UNITED BANCSHARES INC/OH
Form 10-Q
October 26, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer ___X___ _

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

Yes ____ No __X

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of October 12, 2007: 3,521,905

This document contains 27 pages. The Exhibit Index is on page 20 immediately preceding the filed exhibits.

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UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

United Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets (Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 7,614,045	$ 10, 090,992
Interest-bearing deposits in other banks	8,657,698	1,419,207
Federal funds sold	7,595,000	800,420
Total cash and cash equivalents	23,866,743	12,310,619
SECURITIES, available-for-sale	139,691,633	168,074,718
FEDERAL HOME LOAN BANK STOCK, at cost	4,703,100	4,703,100
LOANS HELD FOR SALE	414,531	426,041
LOANS	349,558,666	335,123,431
Less allowance for loan losses	(2,079,212)	(2,275,486)
Net loans	347,479,454	332,847,945
PREMISES AND EQUIPMENT, net	7,967,467	6,675,668
GOODWILL	7,282,013	7,282,013
CASH SURRENDER VALUE OF LIFE INSURANCE	11,278,241	10,949,090
OTHER ASSETS, including accrued interest receivable and other intangible assets	8,368,889	7,105,942
TOTAL ASSETS	$ 551,052,071	$ 550,375,136
LIABILITIES AND SHAREHOLDERS' EQUITY		

LIABILITIES		
Deposits		
Non-interest bearing	$ 35,592,514	$ 37,955,148
Interest bearing	358,963,445	339,684,397
Total deposits	394,555,959	377,639,545
Federal Home Loan Bank borrowings	67,624,576	59,441,367
Securities sold under agreements to repurchase	27,000,000	54,000,000
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Accrued expenses and other liabilities	3,776,291	2,841,736
Total liabilities	503,256,826	504,222,648

SHAREHOLDERS' EQUITY				
Common stock, $1 stated value, 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		34,464,394		32,072,536
Accumulated other comprehensive loss		(1,354,744)		(1,352,031)
Treasury stock, 238,652 shares at September 30, 2007 and 192,508 shares at December 31, 2006, at cost		(3,734,623)		(2,988,235)
Total shareholders' equity		47,795,245		46,152,488
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	551,052,071	$	550,375,136

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
INTEREST INCOME				
Loans, including fees	$6,905,976	$6,313,263	$20,182,233	$17,890,315
Securities:				
Taxable	1,243,628	1,563,839	4,175,449	4,850,833
Tax-exempt	459,789	477,990	1,389,679	1,412,614
Other	61,368	15,401	188,366	29,431
Total interest income	8,670,761	8,370,492	25,935,727	24,183,193
INTEREST EXPENSE				
Deposits	3,073,250	2,404,069	8,900,305	6,504,667
Other borrowings	1,249,187	1,694,387	4,165,280	4,623,180
Total interest expense	4,322,437	4,098,456	13,065,585	11,127,847
NET INTEREST INCOME	4,348,324	4,272,036	12,870,142	13,055,346
PROVISION FOR LOAN LOSSES	175,000	-	400,000	140,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,173,324	4,272,036	12,470,142	12,915,346
NON-INTEREST INCOME				
Gain on sales of loans	80,782	104,011	241,573	244,651
Gain from sale of credit card portfolio	-	-	355,366	-
Loss on sales of securities	(93)	(89)	(224,038)	(4,090)
Loss on mortgage servicing rights	(381,996)	-	(319,555)	-
Other	832,933	729,897	2,258,540	2,087,967
Total non-interest income	531,626	833,819	2,311,886	2,328,528
NON-INTEREST EXPENSES	3,578,223	3,454,309	10,547,482	10,559,119
Income before income taxes	1,126,727	1,641,546	4,234,546	4,684,755
PROVISION FOR INCOME TAXES	192,000	353,000	868,000	962,000

NET INCOME	$934,727	$1,298,546	$3,366,546	$3,722,755
	========	========	========	========
NET INCOME PER SHARE				
Basic	$ 0.27	$ 0.36	$ 0.95	$ 1.03
Weighted average common shares outstanding	3,523,680	3,597,739	3,535,681	3,604,085
Diluted	$ 0.27	$ 0.36	$ 0.95	$ 1.03
Weighted average common shares outstanding	3,525,057	3,599,934	3,537,590	3,612,625

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Consolidated Statements of Shareholders Equity (Unaudited)

Nine months ended September 30, 2007 and 2006

		Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Los
BALANCE AT DECEMBER 31, 2006	$	3,760,557	14,659,661	32,072,536	(1,352,031
Cumulative effect of change in accounting principle				519,152	
Net income				3,366,546	
Change in unrealized loss on securities,					
net of tax					(2,713
Total comprehensive income					
Dividends declared ($0.42 per share)				(1,479,485)	
7,856 shares issued from treasury in connection with the Corporation s Employee Stock Purchase Plan				(14,355)	
Purchase of 54,000 common shares					
BALANCE AT SEPTEMBER 30, 2007	$	3,760,557	14,659,661	34,464,394	(1,354,744
BALANCE AT DECEMBER 31, 2005	$	3,760,557	14,651,596	29,026,911	(1,521,648
Net income				3,722,755	
Change in unrealized loss on securities,					
net of tax					(22,285
Total comprehensive income					
Dividends declared ($0.39 per share)				(1,404,639)	

Exercise of Stock Options (9,802 shares)			8,065		
7,975 shares issued from treasury in connection with the					
Corporation s Employee Stock Purchase Plan				(12,045)	
Purchase of 44,177 common shares					
BALANCE AT SEPTEMBER 30, 2006	$	3,760,557	14,659,661	31,332,982	(1,543,933

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine months ended September 30, 2007	2006
Cash flows from operating activities	$ 4,468,798	$ 3,122,504
Cash flows from investing activities:		
Purchases of available-for-sale securities, net of proceeds from sales or maturities	28,179,855	8,596,673
Proceeds from sale of premises and equipment	49,545	-
Net increase in loans	(15,144,674)	(24,796,812)
Expenditures for premises and equipment	(1,855,795)	(227,368)
Net cash from investing activities	11,228,931	(16,427,507)
Cash flows from financing activities:		
Net change in deposits	16,916,414	7,740,626
Long-term borrowings, net of repayments	(18,816,791)	6,942,478
Purchase of treasury shares	(869,900)	(697,194)
Proceeds from issuance of common stock	108,157	110,008
Cash dividends paid	(1,479,485)	(1,404,639)
Net cash from financing activities	(4,141,605)	12,691,279
Net change in cash and cash equivalents	11,556,124	(613,724)
Cash and cash equivalents:		
At beginning of period	12,310,619	10,114,368
At end of period	$ 23,866,743	$ 9,500,644

Cash paid for:

Interest	$	13,125,074	$	10,969,421
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Income taxes	$	785,000	$	945,000
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See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2007

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 nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, The Union Bank Company (Union). Effective February 1, 2007, Union 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. 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

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets, an Amendment of FASB Statement 140" (Statement 156). Statement 156 amends Statement 140 with respect to separately recognized servicing assets and liabilities. Statement 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract and requires all servicing assets and liabilities to be initially measured at fair value, if practicable. Statement 156 also permits entities to subsequently measure servicing assets and liabilities using an amortization method or fair value measurement method. Under the amortization method, servicing assets and liabilities are amortized in proportion to and over the estimated period of servicing. 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.

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).

During the quarter and nine month period ended September 30, 2007, the Corporation recognized a decrease in the fair value of mortgage servicing rights of $382,000 and $320,000, respectively, and such amounts are reported in non-interest income in the accompanying 2007 consolidated statements of income.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation adopted FIN 48 as of January 1, 2007, and the adoption had no impact on the Corporation s consolidated financial statements.

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Opinion for Financial Assets and Financial Liabilities (Statement 159). Statement 159 provides an option to report selected financial assets and liabilities at fair value. Statement 159 requires additional information that will help investors and other users of financial statements to more easily understand the effect of an entity s choice to use fair value on its earnings. Statement 159 also requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. Statement 159 does not eliminate disclosure requirements included in other accounting standards.

Statement 159 is effective as of the beginning of the fiscal year for fiscal years beginning after November 15, 2007. Early adoption is permitted provided, among other things, an entity elects to adopt within the first 120 days of that fiscal year. The Corporation does not anticipate adopting Statement 159 before the required implementation date of January 1, 2008. The Corporation has not yet determined the impact Statement 159 might have on its consolidated financial statements upon adoption.

Note 3 Sale of Credit Card Portfolio

Effective March 31, 2007, Union 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 Union s former credit card customers with credit cards branded with the Union name. Based on the purchase price, as defined in the agreement, Union recognized a gain on sale of the credit card portfolio of $355,366 ($234,542 net of tax, or $.07 basic earnings per share).

Note 4 - Securities

The amortized cost and fair value of available-for-sale securities as of September 30, 2007 and December 31, 2006 are as follows (dollars in thousands):

	September 30, 2007		**December 31, 2006**	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
U.S. Treasury and Agencies	$ 14,208	$ 14,119	$ 29,668	$ 29,094
Obligations of states and political subdivisions	44,423	43,923	45,301	45,878
Mortgage-backed	83,061	81,597	95,101	93,049
Other	53	53	53	53
Total	$ 141,745	$ 139,692	$ 170,123	$ 168,074

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A summary of gross unrealized gains and losses on available-for-sale securities at September 30, 2007 and December 31, 2006 follows (dollars in thousands):

	September 30, 2007		December 31, 2006	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
U.S. Treasury and agencies	$ 2	$ 91	$ 0	$ 574
Obligations of states and political subdivisions	168	668	678	101
Mortgage-backed	27	1,491	23	2,075
Total	$ 197	$ 2,250	$ 701	$ 2,750
	========	=======	=======	=======

Note 5 - Other Comprehensive Loss

The components of other comprehensive loss and related tax effects are as follows for the nine-month periods ended September 30, 2007 and 2006 (dollars in thousands):

	2007	2006
Unrealized holding losses on available-for-sale securities	$ (229)	$ (37)
Reclassification adjustments for securities losses realized to income	224	4
Net unrealized losses	(5)	(33)
Tax effect	(2)	(11)
Net-of-tax amount	$ (3)	$ (22)
	=======	======

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 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 $480,000 for the nine-month periods ended September 30, 2007 and 2006 and is included in interest expense-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, the securities cannot be used to constitute more than 25% of the Corporation s core tax Tier I capital under Federal Reserve Board guidelines inclusive of these securities.

ITEM 2

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

SELECTED FINANCIAL DATA

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

	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2007	2006	2007	2006
SIGNIFICANT RATIOS (Unaudited)				
Net income to:				
Average assets (a)	0.69%	0.95%	0.81%	0.92%
Average shareholders equity (a)	7.92%	11.77%	9.57%	11.37%
Net interest margin (a)	3.73%	3.57%	3.59%	3.66%
Efficiency ratio (b)	69.93%	64.54%	66.35%	65.54%
Average shareholders equity to average assets	8.73%	8.07%	8.50%	8.07%
Loans to deposits (end of period) (c)	88.70%	91.67%	88.70%	91.67%
Allowance for loan losses to loans (end of period) (d)	0.59%	0.70%	0.59%	0.70%
Cash dividends to net income	52.60%	35.99%	43.95%	37.73%
Book value per share	$ 13.57	$ 12.70	$ 13.57	$ 12.70

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

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

(c) Includes loans held for sale.

(d) Excludes loans held for sale.

Introduction

United Bancshares, Inc. (the Corporation), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. The Corporation is a one-bank holding company, as that term is defined by the Federal Reserve Board.

The Union Bank Company (Union), a wholly-owned subsidiary of the Corporation, is engaged in the business of commercial banking. 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.

Union 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, credit card services, safe deposit box rentals, and other personalized banking services. Effective February 1, 2007, Union formed UBC Investments, Inc. (UBC) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware.

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

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

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

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

RESULTS OF OPERATIONS

Overview of the Income Statement

For the quarter ended September 30, 2007, the Corporation reported net income of $935,000, or $0.27 basic earnings per share. This compares to third quarter 2006 net earnings of $1,299,000, or $0.36 basic earnings per share. Compared with the same period in 2006, third quarter 2007 net income decreased $364,000 or 28.0%. The $364,000 decrease for the quarter was primarily the result of a $382,000 decrease in fair value of mortgage servicing rights, $96,000 (net of insurance recovery) of expenses resulting from a flood at the Corporation s Ottawa facility, and an increase of $175,000 in the provision for loan losses, offset by an increase of $76,000 in net interest income, an $80,000 increase in other non-interest income, and a decrease in the provision for income taxes of $161,000.

Net income for the nine months ended September 30, 2007, totaled $3,367,000, or $0.95 basic earnings per share compared to net income of $3,723,000, or $1.03 basic earnings per share for the same period in 2006. The decrease in net income for the nine month period was primarily the result of a $320,000 decrease in fair value of mortgage servicing rights, the aforementioned flood loss, a decrease of $185,000 in net interest income, an increase in the provision for loan losses of $260,000, and a $224,000 loss on sale of securities, offset by a $355,000 gain on sale of the credit card portfolio, an increase of $172,000 in other non-interest income, and a decrease in the provision for income taxes of $94,000.

Interest Income and Expense

Net interest income is the amount by which interest income from interest-earning assets exceeds i