartered bank, which serves the Ohio counties of Allen, Putnam, Sandusky, Van Wert and Wood, with office locations in Bowling Green, Columbus Grove, Delphos, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville.

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 loans and home equity loans; safe deposit box rentals; and other personalized banking services.

### Competition

The Corporation competes for deposits with other savings associations, commercial banks and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. Primary factors in competing for deposits include customer service, interest rates and convenience of office location. In making loans, the Corporation competes with other commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors that are not readily predictable. The number of financial institutions competing with the Corporation is likely to increase as a result of changes in statutes and regulations eliminating various restrictions on interstate and inter-industry branching and acquisitions. Such increased competition may have an adverse effect upon the Corporation.

### Effect of Environmental Regulation

Compliance with federal, state and local provisions regulating the discharge of material into the environment, or otherwise relating to the protection of the environment, have not had a material effect upon the capital expenditures, earnings or competitive position of the Corporation and its subsidiary. The Corporation believes that the nature of the operations of its subsidiary has little, if any, environmental impact. The Corporation, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future. The Corporation's subsidiary may be required to make capital expenditures for environmental control facilities related to properties, which they may acquire through foreclosure proceedings in the future; however, the amount of such capital expenditures, if any, is not currently determinable.

### Supervision and Regulation

Sarbanes-Oxley Act of 2002 - On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the SOA ). The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties within publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the SEC ) under the Securities Exchange Act of 1934.



The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, including the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

\*

audit committees for all reporting companies;

\*

certification of financial statements by the chief executive officer and the chief financial officer;

\*

the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

\*

a prohibition on insider trading during pension plan black out periods;

\*

disclosure of off-balance sheet transactions;

\*

a prohibition on personal loans to directors and officers;

\*

expedited filing requirements for Forms 4;

\*

disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

\*

real time filing of periodic reports;

\*

the formation of a public company accounting oversight board;

\*

auditor independence; and

\*

various increased criminal penalties for violations of securities laws.

### Other Statutes and Regulations

The following is a summary of certain other statutes and regulations affecting the Corporation and its subsidiary. This summary is qualified in its entirety by reference to such statutes and regulations.

The Corporation is a bank holding company under the Bank Holding Company Act of 1956, as amended, which restricts the activities of the Corporation and the acquisition by the Corporation of voting shares or assets of any bank, savings association or other company. The Corporation is also subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Board. Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on transactions with affiliates, including any loans or extensions of credit to the bank holding company or any of its subsidiaries, investments in the stock or other securities thereof and the taking of such stock or securities as collateral for loans or extensions of credit to any borrower; the issuance of guarantees, acceptances or letters of credit on behalf of the bank holding company and its subsidiary; purchases or sales of securities or other assets; and the payment of money or furnishing of services to the bank holding company and other subsidiaries. Bank holding companies are prohibited from acquiring direct or indirect control of more than 5% of any class of voting stock or substantially all of the assets of any bank holding company without the prior approval of the Federal Reserve Board. A bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by the bank holding company or its subsidiaries.

As an Ohio state-chartered bank, the Bank is supervised and regulated by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation ( FDIC ). The deposits of the Bank are insured by the FDIC and the Bank is subject to the applicable provisions of the Federal Deposit Insurance Act. A subsidiary of a bank holding company can be liable to reimburse the FDIC if the FDIC incurs or anticipates a loss because of a default of another FDIC-insured subsidiary of the bank holding company or in connection with FDIC assistance provided to such subsidiary in danger of default. In addition, the holding company of any insured financial institution that submits a capital plan under the federal banking agencies' regulations on prompt corrective action guarantees a portion of the institution's capital shortfall, as discussed below.

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of the Bank, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans which may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on payment of dividends, and limitations on branching.

The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines include both a definition and a framework for calculating risk weighted assets by assigning assets and off-balance sheet items to broad risk categories. The minimum ratio of total capital to risk weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least 4% is to be comprised of common Shareholders' equity (including retained earnings but excluding treasury stock), noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interest in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets ( Tier 1 capital ). The remainder ( Tier 2 capital ) may consist, among other things, of mandatory convertible debt securities, a limited amount of subordinated debt, other preferred stock and a limited amount of allowance for loan losses. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 capital to total assets) of 3% for bank holding companies and state member banks that meet certain specified conditions, including having the highest regulatory rating. The minimum leverage ratio is 1%-2% higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and for those banks experiencing or anticipating significant growth. State non-member bank subsidiaries, such as the Bank are subject to similar capital requirements adopted by the FDIC.

The Corporation and its subsidiary currently satisfy all capital requirements. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC. The junior subordinated deferrable interest debentures issued in 2003, as described in Note 11 to the consolidated financial statements contained in the Corporation's Annual Report, currently qualify as Tier I capital for regulatory purposes. However, it is possible that regulations could change so that such securities do not qualify.

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

The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary bank and other subsidiaries.

However, the Federal Reserve Board expects the Corporation to serve as a source of strength to its subsidiary bank, which may require it to retain capital for further investment in the subsidiary, rather than for dividends for shareholders of the Corporation. The Bank may not pay dividends to the Corporation if, after paying such dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval of its regulatory authorities if a dividend in any year would

cause the total dividends for that year to exceed the sum of the current

year's net income and the retained net income for the preceding two years, less required transfers to surplus. Payment of dividends by a bank subsidiary may be restricted at any time at the discretion of the regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice. These provisions could have the effect of limiting the Corporation's ability to pay dividends on its outstanding common shares.

### Deposit Insurance Assessments and Recent Legislation

The Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively, the Deposit Insurance Reform Acts) were both signed into law during February, 2006. The provisions of the Deposit Insurance Reform Acts included, among other things, merging the Bank Insurance Fund and the Savings Association Insurance Fund into a new fund called the Deposit Insurance Fund, which merger was effective March 31, 2006; increasing insurance coverage for retirement accounts from \$100,000 to \$250,000, effective April 1, 2006; adjusting deposit insurance levels of \$100,000 for non-retirement accounts and \$250,000 for retirement accounts every five years based on an inflation index, with the first adjustment to be effective on January 1, 2011; eliminating a 1.25% hard target Designated Reserve Ratio, as defined, and giving the FDIC discretion to set the Designated Reserve Ratio within a range of 1.15% to 1.50% for any given year; eliminating certain restrictions on premium rates the FDIC charges covered institutions and establishing a risk-based premium system; and providing for a one-time credit for institutions that paid premiums to the Bank Insurance Fund or the Savings Association Insurance Fund prior to December 31, 1996.

### Monetary Policy and Economic Conditions

The commercial banking business is affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These policies and regulations significantly affect the overall growth and distribution of bank loans, investments and deposits, and the interest rates charged on loans as well as the interest rates paid on deposits and accounts.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the money market and the activities of monetary and fiscal authorities, no definitive predictions can be made as to future changes in interest rates, credit availability or deposit level.

Statistical Financial Information Regarding the Corporation

The following schedules and table analyze certain elements of the consolidated balance sheets and statements of income of the Corporation and its subsidiary, as required under Securities Act Industry Guide 3 promulgated by the Securities and Exchange Commission, and should be read in conjunction with the narrative analysis presented in ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION and the Consolidated Financial Statements of the Corporation.

Available Information

The Corporation files various reports with the SEC, including Forms 10-Q, 10-K, 11-K and 8-K as required. The public may read and copy any filed materials with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information that the Corporation electronically files with the SEC.

Various information on the Corporation may also be obtained from the Corporation's maintained website at <http://www.theubank.com>.



I.

## DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

A.

The following are the average balance sheets for the years ended December 31:

ASSETS	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Interest-earning assets			
Securities available-for-sale (1)			
Taxable	\$111,472	\$134,876	\$162,044
Non-taxable	44,301	45,696	38,859
Interest bearing deposits	3,741	745	733
Federal funds sold	4,368	277	2,925
Loans (2)	<u>345,532</u>	<u>323,802</u>	<u>311,107</u>
Total interest-earning assets	509,414	505,396	515,668
Non-interest-earning assets			
Cash and due from banks	7,903	8,589	8,339
Premises and equipment, net	7,211	6,109	6,483
Accrued interest receivable and other assets	27,365	25,601	20,757
Allowance for loan losses	<u>(2,199)</u>	<u>(2,448)</u>	<u>(2,784)</u>
	\$549,694	\$543,247	\$548,463
	=====	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing liabilities			
Deposits			
Savings and interest-bearing			
demand deposits	\$108,330	\$110,431	\$124,728
Time deposits	241,961	216,963	206,381
Federal funds purchased	11	1	99
Junior subordinated deferrable	10,300	10,300	10,300

interest debentures			
Other Borrowings	<u>101,941</u>	<u>124,526</u>	<u>125,978</u>
Total interest-bearing liabilities	462,543	462,221	467,486
Non-interest-bearing liabilities			
Demand deposits	36,281	34,395	34,033
Accrued interest payable and other			
liabilities	3,600	2,419	2,736
Shareholders' equity (3)	<u>47,270</u>	<u>44,212</u>	<u>44,208</u>
	\$549,694	\$543,247	\$548,463
	=====	=====	=====

(1)

Securities available-for-sale are carried at fair value. The average balance includes quarterly average balances of the market value adjustments and daily average balances for the amortized cost of securities.

(2)

Loan balances include principal balances of non-accrual loans and loans held for sale

(3)

Shareholders' equity includes average net unrealized appreciation (depreciation) on securities available-for-sale, net of tax.

I.

## DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

B.

The following tables set forth, for the years indicated, the condensed average balances of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average interest rates earned or paid thereon.

	2007		
	Average		Average
	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>
INTEREST-EARNING ASSETS	(dollars in thousands)		
Securities available-for-sale (1)			
Taxable	\$111,472	\$ 5,383	4.83%
Non-taxable (2)	44,301	2,797	6.31%
Loans (3, 4)	345,532	27,271	7.89%
Other	<u>8,109</u>	<u>373</u>	<u>4.60%</u>
Total interest-earning assets	<u>\$509,414</u>	<u>\$35,824</u>	<u>7.03%</u>
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing			
demand deposits	\$108,330	\$1,405	1.30%
Time deposits	241,961	10,598	4.38%
Federal funds purchased	11	1	9.09%
Junior subordinated deferrable			
interest debentures	10,300	640	6.21%
Other borrowings	<u>101,941</u>	<u>4,787</u>	<u>4.70%</u>
Total interest-bearing liabilities	<u>\$462,543</u>	<u>\$17,431</u>	<u>3.77%</u>
Net interest income, tax equivalent basis		\$ 18,393	

=====

Net interest income as a percent of

average interest-earning assets

3.61%

=====

(1)

Securities, available-for-sale are carried at fair value. The average balance includes quarterly average balances of the market value adjustments and daily average balances for the amortized cost of securities.

(2)

Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

(3)

Loan balances include principal balance of non-accrual loans and loans held for sale.

(4)

Interest income on loans includes fees on loans of \$1,014,527.

I.

## DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2006		
	Average		Average
	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>
INTEREST-EARNING ASSETS	(dollars in thousands)		
Securities available-for-sale (1)			
Taxable	\$134,876	\$ 6,378	4.73%
Non-taxable (2)	45,696	2,854	6.25%
Loans (3, 4)	323,802	24,454	7.55%
Other	<u>1,022</u>	<u>74</u>	<u>7.24%</u>
Total interest-earning assets	<u>\$505,396</u>	<u>\$33,760</u>	<u>6.68%</u>
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing			
demand deposits	\$110,431	\$2,508	1.17%
Time deposits	216,963	6,687	3.64%
Federal funds purchased	1	-	-
Junior subordinated deferrable			
interest debentures	10,300	640	6.21%
Other borrowings	<u>124,526</u>	<u>5,591</u>	<u>4.49%</u>
Total interest-bearing liabilities	<u>\$462,221</u>	<u>\$15,426</u>	<u>3.34%</u>
Net interest income, tax equivalent basis		\$ 18,334	
		=====	
Net interest income as a percent of			
average interest-earning assets			3.63%
			=====

(1)

Securities, available-for-sale are carried at fair value. The average balance includes quarterly average balances of the market value adjustments and daily average balances for the amortized cost of securities.

(2)

Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

(3)

Loan balances include principal balance of non-accrual loans and loans held for sale.

(4)

Interest income on loans includes fees on loans of \$1,114,879.

## I.

## DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2005		
	Average		Average
	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>
INTEREST-EARNING ASSETS	(dollars in thousands)		
Securities available-for-sale (1)			
Taxable	\$162,044	\$ 7,264	4.48%
Non-taxable (2)	38,859	2,410	6.20%
Loans (3, 4)	311,107	21,106	6.78%
Other	<u>3,658</u>	<u>115</u>	<u>3.14%</u>
Total interest-earning assets	<u>\$515,668</u>	<u>\$30,895</u>	<u>5.99%</u>
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing			
demand deposits	\$124,728	\$1,240	0.99%
Time deposits	206,381	5,119	2.48%
Federal funds purchased	99	4	4.04%
Junior subordinated deferrable			
interest debentures	10,300	640	6.21%
Other borrowings	<u>125,978</u>	<u>4,977</u>	<u>3.95%</u>
Total interest-bearing liabilities	<u>\$467,486</u>	<u>\$11,980</u>	<u>2.56%</u>
Net interest income, tax equivalent basis		\$ 18,915	
		=====	
Net interest income as a percent of			
average interest-earning assets			3.67%
			=====

(1)

Securities, available-for-sale are carried at fair value. The average balance includes quarterly average balances of the market value adjustments and daily average balances for the amortized cost of securities.

(2)

Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

(3)

Loan balances include principal balance of non-accrual loans and loans held for sale.

(4)

Interest income on loans includes fees on loans of \$1,035,557.



I.

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

C.

The following tables set forth the effect of volume and rate changes on interest income and expenses for the periods indicated. For purposes of these tables, changes in interest due to volume and rate were determined as follows:

Volume variance - change in volume multiplied by the previous year's rate.

Rate variance - change in rate multiplied by the previous year's volume.

Rate/volume variance - change in volume multiplied by the change in rate.

This variance was allocated to volume variances and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 34% in all years presented.

	<u>2007/2006</u>		
	<u>Total</u>	<u>Variance Attributable To</u>	
	<u>Variance</u>	<u>Volume</u>	<u>Rate</u>
INTEREST INCOME		(dollars in thousands)	
Securities -			
Taxable	\$ (995)	\$ (1,128)	\$ 133
Non-taxable	(57)	(88)	31
Loans	2,817	1,685	1,132
Other	<u>299</u>	<u>335</u>	<u>(36)</u>
	<u>2,064</u>	<u>804</u>	<u>1,260</u>
INTEREST EXPENSE			
Deposits -			
Savings and interest-bearing			

Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-K

demand deposits	(1,103)	(47)	(1,056)
Time deposits	3,911	840	3,071
Federal funds purchased	1	0	1
Junior Subordinated deferrable interest debentures	--	--	--
Other Borrowings	<u>(804)</u>	<u>(1,051)</u>	<u>247</u>
	<u>(2,005)</u>	<u>(258)</u>	<u>2,263</u>
NET INTEREST INCOME	\$ 59	\$ 1,062	\$ (1,003)
	=====	=====	=====

I.

## DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	<u>2006/2005</u>		
	Total	<u>Variance Attributable To</u>	
	<u>Variance</u>	<u>Volume</u>	<u>Rate</u>
INTEREST INCOME		(dollars in thousands)	
Securities -			
Taxable	\$ (886)	\$ (1,317)	\$ 431
Non-taxable	444	427	17
Loans	3,348	887	2,461
Other	<u>(41)</u>	<u>(83)</u>	<u>42</u>
	<u>2,865</u>	<u>86</u>	<u>2,951</u>
INTEREST EXPENSE			
Deposits -			
Savings and interest-bearing			
demand deposits	1,268	(124)	1,392
Time deposits	1,568	274	1,294
Federal funds purchased	(4)	(2)	(2)
Junior Subordinated deferrable interest debentures	--	--	--
Other Borrowings	<u>614</u>	<u>(57)</u>	<u>671</u>
	<u>3,446</u>	<u>91</u>	<u>3,355</u>
NET INTEREST INCOME	\$ (581)	\$ (177)	\$ (404)
	=====	=====	=====



II.

INVESTMENT PORTFOLIO

A.

The carrying amount of securities available-for-sale as of December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
U.S. Government agency securities	\$13,235	\$29,094	\$28,877
Obligations of states and political subdivisions	44,362	45,879	42,357
Mortgage-backed securities	80,305	93,049	112,065
Other	<u>2</u>	<u>53</u>	<u>53</u>
	\$137,904	\$168,075	\$183,352
	=====	=====	=====

The above excludes Federal Home Loan Bank stock amounting to \$4,703,100 in 2007 and 2006, and \$4,439,600 in 2005.

B.

The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2007 are as follows:

	<u>Maturing</u>			
		After One year	After Five Years	
	Within	But Within	But Within	After
	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Ten Years</u>
	(dollars in thousands)			
U.S. Government agency securities	\$ 8,731	\$ 4,504	\$ 0	\$ 0
Obligations of states and political subdivisions	6,501	15,571	20,439	1,851
Mortgage-backed securities (1)	<u>577</u>	<u>75,061</u>	<u>4,667</u>	<u>0</u>

	\$ 15,809	\$ 95,136	\$ 25,106	\$ 1,851
	=====	=====	=====	=====
		<u>Weighted Average Yield</u>		
U.S. Government agency securities	4.34%	4.09%	--	--
Obligations of states and political subdivisions	4.44%	4.03%	4.09%	4.33%
Mortgage-backed securities (1)	<u>5.09%</u>	<u>4.73%</u>	<u>5.11%</u>	<u>--</u>
Total	4.40%	4.59%	4.28%	4.33
	=====	=====	=====	=====

(1)

Maturity based upon estimated weighted-average life.

(2)

Table excludes Federal Home Loan Bank stock and \$2,000 of securities having no maturity date.

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount.

C.

Excluding those holdings in the investment portfolio of U.S. Government agency securities, there were four securities which exceeded 10% of Shareholders' equity at December 31, 2007. One security was a variable rate collateralized mortgage obligation ( CMO ) with a \$6,167,000 book value as of December 31, 2007. The other three securities were variable rate mortgage-backed securities ( MBS ) with the following book values as of December 31, 2007: \$8,848,000, \$8,751,000, and \$11,204,000.

## III.

## LOAN PORTFOLIO

## A.

Types of Loans Total loans, including loans held for sale, are comprised of the following classifications at December 31 for the years indicated:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(dollars in thousands)				
Commercial and					
agricultural	\$222,566	\$198,768	\$172,840	\$ 172,818	\$ 167,423
Real estate mortgage	110,770	105,018	108,252	112,786	108,180
Consumer loans to					
individuals	<u>26,224</u>	<u>31,763</u>	<u>28,913</u>	<u>20,987</u>	<u>16,618</u>
	\$ 359,560	\$ 335,549	\$ 310,005	\$ 306,591	\$ 292,221
	=====	=====	=====	=====	=====

Real estate mortgage amounts include real estate construction loans of \$18.0 million in 2007, \$11.9 million in 2006, \$13.9 million in 2005, \$14.6 million in 2004, and \$10.2 million in 2003. There is no lease financing receivables in any year.

**CONCENTRATIONS OF CREDIT RISK** The Corporation's depository institution subsidiary grants commercial, real estate, installment, and credit card loans to customers primarily located in Northwestern Ohio. Commercial loans include loans collateralized by business assets and agricultural loans collateralized by crops and farm equipment. As of December 31, 2007 commercial and agricultural loans make up 61.90% of the loan portfolio; the loans are expected to be repaid from cash flow from operations of the businesses. As of December 31, 2007, real estate mortgage loans make up 30.81% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2007, consumer loans to individuals make up 7.29% of the loan portfolio and are primarily collateralized by consumer assets.

## B.



Maturities and Sensitivities of Loans to Changes in Interest Rates The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2007 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

<u>Maturing</u>	Commercial and <u>Agricultural</u> (dollars in thousands)
Within one year	\$ 53,163
After one year but within five years	35,929
After five years	<u>133,474</u>
	\$ 222,566
	=====

III.

LOAN PORTFOLIO (CONTINUED)

	<u>Interest Sensitivity</u>		<u>Total</u>
	Fixed	Variable	
	<u>Rate</u>	<u>Rate</u>	
	(dollars in thousands)		
Due after one year but within five years	\$ 19,170	\$ 16,759	\$ 35,929
Due after five years	<u>9,793</u>	<u>123,681</u>	<u>133,474</u>
	\$ 28,963	\$ 140,440	\$ 169,403
	=====	=====	=====

C.

Risk Elements Non-accrual, Past Due, Restructured and Impaired Loans The following table summarizes non-accrual, past due, restructured and impaired loans at December 31:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	\$2,613	\$2,601	\$2,060	\$ 2,135	\$ 1,625
(b) Accruing loans that are contractually past due 90 days or more as to interest or principal payments and are still accruing interest	824	556	906	707	1,207

(c) Loans not included in

(a) or (b) which are

"Troubled Debt

Restructurings" as

defined by

Statement of

Financial

Accounting

Standards No. 15

-----	-----	-----	-----	-----
\$3,437	\$3,157	\$2,966	\$2,842	\$2,832
=====	=====	=====	=====	=====

Management believes the allowance for loan losses at December 31, 2007 is adequate to absorb any losses on non-performing loans, as the allowance balance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time.

III.

LOAN PORTFOLIO (CONTINUED)

The following is reported for the year ended December 31, 2007:

	<u>2007</u>
	(dollars in thousands)
Gross interest income that would have been recorded in 2007 on non-accrual loans outstanding at December 31, 2007 if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period	\$ 217
Interest income actually recorded on non-accrual loans and included in net income for the period	—
Interest income not recognized during the period	\$ 217
	=====

1.

Discussion of the non-accrual policy

The accrual of interest income is discontinued when the collection of a loan or interest, in whole or in part, is doubtful. When the accrual of interest is discontinued, all interest income accrued but uncollected is reversed. While loans which are past due 90 days or more as to interest or principal payments are considered for non-accrual status, management may elect to continue the accrual of interest when the estimated net realizable value of collateral, in management's judgment, is sufficient to cover the principal balance and accrued interest. These policies apply to both commercial and real estate loans.

2.

Potential problem loans

As of December 31, 2007, in addition to the \$3,437,000 of loans reported under Item III. C, there are approximately \$13,110,000 in other outstanding loans where known information causes management to have doubts as to the ability

of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans pursuant to Item III. C, at some future date. Consideration was given to loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed in Item III. C above. To the extent that such loans are not included in the \$13,110,000 in potential problem loans described above, management believes that such loans will not materially impact future operating results, liquidity, or capital resources.

3.

Foreign outstandings

None

4.

Loan concentrations

At December 31, 2007, loans outstanding relating to agricultural operations or collateralized by agricultural real estate aggregated approximately \$66,267,000. At December 31, 2007, there was one loan for \$219,000 in agricultural commercial loans, which was accounted for on a non-accrual basis; and there were no accruing agricultural commercial loans which were contractually past due ninety days or more as to interest or principal payments.

D.

Other interest-bearing assets

As of December 31, 2007, there were no other interest-bearing assets that are required to be disclosed.

## IV.

## SUMMARY OF LOAN LOSS EXPERIENCE

## A.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
LOANS	(dollars in thousands)				
Loans outstanding at end					
of period (1)	\$ 359,560	\$ 335,549	\$ 310,005	\$ 306,591	\$ 292,221
	=====	=====	=====	=====	=====
Average loans outstanding					
during period (1)	\$ 345,532	\$ 323,802	\$ 311,107	\$ 297,732	\$ 280,303
	=====	=====	=====	=====	=====
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	<u>\$ 2,275</u>	<u>\$ 2,540</u>	<u>\$ 2,757</u>	<u>\$ 2,768</u>	<u>\$ 2,785</u>
Loans charged off -					
Commercial and agricultural	(215)	(261)	(638)	(530)	(82)
Real estate mortgage	(162)	(104)	(66)	(116)	(362)
Consumer loans to individuals	<u>(546)</u>	<u>(453)</u>	<u>(265)</u>	<u>(203)</u>	<u>(211)</u>
	<u>(923)</u>	<u>(818)</u>	<u>(969)</u>	<u>(849)</u>	<u>(655)</u>
Recoveries of loans previously					
charged off -					
Commercial and agricultural	28	69	52	91	9
Real estate mortgage	10	34	31	34	107
Consumer loans to					
individuals	<u>218</u>	<u>110</u>	<u>128</u>	<u>136</u>	<u>72</u>
	<u>256</u>	<u>213</u>	<u>211</u>	<u>261</u>	<u>188</u>
Net loans charged off	<u>(667)</u>	<u>(605)</u>	<u>(758)</u>	<u>(588)</u>	<u>(467)</u>
Transfer to other liabilities	--	--	(71)	--	--
Provision for loan losses	<u>625</u>	<u>340</u>	<u>612</u>	<u>577</u>	<u>450</u>
Balance at end of period	\$2,233	\$2,275	\$2,540	\$ 2,757	\$ 2,768

	=====	=====	=====	=====	=====
Ratio of net charge-offs during the period to average loans outstanding during the period	0.19%	0.19%	0.24%	0.20%	0.17%
	=====	=====	=====	=====	=====

(1)

Including loans held for sale.

The allowance for loan losses balance and the provision for loan losses are judgmentally determined by management based upon periodic reviews of the loan portfolio. In addition, management considered the level of charge-offs on loans as well as the fluctuations of charge-offs and recoveries on loans including the factors, which caused these changes. Estimating the risk of loans and the amount of loss is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral value and other factors and estimates which are subject to change over time.

IV.

SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

B.

The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and related ratios.

	<u>Allocation of the Allowance for Loan Losses</u>			
	Percentage		Percentage	
	of Loans in		of Loans in	
	Each Category		Each Category	
Allowance	to Total	Allowance	to Total	
<u>Amount</u>	<u>Loans</u>	<u>Amount</u>	<u>Loans</u>	
(dollars in thousands)				
<u>December 31, 2007</u>		<u>December 31, 2006</u>		
Commercial and				
agricultural	\$ 1,350	61.9%	\$ 1,426	59.2%
Real Estate				
mortgages	295	30.8%	406	31.3%
Consumer loans to				
individuals	377	7.3%	385	9.5%
Unallocated	<u>211</u>	<u>N/A</u>	<u>58</u>	<u>N/A</u>
	\$ 2,233	100.0%	\$ 2,275	100.0%
	=====	=====	=====	=====
	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
Commercial and				
agricultural	\$ 1,395	55.8%	\$ 1,937	56.4%
Real Estate				
mortgages	876	34.9%	543	36.8%
Consumer loans to				



Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-K

individuals	165	9.3%	262	6.8%
Unallocated	<u>104</u>	<u>N/A</u>	<u>15</u>	<u>N/A</u>
	\$ 2,540	100.0%	\$ 2,757	100.0%
	=====	=====	=====	=====

December 31, 2003

Commercial and				
agricultural	\$ 1,758	57.3%		
Real Estate				
mortgages	469	37.0%		
Consumer loans to				
individuals	399	5.7%		
Unallocated	<u>142</u>	<u>N/A</u>		
	\$ 2,768	100.0%		
	=====	=====		

While management's periodic analysis of the adequacy of the allowance for loan losses may allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

V.

DEPOSITS

A.&B.

The average amount of deposits and average rates paid are summarized as follows for the years ended December 31:

	(dollars in thousands)			
	2007	2007	2006	2006
	Average	Average	Average	Average
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Savings and interest-				
bearing demand				
deposits	\$ 108,330	1.30%	\$ 110,431	1.17%
Time deposits	241,961	4.38%	216,963	3.64%
Demand deposits				
(non-interest				
bearing)	<u>36,281</u>	--	<u>34,395</u>	--
	\$ 386,572		\$ 361,789	
	=====		=====	
	2005	2005		
	Average	Average		
	<u>Amount</u>	<u>Rate</u>		
Savings and interest-				
bearing demand				
deposits	\$ 124,728	0.99%		

Time deposits	206,381	2.48%
Demand deposits		
(non-interest		
bearing)	<u>34,033</u>	--
	\$ 365,142	
	=====	

C.&E.

There were no foreign deposits in any periods presented

D.

Maturities of time certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2007 are summarized as follows:

Three months or less	\$ 24,092
Over three months and through six months	15,593
Over six months and through twelve months	10,049
Over twelve months	<u>7,001</u>
	\$56,734
	=====

## VI.

## RETURN ON EQUITY AND ASSETS

The ratio of net income to average shareholders' equity and average total assets and certain other ratios are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Average total assets	\$ 549,694	\$ 543,247	\$ 548,463
	=====	=====	=====
Average shareholders' equity (1)	\$ 47,270	\$ 44,212	\$ 44,208
	=====	=====	=====
Net income	\$ 4,579	\$ 4,927	\$ 4,622
	=====	=====	=====
Cash dividends declared	\$ 1,969	\$ 1,869	\$ 1,760
	=====	=====	=====
Return on average total assets	0.83%	0.91%	0.84%
	=====	=====	=====
Return on average shareholders' equity	9.69%	11.14%	10.46%
	=====	=====	=====
Dividend payout ratio (2)	43.00%	37.93%	38.08%
	=====	=====	=====
Average shareholders' equity	8.60%	8.14%	8.06%
to average total assets	=====	=====	=====

(1)

Average shareholders' equity includes average unrealized gains or losses on securities available-for-sale.

(2)

Dividends declared divided by net income.

VII.

SHORT-TERM BORROWINGS

None

Item 1A.

**RISK FACTORS**

An investment in the Corporation's common stock is subject to risks inherent to the Corporation's business. The material risks and uncertainties that management believes affect the Corporation are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Corporation's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Corporation's common stock could decline significantly, and you could lose all or part of your investment.

**Risks Related to the Corporation's Business**

*The Corporation is Subject to Interest Rate Risk*

The Corporation's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation's ability to originate loans and obtain deposits, (ii) the fair value of the Corporation's financial assets and liabilities, and (iii) the average duration of the Corporation's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

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

*The Corporation Is Subject To Lending Risk*

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across the State of Ohio and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay

outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Corporation.

Although the Corporation does not have an inordinately large number of non-performing loans, an increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loans losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation's financial condition and results of operations.

*The Corporation's Allowance for Loan Losses May Be Insufficient*

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation's financial condition and results of operations.

*The Corporation Is Subject To Environmental Liability Risk Associated With Lending Activities*

A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Corporation's exposure to environmental liability. Although the Corporation may perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's financial condition and results of operations.





*The Corporation's Profitability Depends Significantly on Economic Conditions in the State of Ohio*

The Corporation's success depends primarily on the general economic conditions of the State of Ohio and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in the Ohio counties of Allen, Putnam, Sandusky, Van Wert, and Wood. The local economic conditions in these areas have a significant impact on the demand for the Corporation's products and services as well as the ability of the Corporation's customers to repay loans, the value of the collateral securing loans and the stability of the Corporation's deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact those local economic conditions and, in turn, have a material adverse effect on the Corporation's financial condition and results of operations.

*The Corporation Operates in a Highly Competitive Industry and Market Area*

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Corporation operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- 

The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.

- 

The ability to expand the Corporation's market position.

- 

The scope, relevance and pricing of products and services offered to meet customer needs and demands.

-

The rate at which the Corporation introduces new products and services relative to its competitors.

- 

Customer satisfaction with the Corporation's level of service.

- 

Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

*The Corporation Is Subject To Extensive Government Regulation And Supervision*

The Corporation, primarily through its wholly owned subsidiary, The Union Bank Company, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

*The Corporation's Controls and Procedures May Fail or be Circumvented*

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

*The Corporation Relies On Dividends from Its Subsidiaries for Most of Its Revenue*

The Corporation is a separate and distinct legal entity from its subsidiary. It receives substantially all of its revenue from dividends from its subsidiary. These dividends are the principal source of funds to pay dividends on the Corporation's common stock, interest and principal on the Corporation's debt, and other operating expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Corporation. Also, the Corporation's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to the Corporation, the Corporation may not be able to service debt, pay obligations or pay dividends on the Corporation's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Corporation's business, financial condition and results of operations.

*The Corporation May Not Be Able To Attract And Retain Skilled People*

The Corporation's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire people or to retain them. The unexpected loss of services of one or

more of the Corporation's key personnel could have a material adverse impact on the Corporation's business because of their skills, knowledge of the Corporation's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

*The Corporation's Information Systems May Experience an Interruption or Breach in Security*

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Corporation's information systems could damage the Corporation's reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

*The Corporation Continually Encounters Technological Change*

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Many of the Corporation's competitors have substantially greater resources to invest in technological improvements. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

*The Corporation Is Subject To Claims and Litigation Pertaining to Fiduciary Responsibility*

From time to time, customers make claims and take legal action pertaining to the Corporation's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Corporation's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal action are not resolved in a manner favorable to the Corporation they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

*Severe Weather, Natural Disasters, Acts of War Or Terrorism And Other External Events Could Significantly Impact The Corporations Business*

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation's ability to conduct business. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue

and/or cause the Corporation to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

### **Risks Associated with the Corporation's Common Stock**

#### *The Corporation's Stock Price Can Be Volatile*

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Corporation's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to the Corporation.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Corporation and/or its competitors.
- New technology uses, or services offered, by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
-



Changes in government regulations.

- 

Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Corporation's stock price to decrease regardless of operating results.

*An Investment in the Corporation's Common Stock is NOT an Insured Deposit*

The Corporation's common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation (FDIC), any other deposit insurance fund or by any other public or private entity. Investment in the Corporation's common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Corporation's common stock, you may lose some or all of your investment.

*The Corporation's Articles of Incorporation and Regulations as well as Certain Banking Laws may have an Anti-Takeover Effect*

Provisions, of the Corporation's articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation's shareholders.

The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Corporation's common stock.

### **Risks Associated with the Corporation's Industry**

#### *The Earnings of Financial Services Companies are significantly affected by General Business and Economic Conditions*

The Corporation's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Corporation operates, all of which are beyond the Corporation's control. Deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Corporation's products and services, among other things, any of which could have a material adverse impact on the Corporation's financial condition and results of operations.

#### *Financial Services Companies Depend on the Accuracy and Completeness of Information about Customers and Counterparties*

In deciding whether to extend credit or enter into other transactions, the Corporation may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Corporation may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

#### *Consumers May Decide Not To Use Banks to Complete their Financial Transactions*

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Corporation's financial condition and results of operations.



Item 2.

Properties

The following is a listing and brief description of the properties owned by the Corporation and the Bank and used in its business:

1.

The main office is a two-story brick building located at 100 South High Street, Columbus Grove, Ohio. The building was constructed in approximately 1900 and contains approximately 7,870 square feet.

2.

A full service branch office is located at 110 East North Street, Kalida, Ohio. The building was constructed in 1994 and contains approximately 2,540 square feet.

3.

A full service branch office is located at 3211 Elida Road, Lima, Ohio. The building was constructed in 1994 and contains approximately 4,000 square feet.

4.

A full service branch office is located at 1410 Bellefontaine Avenue, Lima, Ohio. The building was constructed in 1998 and contains approximately 4,200 square feet.

5.

A drive-thru facility containing approximately 720 square feet located at 101 Progressive Drive, Columbus Grove, Ohio was completed and opened in February 2007. The new facility replaced a drive-thru facility that was located at 200 East Sycamore Street, Columbus Grove, Ohio, which was completely demolished in July 2007.

6.

Two buildings located at 102 & 106 South High Street, Columbus Grove, Ohio were constructed in approximately 1930. They are both two-story buildings and together contain approximately 9,700 square feet. These facilities are used to house the operations areas of the Bank.

7.

A full service branch office is located at 215 West Market Street, Lima, Ohio. The building was constructed in approximately 1954 and contains approximately 5,700 square feet. The building was acquired in 2000.

8.

A full service branch office is located at 318 South Belmore Street, Leipsic, Ohio. The constructed in 2001 and contains approximately 3,100 square feet.

9.

A full service branch office is located at 114 East 3<sup>rd</sup> Street, Delphos, Ohio. The building was acquired as part of the Citizens Bank of Delphos Acquisition in 2001.

10.

A full service branch office is located at 140 Front Street, Pemberville, Ohio. The building was acquired as part of the RFCBC branch Acquisition in March 2003.

11.

A full service branch office is located at 230 West Main Street, Gibsonburg, Ohio. The building was acquired as part of the RFCBC branch Acquisition in March 2003.

12.

A full service branch office is located at 1300 North Main Street, Bowling Green, Ohio. Construction was completed during the third quarter of 2007.

In addition to the aforementioned properties, the Bank leased approximately 2,000 square feet of office space at 1204 West Wooster Street, Bowling Green, Ohio until the third quarter of 2007. The property was operated as a full-service banking center until the branch office at 1300 North Main Street, Bowling Green, Ohio was opened. The Bank is also leasing a temporary branch located at the site of the former Ottawa branch which was damaged by a flood in August 2007. A new Ottawa branch is expected to be constructed during 2008.

All of the properties are suitable for their intended use.

Item 3.

Legal Proceedings

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

Item 4.

Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of shareholders during the quarter ended December 31, 2007.

PART II

Item 5.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There were approximately 1,526 shareholders of record as of January 31, 2008.

The table below includes certain information regarding the Corporation's repurchase of United Bancshares, Inc. common stock during the quarterly period ended December 31, 2007:

Total number

Maximum number

shares purchased

of shares that may

Total number

Average

as part of publicly

yet be purchased

of shares

price paid

announced plan

under the plan

Period

purchased(a)

per share(c)

or program

or program(b)

10/1/07 -

10/31/07

15,000

\$14.90

229,558

170,442

11/01/07 -

11/30/07

17,500

\$14.56

247,058

152,942

12/1/07 -

12/31/07

None

N/A

247,058

152,942

(a) All share purchases were part of a publicly announced plan and all were open-market transactions.



(b) 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.

(c) include related brokerage fees.

Additional information required herein is incorporated by reference from ( Market Price and Dividends on Common Stock ) United Bancshares Annual Report to Shareholders for 2007 ( Annual Report ), which is included herein as Exhibit 13.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights. (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance. (c)
Equity compensation plans approved by security holders	12,006	12.95	---
Equity compensation plans not approved by security holders	---	---	---
Total	12,006	12.95	---

Item 6.

Selected Financial Data

The information required herein is incorporated by reference from ( Five Year Summary of Selected Financial Data ) United Bancshares Annual Report to Shareholders for 2007 ( Annual Report ), which is included herein as Exhibit 13.

Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required herein is incorporated by reference from page 4 through 13 ( Management's Discussion and Analysis ) of United Bancshares Annual Report to Shareholders for 2007 ( Annual Report ), which is included herein as Exhibit 13.

Item 7A.

Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference from page 12 through 13 ( Management's Discussion and Analysis ) of United Bancshares Annual Report to Shareholders for 2007 ( Annual Report ), which is included herein as Exhibit 13.

Item 8.

Financial Statements and Supplementary Data

The information required herein is incorporated by reference from page 15 through 49 of United Bancshares Annual Report to Shareholders for 2007 ( Annual Report ), which is included herein as Exhibit 13.

Item 9.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A.

Controls and Procedures

An evaluation of the effectiveness of the Corporation's internal controls over financial reporting was carried out under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Item 9A(T). Controls and Procedures

REPORT ON MANAGEMENT'S ASSESSMENT OF  
INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. Management of the Corporation and its subsidiary are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15f. The Corporation's internal control over financial reporting is a process designed under the supervision of the Corporation's Chief Executive Officer and Chief Financial Officer. The purpose is to provide

reasonable assurance to the Board of Directors regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management maintains internal controls over financial reporting. The internal controls contain control processes and actions are taken to correct deficiencies as they are identified. The internal controls are evaluated on an ongoing basis by the Corporation's Management, and Audit Committee. Even effective internal controls, no matter how well designed, have inherent limitations including the possibility of circumvention or overriding of controls and therefore can provide only reasonable assurance with respect to financial statement preparation. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Corporation's internal controls as of December 31, 2007, in relation to criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2007, the Corporation's internal control over financial reporting met the criteria.

Item 9B.

Other Information

None.

PART III

Item 10.

Directors, Executive Officers and Corporate Governance of the Registrant

The information required herein concerning Directors and Executive Officers is contained under the captions Election of Directors and Directors and Executive Officers of the Corporation's definitive proxy statement dated March 20, 2008, which is incorporated herein by reference.

Information required by this item concerning the Corporation's Audit Committee is contained under the caption Audit Committee Report of the Corporation's proxy statement dated March 20, 2008, which is incorporated herein by reference.

Information required by this item concerning the Corporation's procedures for the nomination of Directors is contained under the caption Committees of the Board of Directors in the Corporation's definitive proxy statement dated March 20, 2008, which is incorporated herein by reference.

Information required by this item concerning compliance with section 16(a) of the Securities Exchange Act of 1934, as amended, is contained under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Corporation's definitive proxy statement dated March 20, 2008, which is incorporated herein by reference.

On February 17, 2004, the Corporation adopted a Code of Ethics that is applicable to all employees of the Corporation, including the Corporation's principal executive officer and principal financial and accounting officer. The Board of Directors reviewed the Code of Ethics on February 19, 2008. A copy of the Code of Ethics is included herein as Exhibit 14.

Item 11.

Executive Compensation

The information required herein concerning Directors and Executive Officers of the Corporation is contained under the caption Compensation of Directors and Executive Officers in the Corporation's definitive proxy statement dated March 20, 2008, which is incorporated herein by reference.

Item 12.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is contained under the caption "Voting Securities" in the Corporation's definitive proxy statement dated March 20, 2008, which is incorporated herein by reference.

Item 13.

Certain Relationships and Related Transactions and Director Independence

In the ordinary course of conducting its business, the Corporation, for itself or through its bank subsidiary, may engage in transactions with the directors, employees, and managers of the Corporation or of the subsidiary which may include, but not be limited to, loans. As required by and in compliance with Ohio banking law, all banking transactions with directors, employees or managers of the Corporation are conducted on the same basis and terms as would be provided to any other bank customer.

Item 14.

Principal Accountant Fees and Services

Information required by this item is contained under the caption "Independent Public Accountants" in the Corporation's definitive proxy statement dated March 20, 2008, which is incorporated herein by reference.

PART IV

Item 15.

Exhibits and Financial Statement Schedules

(a)

1.

Financial Statements

The information required herein is filed as part of this report and is set forth in the United Bancshares Annual Report to Shareholders for 2007 ( Annual Report ), which is included herein as Exhibit 13.

2.

Financial Statement Schedules -

None.

3.

Exhibits Required by Item 601 Regulations S-K -

The following exhibits are either filed as a part of this report or are incorporated herein by reference to documents previously filed as indicated below:

Exhibit No.

3.1	Articles of Incorporation	(1)
3.2	Regulations	(1)
10	Material Contracts	
10.1	Preferred Trust Securities, Placement and Debenture agreements	(2)
10.2	Employment Agreement Daniel W. Schutt	(2)
10.3	Severance Agreement E. Eugene Lehman	(2)
10.4	Agreement Brian D. Young	(4)
10.5	Salary Continuation Agreement - Brian D. Young	(2)

10.6	Executive Supplemental Income Agreement - Bonita Selhorst	(2)
10.7	Salary Continuation Agreement Daniel W. Schutt	(5)
13	Annual Report to Shareholders - 2007	(3)
14	Code of Ethics	(5)
21	Subsidiaries	(3)
23	Consent of Independent Accountants	(3)
31.1	Rule 13a-14(a)/15d-14(a) CEO's Certification	(3)
31.2	Rule 13a-14(a)/15d-14(a) CFO's Certification	(3)
32.1	Section 1350 CEO's Certification	(3)
32.2	Section 1350 CFO's Certification	(3)
99	Safe Harbor under The Private Securities Litigation Reform Act of 1995	(3)

(1) Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002, SEC file reference number 333-86543.

(2) Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005, SEC file reference number 333-86543.

(3) Included herein

(4) Incorporated herein by reference to the Corporation's Form 8-K filed July 20, 2006.

(5) Incorporated herein by reference to the Corporation's Form 10-K filed March 23, 2007



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED BANCSHARES, INC.

By:

/s/ DANIEL W. SCHUTT

Daniel W. Schutt, CEO, President

By:

/s/ BRIAN D. YOUNG

Brian D. Young, Executive Vice President,  
Treasurer & Chief Financial Officer

Date: March 25, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DANIEL W. SCHUTT</u> Daniel W. Schutt	Director	March 25, 2008
<u>/s/ JAMES N. REYNOLDS</u> James N. Reynolds	Director	March 19, 2008

/s/ H. EDWARD RIGEL Director March 25, 2008

H. Edward Rigel

/s/ R. STEVEN UNVERFERTH Director March 25, 2008

R. Steven Unverferth

/s/ ROBERT L. BENROTH Director March 24, 2008

Robert L. Benroth

/s/ ROBERT L. DILLHOFF Director March 25, 2008

Robert L. Dillhoff

/s/ DAVID P. ROACH Director March 25, 2008

David P. Roach

**Exhibit 21**

**United Bancshares, Inc. Subsidiaries**

The Union Bank Company

Ohio banking corporation

Columbus Grove, Ohio

United (OH) Statutory Trust I

Connecticut statutory trust

Columbus Grove, Ohio

UBC Investments, Inc. a wholly-owned subsidiary of The Union Bank Company

Delaware Corporation

Wilmington, Delaware

**Exhibit 23**

CONSENT ON INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

United Bancshares, Inc.

We hereby consent to the incorporation by reference in the Registration Statement (No. 333-106929) on Form S-8 of United Bancshares, Inc. of our report dated March 11, 2008, relating to the consolidated balance sheets of United Bancshares, Inc. and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007, which report appears in the December 31, 2007 Annual Report on Form 10-K of United Bancshares, Inc.

/s/ CLIFTON GUNDERSON LLP

Toledo, Ohio

March 25, 2008

40

---

**Exhibit 31.1**

**CERTIFICATION - CEO**

In connection with the Annual Report of United Bancshares, Inc. on Form 10-K for the year ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel W. Schutt, President and Chief Executive Officer of United Bancshares, Inc., certify, that:

(1) I have reviewed this Annual Report on Form 10-K of United Bancshares, Inc.;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the registrant and we have:

a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure control and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DANIEL W. SCHUTT

Daniel W. Schutt

President and Chief Executive Officer

March 25, 2008

**Exhibit 31.2**

**CERTIFICATION - CFO**

In connection with the Annual Report of United Bancshares, Inc. on Form 10-K for the year ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, Chief Financial Officer of United Bancshares, Inc., certify, that:

(1) I have reviewed this Annual Report on Form 10-K of United Bancshares, Inc.;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the registrant and we have:

a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure control and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by



this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brian D. Young

Brian D. Young

Chief Financial Officer

March 25, 2008

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of United Bancshares, Inc. (the "Corporation") on Form 10-K for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel W. Schutt, Chief Executive Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ DANIEL W. SCHUTT

Daniel W. Schutt

Chief Executive Officer

Date: March 25, 2008

\*This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934 (the Exchange Act) and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of United Bancshares, Inc. (the "Corporation") on Form 10-K for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Brian D. Young

Brian D. Young

Chief Financial Officer

Date: March 25, 2008

\*This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934 (the Exchange Act) and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

**Exhibit 99**

**SAFE HARBOR UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. United Bancshares, Inc. ("Corporation") desires to take advantage of the "safe harbor" provisions of the Act. Certain information, particularly information regarding future economic performance and finances and plans and objectives of management, contained or incorporated by reference in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, is forward-looking. In some cases, information regarding certain important factors that could cause actual results of operations or outcomes of other events to differ materially from any such forward-looking statement appears together with such statement. In addition, forward-looking statements are subject to other risks and uncertainties affecting the financial institutions industry, including, but not limited to, the following:

**Interest Rate Risk**

The Corporation's operating results are dependent to a significant degree on its net interest income, which is the difference between interest income from loans, investments and other interest-earning assets and interest expense on deposits, borrowings and other interest-bearing liabilities. The interest income and interest expense of the Corporation change as the interest rates on interest-earning assets and interest-bearing liabilities change. Interest rates may change because of general economic conditions, the policies of various regulatory authorities and other factors beyond the Corporation's control. In a rising interest rate environment, loans tend to prepay slowly and new loans at higher rates increase slowly, while interest paid on deposits increases rapidly because the terms to maturity of deposits tend to be shorter than the terms to maturity or prepayment of loans. Such differences in the adjustment of interest rates on assets and liabilities may negatively affect the Corporation's income.

**Possible Inadequacy of the Allowance for Loan Losses**

The Corporation maintains an allowance for loan losses based upon a number of relevant factors, including, but not limited to, trends in the level of non-performing assets and classified loans, current economic conditions in the primary lending area, past loss experience, possible losses arising from specific problem loans and changes in the composition of the loan portfolio. While the Board of Directors of the Corporation believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in material adjustments, and net earnings could be significantly adversely affected if circumstances differ substantially from the assumptions used in making the final determination.

Loans not secured by one-to-four family residential real estate are generally considered to involve greater risk of loss than loans secured by one- to four-family residential real estate due, in part, to the effects of general economic conditions. The repayment of multifamily residential, nonresidential real estate and commercial loans generally depends upon the cash flow from the operation of the property or business, which may be negatively affected by national and local economic conditions. Construction loans may also be negatively affected by such economic conditions, particularly loans made to developers who do not have a buyer for a property before the loan is made. The risk of default on consumer loans increases during periods of recession, high unemployment and other adverse economic conditions. When consumers have trouble paying their bills, they are more likely to pay mortgage loans than consumer loans. In addition, the collateral securing such loans, if any, may decrease in value more rapidly than the outstanding balance of the loan.

## **Competition**

The Corporation competes for deposits with other savings associations, commercial banks and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. The primary factors in competing for deposits are interest rates and convenience of office location. In making loans, the Corporation competes with other commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors that are not readily predictable. The size of financial institutions competing with the Corporation are likely to increase as a result of changes in statutes and regulations eliminating various restrictions on interstate and inter-industry branching and acquisitions. Such increased competition may have an adverse effect upon the Corporation.

## **Legislation and Regulation that may Adversely Affect the Corporation's Earnings**

The Corporation is subject to extensive regulation by the State of Ohio, Division of Financial Institutions (the ODFI), the Federal Reserve Bank (the FED), and the Federal Deposit Insurance Corporation (the "FDIC") and is periodically examined by such regulatory agencies to test compliance with various regulatory requirements. As a bank holding company, the Corporation is also subject to regulation and examination by the FED. Such supervision and regulation of the Corporation and the bank are intended primarily for the protection of depositors and not for the maximization of shareholder value and may affect the ability of the company to engage in various business activities. The assessments, filing fees and other costs associated with reports, examinations and other regulatory matters are significant and may have an adverse effect on the Corporation's net earnings.



**Table of Contents**

Page

President's Letter

1

Market Price and Dividends on Common Stock

..

2

Five-Year Summary of Selected Financial Data

.

3

Management's Discussion and Analysis of

Financial Condition and Results of Operations

.

4

Report of Independent Registered Public Accounting Firm

.

15

Financial Statements

Consolidated Balance Sheets

.

16

Consolidated Statements of Income ...

17

Consolidated Statements of Shareholders' Equity .

18

Consolidated Statements of Cash Flows

19

Notes to Consolidated Financial Statements ...

21

Directors and Officers .

50

Employee Anniversaries .

52



Dear Shareholder:

Despite a year which presented many challenges to the banking industry, we are pleased to report that your Corporation had net income of \$4.6 million or \$1.30 per share for 2007. This was primarily accomplished through increasing loan balances and controlling non-interest expenses. As mentioned below, the Corporation opened two new facilities and is in the process of constructing another banking office.

In February, a new drive-up facility was opened in Columbus Grove. This new facility offers additional services including a drive-up ATM and night depository. In August, a new, full-service banking center was opened in Bowling Green. If you are in the area, please stop and view this facility.

During the month of August, the Ottawa office was destroyed as a result of widespread flooding. Consequently, a temporary mobile banking unit is being utilized to continue to serve our customers. The destroyed building has now been removed and we are in the process of constructing a new office to better serve our customers. Despite the unexpected costs associated with the Ottawa banking facility, the Corporation was able to control non-interest expenses with only a slight increase from 2006 to 2007 (\$16,000 or .1% increase).

This past year, the Corporation's loan balances increased from \$335.5 million at the end of 2006 to \$359.6 million at the end of 2007, a \$24.1 million or 7% increase, while continuing to focus on asset quality.

The Board of Directors recently approved another increase in the Corporation's quarterly dividend to shareholders. The approved \$0.15 per share quarterly dividend represents a 7% increase over the previous year's quarterly dividend.

We, the Board of Directors and management of your Corporation, appreciate the support we received during the past year. In this rapidly changing industry, we will endeavor to offer new and improved services to meet the needs of the customer, while controlling costs to remain competitive. It is our goal to work hard to continually improve your financial institution.

Respectfully,

/s/ DANIEL W. SCHUTT

Daniel W. Schutt

President & CEO



**UNITED BANCSHARES, INC.**

**DESCRIPTION OF THE CORPORATION**

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

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

**MARKET PRICE AND DIVIDENDS ON COMMON STOCK**

United Bancshares, Inc. has traded its common stock on the Nasdaq Markets Exchange under the symbol UBOH since March 2001. From January 2000 to March 2001, the Corporation's common stock was traded on the Nasdaq Over-The-Counter Bulletin Board. Prior to January 2000, there was no established public trading market for United Bancshares, Inc. common stock. As of January 31, 2008, the common stock was held by 1,526 shareholders of record. Below are the trading highs and lows for the periods noted.

**Year 2007**

**High**

**Low**

First Quarter

\$17.50

\$15.50

Second Quarter

16.50

14.37

Third Quarter

15.41

14.01

Fourth Quarter

15.00

12.40

**Year 2006**

**High**

**Low**

First Quarter

\$16.40

\$14.80

Second Quarter

17.30

15.52

Third Quarter

16.49

15.60

Fourth Quarter

17.41

15.61

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

2007

2006

First Quarter

\$ .14

\$ .13

Second Quarter

.14

.13

Third Quarter

.14

.13

Fourth Quarter

.14

.13

Total

\$ .56

\$ .52

**AVAILABILITY OF MORE INFORMATION**

Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-K

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

Bonita Selhorst, Secretary

United Bancshares, Inc.

100 S. High Street

Columbus Grove, Ohio 45830

419-659-2141



**UNITED BANCSHARES, INC.**

**FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA**

Years ended December 31.

2007

2006

2005

2004

2003

(Dollars in thousands, except per share data)

Statements of income:

Total interest income

\$ 34,849

\$ 32,790

\$ 30,058

\$ 26,985

\$ 24,765

Total interest expense

17,431

15,427

11,980

10,334

10,067

Net interest income

17,418

17,363

18,078

16,651

14,698

Provision for loan losses

625

340

612

577

450

Net interest income after  
provision for loan losses

16,793

17,023

17,466

16,074

14,248

Total non-interest income

2,965

3,157

2,611

3,023

4,083

Total non-interest expense

14,018

14,001

14,222

15,533

13,560

Income before federal income taxes

5,740

6,179

5,855

3,564

4,771

Federal income taxes

1,161

1,252

1,233

476

1,080

Net income

\$ 4,579

\$ 4,927

\$ 4,622

\$ 3,088

\$ 3,691

Per share of common stock:

Net income - basic

\$

1.30

\$

1.37

\$

1.26

\$

0.84

\$

1.01

Dividends

0.56

0.52

0.48

0.44

0.44

Book value

13.99

12.93

12.09

11.99

11.69

Average shares outstanding - basic

3,527,093

3,598,747

3,674,352

3,670,981

3,644,642

Year end balances:

Loans (4)

\$

359,560

\$

335,549

\$

310,005

\$

306,591

\$

292,221

Securities (5)

142,607

172,778

187,791

217,841

174,559

Total assets

547,975

550,375

536,209

559,323

498,695

Deposits

393,203

377,430

356,921

369,767

388,300

Shareholders' equity

48,819

46,152

43,793

44,229

42,710

Average balances:

Loans (4)

\$

345,532

\$

323,802

\$

311,107

\$

297,732

\$

280,303

Securities (5)

155,773

180,572

200,903

195,444

161,522

Total assets

549,694

543,247

548,463

526,065

478,518

Deposits

386,572

361,670

365,142

378,485

366,336

Shareholders' equity

47,270

44,212

44,208

43,250

42,005

Selected ratios:

Net yield on average interest-earning

assets

3.61%

3.63%

3.67%

3.59%

3.47%

Return on average assets

0.83%

0.91%

0.84%

0.59%

0.77%

Return on average shareholders equity

9.69%

11.14%

10.46%

7.14%

8.79%

Net loan charge-offs as a percentage

of average outstanding net loans

0.19%

0.19%

0.24%

0.20%



0.17%

Allowance for loan losses

as a percentage of year end loans

0.62%

0.68%

0.82%

0.90%

0.95%

Shareholders' equity as a percentage of

total assets

8.91%

8.39%

8.17%

7.91%

8.56%

Notes:

1)

Amounts for 2003 include RFCBC branch acquisitions, since their acquisition on March 28, 2003.

2)

Net yield on average interest-earning assets was computed on a tax-equivalent basis.

3)

Non-interest expense in 2004 includes a payment to the Company's former CEO and a provision related to the Company's stock option accounting. These two items reduced net income \$825,000 (\$0.23 per share).

4)

Includes loans held for sale.

5)

Includes Federal Home Loan Bank Stock.

3

---

**UNITED BANCSHARES, INC.**

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

The following discussion provides additional information relating to the financial condition and results of operations of United Bancshares, Inc.

**EARNINGS SUMMARY**

Consolidated net income for United Bancshares, Inc. (the Corporation) and its wholly-owned subsidiary, The Union Bank Company (the Bank) for 2007 was \$4.6 million compared to \$4.9 million in 2006 and \$4.6 million in 2005. Basic net income per share was \$1.30 in 2007, a decrease of \$.07 per share (5.1%) from \$1.37 in 2006. Basic net income per share was \$1.37 in 2006, an increase of \$.11 per share (8.7%) from \$1.26 in 2005.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

2007 Compared With 2006

Net interest income for 2007 was \$17,418,000, an increase of \$55,000 (0.3%) from 2006. Net interest income remained steady primarily due to the Corporation's ability to maintain net interest margin. The average yield on loans for 2007 increased to 7.89% compared to 7.55% in 2006, while the average rate on interest-bearing liabilities increased to 3.77% in 2007 from 3.34% in 2006. The net effect of these and other factors resulted in the net interest yield on average interest-earning assets, on a tax-equivalent basis, decreasing slightly in 2007 to 3.61% from 3.63% in 2006.

At December 31, 2007, total loans (including loans held for sale) amounted to \$359.6 million compared to \$335.5 million at December 31, 2006, an increase of \$24.1 million (7.2%). Loans held for sale decreased to \$350,000 at December 31, 2007 from \$426,000 at December 31, 2006. Within the loan portfolio, residential real estate loans increased \$5.8 million (5.6%), commercial loans increased \$16.4 million (11.7%), agriculture loans increased \$7.4 million (12.5%) and consumer loans decreased \$4.0 million (13.3%) during 2007. During 2007, the Bank originated \$5.3 million of consumer loans under the indirect automobile loan programs compared to \$10.9 million in 2006. Also during 2007, the Bank sold its credit card portfolio, which amounted to \$1,527,000 at December 31, 2006, and the sale resulted in gain of \$355,000.

The Corporation, through its bank subsidiary, elects to sell in the secondary market a substantial portion of the fixed rate residential real estate loans originated, and typically retains the servicing rights relating to such loans. During 2007, net gain on sale of loans was \$330,000, including \$153,000 of capitalized servicing rights. The net gain on sale of loans was \$335,000 in 2006, including \$207,000 of capitalized servicing rights.

Securities, including Federal Home Loan Bank of Cincinnati (FHLB) stock, totaled \$142.6 million at December 31, 2007, representing a decrease of \$30.2 million (17.5%) from total securities of \$172.8 million at December 31, 2006.

As part of its overall asset/liability management strategy, the Bank permitted the securities portfolio to shrink throughout the year as proceeds from the sale or maturity of securities were generally used to fund loan growth or repay long-term debt. Consequently, securities purchases were only \$2.0 million in 2007 compared to \$10.7 million in 2006. As part of the overall asset/liability management strategy, in 2007 the

Bank approved management's plan to restructure the balance sheet which included the sale of \$15.3 million in securities. While the sale of securities resulted in a loss of \$226,000, the Bank used proceeds from the sale to pay down other borrowings.

The Bank is required to maintain a certain level of FHLB stock based on outstanding borrowings from the FHLB. Management monitors the earnings performance and liquidity of the investment portfolio on a regular basis through Asset/Liability Committee (ALCO) meetings.

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 income taxes. At December 31, 2007, net unrealized losses on available-for-sale securities, net of income taxes, amounted to \$576,000. At December 31, 2007, the Bank held 83 securities which were in a loss position with the fair value and gross unrealized losses of such securities amounting to \$80.0 million and \$1.3 million, respectively. Management has considered the current interest rate environment, typical volatilities in the bond market, and the Bank's liquidity needs in the near term in concluding that the impairment on such securities is temporary. FHLB stock is considered a restricted security which is carried at cost and evaluated periodically for impairment.

Total deposits at December 31, 2007 amounted to \$393.2 million, an increase of \$15.8 million (4.2%) compared with total deposits of \$377.4 million at December 31, 2006. Of this increase, \$3.4 million (8.9%) was related to non-interest bearing deposits.

Other borrowings, consisting of FHLB advances, securities sold under agreements to repurchase, and customer repurchase agreements, amount to \$91.9 million at December 31, 2007 compared to \$113.7 million at December 31, 2006, a decrease of \$21.8 million (19.1%). The Bank utilizes other borrowings as an alternative source of funding to support asset growth and occasional deposit shrinkage as necessary.

The allowance for loan losses at December 31, 2007 was \$2.2 million (0.62% of total loans) compared to \$2.3 million (0.68% of total loans) at December 31, 2006. The change in the allowance for loan losses during 2007 included provision for loan losses charged to operations, and loan charge-offs, net of recoveries.

The provision for loan losses charged to operations is determined by management after considering the amount of net losses incurred as well as management's estimation of losses inherent in the portfolio based on an evaluation of loan portfolio risk and current economic factors. The provision for loan losses was \$625,000 in 2007 compared to \$340,000 in 2006. The increase in the provision for loan losses in 2007 was largely due to an increase in total loans as well as an increase in the level of impaired loans from the beginning of 2007 to the end of 2007. Impaired loans and the amount of allowance for loan losses allocated to such loans amounted to \$3.2 million and \$367,000, respectively, at December 31, 2007, compared to \$2.4 million and \$286,000, respectively, at December 31, 2006.

Total non-interest income decreased \$193,000 to \$3.0 million in 2007 from \$3.2 million in 2006. Significant recurring components of non-interest income include service charges on deposit accounts, gains from the sale of loans, and other income, which includes increases in the cash surrender value of life insurance. Service charges on deposit accounts increased \$138,000 (10.4%) to \$1,472,000 in 2007 compared to \$1,334,000 in 2006 largely due to an increase in 2007 from non-sufficient funds and overdraft fees of \$151,000 (12.9%) to \$1.3 million in 2007 compared to \$1.2 million in 2006.

As previously mentioned, the Bank sells substantially all qualifying fixed rate residential mortgage loans it originates. The net gain on sale of residential real estate loans decreased \$5,000 to \$330,000 in 2007 from \$335,000 in 2006 due to decreased loan origination volume. During 2007, the Bank sold \$14.8 million of residential real estate loans compared to \$20.8 million in 2006. The lower loan sales activity in 2007 resulted from a slower housing market and steady interest rates during 2007 resulting in less refinancing and mortgage loan origination activity.

In addition to the aforementioned sale of the credit card portfolio and securities sales, the Corporation also recognized a \$364,000 change (decrease) in the fair value of mortgage servicing rights during 2007. The Bank elected to record its mortgage servicing rights using the fair value measurement method effective January 1, 2007, as more fully described in Note 2 to the consolidated financial statements. As a result, the Corporation recognized a mark-to-market value adjustment of \$786,954 effective January 1, 2007, representing the difference between fair market value and amortized cost, adjusted for impairment valuation, as of that date. Due to various factors in the secondary mortgage and national real estate markets, the fair value of the servicing rights declined during 2007. Income from the change in the cash surrender value of life insurance decreased \$22,000 to \$448,000 in 2007 from \$470,000 in 2006.

Total non-interest expenses increased \$16,000 (0.1%) to \$14,017,000 in 2007. Salaries, wages and benefits, increased \$127,000 (1.8%) to \$7,241,000 in 2007 from \$7,114,000 in 2006. Occupancy expenses, including costs relating to the operation and maintenance of buildings, furnishings, and equipment, increased \$68,000 (4.7%) to \$1,508,000 in 2007 from \$1,440,000 in 2006.

Other operating expenses decreased \$179,000 (3.3%) to \$5,268,000 in 2007 compared to \$5,447,000 in 2006. The significant components of other operating expenses are summarized in Note 12 to the consolidated financial statements. Data processing costs decreased \$74,000 (7.6%) to \$896,000 in 2007 from \$970,000 in 2006. Advertising costs decreased \$60,000 (13.5%) to \$382,000 in 2007 compared to \$441,000 in 2006.

The provision for income taxes for 2007 was \$1,161,000 (effective rate of 20.2%) compared to \$1,252,000 (effective rate of 20.3%) in 2006. This decrease resulted from a \$438,000 decrease in income before taxes.

#### 2006 Compared With 2005

Net interest income for 2006 was \$17.4 million, a decrease of \$715,000 (3.9%) from 2005. The decrease was primarily due to an overall decrease in the Corporation's net interest margin. The average yield on loans for 2006 increased to 7.55% compared to 6.78% for 2005, while the average rate paid on interest-bearing liabilities increased to 3.34% in 2006 from 2.56% in 2005. The net effect of these and other factors resulted in the net interest yield on average interest-earning assets, on a tax-equivalent basis, decreasing to 3.63% in 2006 from 3.67% in 2005.

At December 31, 2006, total loans (including loans held for sale) amounted to \$335.5 million compared to \$310.0 million at December 31, 2005, an increase of \$25.5 million (8.2%). Loans held for sale decreased to \$426,000 at December 31, 2006 from \$440,000 at December 31, 2005. Within the loan portfolio, residential real estate loans decreased \$3.2 million (3.0%), commercial loans increased \$17.4 million (14.2%), agricultural loans increased \$8.5 million (16.8%) and consumer loans increased \$2.8 million (10.4%) during 2006. During 2006, the Bank originated \$10.9 million of consumer loans under indirect automobile loan programs.



During 2006, net gain on sale of loans was \$335,000, including \$207,000 of capitalized servicing rights. The net gain on sale of loans was \$356,000 in 2005, including \$209,000 of capitalized servicing rights.

Securities, including Federal Home Loan Bank of Cincinnati (FHLB) stock, totaled \$172.8 million at December 31, 2006, representing a decrease of \$15.0 million (8.0%) from total securities of \$187.8 million at December 31, 2005.

As part of its overall asset/liability management strategy, the Bank permitted the securities portfolio to shrink throughout the year as proceeds from the sale or maturity of securities were generally used to fund loan growth or repay long-term debt. Consequently, securities purchases were only \$10.7 million in 2006 compared to \$40.7 million in 2005.

At December 31, 2006, net unrealized losses on available-for-sale securities, net of income taxes, amounted to \$1.4 million.

Total deposits at December 31, 2006 amounted to \$377.4 million, an increase of \$20.5 million (5.7%) compared with total deposits of \$356.9 million at December 31, 2005. Of this increase \$3.3 million (9.6%) was related to non-interest bearing deposits.

Other borrowings, consisting of FHLB advances, securities sold under agreements to repurchase, and customer repurchase agreements, amount to \$113.7 million at December 31, 2006 compared to \$120.7 million at December 31, 2005, a decrease of \$7.0 million (5.8%).

The allowance for loan losses at December 31, 2006 was \$2.3 million (0.68% of total loans) compared to \$2.5 million (0.82% of total loans) at December 31, 2005. The change in the allowance for loan losses during 2006 included provision for loan losses charged to operations, and loan charge-offs, net of recoveries.

The provision for loan losses was \$340,000 in 2006 compared to \$612,000 in 2005. The decrease in the provision for loan losses in 2006 was largely due to net loan charge-offs decreasing in 2006 to \$605,000, compared to \$758,000 in 2005. In addition, the provision for loan losses decreased during 2006 based on management's analysis of potential loan losses.

Total non-interest income increased \$546,000 to \$3.2 million in 2006 from \$2.6 million in 2005. Service charges on deposit accounts increased \$177,000 (15.3%) to \$1,334,000 in 2006 compared to \$1,157,000 in 2005 largely due to an increase in 2006 from non-sufficient funds and overdraft fees of \$184,000 (18.8%) to \$1.2 million in 2006 compared to \$1.0 million in 2005. Income from the change in cash surrender value of life insurance increased \$211,000 (81.7%) to \$470,000 in 2006 compared to \$259,000 in 2005.

The net gain on sale of residential real estate loans decreased \$21,000 to \$335,000 in 2006 from \$356,000 in 2005 due to decreased loan origination volume. During 2006, the Bank sold \$20.8 million of residential real estate loans compared to \$22.7 million in 2005. The lower loan sales activity in 2006 resulted from rising interest rates during the first six months of 2006 resulting in less refinancing and mortgage loan origination activity. Net securities losses amounted to \$4,000 in 2006, a \$10,000 decrease from net securities gains in 2005 of \$6,000.

Total non-interest expenses decreased \$220,000 (1.5%) to \$14.0 million in 2006 from \$14.2 million in 2005. Salaries, wages and employee benefits increased \$44,000 (0.6%) to \$7,114,000 in 2006 from \$7,070,000 in 2005. Occupancy expenses, including costs relating to the operation and maintenance of buildings, furnishings, and equipment, increased \$141,000 (10.8%) to \$1.4 million in 2006 from \$1.3 million in 2005.

Other operating expenses decreased \$404,000 (6.9%) to \$5.4 million in 2006 compared to \$5.9 million in 2005. The significant components of other operating expenses are summarized in Note 12 to the consolidated financial statements. Data processing costs decreased \$13,000 (1.3%) to \$970,000 in 2006 from \$983,000 in 2005. Advertising costs decreased \$69,000 (13.5%) to \$441,000 in 2006 compared to \$510,000 in 2005.

The provision for income taxes for 2006 was \$1,252,000 (effective rate of 20.3%) compared to \$1,233,000 (effective rate of 21.1%) in 2005. This increase resulted from a \$324,000 increase in income before taxes.

## **LIQUIDITY**

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

Another source of liquidity is represented by loans held for sale. Certain other loans within the Bank's loan portfolio are also available to collateralize borrowings.

The consolidated statements of cash flows for the years presented provide an indication of the Corporation's sources and uses of cash as well as an indication of the ability of the Corporation to maintain an adequate level of liquidity. A discussion of cash flows for 2007, 2006, and 2005 follows.

The Corporation generated cash from operating activities of \$7.1 million in 2007, \$5.4 million in 2006, and \$7.1 million in 2005.

Net cash flows provided by (used in) investing activities amounted to \$4.9 million in 2007, \$(13.8) million in 2006, and \$15.7 million in 2005. Generation of cash flows from investing activities in 2007 included \$31.1 million in proceeds from the sales or maturities of available-for-sale securities, net of related purchases, offset by \$26.3 million of investing cash outflows related to the loan portfolio. Cash flows used for investing activities in 2006 included \$26.3 million of loan portfolio growth offset by \$13.5 million in proceeds from the sales or maturities of available-for-sale securities, net of related purchases. Generation of cash flows from investing activities in 2005 was

largely due to \$28.8 million of proceeds from the sales or maturities of available-for-sale securities, net of related purchases. Conversely, investing cash flows were reduced as a result of the Bank's \$8,000,000 purchase of split-dollar life insurance policies and \$5.0 million as a result of net loan growth. Net proceeds from securities were used principally to reduce long-term debt.

Net cash flows provided by (used in) financing activities amounted to \$(9.2) million in 2007, \$10.6 million in 2006, and \$(27.2) million in 2005. The use of cash flow for financing activities in 2007 primarily resulted from a \$21.8 million net reduction in other borrowings, \$1.3 million for the purchase of 86,500 shares of stock under the Corporation's stock buyback program described in Note 19 to the consolidated financial statements, and the payment of \$2.0 million (\$.56 per share) of cash dividends, offset by customer deposit growth of \$15.8 million. The net cash provided by financing activities in 2006 primarily resulted from customer deposit growth of \$20.8 million offset by \$7.2 million of principal payments on long-term debt, net of borrowings, \$1.1 million for the purchase of 71,177 shares of stock under the Corporation's stock buyback program, and the payment of \$1.9 million (\$.52 per share) of cash dividends. The use of cash flow for financing activities in 2005 primarily resulted from customer deposit shrinkage of \$12.5 million and \$11.3 million of principal payments on long-term debt, net of borrowings, \$1.4 million for the purchase of 89,381 shares of stock under the Corporation's stock buyback program, and the payment of \$1.8 million (\$.48 per share) of cash dividends.

## **ASSET LIABILITY MANAGEMENT**

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

The difference between a financial institution's interest rate sensitive assets (assets that will mature or reprice within a specific time period) and interest rate sensitive liabilities (liabilities that will mature or reprice within the same time period) is commonly referred to as its interest rate sensitivity gap or, simply, its gap. An institution having more interest rate sensitive assets than interest rate sensitive liabilities within a given time interval is said to have a positive gap. This generally means that when interest rates increase, an institution's net interest income will increase and when interest rates decrease, the institution's net interest income will decrease. An institution having more interest rate sensitive liabilities than interest rate sensitive assets within a given time interval is said to have a negative gap. This generally means that when interest rates increase, the institution's net interest income will decrease and when interest rates decrease, the institution's net interest income will increase. The Corporation's one year cumulative gap at December 31, 2007 is approximately 83% which means the Bank has more liabilities repricing than it does assets within one year.

## **EFFECTS OF INFLATION**

The assets and liabilities of the Corporation are primarily monetary in nature and are more directly affected by fluctuations in interest rates than inflation. Movement in interest rates is a result of the perceived changes in inflation as well as monetary and fiscal policies. Interest rates and inflation do not necessarily move with the same velocity or within the same period; therefore, a direct relationship to the inflation rate cannot be shown. The financial

information presented in the Corporation's consolidated financial statements has been presented in accordance with generally accepted accounting principles, which require that the Corporation measure financial position and operating results primarily in terms of historical dollars.

## **SIGNIFICANT ACCOUNTING POLICIES**

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

The Corporation's most significant accounting policies are presented in the Summary of Significant Accounting Policies. These policies, along with other disclosures presented in the Notes to Consolidated Financial Statements and in Management's Discussion and Analysis, provide information about how significant assets and liabilities are valued in the financial statements and how those values are determined. Management has identified the determination of the allowance for loan losses and the valuation of servicing assets as the areas that require the most subjective and complex estimates, assumptions and judgments and, as such, could be the most subjective to revision as new information becomes available. The Bank utilizes an outside consultant to provide a valuation of Mortgage Servicing Rights on a quarterly basis. Management reviews the valuation, including assumptions used in making the valuation and discusses with the outside consultant. The valuation of the goodwill acquired in 2003 as a result of the RFCBC branch acquisitions is another accounting area that requires estimates, assumptions and judgments. Annually, Management performs an impairment analysis on Goodwill.

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

Servicing assets are recognized as separate assets when rights are acquired through sale of mortgage loans. Effective January 1, 2007, capitalized servicing rights are carried at fair value. Under the fair value measurement method, servicing assets are measured at fair value at each reporting date and changes in fair value are reported in net income for the period the change occurs. The Bank generally estimates fair value for servicing rights based on the present value of future expected cash flows, using management's best estimates of the key assumptions—credit losses, prepayment speeds, servicing costs, and discount rates commensurate with the risks involved.

## **IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

The Corporation is still evaluating what impact, if any, the recent accounting pronouncements will have on the Corporation's consolidated financial statements as more fully described in Note 23 of the consolidated financial statements.



## OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND CONTINGENT LIABILITIES AND COMMITMENTS

The following table summarizes loan commitments, including letters of credit, as of December 31, 2007:

<b>Type of commitment</b>	<b><u>Amount of commitment to expire per period</u></b>				
	<b>Total</b>	<b>Less than</b>	<b>1-3</b>	<b>4-5</b>	<b>Over</b>
	<b><u>Amount</u></b>	<b><u>1 year</u></b>	<b><u>years</u></b>	<b><u>years</u></b>	<b><u>5 years</u></b>
	<b>(Dollars in thousands)</b>				
Commercial lines-of-credit	\$36,479	\$32,410	\$3,896	\$ 92	\$ 81
Real estate lines-of-credit	41,218	4,677	3,584	6,985	25,972
Consumer lines-of-credit	37	37	-	-	-
Guarantees	—	—	—	—	—
	\$77,734	\$37,124	\$7,480	\$7,077	\$26,053
<b>Total commitments</b>	=====	=====	=====	=====	=====

As indicated in the preceding table, the Corporation had \$77.7 million in total loan commitments at December 31, 2007, with \$37.1 million of that amount expiring within one year. All lines-of-credit represent either fee-paid or legally binding loan commitments for the loan categories noted. Letters-of-credit are also included in the amounts noted in the table since the Corporation requires that each letter-of-credit be supported by a loan agreement. The commercial and consumer lines represent both unsecured and secured obligations. The real estate lines are secured by mortgages in residential and nonresidential property. Many of the commercial lines are due on a demand basis, and are established for seasonal operating purposes. It is anticipated that a significant portion of these lines will expire without being drawn upon.

The following table summarizes the Corporation's contractual obligations as of December 31, 2007:

### **Payments due by period**

**Total      Less than**

1 3

4 5

Over

Amount      1 year

years

years

5 years

(Dollars in thousands)

**Contractual obligations**

Long-term debt

\$

99,648

\$

45,714

\$

20,945

\$

5,078

\$

27,911

Capital leases

-

-

-

-

-

Operating leases

-  
-  
-  
-  
-

Unconditional purchase  
obligations

425

425

-  
-  
-

Other long-term liabilities

reflected under GAAP

338

10

24

30

274

**Total obligations**

\$

100,411

\$

46,149

\$

20,969

\$

5,108

\$

28,185

=====

=====

=====

=====

=====

Long-term debt presented in the preceding table is comprised of \$67.3 million in borrowings from the FHLB, \$22.0 million in securities sold under agreements to repurchase and \$10.3 million from the issuance of junior subordinated deferrable interest debentures (see Notes 10 and 11 of the consolidated financial statements).

FHLB borrowings include notes that require payment of interest on a monthly basis, with principal on most issues due at maturity. The remaining FHLB issues require monthly principal payments as disclosed in Note 10 to the consolidated financial statements. FHLB borrowings include \$45.8 million in advances with fixed interest rates and \$21.5 million in advances with variable interest rates. While the variable rate obligations may be prepaid without penalty, certain of the fixed rate obligations have variable options, that stipulate a prepayment penalty if the note's interest rate exceeds the current market rate for similar borrowings at the time of repayment. As a note matures, the Bank evaluates the liquidity and interest-rate circumstances at that point in time to determine whether to pay-off or renew the note. The evaluation process typically includes the strength of current and projected customer loan demand, the current federal funds sold or purchased position, projected cash flows from maturing securities, the current and projected market interest rate environment, local and national economic conditions, and customer demand for deposit product offerings. Fixed rate advances include \$22.5 million in advances that can be put back at the option of the FHLB.

The unconditional purchase obligation results from the Bank entering into an agreement to purchase a property in Lima, Ohio which is expected to be the site of a new branch office.

The other long-term liabilities reflected under GAAP, as noted in the preceding table, represents the Bank's agreement with its current Chairman of the Board of Directors to provide for retirement compensation benefits as more fully described in Note 15 of the consolidated financial statements. At December 31, 2007, the net present value of future deferred compensation payments amounted to \$338,000. Such amount is included in other liabilities in the December 31, 2007 consolidated balance sheet.

As indicated in the table, the Corporation had no capital lease obligations as of December 31, 2007. The Corporation has certain operating lease obligations, including photocopying equipment and an office space lease, which are considered immaterial and not included in the preceding table. The Bank also has a non-qualified deferred compensation plan covering certain directors and officers, and has provided an estimated liability of \$391,000 at December 31, 2007 for supplemental retirement benefits. Since substantially all participants under the plan are still active, it is not possible to determine the terms of the contractual obligations and, consequently, such liability is not included in the table.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The 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 applies these interest rate shocks to its financial instruments up and down 200 basis points.

The following table shows the Corporation's estimated earnings sensitivity profile as of December 31, 2007:

Change in Interest Rates (basis points)	Percentage Change in <u>Net Interest Income</u>	Percentage Change in <u>Net Income</u>
+200	-1.6%	-4.3%
-200	-3.9%	-10.6%

Given a linear 200bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 1.6% and net income would decrease by 4.3%. A 200bp decrease in interest rates would decrease net interest income by 3.9% and decrease net income by 10.6%. Management does not expect any significant adverse effect to net interest income in 2008 based on the composition of the portfolio and anticipated trends in rates.

## FORWARD-LOOKING STATEMENTS

This report includes certain forward-looking statements by the Corporation relating to such matters as anticipated operating results, prospects for new lines of business, technological developments, economic trends (including interest rates), and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements, and the purpose of this paragraph is to secure the use of the safe harbor provisions. While the Corporation believes that the assumptions underlying the forward looking statements contained herein and in other public documents are reasonable, any of the assumptions could prove to be inaccurate, and accordingly, actual results and experience could differ materially from the anticipated results or other expectations expressed by the Corporation in its forward-looking statements. Factors that could cause actual results or experience to differ from results discussed in the forward-looking statements include, but are not limited to: economic conditions, volatility and direction of market interest rates, governmental legislation and regulation, material unforeseen changes in the financial condition or results of operations of the Corporation's customers, customer reaction to and unforeseen complications with respect to the integration of acquisition, product design initiative, and other risks identified, from

time-to-time in the Corporation's other public documents on file with the Securities and Exchange Commission.



## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors

United Bancshares, Inc.

Columbus Grove, Ohio

We have audited the accompanying consolidated balance sheets of United Bancshares, Inc. and its subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Bancshares, Inc. and its subsidiary as of December 31, 2007 and 2006, and the results of

their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ CLIFTON GUNDERSON LLP

Toledo, Ohio

March 11, 2008

14

---

**UNITED BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2007 and 2006**

**ASSETS**

**2007**

**2006**

**CASH AND CASH EQUIVALENTS**

Cash and due from banks

\$ 11,627,842

\$ 10,090,992

Interest-bearing deposits in other banks

3,290,372

1,419,207

Federal funds sold

161,000

800,420

Total cash and cash equivalents

15,079,214

12,310,619

**SECURITIES, available-for-sale**

137,904,385

168,074,718

**FEDERAL HOME LOAN BANK STOCK, at cost**

4,703,100

4,703,100

**LOANS HELD FOR SALE**

350,353

426,041

**LOANS**

359,209,925

335,123,431

Less allowance for loan losses

2,232,708

2,275,486

Net loans

356,977,217

332,847,945

**PREMISES AND EQUIPMENT, net**

7,902,911

6,675,668

**GOODWILL**

7,282,013

7,282,013

**OTHER INTANGIBLE ASSETS, net**

571,535

825,514

**CASH SURRENDER VALUE OF LIFE INSURANCE**

11,396,781

10,949,090

**OTHER ASSETS**, including accrued interest receivable

5,807,281

6,280,428

**TOTAL ASSETS**

\$ 547,974,790

\$ 550,375,136

=====

=====

**LIABILITIES AND SHAREHOLDERS EQUITY**

**LIABILITIES**

Deposits:

Non-interest bearing

\$ 41,333,497

\$ 37,955,148

Interest-bearing

351,869,746

339,474,725

Total deposits

393,203,243

377,429,873

Other borrowings

91,887,907

113,651,039

Junior subordinated deferrable interest debentures

10,300,000

10,300,000

Other liabilities

3,765,056

2,841,736

Total liabilities

499,156,206

504,222,648

**SHAREHOLDERS EQUITY**

Common stock, stated value \$1. Authorized 10,000,000

shares; issued 3,760,557 shares

3,760,557

3,760,557

Surplus

14,659,661

14,659,661

Retained earnings

35,187,304

32,072,536

Accumulated other comprehensive loss

(576,065)

(1,352,031)

Treasury stock, at cost, 271,152 shares in 2007

and 192,508 shares in 2006

(4,212,873)

(2,988,235)

Total shareholders' equity

48,818,584

46,152,488

**TOTAL LIABILITIES AND**

**SHAREHOLDERS' EQUITY**

\$ 547,974,790

\$550,375,136

=====

=====

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

**UNITED BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF INCOME****Years Ended December 31, 2007, 2006 and 2005**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>INTEREST INCOME</b>			
Loans, including fees	\$27,244,143	\$24,454,275	\$21,087,737
Securities:			
Taxable	5,383,263	6,371,083	7,264,131
Tax-exempt	1,848,089	1,890,500	1,590,872
Other	<u>373,249</u>	<u>73,862</u>	<u>115,252</u>
Total interest income	34,848,744	32,789,720	30,057,992
<b>INTEREST EXPENSE</b>			
Deposits	12,002,116	9,191,978	6,359,259
Borrowings	<u>5,428,500</u>	<u>6,234,505</u>	<u>5,620,976</u>
Total interest expense	<u>17,430,616</u>	<u>15,426,483</u>	<u>11,980,235</u>
Net interest income	17,418,128	17,363,237	18,077,757
	<u>625,000</u>	<u>340,000</u>	<u>612,075</u>
<b>PROVISION FOR LOAN LOSSES</b>			
Net interest income after provision for loan losses	<u>16,793,128</u>	<u>17,023,237</u>	<u>17,465,682</u>
<b>NON-INTEREST INCOME</b>			
Service charges on deposit accounts	1,471,797	1,333,666	1,156,613
Gain on sale of loans	329,584	334,707	355,702
Gain from sale of credit card portfolio	355,366	-	-
Net securities gains (losses)	(226,416)	(4,180)	6,180
Change in fair value of mortgage servicing rights	(363,943)	-	-
Other operating income	<u>1,398,295</u>	<u>1,493,138</u>	<u>1,092,450</u>
Total non-interest income	<u>2,964,683</u>	<u>3,157,331</u>	<u>2,610,945</u>



**NON-INTEREST EXPENSES**

Salaries, wages and employee benefits	7,241,102	7,113,970	7,070,459
Occupancy expenses	1,508,337	1,440,626	1,300,039
Other operating expenses	<u>5,267,994</u>	<u>5,447,167</u>	<u>5,851,247</u>
Total non-interest expenses	<u>14,017,433</u>	<u>14,001,763</u>	<u>14,221,745</u>
Income before income taxes	5,740,378	6,178,805	5,854,882
	<u>1,161,000</u>	<u>1,252,000</u>	<u>1,232,700</u>

**PROVISION FOR INCOME TAXES**

<b>NET INCOME</b>	\$ 4,579,378	\$4,926,805	\$4,622,182
	=====	=====	=====

**NET INCOME PER SHARE**

Basic	\$1.30	\$1.37	\$1.26
Diluted	\$1.30	\$1.37	\$1.25

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

**UNITED BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**Years Ended December 31, 2007, 2006 and 2005**

	<b>Common</b>	<b>Accumulated</b>	<b>Retained</b>	<b>other compre-</b>	<b>Treasury</b>	<b>Total</b>
	<b><u>Stock</u></b>	<b><u>Surplus</u></b>	<b><u>earnings</u></b>	<b><u>hensive income</u></b>	<b><u>stock</u></b>	<b><u>Total</u></b>
				<b><u>(loss)</u></b>		
<b>BALANCE AT</b>						
<b>DECEMBER 31, 2004</b>	\$3,760,557	\$14,598,030	\$26,166,782	\$ 713,857	\$(1,010,039)	\$44,229,187
Comprehensive Income:						
Net income			4,622,182			4,622,182
Changes in net unrealized gain (loss), net of reclassification adjustments and income taxes	-	-	-	(2,235,505)	-	<u>(2,235,505)</u>
Total comprehensive income						<u>2,386,677</u>
Exercise of stock options - 12,040 treasury shares	-	53,200	-	-	169,901	223,101
Sale of 9,809 treasury shares	-	366	(1,961)	-	138,419	136,824
Purchase of 89,381 shares	-	-	-	-	(1,423,184)	(1,423,184)
Cash dividends declared, \$.48 per share	<u>-</u>	<u>-</u>	<u>(1,760,092)</u>	<u>-</u>	<u>-</u>	<u>(1,760,092)</u>
<b>BALANCE AT</b>	<u>3,760,557</u>	<u>14,651,596</u>	<u>29,026,911</u>	<u>(1,521,648)</u>	<u>(2,124,903)</u>	<u>43,792,513</u>

**DECEMBER 31,  
2005**Comprehensive  
income:

Net income	-	-	4,926,805	-	-	4,926,805
Change in net unrealized loss, net of reclassification adjustments and income taxes	-	-	-	169,617	-	<u>169,617</u>
Total comprehensive income						<u>5,096,422</u>
Exercise of stock options - 9,802 treasury shares	-	8,065	-	-	150,559	158,624
Sale of 7,975 treasury shares	-	-	(12,045)	-	122,053	110,008
Purchase of 71,177 shares	-	-	-	-	(1,135,944)	(1,135,944)
Cash dividends declared, \$.52 per share	<u>-</u>	<u>-</u>	<u>(1,869,135)</u>	<u>-</u>	<u>-</u>	<u>(1,869,135)</u>

**BALANCE AT  
DECEMBER 31,  
2006**

	3,760,557	14,659,661	32,072,536	(1,352,031)	(2,988,235)	46,152,488
Cumulative effect of change in accounting principle, net of income taxes	-	-	519,152	-	-	519,152
Comprehensive income:						
Net income	-	-	4,579,378	-	-	4,579,378
Change in net unrealized loss, net of reclassification adjustments and income taxes	-	-	-	775,966	-	<u>775,966</u>
Total comprehensive income						<u>5,355,344</u>
Sale of 7,856 treasury shares	-	-	(14,355)	-	122,512	<u>108,157</u>
Purchase of 86,500 shares	-	-	-	-	(1,347,150)	<u>(1,347,150)</u>
Cash dividends declared, \$0.56 per	<u>-</u>	<u>-</u>	<u>(1,969,407)</u>	<u>-</u>	<u>-</u>	<u>(1,969,407)</u>

share

<b>BALANCE AT</b>						
<b>DECEMBER 31,</b>	\$3,760,667	\$14,659,661	\$35,187,304	\$ (576,065)	\$ (4,212,873)	\$48,818,584
<b>2007</b>	=====	=====	=====	=====	=====	=====

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

**UNITED BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2007, 2006 and 2005**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$4,579,378	\$4,926,805	\$4,622,182
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,242,859	1,098,767	1,307,745
provision (credit) for accrued compensation - stock options	(42,141)	13,858	(29,031)
Deferred income taxes	(202,482)	221,922	258,624
Provision for loan losses	625,000	340,000	612,075
Gain on sale of loans	(329,584)	(334,707)	(355,702)
Gain from sale of credit card cash portfolio	(355,366)	-	-
Net securities losses (gains)	226,416	4,180	(6,180)
Change in fair value of mortgage servicing rights	363,943	-	-
Federal Home Loan Bank stock dividends	-	(263,500)	(215,200)
Gain on sale of other real estate owned	(38,421)	-	-
Increase in cash surrender value of life insurance	(447,691)	(470,012)	(258,610)
Net amortization (accretion) of security premiums and discounts	(20,658)	23,643	46,784
Provision for deferred compensation	66,450	73,813	68,301
Loss on disposal of premises and equipment	70,512	1,076	22,602
Proceeds from sale of loans held-for-sale	14,845,905	20,790,433	22,700,760
Originations of loans held-for-sale	(14,593,279)	(20,648,310)	(22,192,928)
Decrease (increase) in other assets	549,280	(674,372)	(58,827)
Increase in other liabilities	<u>509,978</u>	<u>251,051</u>	<u>530,697</u>
Net cash provided by operating activities	<u>7,050,099</u>	<u>5,354,647</u>	<u>7,053,292</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Edgar Filing: UNITED BANCSHARES INC/OH - Form 10-K

Proceeds from sales of available-for-sale securities	15,303,741	3,665,673	26,643,772
Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities	17,791,602	20,546,021	42,900,177
Purchases of available-for-sale securities	(1,955,062)	(10,681,334)	(40,730,470)
Proceeds from sale of credit card portfolio	1,671,538	-	-
Net increase in loans	(26,280,256)	(26,338,386)	(4,976,876)
Purchase of bank owned life insurance	-	-	(8,000,000)
Proceeds from sale of premises and equipment	100,344	-	35,000
Proceeds from sale of other real estate owned	241,421	-	-
Purchases of premises and equipment	<u>(1,944,256)</u>	<u>(991,969)</u>	<u>(163,487)</u>
Net cash provided by (used in) investing activities	<u>4,929,072</u>	<u>(13,799,995)</u>	<u>15,708,116</u>

## UNITED BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in deposits	\$ 15,773,370	\$20,590,240	\$(12,521,304)
Other borrowings:			
Proceeds	22,500,000	35,000,000	15,000,000
Repayments	(46,593,130)	(42,246,027)	(26,270,639)
Change in customer repurchase agreements	2,329,998	209,672	-
Purchase of common stock	(1,347,150)	(1,135,944)	(1,423,184)
Proceeds from sale of treasury shares	108,157	110,008	136,824
Payments of deferred compensation	(12,414)	(17,215)	(380,594)
Cash dividends paid	<u>(1,969,407)</u>	<u>(1,869,135)</u>	<u>(1,760,092)</u>
Net cash provided by (used in) financing activities	<u>(9,210,576)</u>	<u>10,641,599</u>	<u>(27,218,989)</u>
<b>NET INCREASE (DECREASE) IN CASH AND</b>			
<b>CASH EQUIVALENTS</b>			
	2,768,595	2,196,251	(4,457,581)
<b>CASH AND CASH EQUIVALENTS</b>			
At beginning of year	<u>12,310,619</u>	<u>10,114,368</u>	<u>14,571,949</u>
At end of year	\$ 15,079,214	\$ 12,310,619	\$ 10,114,368
	=====	=====	=====
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>			
Cash paid during the year for:			
Interest	\$ 17,363,004	\$ 14,979,544	\$ 11,612,695
	=====	=====	=====
Federal income taxes	\$ 1,000,000	\$ 1,264,799	\$ 925,000

	=====	=====	=====
Non-cash operating activity:			
	\$ (399,740)	\$ (87,378)	\$ 1,151,624
Change in deferred income taxes on net unrealized gain or loss on available-for-sale securities	=====	=====	=====
Transfer of allowance for loan losses to other liabilities	\$ -	\$ -	\$ 70,780
	=====	=====	=====
Cumulative effect of change in accounting principle - adjust mortgage servicing rights to fair value (\$786,594), net of deferred income taxes (\$267,442)	\$ 519,152	\$ -	\$ -
	=====	=====	=====
Non-cash operating and investing activity:			
	\$ -	\$ -	\$ 1,975,350
Available-for-sale securities purchased but not settled until after year end	=====	=====	=====
Non-cash investing activities:			
Transfer of loans to foreclosed assets	\$ 148,000	\$ 50,000	\$ -
	=====	=====	=====
Change in net unrealized gain or loss on available-for-sale securities	\$ 1,175,706	\$ 256,995	\$ (3,387,129)
	=====	=====	=====
Non-cash financing activities:			
Treasury stock issued for accrued compensation - stock options	\$ -	\$ 158,624	\$ 223,101
	=====	=====	=====

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



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

United Bancshares, Inc. (the Corporation) was incorporated in 1985 in the state of Ohio as a single-bank holding company for The Union Bank Company (the Bank). The Corporation subsequently acquired the Bank of Leipsic Company (Leipsic) in 2000, and Citizens Bank of Delphos (Citizens) in 2001. The Bank acquired the Gibsonburg and Pemberville, Ohio branch offices of RFC Banking Company in 2003. Effective February 1, 2007, the Bank formed a wholly-owned subsidiary, UBC Investments, Inc. (UBC) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. The Corporation, through its wholly-owned subsidiary, the Bank, operates in one industry segment, the commercial banking industry.

The Bank, organized in 1904 as an Ohio-chartered bank, is headquartered in Columbus Grove, Ohio, with additional branch offices in Bowling Green, Delphos, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville, Ohio.

The primary source of revenue of the Bank is providing loans to customers primarily located in Northwestern and West Central Ohio. Such customers are predominately small and middle-market businesses and individuals.

Significant accounting policies followed by the Corporation are presented below.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The most significant estimates susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of servicing assets.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and Bank, including UBC. All significant intercompany balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold which mature overnight or within four days.

**Restrictions on Cash**

The Bank was required to maintain non-interest bearing cash on hand or on deposit with the Federal Reserve Bank in the amount of \$353,000 at December 31, 2007 and \$254,000 at December 31, 2006 to meet regulatory reserve and clearing requirements.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Securities and Federal Home Loan Bank Stock**

Securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses, net of applicable income taxes, excluded from income and reported as accumulated other comprehensive income (loss).

The cost of available-for-sale debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of securities below their cost that are deemed to be other than temporary are reflected in income as realized losses. Gains and losses on the sale of securities are recorded on the trade date, using the specific identification method, and are included in non-interest income.

Investment in Federal Home Loan Bank of Cincinnati stock is classified as a restricted security, carried at cost, and evaluated for impairment.

**Loans Held for Sale**

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined based on quoted market prices in the secondary market. Any net unrealized losses are recognized through a valuation allowance by charges to income. Such valuation allowance amounted to \$7,354 at December 31, 2007 and \$13,623 at December 31, 2006.

Mortgage loans held for sale are sold with mortgage servicing rights retained or released by the Bank. The carrying value of mortgage loans sold with servicing rights retained is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

**Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are stated at their outstanding principal amount adjusted for charge-offs and the allowance for loan losses. Interest is accrued as earned based upon the daily outstanding principal balance. Loan origination fees and certain direct obligation costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest on mortgage and commercial loans is generally discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than 150 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. Interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to impaired loans when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers classified loans (doubtful, substandard or special mention) without specific reserves, as well as non-classified loans, and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the

borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Foreclosed Assets**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and fair value adjustments are included in other operating expenses. Foreclosed assets amounting to \$357,274 and \$412,274 at December 31, 2007 and 2006, respectively, are included in other assets in the accompanying consolidated balance sheets.

**Off-Balance Sheet Credit Related Financial Instruments**

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

**Loan Sales and Servicing**

When the Bank sells mortgage loans it may retain the servicing rights that are initially measured at fair value. Gain or loss on the sale of loans depends in part on both the previous carrying value of the amount of the financial assets involved in the sale, allocated between assets sold and the interests that continue to be held based on their relative fair values at the date of the sale. The Bank generally estimates fair value for servicing rights based on the present value of future expected cash flows, using management's best estimates of the key assumptions credit losses, prepayment speeds, servicing costs, and discount rates commensurate with the risks involved.

Effective January 1, 2007, capitalized servicing rights are carried at fair value, as described in Note 2. Under the fair value measurement method, servicing assets are measured at fair value at each reporting date and changes in fair value are reported in net income for the period the change occurs.

Prior to January 1, 2007, capitalized servicing rights were carried at amortized cost, with amortization in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans. Servicing assets were evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment was determined by stratifying rights by predominant characteristics, such as interest rates and terms. Impairment was recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Servicing fee income is recorded for servicing loans, based on a contractual percentage of the outstanding principal, and is reported as other operating income. Amortization of mortgage servicing rights is netted against loan servicing fee income.



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Premises and Equipment**

Premises and equipment is stated at cost, less accumulated depreciation. Upon the sale or disposition of the assets, the difference between the depreciated cost and proceeds is charged or credited to income. Depreciation is determined based on the estimated useful lives of the individual assets (typically 20 to 40 years for buildings and 3 to 10 years for equipment) and is computed using both accelerated and straight-line methods.

**Goodwill and Other Intangible Assets**

Goodwill arising from the Gibsonburg and Pemberville branch acquisitions is not amortized, but is subject to an annual impairment test to determine if an impairment loss has occurred.

Other intangible assets determined to have a definite life are amortized on a straight-line basis over the estimated useful lives of the individual assets which range from 7 to 10 years.

**Supplemental Retirement Benefits**

Annual provisions are made for the estimated liability for accumulated supplemental retirement benefits under agreements with certain officers and directors.

**Advertising Costs**

All advertising costs are expensed as incurred.

### **Federal Income Taxes**

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years tax returns.

Benefits from tax positions taken or expected to be taken in a tax return are not recognized if the likelihood that the tax position would be sustained upon examination by a taxing authority is considered to be 50% or less.

The Bank is not currently subject to state and local income taxes.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Per Share Data**

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method.

The weighted average number of shares used for the years ended December 31, 2007, 2006 and 2005 were as follows:

**2007**

**2006**

**2005**

Basic

3,527,093

3,598,747

3,674,352

=====

=====

=====

Diluted

3,528,729

3,605,739

3,685,699

=====

=====

=====

Dividends per share are based on the number of shares outstanding at the declaration date.

### **Stock-Based Compensation**

The Board of Directors has approved an alternative payment method for the exercise of all remaining outstanding options effectively resulting in the expensing of the fair value of options.

### **Comprehensive Income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale

securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Rate Lock Commitments**

The Financial Accounting Standards Board has determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments.

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are to be recorded at fair value as derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. At December 31, 2007 and 2006, derivative assets and liabilities relating to rate lock commitments were not material to the consolidated financial statements.

**NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE**

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 156, Accounting for Servicing of Financial Assets, an Amendment of Statement No. 140 (Statement 156). Statement 156 requires that all separately recognized servicing assets and liabilities be initially measured at fair value, if practicable, and subsequently measured using either the amortization method or fair value measurement method. Under the amortization method servicing assets and liabilities are amortized over the period of estimated net servicing income or loss, and servicing assets are evaluated for impairment at each reporting date. Under the fair value measurement method servicing assets and liabilities are measured at fair value at each reporting date and changes in fair value are reported in earnings for the period the changes occur.

Effective January 1, 2007, the Bank adopted Statement 156 and elected to record its mortgage servicing rights using the fair value measurement method. As a result, the Corporation recorded effective January 1, 2007, a cumulative effect adjustment (increase) to retained earnings of \$519,152 representing the difference between fair value and carrying value of the mortgage servicing rights at January 1, 2007 (\$786,594), net of deferred income taxes (\$267,442).

## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2007 and 2006 are as follows:

	<u>2007</u>		<u>2006</u>	
	Amortized	Fair	Amortized	Fair
	<u>cost</u>	<u>value</u>	<u>cost</u>	<u>value</u>
Available-for-sale:				
U.S. Government and				
agencies	\$	\$	\$	\$
	13,210,944	13,234,748	29,668,220	29,094,326
Obligations of states and				
political subdivisions	44,286,656	44,362,186	45,301,034	45,878,446
Mortgage-backed	81,277,723	80,305,563	95,100,987	93,048,937
Other	<u>1,888</u>	<u>1,888</u>	<u>53,009</u>	<u>53,009</u>
Total	\$ 138,777,211	\$ 137,904,385	\$ 170,123,250	\$ 168,074,718
	=====	=====	=====	=====

A summary of unrealized gains and losses on investment securities at December 31, 2007 and 2006 follows:

<u>2007</u>		<u>2006</u>	
Gross	Gross	Gross	Gross
unrealized	unrealized	unrealized	unrealized



	<u>gains</u>	<u>losses</u>	<u>gains</u>	<u>losses</u>
Available-for-sale:				
U.S. Government and agencies	\$ 28,209	\$ 4,405	\$ -	\$ 573,894
Obligations of states and political subdivisions	322,052	246,522	677,962	100,550
Mortgage-backed	<u>102,458</u>	<u>1,074,618</u>	<u>23,245</u>	<u>2,075,295</u>
Total	\$ 452,719	\$ 1,325,545	\$ 701,207	\$ 2,749,739
	=====	=====	=====	=====

The amortized cost and fair value of securities at December 31, 2007, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Amortized</b>	<b>Fair</b>
	<u>cost</u>	<u>value</u>
Due in one year or less	\$ 1,483,913	\$ 1,484,522
Due after one year through five years	19,091,401	19,179,454
Due after five years through ten years	15,221,677	15,339,358
Due after ten years	102,978,332	101,899,163
Other securities having no maturity date	<u>1,888</u>	<u>1,888</u>
Total	\$138,777,211	\$137,904,385
	=====	=====

Securities with a carrying value of approximately \$97,160,000 at December 31, 2007 and \$123,574,000 at December 31, 2006 were pledged to secure public deposits and for other purposes as required or permitted by law, including those described in Note 10.



## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3 - SECURITIES (CONTINUED)

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007 and 2006:

**Securities in a continuous unrealized loss position**

	Less than		12 months		Total	
	<u>12 months</u> Unrealized	Fair	<u>or more</u> Unrealized	Fair	Unrealized	Fair
<u>2007</u>	<u>losses</u>	<u>value</u>	<u>losses</u>	<u>value</u>	<u>losses</u>	<u>value</u>
U.S. Government						
and agencies	\$ -	\$ -	\$ 4,405	\$ 495,595	\$ 4,405	\$ 495,595
Obligations of						
states and						
political						
subdivisions	204,368	16,424,792	42,154	3,342,502	246,522	19,767,294
Mortgage-backed	<u>73,719</u>	<u>12,090,359</u>	<u>1,000,899</u>	<u>47,680,792</u>	<u>1,074,618</u>	<u>59,771,151</u>
Total temporarily						
Impaired	\$ 278,087	\$28,515,151	\$1,047,458	\$51,518,889	\$1,325,545	\$80,034,040
securities	=====	=====	=====	=====	=====	=====

**2006**

## U.S. Government

and agencies	\$	-	\$	-	\$	573,894	\$	29,094,326	\$	573,894	\$	29,094,326
Obligations of												
states and												
political												
subdivisions		8,749		2,776,478		91,801		7,944,635		100,550		10,721,113
Mortgage-												
backed		<u>2,027</u>		<u>1,086,650</u>		<u>2,073,268</u>		<u>88,236,236</u>		<u>2,075,295</u>		<u>89,322,886</u>
Total temporarily												
Impaired	\$	10,776	\$	3,863,128	\$	2,738,963	\$	125,275,197	\$	2,749,739	\$	129,138,325
securities		=====		=====		=====		=====		=====		=====

There were 83 securities in an unrealized loss position at December 31, 2007, 63 of which were in a continuous unrealized loss position for twelve months or more. Management has considered industry analyst reports, whether downgrades by bond rating agencies have occurred, sector credit reports, issuer's financial condition and volatility in the bond market in concluding that the unrealized losses as of December 31, 2007 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2007 are considered to be temporary.

Gross realized gains from sale of securities, including securities calls, amounted to \$181 in 2007, \$2,167 in 2006, and \$151,223 in 2005, with the income tax provision applicable to such gains amounting to \$62 in 2007, \$737 in 2006, and \$51,416 in 2005. Gross realized losses from sale of securities amounted to \$226,597 in 2007, \$6,347 in 2006 and \$145,043 in 2005 with related income tax effect of \$77,043 in 2007, \$2,158 in 2006 and \$49,315 in 2005.

## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4 - LOANS

Loans at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Residential real estate	\$ 110,420,280	\$ 104,592,234
Commercial	156,299,179	139,883,615
Agriculture	66,255,595	58,884,377
Consumer	26,223,871	30,235,850
Credit cards	<u>                  -</u>	<u>      1,527,355</u>
Total loans	\$ 359,209,925	\$ 335,123,431
	=====	=====

In March 2007, the Bank entered into an agreement to sell its credit card portfolio. Under the terms of the agreement, the buyer will service the credit card portfolio and provide the Bank's former credit card customers with credit cards branded with the Bank's name. Based on the proceeds received under the terms of the agreement, the Bank recognized a gain from sale of the credit card portfolio of \$355,366.

Fixed rate loans approximated \$95,564,000 at December 31, 2007 and \$85,804,000 at December 31, 2006, including loans classified as held-for-sale. Certain commercial and agricultural loans are secured by real estate.

Impaired loans were as follows as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Loans with no allowance for loan losses allocated	\$ 1,204,974	\$ 1,426,742
Loans with allowance for loan losses allocated	<u>      2,040,308</u>	<u>      983,589</u>
Total impaired loans	\$ 3,245,282	\$2,410,331

	=====	=====
Amount of the allowance allocated to impaired loans	\$ 366,500	\$ 286,093
	=====	=====

The average balance of impaired loans approximated \$ 2,649,000 in 2007, \$2,372,000 in 2006, and \$2,821,000 in 2005. The amount of interest income reported and received on a cash basis relating to impaired loans approximated \$32,000 in 2006 and \$47,000 in 2005 (none in 2007).

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Bank. Such loans are made in the ordinary course of business in accordance with the normal lending policies of the Bank, including the interest rate charged and collateralization, and do not represent more than a normal collection risk. Such loans amounted to \$3,657,288 and \$3,835,612 at December 31, 2007 and 2006, respectively. The following is a summary of activity during 2007 and 2006 for such loans:

	<u>2007</u>	<u>2006</u>
Beginning of year	\$ 3,835,612	\$ 3,845,453
Additions	294,523	327,915
Repayments	<u>(472,847)</u>	<u>(337,756)</u>
End of year	\$ 3,3657,288	\$ 3,835,612
	=====	=====

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - LOANS (CONTINUED)**

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

Most of the Bank's lending activities are with customers located in Northwestern and West Central Ohio. As of December 31, 2007 and 2006, the Bank's loans from borrowers in the agriculture industry represent the single largest industry and amounted to \$66,266,595 and \$58,884,377, respectively. Agriculture loans are generally secured by property, equipment, and crop income. Repayment is primarily expected from cash flow from the harvest and sale of crops. Agriculture customers are subject to the risks of weather and market prices of crops which could have an impact on their ability to repay their loans. Credit losses arising from the Bank's lending experience in the agriculture industry compare favorably with the Bank's loss experience on their loan portfolio as a whole. Credit evaluation of agricultural lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

Loans on non-accrual of interest approximated \$2,613,000 and \$2,601,000 at December 31, 2007 and 2006, respectively. Loans past due 90 days or more and still accruing interest approximated \$824,000 and \$556,000 at December 31, 2007 and 2006, respectively.

**NOTE 5 - ALLOWANCE FOR LOAN LOSSES**

The following represents a summary of the activity in the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$2,275,486	\$2,540,301	\$2,757,491
Provision charged to operations	625,000	340,000	612,075
Transfer to other liabilities	-	-	(70,780)
Loans charged-off	(923,307)	(817,590)	(969,272)
Recoveries of loans charged-off	<u>255,529</u>	<u>212,775</u>	<u>210,787</u>
 Total	 \$2,232,708	 \$2,275,486	 \$2,540,301
	=====	=====	=====

During 2005, the Bank transferred \$70,780 from the allowance for loan losses to other liabilities representing the Bank's calculation of possible credit loss relating to unfunded loan commitments.



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - PREMISES AND EQUIPMENT**

The following is a summary of premises and equipment at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 2,117,583	\$ 2,298,653
Buildings	7,017,191	5,887,511
Equipment	3,844,738	3,485,040
	12,979,512	11,671,204
Less accumulated depreciation	5,076,601	4,995,536
Premises and equipment, net	\$ 7,902,911	\$ 6,675,668

Depreciation expense amounted to \$546,157 in 2007, \$513,692 in 2006 and \$627,806 in 2005.

On January 8, 2008, the Bank entered into a contract to purchase for \$425,000 a facility in Lima, Ohio to be used for a new branch office. The Bank is also in process of contracting for the construction of a new branch office in Ottawa, Ohio to replace the former branch that was damaged by a flood in August 2007. The anticipated cost to construct the new branch is \$950,000.

**NOTE 7 - SERVICING**

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated \$196,322,000 and \$207,230,000 at December 31, 2007 and 2006, respectively.

As described in Note 2, the Bank has elected to record its mortgage servicing rights using the fair value measurement method effective January 1, 2007. Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets.

Significant assumptions used in determining the fair value of servicing rights include:

Prepayment assumptions:

Based on the PSA Standard Prepayment Model

Internal rate of return:

8% to 10%

Servicing costs:

\$40 \$55 per loan, annually, increased at the rate

of \$1 per 1% delinquency based on loan count

Inflation rate of servicing costs:

3%

Following is a summary of mortgage servicing rights activity for the year ended December 31, 2007:

Fair value at January 1, 2007	\$ 2,070,433
Capitalized servicing rights - new loan sales	152,646
Disposals (amortization based on loan payments and payoffs)	(327,911)
Change in fair value	(363,943)
Fair value at December 31, 2007	\$ 1,531,225

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 SERVICING (CONTINUED)**

The change in fair value for the year ended December 31, 2007 resulted from changes in external market conditions for servicing rights. There were no changes in fair value resulting from changes in valuation inputs or assumptions used in the valuation model.

Capitalized servicing rights, net of a valuation allowance, amounted to \$1,283,839 at December 31, 2006. The following table summarizes mortgage servicing rights capitalized and related amortization, along with activity in the related valuation allowance for the years ended December 31, 2006 and 2005, prior to adoption of Statement 156:

	<u>2006</u>	<u>2005</u>
Mortgage servicing rights capitalized	\$ 206,975	\$ 208,504
Mortgage servicing rights amortization	221,975	318,504
Valuation allowance:		
Beginning of year	\$ 258,581	\$ 511,463
Reduction	110,084	252,882
End of year	\$ 148,497	\$ 258,581

**NOTE 8 - OTHER INTANGIBLE ASSETS**

Intangible assets other than goodwill consist of deposit base premiums resulting from the 2003 Gibsonburg and Pemberville branch acquisitions, as well as a branch acquisition completed by Leipsic in 1996. The net book value of other intangible assets represents cost of \$2,551,550, less accumulated amortization of \$1,980,015 and \$1,726,036 at

December 31, 2007 and 2006, respectively.

Amortization of other intangible assets amounted to \$253,979 in 2007, \$266,491 in 2006, and \$331,380 in 2005.

Expected amortization expense for years subsequent to 2007 is as follows: 2008, \$253,980; 2009, \$253,980; and 2010, \$63,575.

#### **NOTE 9 - DEPOSITS**

Time deposits at December 31, 2007 and 2006 include individual deposits of \$100,000 or more approximating \$56,734,000 and \$36,630,000, respectively. Interest expense on time deposits of \$100,000 or more approximated \$1,763,000 for 2007, \$1,148,000 for 2006, and \$658,000 for 2005.

At December 31, 2007, time deposits approximated \$245,281,000 and were scheduled to mature as follows: 2008, \$204,794,000; 2009, \$14,206,000; 2010, \$3,971,000; 2011, \$2,992,000; 2012, \$18,530,000; and thereafter, \$788,000.

## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10 OTHER BORROWINGS

Other borrowings consists of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Federal Home Loan Bank borrowings:		
Secured note, with floating rate based on 1 month LIBOR		
plus 8 basis points (5.45% at December 31, 2006),		
due June 22, 2007	\$ -	\$ 5,000,000
Secured \$5,000,000 term note, with monthly principal and		
interest payments of \$93,990, including interest at		
4.84%, due May 1, 2007	-	464,317
Secured note, with interest at 4.02%, due August 30, 2007	-	8,000,000
Secured note, with floating rate based on 1 month LIBOR		
plus 10 basis points ( 5.35% at December 31, 2007),		
due October 6, 2008	5,000,000	5,000,000
Secured note, with interest at 5.35%, due October 10, 2008	5,000,000	5,000,000
Secured note, with interest at 3.81%, due October 10, 2008	2,500,000	2,500,000
Secured note, with interest at 5.14% through June 2003,		
thereafter convertible to variable rate at the option		
of the holder, due December 4, 2008	5,000,000	5,000,000
Secured note, with interest at 4.82%, due December 5, 2008	10,000,000	10,000,000
Secured note, with interest at 3.25%, due March 6, 2009	4,000,000	4,000,000
Secured \$2,500,000 term note with interest at 3.08%, with		

monthly principal and interest payments of \$45,011, due May 1, 2009	747,789	1,256,361
Secured \$2,500,000 term note with interest at 3.08%, with monthly principal and interest payments of \$45,011, due May 1, 2009	747,789	1,256,361
Secured note, with interest at 6.55% through June 2003, thereafter convertible to variable rate at the option of the holder, due June 16, 2010	6,500,000	6,500,000
Secured note, with interest at 6.46% through June 2003, thereafter convertible to variable rate at the option of the holder, due July 28, 2010	5,000,000	5,000,000
Secured note, with interest at 4.25% through February 28, 2008, thereafter putable back at the option of the holder, due August 28, 2012	5,000,000	-
Secured note, with interest at 4.20% through February 28, 2008, thereafter putable back at the option of the holder, due February 28, 2017	10,000,000	-
Secured note, with interest at 3.95% through September 11, 2008, thereafter putable back at the option of the holder, due September 11, 2017	7,500,000	-
Advances secured by individual residential mortgages under blanket agreement	<u>352,759</u>	<u>464,328</u>
Total Federal Home Loan Bank borrowings	<u>67,348,337</u>	<u>59,441,367</u>

## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10 OTHER BORROWINGS (CONTINUED)

	<u>2007</u>	<u>2006</u>
Securities sold under agreements to repurchase:		
4.01%, due October 13, 2009	\$ 5,000,000	\$5,000,000
4.28%, due June 24, 2008	12,000,000	12,000,000
3.91%, due June 24, 2007	-	12,000,000
3.51%, due October 13, 2007	-	5,000,000
5.41%, due January 4, 2007	-	15,000,000
4.07%, due June 24, 2008	5,000,000	5,000,000
Total securities sold under agreements		
to repurchase	22,000,000	54,000,000
Customer repurchase agreements	2,539,570	209,672
Total other borrowings	\$91,887,907	\$113,651,039

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock, securities with an aggregate carrying value of \$15,542,167 and eligible mortgage loans totalling \$121,370,443 at December 31, 2007. Interest on advances outstanding at December 31, 2007 secured by individual mortgages under blanket agreement ranged from 5.62% to 8.80%, with varying maturities through July 2019. At December 31, 2007, the Bank had \$19,818,000 of borrowing availability under various line-of-credit agreements with the Federal Home Loan Bank and other financial institutions.

During 2004, the Bank entered into various repurchase agreements with the proceeds used to purchase securities, principally mortgage-backed securities with 7-year rate reset. Outstanding repurchase agreements are secured by securities with an aggregate carrying value approximating \$28,903,000 at December 31, 2007. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

Customer repurchase agreements with the Bank totaled \$2,539,568 at December 31, 2007 with an average interest rate of 2.50%, compared to \$209,672 at December 31, 2006 with an average interest rate off 2.35%.

Future contractual maturities of other borrowings debt are as follows at December 31, 2007: 2008, \$48,253,509; 2009, \$9,404,854; 2010, \$11,540,386; 2011, \$38,799; 2012, \$5,039,124; and thereafter, \$17,611,235.

**NOTE 11 - JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES**

During the first quarter of 2003, the Corporation formed a business trust, United (OH) Statutory Trust (United Trust) and invested \$300,000. United Trust is not consolidated by the Corporation. Effective March 26, 2003, 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 mature on March 26, 2033, which date may be shortened to March 26, 2008, if certain conditions are met, as well as quarterly thereafter. The interest rate of the debentures is fixed at 6.40% for a five-year period through March 2008. Thereafter, interest is at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR. Interest is payable quarterly. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures amounted to \$640,000 in 2007 and 2006 and is included in interest expense-borrowings in the accompanying consolidated statements of income.



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - JUNIOR SUBORDINATED DEFERRABLE INTEREST**

**DEBENTURES (CONTINUED)**

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

**NOTE 12 - OTHER OPERATING EXPENSES**

Other operating expenses consisted of the following for the years ended December 31, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Data processing	\$ 895,688	\$ 969,723	\$ 983,393
Professional fees	486,477	379,468	382,870
Amortization of other intangible assets	253,979	266,491	331,380
Stationery and supplies	156,104	168,939	184,933
Advertising	381,524	441,215	509,647
Franchise tax	561,434	520,054	520,000
Provision (credit) for accrued compensation			
stock options	(42,141)	13,858	(29,031)
Other	2,574,929	2,687,419	2,968,055
Total other operating expenses	\$5,267,994	\$5,447,167	\$5,851,247

**NOTE 13 - OTHER COMPREHENSIVE INCOME (LOSS)**

The components of other comprehensive income (loss) and related tax effects are as follows for the years ended December 31, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Unrealized holding gains (losses) on			
available-for-sale securities	\$ 949,290	\$252,815	\$(3,380,949)
Reclassification adjustments for net securities			
losses (gains) realized in income	226,416	4,180	(6,180)
Net unrealized gains (losses)	1,175,706	256,995	(3,387,129)
Tax effect	(399,740)	(87,378)	1,151,624
Net-of-tax amount	\$ 775,966	\$169,617	\$(2,235,505)

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - INCOME TAXES**

The provision for income taxes for the years ended December 31, 2007, 2006 and 2005 consist of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current provision	\$1,363,482	\$1,030,078	\$ 974,076
Deferred provision (credit)	(202,482)	221,922	258,624
Total provision for income taxes	\$1,161,000	\$1,252,000	\$1,232,700

The income tax provision attributable to income from operations differed from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income taxes as a result of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expected tax using statutory tax rate of 34%	\$1,951,700	\$2,100,800	\$1,990,700
Increase (decrease) in tax resulting from:			
Tax-exempt income on state and municipal securities and political subdivision loans	(550,900)	(568,700)	(493,000)
Tax-exempt income on life insurance contracts	(152,200)	(159,800)	(76,600)
Deductible dividends paid to United Bancshares, Inc. ESOP	(47,400)	(41,300)	(26,500)
Elimination of deferred taxes on cash			

surrender value of life insurance	-	-	(120,200)
Other, net	(40,200)	(79,000)	(41,700)
Total provision for income taxes	\$1,161,000	\$1,252,000	\$1,232,700

A deferred tax liability was originally provided on the annual increase in cash value of the life insurance policies purchased to fund the nonqualified deferred compensation plans described in Note 13. During the third quarter of 2005, it was determined that Bank management intends to hold such policies until the death of the insured individuals. Consequently, the increase in cash value is not required to be carried as a temporary difference since any proceeds ultimately received will not be taxable. As a result, the deferred tax liability of \$120,200 relating to the increase in cash surrender value of life insurance was eliminated during the fourth quarter of 2005.

The deferred income tax provision (credit) of (\$202,482) in 2007, \$221,922 in 2006, and \$258,624 in 2005 resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 14 - INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Unrealized loss on securities available-for-sale	\$ 296,761	\$ 696,501
Allowance for loan losses	781,000	726,200
Deferred compensation	248,100	229,700
Accrued expenses and other	210,639	173,799
Total deferred tax assets	1,536,500	1,826,200
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	812,700	812,700
Capitalized mortgage servicing rights	520,600	436,500
Depreciation and amortization	452,400	358,500
Other	63,800	66,800
Total deferred tax liabilities	1,849,500	1,674,500
Net deferred tax assets (liabilities)	\$ (313,000)	\$ 151,700

Net deferred tax liabilities at December 31, 2007 are included in other liabilities and net deferred tax assets at December 31, 2006 are included in other assets in the consolidated balance sheets.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2007 and 2006.

The Corporation adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. The Corporation had \$82,300 of unrecognized tax benefits at December 31, 2007, all based on tax positions relating to the current year. Such unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods. The Corporation does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. The Corporation has adopted the policy of classifying any interest and penalties resulting from the filing of its income tax returns in the provision for income taxes. There was no accrued interest relating to the Corporation's unrecognized tax benefits at December 31, 2007.

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Corporation and its subsidiaries are no longer subject to examination by taxing authorities for years before 2004.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 - EMPLOYEE AND DIRECTOR BENEFITS**

The Corporation and Bank sponsor a salary deferral, defined contribution plan which provides for both profit sharing and employer matching contributions. The plan permits the investing in the Corporation's stock subject to certain limitations. Participants who meet certain eligibility conditions are eligible to participate and defer a specified percentage of their eligible compensation subject to certain income tax law limitations. The Corporation and Bank make discretionary matching and profit sharing contributions, as approved annually by the Board of Directors, subject to certain income tax law limitations. Contribution expense for the plan amounted to \$465,329, \$463,850, and \$437,473 in 2007, 2006 and 2005, respectively. At December 31, 2007, the Plan owned 259,707 shares of the Corporation's common stock.

The Bank also sponsors nonqualified deferred compensation plans, covering certain directors and employees, which have been indirectly funded through the purchase of split-dollar life insurance policies. In connection with the policies, the Bank has provided an estimated liability for accumulated supplemental retirement benefits amounting to \$391,238 at December 31, 2007 and \$328,388 at December 31, 2006 which is included in other liabilities in the accompanying consolidated balance sheets. During the first quarter of 2005, the Corporation made a payment of \$356,340 to its former Chief Executive who retired on November 17, 2004, representing accumulated supplemental retirement benefits. The Bank has also purchased split-dollar life insurance policies for investment purposes to fund other employee benefit plans. The combined cash values of these policies aggregated \$ 10,885,971 and \$10,457,901 at December 31, 2007 and 2006, respectively.

Under an employee stock purchase plan established effective January 1, 2004, eligible employees may defer a portion of their compensation and use the proceeds to purchase stock of the Corporation at a discount determined semi-annually by the Board of Directors as stipulated in the plan. The Corporation sold from treasury 7,856 shares in 2007, 7,975 shares in 2006 and 9,809 shares in 2005 under the plan.

The Bank has an agreement with Leipsic's former President, who is the Corporation's current Chairman of the Board of Directors, to provide for retirement compensation benefits. Such benefits are to be paid over a period of twenty years commencing upon retirement effective December 31, 2001. At December 31, 2007 and 2006, the net present value (based on the 12% discount rate in effect at the time of origination of the agreement) of future deferred compensation payments amounted to \$338,357 and \$347,171, respectively. Such amounts are included in other liabilities in the

December 31, 2007 and 2006 consolidated balance sheets. A split-dollar life insurance policy has been purchased and is available to fund a portion of the future deferred compensation payments. The cash value of the policy amounted to \$510,810 and \$491,189 at December 31, 2007 and 2006, respectively.

The Chief Executive Officer and Chief Financial Officer of the Corporation have employment agreements which provide certain compensation and benefits as specified in the agreements. The agreement of the Chief Executive Officer expires in January 2010 after which time the Corporation has agreed to enter into a change of control agreement if the Chief Executive Officer is still employed by the Corporation. The agreement of the Chief Financial Officer provides for certain compensation and benefits should any triggering events occur, as specified in the agreement, including change of control or termination without cause.



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16 - STOCK OPTIONS**

In connection with its acquisition in March 2001 of Citizens, the Corporation issued options to certain directors and a senior officer of Citizens under the terms of Citizens Amended and Restated Stock-Based Incentive Plan (the Plan ). The Plan provides that options may be exercised through an alternative option payment mechanism referred to in the Plan as using pyramiding transactions where options are exercised, the shares gained through the exercise rate are tendered back to the Corporation as payment for a greater number of options, and the process is repeated as needed until all options are exercised. Ultimately, the holder of the option ends up with a lower number of shares than exercised but at essentially no cash outlay.

On January 6, 2005, one of the option holders exercised 27,441 options, resulting in 12,040 shares, with a fair value of \$223,101, being tendered under the pyramiding transactions exercise method. During 2006, two of the option holders collectively exercised 27,440 options resulting in 9,802 shares being tendered under the pyramiding transactions exercise method. At December 31, 2007 and 2006, 812 and 3,070 shares, respectively, may be tendered from the 12,006 remaining outstanding options under the pyramiding transactions exercise method. The fair value of the shares that may be tendered, amounting to \$11,286 at December 31, 2007 and \$53,427 at December 31, 2006, is included in other liabilities in the consolidated balance sheets.

The following summarizes the stock options activity for the years ended December 31, 2007, 2006 and 2005:

2007

2006

2005

**Weighted**

**Weighted**

**Weighted**

average

average

average

exercise

exercise

exercise

Shares

price

Shares

price

Shares

price

Outstanding at

beginning of year

12,006

\$ 12.95

39,446

\$ 11.18

66,887

\$ 10.86

Exercised

-

-

(27,440)

10.40

(27,441)

10.40

Outstanding at end

of year

12,006

\$12.95

12,006

\$ 12.95

39,446

\$ 11.18

Options exercisable

=====

=====

=====

=====

=====

=====

at year end

12,006

\$12.95

12,006

\$12.95

39,446

\$

11.18

=====

=====

=====  
=====  
=====  
=====

Options outstanding at December 31, 2007 were as follows:

Outstanding and exercisable

Range of  
Remaining  
exercise  
contractual  
prices

Number  
life (years)

\$  
9.66  
5,146  
3  
15.42  
6.860  
1

Outstanding at year end

12,006

Weighted average contractual life

1.9

===

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are primarily loan commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amount of these instruments reflects the extent of involvement the Bank has in these financial instruments.

The Bank's exposure to credit loss in the event of the nonperformance by the other party to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of these instruments. The Bank uses the same credit policies in making loan commitments as it does for on-balance sheet loans.

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2007 and 2006:

	<b><u>Contract amount</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Commitments to extend credit	\$75,638,000	\$70,001,000
Letters of credit	\$ 2,096,000	\$ 2,272,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties.

Letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. At December 31, 2007, letters of credit totalling \$1,119,000 expire in 2008; and \$977,000 expires in 2009. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank requires collateral supporting these commitments when deemed necessary.

#### **NOTE 18 - REGULATORY MATTERS**

The Corporation (on a consolidated basis) and Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 18 REGULATORY MATTERS (CONTINUED)**

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Corporation and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from federal and state banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2007 and 2006 are presented in the following table:

**Minimum to be**

**well capitalized**

**Minimum**

**under prompt**

**capital**

**corrective**

**Actual**

**requirement**

**action provisions**



**Amount**

**Ratio**

**Amount**

**Ratio**

**Amount**

**Ratio**

**(Dollars in Thousands)**

**As of December 31, 2007**

Total Capital (to Risk-

Weighted Assets)

Consolidated

\$

53,921

13.4%

\$

32,105

> 8.0%

N/A

N/A

Bank

49,581

12.4%

32,036

> 8.0%

\$

40,046

10.0%

Tier I Capital (to Risk-

Weighted Assets)

Consolidated

\$

51,688

12.9%

\$

16,053

> 4.0%

N/A

N/A

Bank

47,348

11.8%

16,018

> 4.0%

\$

24,027

6.0%

Tier I Capital (to

Average Assets)

Consolidated

\$

51,688

9.4%

\$

21,985

> 4.0%

N/A

N/A

Bank

47,348

8.6%

21,985

> 4.0%

\$

27,482

5.0%

**As of December 31, 2006**

Total Capital (to Risk-

Weighted Assets)

Consolidated

\$

51,843

13.9%

\$

29,807

≥ 8.0%

N/A

N/A

Bank

46,633

12.4%

29,981

≥ 8.0%

\$

37,477

10.0%

Tier I Capital (to Risk-

Weighted Assets)

Consolidated

\$

49,568

13.3%

\$

14,903

≥ 4.0%

N/A

N/A

Bank

44,358

11.8%

14,991

≥ 4.0%

\$

22,486

6.0%

Tier I Capital (to

Average Assets)

Consolidated

\$

49,568

9.2%

\$

21,527

≥ 4.0%

N/A

N/A

Bank

44,358

8.2%

21,657

≥ 4.0%

\$

27,071

5.0%

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 18 REGULATORY MATTERS (CONTINUED)**

On a parent company only basis, the Corporation's primary source of funds is dividends paid by the Bank. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations, and to prudent and sound banking principles. Generally, subject to certain minimum capital requirements, the Bank may declare dividends without the approval of the State of Ohio Division of Financial Institutions, unless the total dividends in a calendar year exceed the total of the Bank's net profits for the year combined with its retained profits of the two preceding years.

The Board of Governors of the Federal Reserve System generally considers it to be an unsafe and unsound banking practice for a bank holding company to pay dividends except out of current operating income, although other factors such as overall capital adequacy and projected income may also be relevant in determining whether dividends should be paid.

**NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION**

A summary of condensed financial information of the parent company as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 is as follows:

**CONDENSED BALANCE SHEETS**

**2007**

**2006**

Assets:

Cash

\$ 3,411,346

\$ 3,966,988

Investment in bank subsidiary

54,778,521

51,242,491

Premises and equipment, net of accumulated depreciation

471,914

498,262

Other assets, including income taxes receivable from

bank subsidiary of \$158,263 in 2007 and

\$357,746 in 2006

623,090

920,328

Total assets

\$59,284,871

\$56,628,069

=====

=====

Liabilities:

Accrued expenses, including accrued compensation

for stock options of \$11,286 in 2007 and

\$53,427 in 2006

\$ 166,287

\$ 175,581

Junior subordinated deferrable interest debentures

10,300,000

10,300,000

Total liabilities

10,466,287

10,475,581

Shareholders' equity:

Common stock

3,760,557

3,760,557

Surplus

14,659,661

14,659,661

Retained earnings

35,187,304

32,072,536

Accumulated other comprehensive loss

(576,065)

(1,352,031)

Treasury stock, at cost

(4,212,873)

(2,988,235)

Total shareholders' equity

48,818,584

46,152,488

Total liabilities and shareholders' equity

\$59,284,871



\$56,628,069

=====

=====



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL  
INFORMATION (CONTINUED)**

<b>CONDENSED STATEMENTS</b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>OF INCOME</b>			
Income including dividends from bank subsidiaries	\$3,016,595	\$2,524,898	\$7,300,940
Expenses interest expense, professional fees and other expenses, net of federal income tax benefit	(678,129)	(664,865)	(740,407)
Income before equity in undistributed net income of bank subsidiary	2,338,466	1,860,033	6,560,533
Equity in undistributed net income of bank subsidiaries	2,240,912	3,066,772	(1,938,351)
Net income	\$4,579,378	\$4,926,805	\$4,622,182

**CONDENSED STATEMENTS  
OF CASH FLOWS**

## Cash flows from operating activities:

Net income	\$4,579,378	44,926,805	\$4,622,182
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiary	(2,240,912)	(3,066,772)	1,938,351
Provision (credit) for accrued compensation - stock options	(42,141)	13,858	(29,031)
Depreciation and amortization	79,348	79,457	79,442
Gain on sale of premises	-	-	(823)
Decrease (increase) in other assets	193,117	(85,517)	904,407
Increase (decrease) in accrued expenses	32,847	(32,009)	(23,696)
Net cash provided by operating activities	2,601,637	1,835,822	7,490,832
Cash flows from investing activities:			
Purchases of premises and equipment	-	(20,060)	-
Proceeds from the sale of premises	-	-	35,000
Proceeds from sale of security	51,121	-	-
Net cash provided by (used in) investing activities	51,121	(20,060)	35,000

## UNITED BANCSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL  
INFORMATION (CONTINUED)

CONDENSED STATEMENTS	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>OF CASH FLOWS</b>			
Cash flows from financing activities:			
Purchase of common stock	\$(1,347,150)	\$(1,135,944)	\$(1,423,184)
Proceeds from sale of treasury shares	108,157	110,008	136,824
Cash dividends paid	(1,969,407)	(1,869,135)	(1,760,092)
Net cash used in financing activities	(3,208,400)	(2,895,071)	(3,046,452)
Net increase (decrease) in cash	(555,642)	(1,079,309)	4,479,380
Cash at beginning of the year	3,966,988	5,046,297	566,917
Cash at end of the year	\$3,411,346	\$3,966,988	\$5,046,297

During 2005, the Board of Directors approved a program whereby the Corporation purchases share of its common stock in the open market. The decision to purchase shares, the number of shares to be purchased, and the price to be paid depends upon the availability of shares, prevailing market prices, and other possible considerations which may impact the advisability of purchasing shares. The Corporation purchased 86,500 and 71,177 shares under the program during 2007 and 2006, respectively.

**NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments", requires that the estimated fair value of financial instruments, as defined by the Statement, be disclosed. Statement 107 also requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The estimated fair values of recognized financial instruments at December 31, 2007 and 2006 are as follows:

**2007**

**2006**

**Carrying**

**Estimated**

**Carrying**

**Estimated**

**amount**

**value**

**amount**

**value**

**(dollars in thousands)**

**FINANCIAL ASSETS**

Cash and cash equivalents

\$

15,079

\$

15,079

\$

12,311

\$

12,311

Securities, including Federal

Home Loan Bank stock

142,607

142,607

172,778

172,778

Net loans, including loans

held for sale

357,328

358,121

333,274

334,194

Mortgage servicing rights

1,531

1,531

1,284

2,070

\$

516,545

\$

517,338

\$

519,647

\$

521,353

=====

=====

=====

=====

FINANCIAL LIABILITIES

Deposits

\$

393,203

\$

393,368

\$

377,430

\$

376,809

Other borrowings

91,888

93,349

113,651

112,723

Junior subordinated deferrable

interest debentures

10,300



9,898

10,300

10,229

Other liabilities

3.765

3.875

2.842

2.961

\$

499,156

\$

500,490

\$

504,223

\$

502,722

=====

=====

=====

=====

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

There are also unrecognized financial instruments at December 31, 2007 and 2006 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$77,734,000 at December 31, 2007 and \$72,273,000 at December 31, 2006. Such amounts are also considered to be the estimated

fair values.

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

Cash and cash equivalents:

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

Securities:

The fair value of securities is determined based on quoted market prices of the individual securities or, if not available, estimated fair value was 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.

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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. Prior to its sale in 2007, the estimated value of the credit card portfolio was based on existing loans and did not include the value related to estimated cash flows from new loans generated from existing cardholders over the remaining life of the portfolio.

Mortgage servicing rights:

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

Deposit liabilities:

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

Other financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount, since these financial instruments generally represent commitments at existing rates. The fair value of other borrowings is determined based on a discounted cash flow analysis using current interest rates. The fair value of the junior subordinated deferrable interest debentures is determined based on quoted market prices of similar instruments. The fair value of other liabilities is generally considered to be carrying value except for the deferred compensation agreement described in Note 15. The fair value of the contract is determined based on a discounted cash flow analysis using a current interest rate for a similar instrument.

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

**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 21 - CONTINGENT LIABILITIES**

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

**NOTE 22 - QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following represents a summary of selected unaudited quarterly financial data for 2007 and 2006:

**Net**

**Earnings per**

**Interest**

**interest**

**Net**

**common share**

**income**

**income**

**income**

**Basic**

**Diluted**

(Dollars in thousands, except per share data)

**2007**

First quarter

\$

8,465

\$

4,128

\$

977

\$

.27

\$

.27

Second quarter

8,800

4,394

1,455

.42

.42

Third quarter

8,671

4,348

935

.26

.26

Fourth quarter

8,913

4,548

1,212

.35

.35

**2006**

First quarter

\$

7,717

\$

4,387

\$

1,181

\$

.33

\$

.33

Second quarter

8,096

4,397

1,243

.34

.34

Third quarter

8,370

4,272

1,299

.36

.36

Fourth quarter

8,607

4,307

1,204

.34

.34

#### **NOTE 23 - NEW ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (Statement 157) which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement 157 emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. Statement 157 clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, Statement 157 establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Statement 157 is effective for fiscal years beginning after November 17, 2007, and interim periods within those fiscal years. Management does not anticipate the adoption of Statement 157 will have a significant impact on the Corporation's consolidated financial statements.



**UNITED BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 23 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (Statement 159) which permits an entity to choose to measure certain financial instruments and certain other items at fair value, on an instrument-by-instrument basis.

Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses on items for which the fair value option has been elected in earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. At the effective date, an entity may elect the fair value option for eligible items that exist at that date with the effect of the first measurement to fair value reported as a cumulative-effect adjustment to the opening balance of retained earnings. Management is currently in the process of evaluating what, if any, impact the adoption of Statement 159 will have on the Corporation's consolidated financial statements.

During 2007, the FASB issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsed Split-Dollar Life Insurance Arrangements* (EITF 06-4), which concludes an employer should recognize a liability for postemployment benefits promised to an employee based on the substantive arrangement between the employer and the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Management is still evaluating what impact, if any, the adoption of EITF 06-4 will have on the Corporation's consolidated financial statements.

During 2007, the FASB issued EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance* (EITF 06-10), which stipulates an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement if, based on the substantive arrangement with the employee, the employer has agreed to maintain life insurance during the employee's retirement or provide the employee with a death benefit. Under EITF 06-10, the employer should also recognize an asset based on the substance of the arrangement it has with the employee. EITF 06-10 is effective for fiscal years beginning after December 15, 2007, including interim periods. Management is still evaluating what impact, if any, the adoption of EITF 06-10 will have on the Corporation's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (Statement 141R) which establishes principals and requirements for how an acquirer in a business combination recognizes and measures in its

financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interests of the acquiree. Statement 141R also recognizes and measures any goodwill acquired, as well as gain resulting from a bargain purchase option. Statement 141R applies to all transactions or other events in which an entity obtains control of one or more entities and also requires that costs incurred in connection with a business acquisition be expensed as incurred. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and early adoption is not permitted.

This information is an integral part of the accompanying  
consolidated financial statements.

**UNITED BANCSHARES, INC.**

Columbus Grove, Ohio

**DIRECTORS UNITED BANCSHARES, INC.**

DIRECTOR

DIRECTOR

NAME

AGE

SINCE

NAME

AGE

SINCE

Robert L. Benroth

45

2003

David P. Roach

57

2001

*Putnam County Auditor*

*Manager, Maverick Media Radio Stations of Ohio*

Robert L. Dillhoff

61

2001

Daniel W. Schutt

60

2005

*Retired Administrator, Department of Transportation*

*President/CEO*

James N. Reynolds

70

2000

R. Steven Unverferth

55

2005

*Chairman, Retired Banker*

*President, Unverferth Manufacturing Corporation, Inc.*

H. Edward Rigel

65

2000

*Farmer, Rigel Farms, Inc.*

DIRECTOR

DIRECTOR

NAME

AGE

SINCE (a)

NAME

AGE

SINCE (a)

Robert L. Benroth

45

2001

H. Edward Rigel

65

1979

*Putnam County Auditor*

*Farmer, Rigel Farms, Inc.*

Robert L. Dillhoff

61

1991

David P. Roach

57

1997

*Retired Administrator, Dept. of Transportation*

*Manager of Maverick Media Radio Stations of Ohio*

Herbert H. Huffman

57

1993

Robert M. Schulte, Sr.

75

1994

*Retired - Educator*

*Businessman/Spherion Services*

Kevin L. Lammon

53

1996

Daniel W. Schutt

60

2005

*Insurance and Real Estate Sales*

*Chairman, President and Chief Executive Officer*

William R. Perry

49

1990

R. Steven Unverferth

55

1993

*Farmer*

*President, Unverferth Manufacturing Corporation, Inc*

James N. Reynolds

70

1966

*Retired Banker*

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

**OFFICERS UNITED BANCSHARES, INC.**

James N. Reynolds Chairman Daniel W. Schutt President / Chief Executive Officer  
Bonita R. Selhorst Secretary Brian D. Young Chief Financial Officer, EVP & Treasurer

**OFFICERS THE UNION BANK COMPANY**

Daniel W. Schutt - President/CEO/Chairman  
Brian D. Young - Executive Vice President

Nancianne Carroll Senior Vice President  
Ronald J. McNeely Senior Vice President  
Heather M. Oatman Senior Vice President

Lewis R. Renollet Senior Vice President  
Norman V. Schnipke Senior Vice President  
Bonita R. Selhorst Senior Vice President, Sec.

Mark G. Honigford Vice President  
Max E. Long Vice President  
Donald W. Miller Vice President  
John P. Miller Vice President  
Jeffrey L. Point Vice President  
Ricardo Rosado Vice President  
Mary L. Schroeder Vice President  
Barry J. von der Embse Vice President



J. Sue Alexander	Assistant Vice President
Amy E. Blankemeyer	Assistant Vice President
Kimberly K. Dray	Assistant Vice President
Larry L. Durham	Assistant Vice President
Vicky K. Gilbert	Assistant Vice President
Elizabeth A. Kahlenberg	Assistant Vice President
Kimberly J. Kandik	Assistant Vice President
Amy L. Laibe	Assistant Vice President
Dana F. Lawrence	Assistant Vice President
Doris A. Neumeier	Assistant Vice President
Rose Ann Recker	Assistant Vice President

Amy E. Reese	Assistant Vice President
Kevin E. Rice	Assistant Vice President
Gary G. Ricker	Assistant Vice President
M. Chris Sanderson	Assistant Vice President
Deborah R. Soldenwagner	Assistant Vice President
Craig R. Stechschulte	Assistant Vice President
Theresa A. Stein-Moenter	Assistant Vice President
Douglas L. Tussing	Assistant Vice President
Kimberly S. Verhoff	Assistant Vice President
Troy M. Verhoff	Assistant Vice President
Vikki L. Williams	Assistant Vice President

Patricia S. Christman	Accounting Officer	LeAnn Wilkins	Mortgage Underwriter
Kathleen J. Fiedler	Accounting Manager	Lisa D. Wiswasser	Senior Commercial
Brent D. Nussbaum	IT Manager		Assistant

