UNITED BANCSHARES INC/OH
Form 10-Q
November 04, 2011

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, 2011

Commission file number 000-29283

UNITED BANCSHARES, INC.
(Exact name of Registrant as specified in its charter)

Ohio
(State or other jurisdiction of incorporation or organization)

100 S. High Street, Columbus Grove, Ohio
(Address of principal executive offices)

34-1516518
(I.R.S. Employer Identification Number)

45830
(Zip Code)

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

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

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

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

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

Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 14, 2011: 3,445,679

This document contains 44 pages. The Exhibit Index is on page 38 immediately preceding the filed exhibits.

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UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

United Bancshares, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$7,013,453	$8,253,990
Interest-bearing deposits in other banks	38,376,532	40,349,646
Federal funds sold	526,439	-
Total cash and cash equivalents	45,916,424	48,603,636
SECURITIES, available-for-sale	152,507,095	140,440,361
FEDERAL HOME LOAN BANK STOCK, at cost	4,893,800	4,893,800
LOANS	349,569,167	383,907,387
Less allowance for loan losses	(8,442,101)	(8,016,786)
Net loans	341,127,066	375,890,601
PREMISES AND EQUIPMENT, net	9,608,871	9,933,432
GOODWILL	8,554,979	8,554,979
CASH SURRENDER VALUE OF LIFE INSURANCE	13,220,494	12,894,671
OTHER REAL ESTATE OWNED	3,294,500	4,524,729
OTHER ASSETS, including accrued interest receivable and other intangible assets	5,582,405	6,880,346
TOTAL ASSETS	$584,705,634	$612,616,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	$55,173,150	$50,404,847
Interest bearing	426,112,940	438,245,779
Total deposits	481,286,090	488,650,626
Other borrowings	31,260,780	55,777,834
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Accrued expenses and other liabilities	3,312,711	2,883,032
Total liabilities	526,159,581	557,611,492
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	14,660,579	14,660,000
Retained earnings	41,601,465	39,600,718
Accumulated other comprehensive income	3,338,268	1,810,684
Treasury stock, 314,878 shares at September 30, 2011 and 315,668 shares at December 31, 2010, at cost	(4,814,816)	(4,826,896)
Total shareholders' equity	58,546,053	55,005,063
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$584,705,634	$612,616,555

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,	
	2011	2010	2011	2010
INTEREST INCOME				
Loans, including fees	$5,147,788	$6,049,849	$16,190,060	$18,409,873
Securities:				
Taxable	800,111	952,278	2,567,595	3,059,246
Tax-exempt	481,889	500,674	1,462,628	1,496,057
Other	20,760	19,076	67,457	57,828
Total interest income	6,450,548	7,521,877	20,287,740	23,023,004
INTEREST EXPENSE				
Deposits	1,422,020	1,510,361	4,248,446	4,800,062
Other borrowings	360,361	591,481	1,423,500	2,174,378
Total interest expense	1,782,381	2,101,842	5,671,946	6,974,440
NET INTEREST INCOME	4,668,167	5,420,035	14,615,794	16,048,564
PROVISION FOR LOAN LOSSES	1,400,000	1,900,000	3,975,000	4,500,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,268,167	3,520,035	10,640,794	11,548,564
NON-INTEREST INCOME				
Gain on sales of loans	62,813	285,663	276,220	475,083
Gain on sales of securities	252,935	274,946	892,926	276,081
Change in fair value of mortgage servicing rights	(317,539)	18,881	(263,253)	(378,477)
Other	809,302	666,135	2,101,728	2,043,552
Total non-interest income	807,511	1,245,625	3,007,621	2,416,239
NON-INTEREST EXPENSES	3,992,379	3,763,253	11,592,668	11,618,965
Income before income taxes	83,299	1,002,407	2,055,747	2,345,838
PROVISION (CREDIT) FOR INCOME TAXES	(164,000)	123,000	55,000	136,000
NET INCOME	$247,299	$879,407	$2,000,747	$2,209,838
NET INCOME PER SHARE				
Basic	$0.07	$0.26	$0.58	$0.64
Weighted average common shares outstanding	3,445,662	3,444,856	3,445,399	3,444,641
Diluted	$0.07	$0.26	$0.58	$0.64
Weighted average common shares outstanding	3,445,662	3,444,856	3,445,399	3,444,641

See notes to consolidated financial statements

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United Bancshares, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)
Nine months ended September 30, 2011 and 2010

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE AT DECEMBER 31, 2010	$ 3,760,557	14,660,000	39,600,718	1,810,684	(4,826,896)	$ 55,005,063
Net income			2,000,747			2,000,747
Change in unrealized gain on available-for-sale securities, net of income taxes				1,527,584		1,527,584
Total comprehensive income						3,528,331
790 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan		579			12,080	12,659
BALANCE AT SEPTEMBER 30, 2011	$ 3,760,557	14,660,579	41,601,465	3,338,268	(4,814,816)	$ 58,546,053
BALANCE AT DECEMBER 31, 2009	$ 3,760,557	14,659,661	38,343,134	2,359,821	(4,844,068)	$ 54,279,105
Net income			2,209,838			2,209,838
Change in unrealized loss on available-for-sale securities, net of income taxes				1,401,081		1,401,081
Total comprehensive income						3,610,919
Dividends declared ($0.45 per share)			-1,550,098			-1,550,098
1,123 shares issued from treasury in connection with the Corporation's Employee Stock		339			17,172	17,511

Purchase Plan						
BALANCE AT SEPTEMBER 30, 2010	$ 3,760,557	14,660,000	39,002,874	3,760,902	(4,826,896)	$ 56,357,437

See notes to consolidated financial statements

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United Bancshares, Inc. and Subsidiaries
Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine months ended September 30,	
	2011	2010
Cash flows provided by operating activities	$6,693,659	$7,729,675
Cash flows provided by investing activities:		
Proceeds from calls or maturities of securities	26,558,683	27,354,405
Proceeds from sales of available-for-sale securities	18,370,945	9,130,745
Purchases of available-for-sale securities	(54,211,917)	(40,597,943)
Net decrease in loans	30,290,535	9,159,279
Cash received from branch acquisition	-	22,260,144
Proceeds from sale of other real estate owned	1,655,911	2,055,725
Expenditures for premises and equipment	(67,097)	(276,843)
Net cash provided by investing activities	22,597,060	29,085,512
Cash flows provided by financing activities:		
Net change in deposits	(7,473,536)	2,367,729
Long-term borrowings, net of repayments	(24,517,054)	(27,302,621)
Proceeds from issuance of common stock	12,659	17,511
Cash dividends paid	-	(1,550,098)
Net cash used in financing activities	(31,977,931)	(26,467,479)
Net change in cash and cash equivalents	(2,687,212)	10,347,708
Cash and cash equivalents:		
At beginning of period	48,603,636	27,379,889
At end of period	$45,916,424	$37,727,597
Cash paid for:		
Interest	$5,721,149	$7,385,684
Income taxes	$-	$475,000
Non-cash investing activities:		
Change in net unrealized gain on available-for-sale securities	$2,314,521	$2,122,849
Transfer of loans to other real estate owned	$498,000	$658,000

See notes to consolidated financial statements

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United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

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 nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

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 properties that may be acquired in lieu of foreclosure. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Corporation conform to generally accepted practices within the banking industry. The Corporation considers all of its principal activities to be banking related.

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

ASU 2011-01, Deferral of the Effective Date of Disclosures about TDR in Update No. 2010-20, deferred additional disclosures regarding TDR required by ASU 2010-20 until ASU 2011-02 was issued. For interim and annual periods beginning after June 15, 2011 entities are required to enhance existing disclosures about the allowance for credit losses and the credit quality of financing receivables to include, at minimum, the nature and extent of a creditor’s TDR and financing receivables modified as TDR within the previous period that defaulted. The Corporation has provided the additional disclosures required regarding TDRs in Note 5.

In January 2010, The Financial Accounting Standards Board (FASB) issued ASU 2010-06, Improving Disclosures about Fair Value Measurements, amending ASC Subtopic 820-10 to require disclosure of transfers in and out of levels 1 and 2 fair value measurement categories and activity in level 3 fair value measurement category. Additionally, the guidance amends existing disclosure requirements on level of disaggregation and inputs and valuation techniques. These disclosures are required for fiscal periods beginning after December 15, 2009, and for interim periods within those fiscal years except for activity in the level 3 fair value measurement category which is effective for annual and interim periods beginning after December 15, 2010. The Corporation has provided the additional disclosure required by ASU 2010-06 in Note 8. Additionally, in May 2011, FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs to ensure that fair value has the same meaning in U.S. GAAP and IFRSs and that their respective fair value measurement and disclosure requirements are the same. The Amendments of ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The Corporation does not believe that this will have an impact on the financial statements or disclosures.

In April 2011, FASB issued ASU 2011-02, A Creditors Determination of whether a Restructuring Is a Troubled Debt Restructuring. The new guidance clarifies when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of accounting principles generally accepted in the United States of America. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. Additionally, the guidance clarifies that a creditor is precluded from using the effective interest rate test in the debtor’s guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. Management has determined that there has been no significant change in the amount of loan modifications or restructurings classified as TDRs as a result of clarification provided in ASU 2011-02.

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

In April 2011, FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The new guidance was issued to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011. The Corporation does not believe that this will have an impact on the financial statements or disclosures.

In June, 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income, an amendment to Subtopic 220-10. The guidance was issued to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and are not expected to have a significant impact on the Corporation's financial statements.

In September, 2011, FASB issued ASU 2011-08, Testing Goodwill for Impairment, an amendment to Subtopic 350-20. The objective of this update is to simplify how entities test goodwill for impairment by permitting entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted for annual or interim periods that have not yet been issued. The Corporation has not yet determined whether to early adopt the amendment, but it is not expected to have an impact on the Corporation's financial statements.

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, net of final settlement paid to seller	$	22,260,144
Loans		1,804,505
Bank premises		1,021,000
Goodwill		1,272,966
Core deposit intangible asset		286,000
	$	26,644,615
Deposits assumed	$	26,644,615

Cash proceeds from the branch acquisition were used to fund $10.0 million of brokered certificates of deposit and $16.5 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.

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale securities as of September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

	September 30, 2011		December 31, 2010	
	Amortized cost	Fair value	Amortized cost	Fair value
U.S. Government and Agencies	$7,511	$7,503	$-	$-
Obligations of states and political subdivisions	46,580	48,551	46,547	47,298
Mortgage-backed	92,857	95,925	90,648	92,633
Other	502	528	502	509
Total	$147,450	$152,507	$137,697	$140,440

A summary of gross unrealized gains and losses on available-for-sale securities as of September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

	September 30, 2011		December 31, 2010	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
U.S. Government and Agencies	$9	$17	$-	$-
Obligations of states and political subdivisions	2,037	66	989	238
Mortgage-backed	3,080	12	2,529	544
Other	26	-	7	-
Total	$5,152	$95	$3,525	$782

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

NOTE 5 – LOANS

The following table presents the balance and activity in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of and for the period ending September 30, 2011:

	Commercial	Commercial and multi-family real estate	Residential 1 – 4 family real estate	Consumer	Total
Balance at December 31, 2010	$2,886,467	$3,915,323	$886,879	$328,117	$8,016,786
Provision charged to expenses	309,992	3,226,435	636,800	(198,227)	3,975,000
Losses charged off	(470,612)	(2,871,203)	(472,937)	(64,335)	(3,879,087)
Recoveries	15,460	142,082	106,621	65,239	329,402
Balance at September 30, 2011	$2,741,307	$4,412,637	$1,157,363	$130,794	$8,442,101
Allowance for loan losses:					
Attributable to loans individually evaluated for impairment	$692,548	$859,959	$-	$-	$1,552,507
Collectively evaluated for impairment	2,048,759	3,552,678	1,157,363	130,794	6,889,594
Total allowance for loan losses	$2,741,307	$4,412,637	$1,157,363	$130,794	$8,442,101
Loans:					
Individually evaluated for impairment	$4,665,790	$17,842,742	$13,776	$-	$22,522,308
Collectively evaluated for impairment	62,593,112	194,933,114	63,555,975	5,964,658	327,046,859
Total ending loans balance	$67,258,902	$212,775,856	$63,569,751	$5,964,658	$349,569,167

Impaired loans were as follows as of September 30, 2011:

		2011
Loans with no allowance for loan losses allocated	$	12,290,204
Loans with allowance for loan losses allocated		10,232,104

Total impaired loans	$	22,522,308
Amount of the allowance allocated to impaired loans	$	1,552,507

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

The following is a summary of the activity in the allowance for loan losses of impaired loans, which is a part of the Bank's overall allowance for loan losses for the nine month period ended September 30, 2011:

	2011
Balance at beginning of period	$ 691,780
Provision for loan losses	1,200,428
Loans charged-off	(339,701)
Balance at end of period	$ 1,552,507

No additional funds are committed to be advanced in connection with impaired loans.

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2011:

	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:		
Commercial	$199,965	$-
Commercial and multi-family real estate	6,980,561	-
Agriculture	3,690,613	-
Agricultural real estate	1,405,289	-
Consumer	-	-
Residential 1 – 4 family real estate	-	-
With an allowance recorded:		
Commercial	775,212	692,548
Commercial and multi-family real estate	9,456,892	859,959
Agriculture	-	-
Agricultural real estate	-	-
Consumer	-	-
Residential 1 – 4 family real estate	13,776	-
Total	$22,522,308	$1,552,507

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

The following table presents the recorded investment in nonaccrual loans, loans past due over 90 days still on accrual and troubled debt restructurings by class of loans as of September 30, 2011:

	Nonaccrual	Loans past due over 90 days still accruing	Troubled debt restructurings
Commercial	$ 757,618	$ -	$ 882,767
Commercial real estate	16,069,925	1,338	10,281,801
Agriculture	1,362,824	-	2,158,200
Agricultural real estate	1,231,182	-	167,050
Consumer	1,446	2,779	-
Residential real estate	3,104,534	-	57,796
Total	$ 22,527,529	$ 4,117	$ 13,547,614

The following table presents the aging of the recorded investment in past due loans as of September 30, 2011 by class of loans:

	30 – 59 days past due	60 – 89 days past due	Greater than 90 days past due	Total past due	Loans not past due	Total
Commercial	$ 237,706	$ 520,627	$ 49,142	$ 807,475	$ 47,143,995	$ 47,951,470
Commercial real estate	2,528,820	60,739	5,050,810	7,640,369	175,364,036	183,004,405
Agriculture	224,974	82,591	1,326,376	1,633,941	17,673,491	19,307,432
Agricultural real estate	658,558	-	933,945	1,592,503	28,178,948	29,771,451
Consumer	108,565	56,657	2,779	168,001	5,796,657	5,964,658
Residential real estate	1,968,610	603,149	543,165	3,114,924	60,454,827	63,569,751
Total	$ 5,727,233	$ 1,323,763	$ 7,906,217	$ 14,957,213	$ 334,611,954	$ 349,569,167

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to the credit risk. This analysis generally includes loans with an outstanding balance greater than $100,000 and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

- Special Mention: Loans which possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered "potential", versus "defined", impairments to the primary source of loan repayment.

- Substandard: These loans are inadequately protected by the current sound net worth and paying ability of the borrower. Loans of this type will generally display negative financial trends such as poor or negative net worth, earnings or cash flow. These loans may also have historic and/or severe delinquency problems, and bank management may depend on secondary repayment sources to liquidate these loans. The bank could sustain some degree of loss in these loans if the weaknesses remain uncorrected.

- Doubtful: Loans in this category display a high degree of loss, although the amount of actual loss at the time of classification is undeterminable. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally either less than $100,000 or are included in groups of homogenous loans. As of September 30, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not rated
Commercial	$ 59,737,758	$ 3,007,976	$ 3,272,308	$ 1,240,860	$ -
Commercial and multi-family real estate	175,980,875	13,077,386	22,783,650	933,945	-
Residential 1 – 4 family	-	257,525	280,172	-	63,032,054
Consumer	-	3,134	21,693	13,776	5,926,055
Total	$ 235,718,633	$ 16,346,021	$ 26,357,823	$ 2,188,581	$ 68,958,109

United Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential 1 – 4 family and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in non-impaired residential 1 – 4 family and consumer loans based on payment activity as of September 30, 2011:

	Consumer	Residential 1 – 4 family
Performing	$5,960,433	$61,101,481
Nonperforming	4,225	1,916,797
Total	$5,964,658	$63,018,278

Purchased Loans:

From time to time, the Company enters into loan participation agreements to purchase loans and also acquired loans through the Findlay branch acquisition described in Note 3. At September 30, 2011, the Bank held no loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Modifications:

The Company's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period.

When the Company modifies a loan, management evaluates any possible concession based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except with the sole (remaining) source of repayment for the loan in the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at originations.

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The following table includes the recorded investment and number of modifications for TDR loans during the third quarter.

	Number of modifications	Recorded investment	Allowance for loan losses allocated
Troubled Debt Restructurings:			
Commercial Real Estate	3	$ 5,828,529	$ 484,506

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

NOTE 6 – OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the nine month periods ended September 30, 2011 and 2010 (dollars in thousands):

	2011	2010
Unrealized holding gains on available-for-sale securities	$ 3,207	$ 2,399
Reclassification adjustments for securities gains realized in income	(893)	(276)
Net unrealized gains	2,314	2,123
Tax effect	786	722
Net-of-tax amount	$ 1,528	$ 1,401

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NOTE 7 – JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Corporation has formed and invested $300,000 in a business trust, United (OH) Statutory Trust ("United Trust") which is not consolidated by the Corporation. United Trust issued $10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation's capital investment, to purchase $10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures have a stated maturity date of March 26, 2033. As of March 26, 2008, and quarterly thereafter, the debentures may be shortened at the Corporation's option. Interest is payable quarterly at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 3.51% at September 30, 2011 and 3.69% at September 30, 2010. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures approximated $262,000 and $267,000 for the nine month periods ended September 30, 2011 and 2010, 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 8 - 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.

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

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

Financial assets (there were no financial liabilities) measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 include available-for-sale securities, which are all valued using Level 2 inputs, and mortgage servicing rights, amounting to $805,376 at September 30, 2011 and $1,114,126 at December 31, 2010, which are valued using Level 3 inputs. Financial assets (there were no financial liabilities) measured at fair value on a non-recurring basis at September 30, 2011 and December 31, 2010 include other real estate owned, as well as impaired loans approximating $20,969,801 at September 30, 2011 and $14,996,845 at December 31, 2010 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 September 30, 2011 and December 31, 2010.

The table below presents a reconciliation and income statement classification of gains and losses for mortgage servicing rights, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for the nine month period ended September 30, 2011 and year ended December 31, 2010:

	September 30, 2011	December 31, 2010
Balance at beginning of period	$1,114,126	$1,273,525
Gains or losses, including realized and unrealized:		
Disposals – amortization based on loan payments and payoffs	(136,896)	(332,851)
Purchases, issuances, and settlements	91,399	315,039
Other changes in fair value	(263,253)	(141,587)
Balance at end of period	$805,376	$1,114,126

The following is a summary of the changes in other real estate owned measured at fair value on a nonrecurring basis:

Balance as of December 31, 2010	$4,524,729
Transfer of loans	498,000
Impairment	(96,749)

Net Proceeds from sales	(1,631,480)
Balance as of September 30, 2011	$3,294,500

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The following summarizes the changes in impaired loans measured at fair value on a nonrecurring basis:

Balance as of December 31, 2010	$14,996,845
Net changes in impaired loans	7,930,891
Net principal payments and advances	(1,957,935)
Balance as of September 30, 2011	$20,969,801

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 1 or Level 3 at September 30, 2011 or December 31, 2010. There were no gains or losses relating to securities available-for-sale included in earnings before income taxes that were attributable to changes in fair values of securities held at September 30, 2011 or December 31, 2010.

Impaired Loans

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. Due to the significance of the level 3 inputs, impaired loans fair values have been classified as level 3.

Other Real Estate Owned

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less expected selling costs. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3. In accordance with the provisions of ASC 360-10, other real estate owned was written down to its estimated fair value of $3,294,500, resulting in impairment charges of $96,749 which are included in earnings for the nine month period ended September 30, 2011.

Certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Financial assets and financial liabilities, excluding impaired loans and other real estate owned, measured at fair value on a nonrecurring basis were not significant at September 30, 2011 and December 31, 2010.

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NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at September 30, 2011 and December 31, 2010 were as follows (dollars in thousands):

	September 30, 2011		December 31, 2010	
	Carrying amount	Estimated value	Carrying amount	Estimated value
FINANCIAL ASSETS				
Cash and cash equivalents	$45,916	$45,916	$48,604	$48,604
Securities, including Federal Home Loan Bank stock	157,401	157,401	145,334	145,334
Net loans	341,127	341,101	375,891	389,124
Mortgage servicing rights	805	805	1,114	1,114
	$545,249	$545,223	$570,943	$584,176
FINANCIAL LIABILITIES				
Deposits	$481,286	$476,725	$488,651	$492,413
Other borrowings	31,261	34,091	55,778	