

UNITED BANCSHARES INC/OH
Form 10-Q
July 27, 2017

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, 2017

Commission file number 333-86453

UNITED BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

105 Progressive Drive, Columbus Grove, Ohio

(Address of principal executive offices)

34-1516518

(I.R.S. Employer Identification Number)

45830

(Zip Code)

(419) 659-2141

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2017:
3,267,049.

This document contains 45 pages. The Exhibit Index is on page 39 immediately preceding the filed exhibits.

UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS****United Bancshares, Inc. and Subsidiaries**

Consolidated Balance Sheets (Unaudited)

	(in thousands except share data)	
	June 30, 2017	December 31, 2016
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	\$9,663	\$9,926
Interest-bearing deposits in other banks	3,247	4,260
Total cash and cash equivalents	12,910	14,186
SECURITIES, available-for-sale	183,975	190,205
FEDERAL HOME LOAN BANK STOCK, at cost	4,830	4,830
CERTIFICATES OF DEPOSIT, at cost	1,245	1,494
LOANS HELD FOR SALE	1,465	1,510
LOANS AND LEASES	384,311	376,086
Less allowance for loan and lease losses	2,829	3,345
Net loans and leases	381,482	372,741
PREMISES AND EQUIPMENT, net	17,008	13,395
GOODWILL	10,072	10,072
CORE DEPOSIT INTANGIBLE ASSETS, net	708	766
CASH SURRENDER VALUE OF LIFE INSURANCE	17,548	17,351
OTHER REAL ESTATE OWNED	344	578
OTHER ASSETS, including accrued interest receivable	5,091	5,991
TOTAL ASSETS	\$636,678	\$633,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	\$96,137	\$98,134
Interest bearing	441,166	426,546
Total deposits	537,303	524,680
Other borrowings	7,571	18,774
Junior subordinated deferrable interest debentures	12,823	12,806
Other liabilities	3,424	4,301
Total liabilities	561,121	560,561
SHAREHOLDERS' EQUITY		

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Common stock, stated value \$1.00, authorized 10,000,000 shares; issued 3,760,557 shares	3,761	3,761
Surplus	14,713	14,674
Retained earnings	64,511	62,717
Accumulated other comprehensive income (loss)	291	(866)
Treasury stock, at cost, 493,508 shares at June 30, 2017 and 494,040 shares at December 31, 2016	(7,719)	(7,728)
Total shareholders' equity	75,557	72,558
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$636,678	\$633,119

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

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	(in thousands except share data)			
	Three months ended		Six months ended June	
	June 30,	2016	30,	2016
	2017		2017	
INTEREST INCOME				
Loans and leases, including fees	\$4,788	\$4,283	\$9,132	\$8,482
Securities:				
Taxable	619	534	1,252	1,071
Tax-exempt	429	404	846	834
Other	84	82	158	161
Total interest income	5,920	5,303	11,388	10,548
INTEREST EXPENSE				
Deposits	475	426	907	812
Borrowings	175	131	352	259
Total interest expense	650	557	1,259	1,071
Net interest income	5,270	4,746	10,129	9,477
CREDIT FOR LOAN AND LEASE LOSSES	-	(300)	(350)	(700)
Net interest income after credit for loan and lease losses	5,270	5,046	10,479	10,177
NON-INTEREST INCOME				
Gain on sale of loans	114	138	231	207
Net securities gains (losses)	(1)	16	81	136
Other operating income	1,012	909	2,073	1,838
Total non-interest income	1,125	1,063	2,385	2,181
NON-INTEREST EXPENSES	4,889	4,361	9,522	8,917
INCOME BEFORE INCOME TAXES	1,506	1,748	3,342	3,441
PROVISION FOR INCOME TAXES	321	412	763	798
NET INCOME	\$1,185	\$1,336	\$2,579	\$2,643
NET INCOME PER SHARE (basic and diluted)	\$0.36	\$0.40	\$0.79	\$0.80
Weighted average common shares outstanding (basic)	3,267,049	3,296,922	3,267,020	3,299,064
Weighted average common shares outstanding (diluted)	3,271,506	3,296,922	3,271,477	3,299,064

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

United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

	(in thousands) Three months ended June 30,		(in thousands) Six months ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$1,185	\$1,336	\$2,579	\$2,643
OTHER COMPREHENSIVE INCOME				
Unrealized gains on securities:				
Unrealized holding gains during period	1,190	1,085	1,834	3,261
Reclassification adjustments for (gains) losses included in net income	1	(16)	(81)	(136)
Other comprehensive income, before income taxes	1,191	1,069	1,753	3,125
Income tax expense related to items of other comprehensive income	405	364	596	1,062
Other comprehensive income	786	705	1,157	2,063
COMPREHENSIVE INCOME	\$1,971	\$2,041	\$3,736	\$4,706

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

United Bancshares, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (Unaudited)

Six months ended June 30, 2017 and 2016

	(in thousands except share data)					
	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
BALANCE AT DECEMBER 31, 2016	\$3,761	\$14,674	\$62,717	\$ (866)	\$ (7,728)	\$72,558
Comprehensive income:						
Net income	-	-	2,579	-	-	2,579
Other comprehensive income	-	-	-	1,157	-	1,157
532 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	4	-	-	9	13
Stock option expense	-	35	-	-	-	35
Cash dividends declared, \$0.24 per share	-	-	(785)	-	-	(785)
BALANCE AT JUNE 30, 2017	\$3,761	\$14,713	\$64,511	\$ 291	\$ (7,719)	\$75,557
BALANCE AT DECEMBER 31, 2015	\$3,761	\$14,669	\$58,642	\$ 1,397	\$ (6,908)	\$71,561
Comprehensive income:						
Net income	-	-	2,643	-	-	2,643
Other comprehensive income	-	-	-	2,063	-	2,063
Repurchase of 12,901 shares	-	-	-	-	(216)	(216)
307 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan	-	2	-	-	5	7
Cash dividends declared, \$0.22 per share	-	-	(726)	-	-	(726)
BALANCE AT JUNE 30, 2016	\$3,761	\$14,671	\$60,559	\$ 3,460	\$ (7,119)	\$75,332

United Bancshares, Inc. and Subsidiaries

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Six months ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	\$2,207	\$1,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, calls and maturities of available-for-sale securities	30,270	16,964
Purchases of available-for-sale securities	(22,631)	(16,035)
Proceeds from certificates of deposit	249	-
Proceeds from sale of other real estate owned	252	123
Net increase in loans and leases	(8,363)	(4,937)
Purchases of premises and equipment	(3,908)	(11)
Net cash used in investing activities	(4,131)	(3,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	12,623	(6,440)
Change in other borrowings	(11,203)	9,961
Purchase of treasury shares	-	(216)
Proceeds from sale of treasury shares	13	7
Cash dividends paid	(785)	(726)
Net cash provided by financing activities	648	2,586
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,276)	18
CASH AND CASH EQUIVALENTS		
At beginning of period	14,186	22,922
At end of period	\$12,910	\$22,940
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid during the period for:		
Interest	\$1,208	\$1,024
Federal income taxes	\$425	\$240
Non-cash investing activities:		
Transfer of loans to other real estate owned	\$28	\$644
Change in net unrealized gain or loss on available-for-sale securities	\$1,753	\$3,125

The accompanying notes are an integral part of the consolidated financial

statements.

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United Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2017

NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of United Bancshares, Inc. and subsidiaries (the “Corporation”) have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The balance sheet as of December 31, 2016 is derived from completed audited consolidated financial statements with footnotes, which are included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2016.

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. (“UBC Property”), to hold and manage certain property. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Corporation conform to generally accepted practices within the banking industry. The Corporation considers all of its principal activities to be banking related.

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The guidance does not apply to revenues associated with financial instruments, including loans and securities that are accounted for under U.S. GAAP. The Corporation does not expect the guidance will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, amending ASU Subtopic 825-10. The amendments in this update make targeted improvements to generally accepted accounting principles (GAAP) as follows: 1) Require equity investments to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; 4) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 5) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 6) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 7) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and 8) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The Corporation has begun gathering data and is currently assessing the impact that this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASC requires that both types of leases be recognized on the balance sheet. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Corporation's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). ASU 2016-09 is intended to simplify the accounting for share-based payment transactions, including income tax consequences, classification of awards as either assets or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Corporation does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. Management has begun the process of determining the potential impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The guidance in this update eliminates the Step 2 from the goodwill impairment test. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual goodwill impairment test with a measurement date after January 1, 2017. The Corporation does not expect the guidance to have a material impact on the consolidated financial statements

NOTE 3 – SECURITIES

The amortized cost and fair value of available-for-sale securities as of June 30, 2017 and December 31, 2016 are as follows:

	(in thousands)			
	June 30, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Obligations of states and political subdivisions	\$70,389	\$71,392	\$70,757	\$70,624
Mortgage-backed	112,143	111,592	119,758	118,595
Other	1,002	991	1,002	986
Total	\$183,534	\$183,975	\$191,517	\$190,205

A summary of gross unrealized gains and losses on available-for-sale securities as of June 30, 2017 and December 31, 2016 follows:

	June 30, 2017		December 31, 2016	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Available-for-sale:				
Obligations of states and political subdivisions	\$1,256	\$ 253	\$644	\$ 777
Mortgage-backed	608	1,159	769	1,932
Other	-	11	-	16
Total	\$1,864	\$ 1,423	\$1,413	\$ 2,725

NOTE 4 – LOANS AND LEASES

The following tables present the activity in the allowance for loan and lease losses by portfolio segment for the periods ending June 30, 2017 and 2016:

	(in thousands)				
	Commercial		Residential		
	Commercial	and multi-	1 – 4 family	Consumer	Total
	family real	family real	real estate		
	estate				
Balance at December 31, 2016	\$896	\$ 1,876	\$ 542	\$ 31	\$3,345
Provision (credit) charged to expenses	(274)	(136)	37	23	(350)
Losses charged off	(30)	(493)	(27)	(23)	(573)
Recoveries	76	319	6	6	407
Balance at June 30, 2017	\$668	\$ 1,566	\$ 558	\$ 37	\$2,829

	Commercial				
	Commercial		Residential		
	Commercial	and multi-	1 – 4 family	Consumer	Total
	family real	family real	real estate		
	estate				
Balance at December 31, 2015	\$ 893	\$ 2,540	\$ 373	\$ 28	\$3,834
Provision (credit) charged to expenses	106	(809)	7	(4)	(700)
Losses charged off	-	(11)	(24)	(8)	(43)
Recoveries	18	251	-	8	277
Balance at June 30, 2016	\$ 1,017	\$ 1,971	\$ 356	\$ 24	\$3,368

The following tables present the balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and based on impairment method for the periods ending June 30, 2017 and December 31, 2016:

(in thousands)

June 30, 2017 Commercial Commercial