UNITED BANCSHARES INC/OH
Form 10-Q
August 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

Commission file number 000-29283

UNITED BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

100 S. High Street, Columbus Grove, Ohio

(Address of principal executive offices)

34-1516518

(I.R.S. Employer Identification Number)

45830

(Zip Code)

(419) 659-2141

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer ____ Smaller Reporting Company _X_

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

Yes ____ No _X_

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of July 16, 2010: 3,444,209

This document contains 31 pages. The Exhibit Index is on page 32 immediately preceding the filed exhibits.

UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

United Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets (Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 7,492,290	$ 8,547,737
Interest-bearing deposits in other banks	38,992,157	18,775,271
Federal funds sold	1,500,000	56,881
Total cash and cash equivalents	47,984,447	27,379,889
SECURITIES, available-for-sale	147,329,834	138,586,362
FEDERAL HOME LOAN BANK STOCK, at cost	4,893,800	4,893,800
LOANS	396,214,495	407,814,923
Less allowance for loan losses	(6,041,465)	(4,803,595)
Net loans	390,173,030	403,011,328
PREMISES AND EQUIPMENT, net	10,093,707	9,132,248
GOODWILL	8,554,979	7,282,013
CASH SURRENDER VALUE OF LIFE INSURANCE	12,632,411	12,401,984
OTHER REAL ESTATE OWNED	4,854,751	5,170,635
OTHER ASSETS, including accrued interest receivable and other intangible assets	7,117,553	8,547,175
TOTAL ASSETS	$ 633,634,512	$ 616,405,434

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Deposits		
Non-interest bearing	$ 46,734,862	$ 45,665,777
Interest bearing	451,940,748	424,002,707
Total deposits	498,675,610	469,668,484
Other borrowings	65,674,778	77,906,588
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Accrued expenses and other liabilities	3,585,295	4,251,257
Total liabilities	578,235,683	562,126,329

SHAREHOLDERS' EQUITY		
Common stock, $1.00 stated value. Authorized 10,000,000 shares;		
issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,659,840	14,659,661
Retained earnings	38,640,201	38,343,134
Accumulated other comprehensive income	3,170,326	2,359,821
Treasury stock, 316,008 shares at June 30, 2010 and 316,791 shares		
at December 31, 2009, at cost	(4,832,095)	(4,844,068)
Total shareholders' equity	55,398,829	54,279,105
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 633,634,512	$ 616,405,434

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Loans, including fees	$ 6,197,051	$ 6,755,167	$ 12,360,024	$ 13,494,415
Securities:				
Taxable	1,063,448	1,085,188	2,106,968	2,240,741
Tax-exempt	500,308	494,721	995,383	988,048
Other	28,558	7,973	38,752	18,636
Total interest income	7,789,365	8,343,045	15,501,127	16,741,840
INTEREST EXPENSE				
Deposits	1,596,528	2,315,873	3,289,701	4,768,138
Other borrowings	787,271	885,991	1,582,897	1,792,294
Total interest expense	2,383,799	3,201,864	4,872,598	6,560,432
NET INTEREST INCOME	5,405,566	5,141,181	10,628,529	10,181,408
PROVISION FOR LOAN LOSSES	1,800,000	1,175,000	2,600,000	1,775,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,605,566	3,966,181	8,028,529	8,406,408
NON-INTEREST INCOME				
Gain on sales of loans	119,327	554,761	189,420	971,540
Gain on sales of securities	1,135	125,491	1,135	130,491
Change in fair value of mortgage servicing rights	(364,885)	224,571	(397,358)	169,066
Other	684,708	681,895	1,377,417	1,298,487
Total non-interest income	440,285	1,586,718	1,170,614	2,569,584
NON-INTEREST EXPENSES	3,932,019	3,872,918	7,855,712	7,448,133
Income before income taxes	113,832	1,679,981	1,343,431	3,527,859
PROVISION (CREDIT) FOR INCOME TAXES	(193,000)	345,000	13,000	761,000

NET INCOME	$ 306,832	$ 1,334,981	$ 1,330,431	$ 2,766,859
NET INCOME PER SHARE				
Basic	$ 0.09	$ 0.39	$ 0.39	$ 0.80
Weighted average common shares outstanding	3,444,549	3,442,779	3,444,532	3,442,600
Diluted	$ 0.09	$ 0.39	$ 0.39	$ 0.80
Weighted average common shares outstanding	3,444,549	3,442,893	3,444,532	3,442,658

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary
Consolidated Statements of Shareholders Equity (Unaudited)
Six months ended June 30, 2010 and 2009

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
BALANCE AT DECEMBER 31, 2009	$ 3,760,557	14,659,661	38,343,134	2,359,821
Net income			1,330,431	
Change in unrealized gain on available-for-sale securities, net of income taxes				810,505
Total comprehensive income				
Dividends declared ($0.30 per share)			(1,033,364)	
783 shares issued from treasury in connection with the Corporation s Employee Stock Purchase Plan		179		
BALANCE AT JUNE 30, 2010	$ 3,760,557	14,659,840	38,640,201	3,170,326
BALANCE AT DECEMBER 31, 2008	$ 3,760,557	14,659,661	37,528,026	(412,304)
Net income			2,766,859	
Change in unrealized loss on available-for-sale securities, net of income taxes				1,009,327
Total comprehensive income				
Dividends declared ($0.30 per share)			(1,032,833)	
1,116 shares issued from treasury in connection with the Corporation s Employee Stock Purchase Plan			(961)	
BALANCE AT JUNE 30, 2009	$ 3,760,557	14,659,661	39,261,091	597,023

See notes to consolidated financial statements

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United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Six months ended June 30, 2010	2009
Cash flows from operating activities	$ 4,727,543	$ 2,571,089
Cash flows from investing activities:		
Net proceeds (purchases) of available-for-sale securities, including proceeds from calls or maturities	(7,620,827)	5,604,859
Net decrease (increase) in loans	11,379,803	(4,505,584)
Insurance proceeds from casualty loss	-	145,000
Cash received from branch acquisition	22,260,144	-
Proceeds from sale of other real estate owned	835,440	-
Expenditures for premises and equipment	(196,034)	(240,238)
Net cash from investing activities	26,658,526	1,004,037
Cash flows from financing activities:		
Net change in deposits	2,471,511	(5,324,637)
Long-term borrowings, net of repayments	(12,231,810)	(3,696,595)
Proceeds from issuance of common stock	12,152	16,104
Cash dividends paid	(1,033,364)	(1,032,833)
Net cash from financing activities	(10,781,511)	(10,037,961)
Net change in cash and cash equivalents	20,604,558	(6,462,835)
Cash and cash equivalents:		
At beginning of period	27,379,889	25,622,293
At end of period	$ 47,984,447	$ 19,159,458
Cash paid for:		
Interest	$ 5,071,882	$ 6,799,903
Income taxes	$ -	$ 910,000

Non-cash investing activities:		
Change in net unrealized gain (loss) on available-for-sale securities	$ 1,228,037	$ 1,529,283
Transfer of loans to other real estate owned	$ 658,000	$ -

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2010

NOTE 1 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of United Bancshares, Inc. and subsidiary (the Corporation) have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. Complete audited consolidated financial statements with footnotes thereto are included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2009.

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

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

ASC 860-10 addresses accounting for transfers of financial assets. Among other requirements, the ASC removes the concept of a qualifying special-purpose entity and removes the exception from applying consolidation of variable interest entities to qualifying special-purpose entities. The objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Among other things, ASC 860-10 applies to any transfer of financial assets, which for the Corporation primarily relates to loan participations sold. The adoption of ASC 860-10 effective January 1, 2010 did not have any impact on the Corporation s June 30, 2010 consolidated financial statements since the Bank has not sold any loan participations during the six month period ended June 30, 2010.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures*, which provides amendments to ASC 820-10 and is intended to improve disclosure requirements related fair value measurements. The Update clarifies that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities measured at fair value. A class is often a subset of assets or liabilities within a line item in the statement of financial position. Reporting entities should also provide disclosures about the valuation techniques and inputs used to measure fair value for fair value measurements falling within Level 2 or 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Information on fair value measurements is included in Note 7 to the consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* which will increase disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures will provide additional information about the nature of credit risk inherent in the Bank s loans, how credit risk is analyzed and assessed, and the reasons for the change in the allowance for loan losses. The expanded disclosure requirements will be effective for the Corporation s December 31, 2010 consolidated financial statements.

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2010

NOTE 3 BRANCH ACQUISITION

On November 30, 2009, the Bank entered into an agreement to purchase the Findlay, Ohio branch of The Home Savings and Loan Company of Youngstown, Ohio (Seller). Under the terms of the agreement, the Bank assumed all deposits and purchased the related branch premises and certain loans. The transaction was completed in March, 2010 with assets acquired and liabilities assumed being recorded at their estimated fair values as follows:

Assets acquired:		
	Cash	$ 22,601,897
	Loans	1,799,394
	Bank premises	1,021,000
	Goodwill	1,272,966
	Core deposit intangible asset	286,000
		$ 26,981,257
Liabilities assumed:		
	Deposits	$ 26,650,240
	Other liability payable to seller	331,017
		$ 26,981,257

Cash proceeds from the branch acquisition were used to fund $10 million of brokered certificates of deposit and $11.5 million of FHLB borrowings that matured during the second quarter of 2010.

The operating results of the branch subsequent to the acquisition are included in the Corporation s consolidated financial statements. The core deposit intangible asset is being amortized on a straight-line basis over a period of seven years.

The payable to seller represents the changes in the amounts of certain assets acquired and liabilities assumed between the settlement date and the actual closing (transfer) date. Under the terms of the agreement, a final closing statement was prepared in April, 2010, which resulted in an increase in loans acquired of $5,111, a decrease in deposits assumed of $5,625 and a corresponding increase in the payable to seller of $10,736. On May 28, 2010, the Bank made a final payment to the seller of $341,753.

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2010

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of June 30, 2010 and December 31, 2009 are as follows (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Amortized cost	Fair value	Amortized cost	Fair value
U.S. Government and agencies	$ 4,998	$ 5,026	$ 3,993	$ 3,983
Obligations of states and political subdivisions	47,752	49,000	46,757	47,829
Mortgage-backed	89,274	92,786	83,759	86,270
Other	502	518	502	504
Total	$ 142,526	$ 147,330	$ 135,011	$ 138,586

A summary of gross unrealized gains and losses on available-for-sale securities at June 30, 2010 and December 31, 2009 follows (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
U.S. Government and agencies	$ 28	$ -	$ -	$ 10

Obligations of states and				
political subdivisions	1,366	118	1,280	209
Mortgage-backed	3,602	90	2,757	245
Other	16	-	2	-
Total	$ 5,012	$ 208	$ 4,039	$ 464

NOTE 5 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the six month periods ended June 30, 2010 and 2009 (dollars in thousands):

	2010	2009
Unrealized holding gains on		
available-for-sale securities	$ 1,229	$ 1,659
Reclassification adjustments for securities		
gains realized in income	(1)	(130)
Net unrealized gains	1,228	1,529
Tax effect	417	520
Net-of-tax amount	$ 811	$ 1,009

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2010

NOTE 6 JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Corporation has formed and invested $300,000 in a business trust, United (OH) Statutory Trust (United Trust) which is not consolidated by the Corporation. United Trust issued $10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation s capital investment, to purchase $10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures have a stated maturity date of March 26, 2033. As of March 26, 2008, and quarterly thereafter, the debentures may be shortened at the Corporation s option. Effective March 27, 2008, interest is at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 3.43% at June 30, 2010 and 4.38% at June 30, 2009. 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 $173,000 and $227,000 for the six month periods ended June 30, 2010 and 2009, respectively, and is included in interest expense-other borrowings in the accompanying consolidated statements of income.

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

NOTE 7 - FAIR VALUE MEASUREMENTS

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

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

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

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2010

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

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

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at June 30, 2010 and December 31, 2009 include available-for-sale securities which are all valued using Level 2 inputs, and mortgage servicing rights, amounting to $822,345 at June 30, 2010 and $1,273,525 at December 31, 2009, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at June 30, 2010 and December 31, 2009 include other real estate owned, as well as impaired loans amounting to $13,563,000 at June 30, 2010 and $11,947,000 at December 31, 2009 all of which are valued using Level 3 inputs.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during the periods presented due to the lack of observable quotes in inactive markets for those instruments at June 30, 2010 and December 31, 2009.

The table below presents a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six month period ended June 30, 2010 and year ended December 31, 2009:

	June 30, 2010	December 31, 2009
Balance at beginning of period	$ 1,273,525	$ 703,388
Gains or losses, including realized and unrealized:		

Disposals amortization based on loan				
payments and payoffs		(109,790)		(237,463)
Purchases, issuances, and settlements		55,968		612,499
Other changes in fair value		(397,358)		195,101
Balance at end of period	$	822,345	$	1,273,525

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Corporation s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation&#14