

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019
Commission File No.: 000-29283

UNITED BANCSHARES, INC.
(exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of
incorporation or organization)

34-1516518
(I.R.S. Employer I.D. No.)

105 Progressive Drive, Columbus Grove, Ohio 45830
(Address of principal executive offices)

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

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

| Title of each class | Trading Symbol(s) | Name of Each Exchange |
|----------------------------|-------------------|-----------------------|
| Common Stock, No Par Value | UBOH | NASDAQ Global Market |

(Title of class)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$61,317,062, based upon the last sales price as quoted on the NASDAQ Global Market as of June 30, 2019.

The number of shares of Common Stock, no par value outstanding as of January 31, 2020: 3,269,433

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2019 are incorporated by reference into Part II. Portions of the Corporation's definitive proxy statement relating to the Annual Meeting of Shareholders to be held on April 22, 2020 are incorporated by reference into Part III.

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. From time to time, we have made or will make forward-looking statements within the meaning of the Act. These statements do not relate strictly to historical or current facts. Certain information, particularly information regarding future economic performance and finances and plans and objectives of management, contained or incorporated by reference in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, is forward-looking. Forward-looking statements usually can be identified by the use of words such as "goal," "objective," "outlook," "plan," "strategy," "expect," "anticipate," "project," "believe," "estimate," or other words of similar meaning, or by words or phrases indicating that an event or trend "may," "should," "will," "is likely," or that an event or trend is "probable" to occur or "continue," has "begun," "is scheduled," or is "on track." Forward-looking statements provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed with or furnished to the Securities and Exchange Commission (the "SEC").

Forward-looking statements are not historical facts and, by their nature, are subject to assumptions, risks, and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ from those described in forward-looking statements, include, but are not limited to:

- deterioration of commercial real estate market fundamentals;
- defaults by our loan counterparties or trends;
- adverse changes in credit quality trends;
- declining asset prices;
- our ability to accurately estimate collateral values, future levels of nonperforming loans, and other borrower fundamentals as part of our credit review process;
- changes in local, regional and international business, economic or political conditions affecting the regions in which we operate;
- the extensive and increasing regulation of the U.S. financial services industry;
- changes in accounting policies, rules and interpretations;
- increasing capital and liquidity standards under applicable regulatory rules;
- unanticipated changes in our liquidity position, including but not limited to, changes in the cost of liquidity, our ability to enter the financial markets and to secure alternative funding sources;
- our ability to receive dividends from our subsidiary, The Union Bank Company;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- operational or risk management failures by us or critical third-parties;
- adverse judicial proceedings;
- the occurrence of natural or man-made disasters or conflicts or terrorist attacks;
- a reversal of the U.S. economic recovery due to financial, political or other shocks;
- our ability to anticipate interest rate changes and manage interest rate risk;
- deterioration of economic conditions in the geographic regions where we operate;
- the soundness of other financial institutions;
- our ability to attract and retain talented executives and employees and to manage our reputational risks;
- our ability to timely and effectively implement our strategic initiatives; and
- increased competitive pressure due to industry consolidation.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including this report on Form 10-K and our subsequent reports on Form 10-Q and 8-K and any other filings made with the SEC, all of which are or will upon filing be accessible on the SEC's website at www.sec.gov and on our website at www.theubank.com.

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PART I

Item 1. Business

Overview

United Bancshares, Inc. (“UBOH”), an Ohio corporation, organized in 1985, is headquartered in Columbus Grove, Ohio. We are a financial holding company under the Bank Holding Company Act of 1956, as amended (the “BHCA”), with consolidated total assets of \$880.0 million at December 31, 2019. UBOH is regulated as a one-bank holding company by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), and its principal asset and operating subsidiary is The Union Bank Company, an Ohio state chartered commercial bank (“Union Bank”). United Bancshares' primary objective is to be a high-performing, relationship-focused financial institution by concentrating its efforts on serving the financial needs of consumers and small businesses in the communities that it serves. As of December 31, 2019, UBOH and its subsidiary (collectively the “Corporation”) employed approximately 217 full-time equivalent employees.

United Bancshares, Inc.’s common stock has traded on the NASDAQ Global Market under the symbol “UBOH” since March 2001.

The Company's core business operations are conducted through its subsidiary:

Union Bank

Union Bank is an Ohio state-chartered bank supervised by the State of Ohio, Division of Financial Institutions (the “ODFI”), and the Federal Deposit Insurance Corporation (the “FDIC”). Union Bank is a full service community bank offering a full range of commercial and consumer banking services.

Deposit services include checking accounts, savings and money market accounts; certificates of deposit and individual retirement accounts. Additional supportive services include online banking, bill pay, mobile banking, Zelle payment service, ATM’s and safe deposit box rentals. Treasury management and remote deposit capture products are also available to commercial deposit customers. Deposits of Union Bank are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the FDIC.

Loan products offered include commercial and residential real estate loans, agricultural loans, commercial and industrial loans, home equity loans, various types of consumer loans and small business administration loans. Union Bank’s residential loan activities consist primarily of loans for purchasing or refinancing personal residences. The majority of these loans are sold to the secondary market.

Wealth management services are offered by Union Bank through an arrangement with LPL Financial LLC, a registered broker/dealer. Licensed representatives offer a full range of investment services and products, including financial needs analysis, mutual funds, securities trading, annuities and life insurance.

Union Bank’s philosophy is to grow by building long-term relationships based on high quality service, high ethical standards and safe and sound assets. In the operation of its business, Union Bank maintains a strong community orientation. Union Bank’s business model emphasizes personalized service, clients’ access to key decision makers, individualized attention, tailored products, and access to online banking tools. Union Bank’s management has placed a special emphasis on personalized attention to its customers’ needs and accomplishes this by continually working to build and support relationships with customers, local businesses and entrepreneurs. Union Bank empowers employees with the tools, knowledge and support to serve our customers’ needs.

Through our nineteen offices located in Bowling Green, Columbus Grove, Delaware, Delphos, Findlay, Gahanna, Gibsonburg, Kalida, Leipsic, Lima, Marion, Ottawa, Pemberville, Plymouth, Westerville and Worthington Ohio, we serve the Ohio counties of Allen, Delaware, Franklin, Hancock, Huron, Marion, Putnam, Sandusky, Van Wert, and Wood.

Union Bank has two subsidiaries: UBC Investments, Inc. (“UBC”), an entity formed to hold its securities portfolio, and UBC Property, Inc. (“UBC Property”), an entity formed to hold and manage certain property that is acquired in lieu of foreclosure.

Additional information

Our executive offices are located at 105 Progressive Drive, Columbus Grove, OH 45830 and our telephone number is (419) 659-2141. Our website is www.theubank.com.

We make available free of charge, on or through the Investor Relations link on our website (www.theubank.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website and available in print upon request are the charters for our Audit Committee, Compensation, and Nominating Committees and our Senior Officer Code of Ethics. Within the time period required by the SEC and the NASDAQ Global Market, we will post on our website any amendment to the Senior Officer Code of Ethics or the above-referenced governance documents or you may request the documents by writing to our Chief Financial Officer at The Union Bank Co., 105 Progressive Drive, Columbus Grove, OH 45830 or by calling (419) 659-2141.

The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information that the Corporation electronically files with the SEC.

Competition

The Corporation competes for deposits with other commercial banks, savings associations and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. Primary factors in competing for deposits include customer service, interest rates and convenience. In making loans, the Corporation competes with other commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors that are not readily predictable. The financial services industry is likely to become more competitive as further technology advances enable more companies to provide financial services. We compete by offering quality products and innovative services at competitive prices, and by maintaining our products and services offerings to keep pace with customer preferences in the regions that we operate.

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on our core banking products and services. Consolidation continued during 2019, primarily through private merger and acquisition transactions, and led to redistribution of deposits and certain banking assets to other financial institutions. We expect this trend to continue during 2020. We, therefore, expect competition in the markets we serve to intensify with the advent of new technology and consolidation trends. As a matter of course, we continue to evaluate opportunities in the markets we serve or contiguous markets to improve our footprint, while balancing the efficiency of technology.

The Bank's primary market area consists of the Ohio counties of Putnam, Allen, Wood and Marion, in which the Bank currently operates 14 of its 19 total full service banking offices. According to the most recent FDIC Deposit Market Share Report, as of June 30, 2019 there were a total of 25 banking institutions competing in the Bank's primary market area, with the Bank ranking fifth in deposit market share with approximately 9.97% of the aggregate deposits. The Bank operates its remaining five branch banking offices in the Ohio counties of Delaware, Franklin, Hancock and Sandusky.

Supervision and Regulation

General

The following discussion addresses the material elements of the regulatory framework applicable to financial holding companies, like UBOH, and our subsidiary bank, Union Bank. This regulatory framework is intended primarily to protect customers and depositors, the Deposit Insurance Fund (the "DIF") of the FDIC, and the banking system as a whole, rather than for the protection of security holders and creditors. We cannot predict changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on our business, financial condition or results of operations.

UBOH

On October 10, 2018, UBOH elected to become a financial holding company within the meaning of the Bank Holding Company Act of 1956 as amended, in order to provide the flexibility to take advantage of the expanded powers available to a financial holding company under the Act. As a financial holding company, UBOH is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System pursuant to the Bank Holding Company Act of 1956, as amended. As a financial holding company, UBOH is still subject to all material regulations applicable to bank holding companies.

Under the Gramm-Leach-Bliley Act (the "GLB Act"), enacted into law in 1999, a bank holding company that has elected to become a financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Activities that are "financial in nature" include securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the Federal Reserve Board has determined to be closely related to banking. Federal Reserve Board approval is not required for UBOH to acquire a company, other than a bank holding company, bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. Prior Federal Reserve Board approval is required before UBOH may acquire the beneficial ownership or control of more than 5% of the voting shares, or substantially all of the assets, of a bank holding company, bank or savings association. If any subsidiary bank of UBOH ceases to be "well capitalized" or "well managed" under applicable regulatory standards, the Federal Reserve Board may, among other actions, order UBOH to divest the subsidiary bank. Alternatively, UBOH may elect to conform its activities to those permissible for a bank holding company that is not also a financial holding company. If any subsidiary bank of UBOH receives a rating under the Community Reinvestment Act of 1977 of less than "satisfactory," UBOH will be prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations.

Under federal law, bank and financial holding companies must also serve as a "source of financial strength" to their subsidiary depository institutions by providing financial assistance to them in the event of their financial distress. This support may be required when we do not have the resources to, or would prefer not to, provide it. In addition, certain loans by a bank or financial holding company to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank, and federal law provides that in the bankruptcy of a bank or financial holding company, any commitment to a federal bank regulatory agency to maintain the capital of subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Union Bank

As an Ohio state-chartered bank, and a member of the DIF, administered by the FDIC, Union Bank is supervised and regulated by the ODFI and the FDIC. As insurer, the FDIC imposes deposit insurance premiums and conducts examinations of and requires reporting by FDIC-insured institutions under the Federal Deposit Insurance Act, as amended (the "FDIA").

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

As a member of the Federal Home Loan Bank, Union Bank is required to, among other things, maintain an investment in capital stock of the FHLB. Union Bank receives dividends on its investment in FHLB stock. Under certain conditions, secured advances to Union Bank are available from the FHLB to meet operational requirements. Such advances are renewable and can be obtained up to specified dollar amounts. These advances are secured primarily by Union Bank's eligible mortgage loans and FHLB stock.

Current regulatory capital requirements

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to Union Bank. The adequacy of regulatory capital is assessed periodically by federal banking agencies in their examination and supervision processes, and in the evaluation of applications in connection with certain expansion activities.

FDIC-supervised institutions must maintain the following minimum capital ratios:

- Common equity tier 1 capital to total risk-weighted assets ratio of 4.5 percent,
- Tier 1 capital to total risk-weighted assets ratio of 6 percent,
- Total capital to total risk-weighted assets ratio of 8 percent, and
- Tier 1 capital to average total assets ratio (tier 1 leverage ratio) of 4 percent.

FDIC regulations provide that any insured institution which has less than its minimum leverage capital requirement may be deemed to be engaged in an unsafe and unsound practice pursuant to Section 8 of the FDI Act, unless the institution has entered into and is in compliance with a written agreement or has submitted and is in compliance with a plan approved by the FDIC to increase its leverage capital ratio and take other action as may be necessary. FDIC regulations further indicate that any insured depository institution with a tier 1 capital to total assets ratio of less than 2 percent may be deemed to be operating in an unsafe and unsound condition.

Notwithstanding the minimum capital requirements, an FDIC-supervised institution must maintain capital commensurate with the level and nature of all risks to which the institution is exposed. Furthermore, an FDIC supervised institution must have a process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive strategy for maintaining an appropriate level of capital. The FDIC is not precluded from taking formal enforcement actions against an insured depository institution with capital above the minimum requirement if the specific circumstances indicate such action appropriate.

Additionally, FDIC-supervised institutions that fail to maintain capital at or above minimum leverage capital requirements may be issued a capital directive by the FDIC. Capital directives generally require an institution to restore its capital to the minimum leverage requirement within a specified time period.

The Corporation currently satisfies all capital requirements. The junior subordinated deferrable interest debentures issued in 2003 and the trust preferred securities from the acquisition of The Ohio State Bank (“OSB”), as described in Note 10 of the consolidated financial statements contained in the Corporation’s Annual Report, currently qualify as Tier 1 capital for regulatory purposes. However, it is possible that regulations could change so that such securities do not qualify.

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

The FDIA requires the relevant federal banking regulator to take “prompt corrective action” with respect to an FDIC-insured depository institution that does not meet certain capital adequacy standards. Banks and savings associations are classified into one (1) of five (5) categories based upon capital adequacy, ranging from “well-capitalized” to “critically under capitalized.” Restrictions on operations, management and capital distributions begin to apply at “adequately capitalized” status and become progressively stricter as the insured depository institutions approaches “critically under capitalized” status. Generally, the regulations require the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes “under capitalized” and to take additional actions if the institution becomes “significantly under capitalized” or “critically under capitalized.” Effective January 1, 2015, final rules promulgated by the FDIC pursuant to the Dodd-Frank Act, provide that for a depository institution to be considered well-capitalized it must maintain common equity tier 1 capital of at least 6.5%; tier 1 risk-based capital of at least 8%; total risk-based capital of at least 10%; and a tier 1 leverage ratio of at least 5%. As of December 31, 2019, Union Bank has total risk-based capital of 13.3%, tier 1 risk-based capital and CET 1 capital of 12.6%, and tier 1 leverage capital of 9.3%.

While the Prompt Corrective Action requirements only apply to FDIC-insured depository institutions and not to bank or financial holding companies, the mandatory Prompt Corrective Action “capital restoration plan” required of an under capitalized institution by its relevant regulator must be guaranteed to a limited extent by the institution’s parent bank or financial holding company.

In October 2013, the federal banking regulators published final rules establishing a new comprehensive capital framework for U.S. banking organizations (the “Regulatory Capital Rules”). The Regulatory Capital Rules implement the Basel Committee’s December 2010 framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The implementation of the Regulatory Capital Rules has led to higher capital requirements and more restrictive leverage liquidity ratios. In addition, in order to avoid limitations on capital distributions, such as dividend payments and certain bonus payments to executive officers, the Regulatory Capital Rules require insured financial institutions to hold a capital conservation buffer of common equity tier 1 capital above the minimum risk-based capital requirements. The capital conservation buffer has been phased in over time becoming fully effective on January 1, 2019, and consists of an additional amount of common equity equal to 2.5% of risk-weighted assets. The Regulatory Capital Rules also revise the regulatory agencies’ prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of common equity. The Regulatory Capital Rules phase in began on January 1, 2015, for non-advanced approaches banking organizations, like UBOH and Union Bank and has been fully phased in by January 1, 2019. UBOH and Union Bank currently meet all regulatory capital requirements.,

The ability of a bank or financial holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary bank and other subsidiaries. However, the Federal Reserve Board expects the Corporation to serve as a source of strength to its subsidiary bank, which may require it to retain capital for further investment in the subsidiary, rather than for dividends for shareholders of UBOH. The Bank may not pay dividends to UBOH if, after paying such dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval of its regulatory authorities if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year’s net income and the retained net income for the preceding two years, less required transfers to surplus. Payment of dividends by a bank subsidiary may be restricted at any time at the discretion of the regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice. These provisions could have the effect of limiting UBOH’s ability to pay dividends on its outstanding common shares. For more information about the payment of dividends by Union Bank to UBOH, please see Note 15 of the consolidated financial statements contained in the Corporation’s Annual Report.

Federal Deposit Insurance Act

The FDIC’s DIF provides insurance coverage for certain deposits, which insurance is funded through assessments on banks, like Union Bank. Pursuant to the Dodd-Frank Act, the amount of deposit insurance coverage for deposits increased to \$250,000 per depositor. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection act (the “Dodd-Frank Act”), the FDIC has established 2.0% as the designated reserve ratio (the “DRR”), that is, the ratio of the DIF to insured deposits. The Dodd-Frank Act directs the FDIC to amend its assessment regulations so that future assessments will generally be based upon a depository institution’s average total consolidated assets minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution’s insured deposits. The minimum DIF rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of \$10 billion or more. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rule making if required.

Conservatorship and receivership of insured depository institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution’s affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution’s shareholders or creditors. These provisions would apply to obligations and liabilities of UBOH’s insured depository institution subsidiary, including any obligations under senior or subordinated debt issued to public investors.

Depositor preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims of its depositors that have subrogated to the FDIC) and certain claims for administrative expenses of the FDIC as receiver have priority over other general unsecured claims. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will be placed ahead of unsecured, non-deposit creditors, including the institution's parent bank, holding company and subordinated creditors, in order of priority of payment.

The Dodd-Frank Act

The Dodd-Frank Act, enacted in 2010, is complex and several of its provisions are still being implemented. The Dodd-Frank Act established the Consumer Financial Protection Bureau, which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates.

Federal regulators continue to implement provisions of the Dodd-Frank Act. The Dodd-Frank Act created many new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. Currently, federal regulators are still in the process of drafting the implementing regulations for some portions of the Dodd-Frank Act. The Corporation is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with these regulatory requirements. The following discussion summarizes significant aspects of the Dodd-Frank Act that are already affecting or may affect UBOH and Union Bank:

- the Consumer Financial Protection Bureau has been empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws;
- the deposit insurance assessment base for federal deposit insurance has been expanded from domestic deposits to average assets minus average tangible equity;
- the prohibition on the payment of interest on commercial demand deposits has been repealed;
- the standard maximum amount of deposit insurance per customer has been permanently increased to \$250,000;
- new corporate governance requirements require new compensation practices, including, but not limited to, providing shareholders the opportunity to cast a non-binding vote on executive compensation, requiring compensation committees to consider the independence of compensation advisors and meeting new executive compensation disclosure requirements;
- the Federal Reserve Board has established rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion. Although the cap is not applicable to Union Bank, it may have an adverse effect on Union Bank as the debit cards issued by Union Bank and other smaller banks, which have higher interchange fees, may become less competitive;
- "ability to repay" regulations generally require creditors to make a reasonable, good faith determination (considering at least 8 specified underwriting factors) of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage or temporary loan) and provides a presumption that the creditor making a "qualified mortgage" satisfied the ability-to-repay requirements; and
- the authority of the Federal Reserve Board to examine financial holding companies and their non-bank subsidiaries was expanded.

Some aspects of the Dodd-Frank Act are still subject to rulemaking and will take effect in the coming years, making it difficult to anticipate the full financial impact on the Corporation, their respective customers or the financial services industry more generally. However, the implementation of certain provisions have already increased compliance costs and the implementation of future provisions will most likely further increase both compliance costs and fees paid to regulators, along with possibly restricting the operations of the Corporation.

The Bank Secrecy Act (BSA)

The BSA requires all financial institutions (including banks and securities broker-dealers) to, among other things, maintain a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence and know-your-customer documentation requirements. Union Bank has established and maintains an anti-money laundering program to comply with the BSA's requirements.

Bank transactions with affiliates

Federal banking law and regulation imposes qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank's parent holding company and certain companies the parent holding company may be deemed to control for these purposes. Transactions covered by these provisions must be on arm's-length terms, and cannot exceed certain amounts which are determined with reference to the bank's regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the holding company may be required to provide it.

Safety and Soundness Standards

The Federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Other Regulations

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to:

- the Truth-In-Savings Act, governing disclosures of account terms to consumer depositors;
- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the "Electronic Funds Transfer Act" and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Statistical Financial Information Regarding the Corporation

The following schedules and table analyze certain elements of the consolidated balance sheets and statements of income of the Corporation and its subsidiary, as required under Securities Act Industry Guide 3 promulgated by the Securities and Exchange Commission, and should be read in conjunction with the narrative analysis presented in ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION and the Consolidated Financial Statements of the Corporation, both of which are included in the 2019 Annual Report.

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

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

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|-------------------|
| | (in thousands) | | |
| ASSETS | | | |
| Interest-earning assets | | | |
| Securities (1) | | | |
| Taxable | \$ 116,335 | \$ 112,896 | \$ 118,335 |
| Non-taxable | 62,740 | 60,696 | 71,480 |
| Interest-bearing deposits | 20,433 | 8,601 | 6,999 |
| Loans (2) | 582,377 | 540,687 | 421,564 |
| Total interest-earning assets | <u>781,885</u> | <u>722,880</u> | <u>618,378</u> |
| Non-interest-earning assets | | | |
| Cash and due from banks | 8,142 | 9,268 | 9,155 |
| Premises and equipment, net | 18,724 | 19,117 | 16,504 |
| Accrued interest receivable and other assets | 56,798 | 54,906 | 42,160 |
| Allowance for loan losses | (3,856) | (3,182) | (3,033) |
| | <u>\$ 861,693</u> | <u>\$ 802,989</u> | <u>\$ 683,164</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Interest-bearing liabilities | | | |
| Deposits | | | |
| Savings and interest-bearing demand deposits | \$ 382,553 | \$ 367,536 | \$ 323,805 |
| Time deposits | 192,077 | 173,574 | 141,757 |
| Junior subordinated deferrable interest debentures | 12,892 | 12,858 | 12,825 |
| Other borrowings | 60,284 | 60,357 | 23,090 |
| Total interest-bearing liabilities | <u>647,806</u> | <u>614,325</u> | <u>501,477</u> |
| Non-interest-bearing liabilities | | | |
| Demand deposits | 120,227 | 106,877 | 100,148 |
| Accrued interest payable and other liabilities | 7,008 | 5,645 | 5,942 |
| Shareholders' equity (3) | <u>86,652</u> | <u>76,142</u> | <u>75,597</u> |
| | <u>\$ 861,693</u> | <u>\$ 802,989</u> | <u>\$ 683,164</u> |

(1) Securities include securities available-for-sale, which are carried at fair value, and restricted bank stock carried at cost. The average balance includes monthly average balances of fair value adjustments and daily average balances for the amortized cost of securities.

(2) Loan balances include principal balances of non-accrual loans and loans held for sale.

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

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

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

| | Year Ended December 31, | | | | | | | | |
|--|-------------------------|------------------|--------------|-------------------|------------------|--------------|-------------------|------------------|--------------|
| | 2019 | | | 2018 | | | 2017 | | |
| | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate |
| (In Thousands) | | | | | | | | | |
| Interest-earning assets | | | | | | | | | |
| Securities (1) | | | | | | | | | |
| Taxable | \$ 116,335 | \$ 2,601 | 2.24% | \$ 112,896 | \$ 2,573 | 2.28% | \$ 118,335 | \$ 2,403 | 2.03% |
| Non-taxable (2) | 62,740 | 2,157 | 3.44% | 60,696 | 1,971 | 3.25% | 71,480 | 2,549 | 3.57% |
| Loans (3, 4) | 582,377 | 32,867 | 5.64% | 540,687 | 29,722 | 5.50% | 421,564 | 21,305 | 5.05% |
| Interest-bearing deposits | 20,433 | 647 | 3.17% | 8,601 | 513 | 5.96% | 6,999 | 382 | 5.46% |
| Total interest-earning assets | <u>\$ 781,885</u> | <u>\$ 38,272</u> | <u>4.89%</u> | <u>\$ 722,880</u> | <u>\$ 34,779</u> | <u>4.81%</u> | <u>\$ 618,378</u> | <u>\$ 26,639</u> | <u>4.31%</u> |
| INTEREST-BEARING LIABILITIES | | | | | | | | | |
| Deposits | | | | | | | | | |
| Savings and interest-bearing demand deposits | \$ 382,553 | \$ 2,687 | 0.70% | \$ 367,536 | \$ 1,552 | 0.42% | \$ 323,805 | \$ 888 | 0.27% |
| Time deposits | 192,077 | 3,753 | 1.95% | 173,574 | 2,297 | 1.32% | 141,757 | 1,237 | 0.87% |
| Junior subordinated deferrable interest debentures | 12,892 | 728 | 5.65% | 12,858 | 697 | 5.42% | 12,825 | 596 | 4.65% |
| Other borrowings | 60,284 | 1,756 | 2.91% | 60,357 | 1,612 | 2.67% | 23,090 | 397 | 1.72% |
| Total interest-bearing liabilities | <u>\$ 647,806</u> | <u>\$ 8,924</u> | <u>1.38%</u> | <u>\$ 614,325</u> | <u>\$ 6,158</u> | <u>1.00%</u> | <u>\$ 501,477</u> | <u>\$ 3,118</u> | <u>0.62%</u> |
| Net interest income, interest rate spread, tax equivalent basis | | | | | | | | | |
| | | <u>\$ 29,348</u> | <u>3.51%</u> | | <u>\$ 28,621</u> | <u>3.81%</u> | | <u>\$ 23,521</u> | <u>3.69%</u> |
| Net interest margin | | | <u>3.75%</u> | | | <u>3.96%</u> | | | <u>3.80%</u> |

- (1) Securities include securities available-for-sale, which are carried at fair value, and restricted bank stock carried at cost. The average balance includes monthly average balances of fair value adjustments and daily average balances for the amortized cost of securities.
- (2) Computed on tax equivalent basis for non-taxable securities (21% statutory rate for 2019 and 2018 and 34% statutory rate for 2017).
- (3) Loan balances include principal balance of non-accrual loans and loans held for sale.
- (4) Interest income on loans includes fees of \$2,723,000 in 2019, \$2,127,000 in 2018 and \$1,137,000 in 2017.

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

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

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

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

Total variance - change in volume multiplied by the change in rate.

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

Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 21% for 2019 and 2018 and 34% for 2017 in the table that follows:

| | Year Ended December 31, | | | | | |
|--|-------------------------|--------------------------|-------------------|-------------------|--------------------------|---------------|
| | 2019 vs. 2018 | | | 2018 vs. 2017 | | |
| | Total Variance | Variance Attributable To | | Total Variance | Variance Attributable To | |
| | Volume | Rate | | Volume | Rate | |
| (In Thousands) | | | | | | |
| INTEREST INCOME | | | | | | |
| Securities - | | | | | | |
| Taxable | \$ 28 | \$ 77 | \$ (49) | \$ 170 | \$ (114) | \$ 284 |
| Non-taxable | 186 | 68 | 118 | (578) | (1,240) | 662 |
| Loans | 3,145 | 2,337 | 808 | 8,417 | 6,423 | 1,994 |
| Other | 134 | 459 | (325) | 131 | 92 | 39 |
| Subtotal | <u>3,493</u> | <u>2,941</u> | <u>552</u> | <u>8,140</u> | <u>5,161</u> | <u>2,979</u> |
| INTEREST EXPENSE | | | | | | |
| Deposits - | | | | | | |
| Savings and interest-bearing demand deposits | 1,135 | 66 | 1,069 | 664 | 130 | 534 |
| Time deposits | 1,456 | 266 | 1,190 | 1,060 | 320 | 740 |
| Junior subordinated deferrable interest debentures | 31 | 2 | 29 | 472 | 2 | 470 |
| Other borrowings | 144 | (2) | 146 | 844 | 604 | 240 |
| Subtotal | <u>2,766</u> | <u>332</u> | <u>2,434</u> | <u>3,040</u> | <u>1,056</u> | <u>1,984</u> |
| NET INTEREST INCOME | <u>\$ 727</u> | <u>\$ 2,609</u> | <u>\$ (1,882)</u> | <u>\$ 5,100</u> | <u>\$ 4,105</u> | <u>\$ 995</u> |

II. INVESTMENT PORTFOLIO

Union Bank's investment securities portfolio is managed in accordance with a written policy adopted by the Board of Directors and administered by the Investment Committee.

Union Bank's securities portfolio is entirely categorized as available-for-sale. Securities classified as available -for-sale may be sold prior to maturity due to changes in interest rates, prepayment risks or to meet the company's liquidity needs.

A. The carrying amounts of securities available-for-sale as of December 31 are summarized as follows:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|-------------------|
| | | (in thousands) | |
| Obligations of states and political subdivisions | \$ 72,554 | \$ 59,466 | \$ 67,979 |
| Mortgage-backed securities | 110,041 | 106,924 | 100,463 |
| Other | 1,016 | 964 | 986 |
| | <u>\$ 183,611</u> | <u>\$ 167,354</u> | <u>\$ 169,428</u> |

B. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2019 are as follows (1):

| | Maturing | | | | | Total |
|--|------------------------|---|--|--------------------|-------------------|-------|
| | Within One Year | After One Year But Within Five Years | After Five Years But Within Ten Years | After Ten Years | | |
| | (dollars in thousands) | | | | | |
| Obligations of states and political subdivisions | \$ 501 | \$ 6,468 | \$ 13,877 | \$ 51,708 | \$ 72,554 | |
| Mortgage-backed securities (2) | - | 3 | 13,122 | 96,916 | 110,041 | |
| | <u>\$ 501</u> | <u>\$ 6,471</u> | <u>\$ 26,999</u> | <u>\$ 148,624</u> | <u>\$ 182,595</u> | |
| | Weighted Average Yield | | | | | |
| Obligations of states and political subdivisions | 3.74% | 3.18% | 3.17% | 3.53% | 3.43% | |
| Mortgage-backed securities (2) | - | 4.88 | 2.43% | 2.66% | 2.63% | |
| Weighted Average Yield - Portfolio | <u>3.74%</u> | <u>3.40%</u> | <u>2.81%</u> | <u>2.96%</u> | <u>3.15%</u> | |

(1) Table excludes \$1,016,000 of securities having no maturity date.

(2) Maturity based upon estimated weighted-average life.

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

C. There were no securities which exceeded 10% of shareholders' equity at December 31, 2019.

III. LOAN AND LEASE PORTFOLIO

A. Types of Loans and Leases – Total loans and leases, including loans held for sale, are comprised of the following classifications at December 31 for the years indicated:

| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
|---|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | (in thousands) | | | | | | | | | |
| Residential 1-4 family real estate | \$ 138,206 | 23.36% | \$ 127,546 | 22.40% | \$ 123,802 | 24.33% | \$ 90,534 | 23.98% | \$ 78,443 | 22.12% |
| Commercial and multi family real estate | 367,614 | 62.13% | 354,446 | 62.26% | 312,010 | 61.32% | 219,487 | 58.13% | 205,970 | 58.09% |
| Commercial | 77,658 | 13.12% | 80,630 | 14.16% | 68,320 | 13.43% | 63,718 | 16.87% | 66,327 | 18.70% |
| Consumer loans | 8,247 | 1.39% | 6,697 | 1.18% | 4,664 | 0.92% | 3,857 | 1.02% | 3,857 | 1.09% |
| | <u>591,725</u> | <u>100.00%</u> | <u>569,319</u> | <u>100.00%</u> | <u>508,796</u> | <u>100.00%</u> | <u>377,596</u> | <u>100.00%</u> | <u>354,597</u> | <u>100.00%</u> |
| Allowance for loan losses | 4,131 | | 3,527 | | 2,835 | | 3,345 | | 3,834 | |
| Loans, net | <u>\$ 587,594</u> | | <u>\$ 565,792</u> | | <u>\$ 505,961</u> | | <u>\$ 374,251</u> | | <u>\$ 350,763</u> | |

Real estate mortgage loans include real estate construction loans of \$5.2 million in 2019, \$1.3 million in 2018, \$3.0 million in 2017, \$2.2 million in 2016, and \$10.3 million in 2015. There were no lease financing receivables in any year.

B. Maturities and Sensitivities of Loans and Leases to Changes in Interest Rates – The following table shows the amounts of commercial and multi-family real estate and commercial loans outstanding as of December 31, 2019 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and multi - family real estate loan and commercial loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

| Maturing | Commercial and Commercial and multi family Real Estate (in thousands) |
|--------------------------------------|---|
| Within one year | \$ 43,155 |
| After one year but within five years | 76,866 |
| After five years | <u>325,251</u> |
| | <u>\$ 445,272</u> |

III. LOAN AND LEASE PORTFOLIO (CONTINUED)

| | Interest Sensitivity | | Total |
|--|----------------------|--|-------------------|
| | Fixed Rate | Variable and Adjustable Rate (in thousands) | |
| Due after one year but within five years | \$ 51,060 | \$ 25,806 | \$ 76,866 |
| Due after five years | 36,398 | 288,853 | 325,251 |
| | <u>\$ 87,458</u> | <u>\$ 314,659</u> | <u>\$ 402,117</u> |

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | (in thousands) | | | | |
| (a) Loans accounted for on a non-accrual basis | \$ 963 | \$ 1,445 | \$ 2,767 | \$ 6,003 | \$ 5,945 |
| (b) Loans contractually past due 90 days or more as to interest or principal payments and still accruing interest | 138 | 161 | 170 | 154 | 260 |
| (c) Loans not included in (a) or (b) which are Troubled Debt Restructurings as defined by accounting principles generally accepted in the United States of America | 1,618 | 624 | 712 | 1,208 | 1,795 |
| | <u>\$ 2,719</u> | <u>\$ 2,230</u> | <u>\$ 3,649</u> | <u>\$ 7,365</u> | <u>\$ 8,000</u> |

The following is reported for the years ended December 31:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------------|--------------|---------------|---------------|---------------|
| | (in thousands) | | | | |
| Gross interest income that would have been recorded on non-accrual loans outstanding if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period | \$ 71 | \$ 15 | \$ 131 | \$ 275 | \$ 432 |
| Interest income actually recorded on non-accrual loans and included in net income for the period | - | - | - | - | - |
| Interest income not recognized during the period | <u>\$ 71</u> | <u>\$ 15</u> | <u>\$ 131</u> | <u>\$ 275</u> | <u>\$ 432</u> |

III. LOAN AND LEASE PORTFOLIO (CONTINUED)

1. Discussion of the non-accrual policy

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

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

2. Potential problem loans

As of December 31, 2019, in addition to the \$2.7 million of loans reported under Item III C, there are approximately \$5.0 million of other outstanding loans where known information causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans pursuant to Item III C at some future date. Consideration was given to loans classified for regulatory purposes as substandard or special mention that have not been disclosed in Item III C above.

3. Foreign outstanding loans

None.

4. Loan concentrations

None.

D. Other interest-bearing assets

As of December 31, 2019, there were no other interest-bearing assets that are required to be disclosed.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------------|-------------|-------------|-------------|-------------|
| | (dollars in thousands) | | | | |
| LOANS | | | | | |
| Loans outstanding at end of period (1) | \$ 591,725 | \$ 569,319 | \$ 508,796 | \$ 377,596 | \$ 354,597 |
| Average loans outstanding during period (1) | \$ 582,377 | \$ 540,687 | \$ 421,564 | \$ 361,437 | \$ 358,368 |
| ALLOWANCE FOR LOAN LOSSES | | | | | |
| Balance at beginning of period | \$ 3,527 | \$ 2,835 | \$ 3,345 | \$ 3,834 | \$ 3,840 |
| Loans charged off: | | | | | |
| Residential Real Estate | (46) | (52) | (45) | (52) | (176) |
| Commercial and Multi Family Real Estate | (23) | (114) | (553) | (12) | (98) |
| Commercial | (101) | (21) | (63) | (86) | (349) |
| Consumer loans | (10) | (10) | (28) | (10) | (16) |
| | (180) | (197) | (689) | (160) | (639) |
| Recoveries of loans previously charged off: | | | | | |
| Residential Real Estate | 40 | 75 | 14 | 61 | \$ 20 |
| Commercial and Multi Family Real Estate | 152 | 306 | 414 | 317 | 150 |
| Commercial | 41 | 57 | 92 | 34 | 72 |
| Consumer loans | 1 | 1 | 9 | 9 | \$ 9 |
| | 234 | 439 | 529 | 421 | 251 |
| Net loan (charge offs) recoveries | 54 | 242 | (160) | 261 | (388) |
| Provision (credit) for loan losses | 550 | 450 | (350) | (750) | 382 |
| Balance at end of period | \$ 4,131 | \$ 3,527 | \$ 2,835 | \$ 3,345 | \$ 3,834 |
| Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period | (0.01)% | (0.04)% | 0.04% | (0.07)% | 0.11% |

(1) Including loans held for sale.

The amount of loan charge-offs and recoveries fluctuate from year to year due to various factors relating to the condition of the general economy and specific business segments. The 2019 loan charge-offs included 23 consumer, mortgage, HELOC or commercial credits with the largest individual charge-off being \$80,000. The 2018 loan charge-offs included 28 consumer, mortgage, HELOC or commercial credits, with the largest individual charge-off being \$85,000. The 2017 loan charge-offs included 38 consumer, mortgage, HELOC or commercial credits, with the largest individual charge-off being \$406,000. The 2016 net recoveries included 46 consumer, mortgage, HELOC, commercial or agricultural credits, with the largest individual charge-off being \$86,000. The 2015 loan charge-offs included 25 consumer, mortgage, HELOC, commercial or agricultural credits, with the largest individual charge-off being \$327,000.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

The Corporation recognized a provision for loan losses of \$550,000 in 2019 and \$450,000 in 2018, and a credit for loan losses of \$350,000 in 2017. Problem and potential problem loans aggregated \$7.7 million at December 31, 2019 compared to \$6.7 million at December 31, 2018. The Corporation will continue to monitor the credit quality of its loan portfolio, and especially the quality of those credits identified as problem or potential problem credits, to ensure the allowance for loan losses is maintained at an appropriate level.

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

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

| | December 31, | | | | | | | | | |
|--|---|---------------------|---|---------------------|---|---------------------|---|---------------------|---|---------------------|
| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
| | Percentage of Loans in Each Category | Allowance Amount | Percentage of Loans in Each Category | Allowance Amount | Percentage of Loans in Each Category | Allowance Amount | Percentage of Loans in Each Category | Allowance Amount | Percentage of Loans in Each Category | Allowance Amount |
| | to Total Loans | | to Total Loans | | to Total Loans | | to Total Loans | | to Total Loans | |
| | (dollars in thousands) | | | | | | | | | |
| Residential Real Estate | \$ 592 | 23.36% | \$ 576 | 22.40% | \$ 545 | 24.33% | \$ 542 | 23.98% | \$ 373 | 22.12% |
| Commercial and Multi Family Real Estate | 2,536 | 62.13% | 2,355 | 62.26% | 1,746 | 61.32% | 1,876 | 58.13% | 2,540 | 58.09% |
| Commercial | 939 | 13.12% | 534 | 14.16% | 501 | 13.43% | 896 | 16.87% | 893 | 18.70% |
| Consumer loans | 64 | 1.39% | 62 | 1.18% | 43 | 0.92% | 31 | 1.02% | 28 | 1.09% |
| | <u>\$ 4,131</u> | <u>100.0%</u> | <u>\$ 3,527</u> | <u>100.0%</u> | <u>\$ 2,835</u> | <u>100.0%</u> | <u>\$ 3,345</u> | <u>100.0%</u> | <u>\$ 3,834</u> | <u>100.0%</u> |

The allowance for loan losses at December 31, 2019 included specific reserves for impaired loans amounting to \$435,000. There was \$128,000 included in specific reserves for impaired loans at December 31, 2018.

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

V. DEPOSITS

Deposits have traditionally been the Corporation's primary funding source for use in lending and other investment activities. In addition to deposits, the Corporation derives funds from interest and principal repayments on loans and income from other earning assets. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows tend to fluctuate in response to economic conditions and interest rates. Deposits are attracted principally from within the Corporation's designated market area by offering a variety of deposit instruments, including regular savings accounts, demand deposit accounts, money market deposit accounts, term certificate accounts, and individual retirement accounts (IRAs). Interest rates paid, maturity terms, service fees, and withdrawal penalties for the various types of accounts are established periodically by the Corporation's management based on the Corporation's liquidity requirements, growth goals, and market trends. From time to time, the Corporation may also acquire brokered deposits. The amount of deposits from outside the Corporation's market area is not significant.

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

| | 2019 | | 2018 | | 2017 | |
|--|------------------------|--------------|-------------------|--------------|-------------------|--------------|
| | Average Amount | Average Rate | Average Amount | Average Rate | Average Amount | Average Rate |
| | (dollars in thousands) | | | | | |
| Savings and interest-bearing demand deposits | \$ 382,553 | 0.70% | \$ 367,536 | 0.42% | \$ 323,805 | 0.27% |
| Time deposits | 192,077 | 1.95% | 173,574 | 1.32% | 141,757 | 0.87% |
| Demand deposits (non-interest bearing) | 120,227 | - | 106,877 | - | 100,148 | - |
| | <u>\$ 694,857</u> | | <u>\$ 647,987</u> | | <u>\$ 565,710</u> | |

C.&E. There were no foreign deposits in any periods presented.

D. Maturities of certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2019 are summarized as follows:

| | (in thousands) |
|---|------------------|
| Three months or less | \$ 26,871 |
| Over three months and through six months | 19,405 |
| Over six months and through twelve months | 22,643 |
| Over twelve months | 22,043 |
| | <u>\$ 90,962</u> |

VI. RETURN ON EQUITY AND ASSETS

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

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|------------------------|-------------|-------------|
| | (dollars in thousands) | | |
| Average total assets | \$ 861,693 | \$ 802,989 | \$ 683,164 |
| Average shareholders' equity (1) | \$ 86,652 | \$ 76,142 | \$ 75,597 |
| Net Income | \$ 10,661 | \$ 8,220 | \$ 3,846 |
| Cash dividends declared | \$ 1,702 | \$ 1,568 | \$ 1,569 |
| Return on average total assets | 1.24% | 1.02% | 0.56% |
| Return on average shareholders' equity | 12.30% | 10.80% | 5.09% |
| Dividend payout ratio (2) | 15.96% | 19.08% | 40.80% |
| Average shareholders' equity to average total assets | 10.06% | 9.48% | 11.07% |

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

(2) Dividends declared divided by net income.

VII. SHORT-TERM BORROWINGS

The Corporation has established lines of credit with its major correspondent banks to purchase federal funds to meet liquidity needs. At December 31, 2019, the Corporation had no federal funds purchased, out of the \$105.5 million available under such lines. The Corporation also uses repurchase agreements as a source of funds. These agreements essentially represent borrowings by the Corporation from customers with maturities of three months or less. Certain securities are pledged as collateral for these agreements. At December 31, 2019, the Corporation had no repurchase agreements.

Item 1A. Risk Factors

There are risks inherent to the Corporation's business. The material risks and uncertainties that management believes affect the Corporation are described below. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation's business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Corporation's financial condition and results of operations could be materially and adversely affected.

Risks Related to the Corporation's Business

The Corporation is Subject to Interest Rate Risk

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

Changing interest rates may decrease our earnings and asset values.

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

Expected interest rate increases could negatively affect our income, if we are not able to anticipate corresponding changes in market forces.

The Corporation's operating results are dependent to a significant degree on its net interest income, which is the difference between interest income from loans, investments and other interest-earning assets and interest expense on deposits, borrowings and other interest-bearing liabilities. The interest income and interest expense of the Corporation change as the interest rates on interest-earning assets and interest-bearing liabilities change. Interest rates may change because of general economic conditions, the policies of various regulatory authorities and other factors beyond the Corporation's control.

We are subject to credit risk related to the interest rate environment and the economic conditions of the markets in which we operate.

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across the State of Ohio, the United States and abroad. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Loans not secured by one-to-four family residential real estate are generally considered to involve greater risk of loss than loans secured by one- to four-family residential real estate due, in part, to the effects of general economic conditions. The repayment of multifamily residential, nonresidential real estate and commercial loans generally depends upon the cash flow from the operation of the property or business, which may be negatively affected by national and local economic conditions. Construction loans may also be negatively affected by such economic conditions, particularly loans made to developers who do not have a buyer for a property before the loan is made. The risk of default on consumer loans increases during periods of recession, high unemployment and other adverse economic conditions. When consumers have trouble paying their bills, they are more likely to pay mortgage loans than consumer loans. In addition, the collateral securing such loans, if any, may decrease in value more rapidly than the outstanding balance of the loan.

The Corporation's level of non-performing loans has decreased over the past couple of years. However, an increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loans losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation is subject to liquidity risk in its operations, which could adversely affect the ability to fund various obligations.

Liquidity risk is the possibility of being unable to meet obligations as they come due, pay deposits when withdrawn, capitalize on growth opportunities as they arise, or pay dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is derived primarily from retail deposit growth and retention, principal and interest payments on loans and investment securities, net cash provided from operation and access to other funding sources. Liquidity is essential to our business. We must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or regulatory action that limits or eliminates our access to alternate funding sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative expectations about the prospects for the financial services industry as a whole, as evidenced by recent turmoil in the domestic and worldwide credit markets.

Changes in accounting standards could impact the Corporation's reported earnings.

Current accounting and tax rules, standards, policies and interpretations influence the methods by which financial institutions conduct business and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. Events that may not have a direct impact on the Corporation, such as bankruptcy of major U.S. companies, have resulted in legislators, regulators, and authoritative bodies, such as the Financial Accounting Standards Board, the Securities and Exchange Commission, the Public Company Accounting Oversight Board and various taxing authorities, responding by adopting and/or proposing substantive revision to laws, regulations, rules, standards, policies and interpretations. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. The Corporation's financial condition and results of operations may be adversely affected by a change in accounting standards.

The Corporation's Allowance for Loan Losses May Be Insufficient

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

Prepayments of loans may negatively impact our business.

Generally, customers of the Corporation may prepay the principal amount of their outstanding loans at any time. The speed at which such prepayments occur, as well as the size of such prepayments, are within such customers' discretion. If customers prepay the principal amount of their loans, and the Corporation is unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, the Corporation's interest income will be reduced. A significant reduction in interest income could have a negative impact on the Corporation's results of operations and financial condition.

The Corporation may face increasing pressure from historical purchasers of our residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans.

The Corporation generally sells the fixed rate long-term residential mortgage loans it originates on the secondary market and retains adjustable rate mortgage loans for its portfolios. In response to the financial crisis, the Corporation believes that purchasers of residential mortgage loans, such as government sponsored entities, are increasing their efforts to seek to require sellers of residential mortgage loans to either repurchase loans previously sold or reimburse purchasers for losses related to loans previously sold when losses are incurred on a loan previously sold due to actual or alleged failure to strictly conform to the purchaser's purchase criteria. As a result, the Corporation may face increasing pressure from historical purchasers of its residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans and the Corporation may face increasing expenses to defend against such claims. If the Corporation is required in the future to repurchase loans previously sold, reimburse purchasers for losses related to loans previously sold, or if the Corporation incurs increasing expenses to defend against such claims, its financial condition and results of operations would be negatively affected. Additionally, such actions would lower the Corporation's capital ratios as a result of increased assets and reduced income through expenses and any losses incurred.

The Dodd-Frank Act may adversely impact the Corporation's results of operations, financial condition or liquidity.

The Dodd-Frank Act, enacted in 2010, is complex and several of its provisions are still being implemented. The Dodd-Frank Act established the Consumer Financial Protection Bureau, which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also required the issuance of numerous regulations, many of which have not yet been issued. The regulations will continue to take effect over several more years, continuing to make it difficult to anticipate the overall impact.

If the Corporation is required to write-down goodwill and other intangible assets, its financial condition and results of operations would be negatively affected.

A substantial portion of the value of the merger consideration paid in connection with recent acquisitions was allocated to goodwill and other intangible assets on the Corporation's consolidated balance sheet. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. The Corporation is required to conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired.

Goodwill is tested for impairment annually as of September 30th. An impairment test also could be triggered between annual testing dates if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. Examples of those events or circumstances would include a significant adverse change in business climate; a significant unanticipated loss of customers or assets under management; an unanticipated loss of key personnel; a sustained period of poor investment performance; a significant loss of deposits or loans; a significant reduction in profitability; or a significant change in loan credit quality.

The Corporation cannot assure that it will not be required to take an impairment charge in the future. Any material impairment charge would have a negative effect on the Corporation's financial results and shareholders' equity.

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

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

The Corporation Operates in a Highly Competitive Industry and Market Area

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

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

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Corporation's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Corporation introduces new products and services relative to its competitors.
- Customer satisfaction with the Corporation's level of service.
- Industry and general economic trends.

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

Legislative or regulatory changes or actions could adversely impact our business

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. These laws and regulations are primarily intended for the protection of consumers, depositors, borrowers, and the DIF, not to benefit our shareholders. Changes to laws and regulations or other actions by regulatory agencies may negatively impact us, possibly limiting the services we provide, increasing the ability of non-banks to compete with us or requiring us to change the way we operate. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on the operation of an institution and the ability to determine the adequacy of an institution's allowance for loan losses. Failure by a bank or bank holding company to comply with applicable laws, regulations, and policies could result in sanctions being imposed by the regulatory agencies, including the imposition of civil money penalties, which could have a material adverse effect on our operations and financial condition.

The Corporation is subject to Environmental Liability Risk Associated with Lending Activities

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

The Corporation's Controls and Procedures May Fail or Be Circumvented

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

UBOH Relies On Dividends from Its Subsidiaries for Most of Its Revenue

UBOH is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on UBOH common stock, interest and principal on UBOH debt, and other operating expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Union Bank may pay to the UBOH. Under these law and regulations, the amount of dividends that may be paid by Union Bank in any calendar year is generally limited to the current year's net profits, combined with the retained net profits of the preceding two years. In addition, the FDIC has issued policy statements that provide that insured banks should generally only pay dividends out of current operating earnings. Thus, the ability of Union Bank to pay dividends to UBOH in the future will be subject to Union Bank's ability to earn profits in the future, and the federal statutory provisions, regulations, regulatory policies, and capital guidelines which are applicable to UBOH and Union Bank. Furthermore, the Federal Reserve's Small Bank Holding Company Policy Statement provides, *inter alia*, that it is expected that dividends by a holding company will be eliminated in the event that a holding company is: (1) not reducing its debt consistent with the requirement that the debt to equity ratio be reduced to .30:1, or (2) not meeting the requirements of its loan agreement(s). Also, UBOH's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Union Bank is unable to pay dividends to UBOH, UBOH may not be able to service debt, pay obligations or pay dividends on the UBOH's common stock or trust preferred securities. The inability to receive dividends from the Union Bank could have a material adverse effect on UBOH's business, financial condition and results of operations.

The Corporation May Not Be Able To Attract and Retain Skilled People

The Corporation's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire such people or to retain them. The unexpected loss of services of one or more of the Corporation's key personnel could have a material adverse impact on the Corporation's business because of their skills, knowledge of the Corporation's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Corporation's Business could be Adversely Affected by Third-Party Service Providers, Data Breaches and Cyber-Attacks

The Corporation faces the risk of operational disruption, failure or capacity constraints due to its dependency on third-party vendors for components of its business infrastructure. While the Corporation has selected these third-party vendors through its vendor management processes, the Corporation does not control their operations. As such, any failure on the part of these business partners to perform their various responsibilities could also adversely affect the Corporation's business and operations.

Further, the Corporation may be affected by data breaches at retailers and other third parties who participate in data interchanges with the Corporation and its customers that involve the theft of customer credit and debit card data, which may include the theft of the Corporation's debit card PIN numbers and commercial card information used to make purchases at such retailers and other third parties. Such data breaches could result in the Corporation's incurring significant expenses to reissue debit cards and cover losses, which could result in a material adverse effect on the Corporation's results of operations.

To date, the Corporation has not experienced any material losses relating to cyber-attacks or other information security breaches, but there can be no assurance that the Corporation will not suffer such attacks or attempted breaches, or incur resulting losses in the future. The Corporation's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, The Corporation's plans to continue to implement internet and mobile banking to meet customer demand, and the current economic and political environment. As cyber and other data security threats continue to evolve, the Corporation may be required to expend significant additional resources to continue to modify and enhance its protective measures or to investigate and remediate any security vulnerabilities.

The Corporation's assets at risk for cyber-attacks include financial assets and non-public information belonging to customers. The Corporation utilizes several third-party vendors who have access to the Corporation's assets via electronic media. Certain cyber security risks arise due to this access, including cyber espionage, blackmail, ransom, and theft. The Corporation employs many preventive and detective controls to protect its assets, and provides mandatory recurring information security training to all employees. The Corporation maintains certain insurance coverage to prevent material financial loss from cyber-attacks.

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

Following the 2018 midterm elections, Democratic party leadership indicated that the House Financial Services Committee will broadly focus its legislative agenda toward protecting consumers and investors, preserving financial sector stability, and encouraging responsible innovation in financial technology, while the Republican controlled Senate Banking Committee will likely continue to focus its legislative agenda on remaining refinements not already addressed in the Economic Growth, Regulatory Relief, and Consumer Protection Act passed in 2018. The President and senior members of the House of Representatives have advocated for significant reduction of financial services regulation, to include amendments to the Dodd-Frank Act and structural changes to the Consumer Financial Protection Bureau. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

The Corporation Continually Encounters Technological Change

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

Emergence of nonbank alternatives to the financial system.

Consumers may decide not to use banks to complete their financial transactions. Technology and other changes, including the emergence of "Fintech Companies" are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can also complete transactions, such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Damage to the Corporation's reputation could damage its businesses.

Maintaining trust in the Corporation is critical to our ability to attract and maintain customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, security breaches, compliance failures, litigation or regulatory outcomes or governmental investigations. Our reputation could also be harmed by the failure of an affiliate, a vendor or other third party with which we do business, to comply with laws or regulations. In addition, a failure or perceived failure to deliver appropriate standards of service and quality, to treat customers and clients fairly, or to handle or use confidential information of customers or clients appropriately or in compliance with applicable privacy laws and regulations can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity or negative information posted on social media websites regarding the Corporation, whether or not true, may result in harm to the prospects. Should any of these or other events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the reputational harm could not adversely affect our earnings and results of operations, or that damage to our reputation will not impair our ability to retain our existing or attract new customers, investors and employees.

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

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

Severe Weather, Natural Disasters, Acts of War Or Terrorism And Other External Events Could Significantly Impact The Corporation's Business

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation's ability to conduct business. This could also include the potential effects of coronavirus on international trade, supply chains, travel, employee productivity and other economic activities. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

Risks Associated with the Corporation's Industry

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

At December 31, 2019, the Corporation and the Bank conducted its business from its headquarters and operations center at 105 Progressive Drive Columbus Grove, Ohio. There are seventeen full service banking centers and two loan production offices in northwest and central Ohio listed below.

Full Service Branch Locations:

| | |
|--|---|
| Bowling Green 1300 North Main Street | Kalida 110 East North Street |
| Columbus Grove 100 South High Street Drive-Thru Facility 101 Progressive Drive | Leipsic 318 South Belmore Street |
| Delaware 30 Coal Bend Road | Lima 701 Shawnee Road 1410 Bellefontaine Avenue 3211 Elida Road |
| Delphos 114 East Third Street | Marion 111 South Main Street 220 Richland Road |
| Findlay 1500 Bright Road | Westerville 468 Polaris Parkway |
| Gahanna 461 Beecher Road | Ottawa 245 West Main Street |
| Gibsonburg 230 West Madison Street | Pemberville 132 East Front Street |
| Loan Production Offices: | |
| Plymouth 2660 US Highway 224 Suite 3 | Worthington 6797 North High Street |

Item 3. Legal Proceedings

As of March 6, 2020, there are no pending legal proceedings to which the Corporation or its subsidiary are a party or to which any of their property is subject except routine legal proceedings to which the Corporation or its subsidiary are a party incident to its banking business. None of such proceedings are considered by the Corporation to be material.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Additional information required herein is incorporated by reference from ("Market Price and Dividends on Common Stock") United Bancshares' Annual Report to Shareholders for 2019 ("Annual Report"), which is included herein as Exhibit 13.

Stock Repurchase Program

The table below includes certain information regarding the Corporation's repurchase of United Bancshares, Inc. common stock during the quarterly period ended December 31, 2019:

| Period | Total number of shares purchased | Weighted Average price paid per share | Total number of shares purchased as part of a publicly announced plan or program (1) | Maximum number of shares that may yet be purchased under the plan or program (1) |
|-------------------------|----------------------------------|---------------------------------------|--|--|
| 10/01/2019 - 10/31/2019 | - | \$ - | 397,334 | 202,666 |
| 11/01/2019 - 11/30/2019 | 4,220 | \$ 22.40 | 401,554 | 198,446 |
| 12/01/2019 - 12/31/2019 | - | \$ - | 401,554 | 198,446 |

(1) A stock repurchase program ("Plan") was announced on July 29, 2005 (100,000 shares authorized) and expanded by 100,000 shares on December 23, 2005, 200,000 shares on March 20, 2007, and 200,000 shares on December 17, 2014. The Plan authorizes the Corporation to repurchase up to 600,000 of the Corporation's common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

Item 6. Selected Financial Data

The information required herein is incorporated by reference from ("Five Year Summary of Selected Financial Data") United Bancshares' Annual Report to Shareholders for 2019 ("Annual Report"), which is included herein as Exhibit 13.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required herein is incorporated by reference to page 5 through 15 ("Management's Discussion and Analysis") of United Bancshares' Annual Report to Shareholders for 2019 ("Annual Report"), which is included herein as Exhibit 13.

Item 8. Financial Statements and Supplementary Data

The information required herein is incorporated by reference from pages 17 through 64 of United Bancshares' Annual Report to Shareholders for 2019 ("Annual Report"), which is included herein as Exhibit 13.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management of the Corporation is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934. An evaluation was performed under the supervision, and with the participation, of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of December 31, 2019. Based on the results of the evaluation, and as of the time of that evaluation, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. Management of the Corporation and its subsidiary are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Corporation's internal control over financial reporting is a process designed under the supervision of the Corporation's Chief Executive Officer and Chief Financial Officer. The purpose is to provide reasonable assurance to the Board of Directors regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

Management assessed the Corporation's internal controls as of December 31, 2019, in relation to criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2019, the Corporation's internal control over financial reporting was effective.

There were no changes in the Corporation's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Our Proxy Statement will be filed with the SEC no later than March 30, 2020, in preparation for the 2020 Annual Meeting of Shareholders scheduled for April 22, 2020. As permitted in Paragraph G(3) of the General Instructions for Form 10-K, we are incorporating by reference to that statement portions of the information required by Part III as noted in Item 10 through Item 14 below.

Item 10. Directors, Executive Officers and Corporate Governance

The information required herein concerning Directors and Executive Officers is contained under the captions “Proposal Number 1: Election of Directors”, Executive Officers, "Director and Nominee Qualifications" and "Certain Relationships and Related Party Transactions" of the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020, which is incorporated herein by reference.

Information required by this item concerning the Corporation’s Audit Committee is contained under the caption “Committees of the Board of Directors - Audit Committee” of the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020 which is incorporated herein by reference.

Information required by this item concerning compliance with section 16(a) of the Securities Exchange Act of 1934, as amended, is contained under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020, which is incorporated herein by reference.

On February 17, 2004, the Corporation adopted a Code of Ethics that is applicable to the Corporation’s Chief Executive Officer, Chief Financial Officer, and other Senior Financial Officers. The Board of Directors reviews the Code of Ethics annually with the most recent review performed in February 2020. A copy of the Code of Ethics is available on the Corporation’s website at <https://www.theubank.com>.

Item 11. Executive Compensation

The information required herein concerning Directors and Executive Officers of the Corporation is contained under the caption “Compensation of Named Executive Officers” and "Director Compensation" in the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is contained under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020, which is incorporated herein by reference.

| | Equity Compensation Plan Information | | |
|--|--|--|--|
| | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
| Equity compensation plans approved by security holders | 117,647 | \$ 21.81 | 132,353 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 117,647 | \$ 21.81 | 132,353 |

Item 13. Certain Relationships and Related Transactions, and Director Independence

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

Information required by this item concerning director independence is contained under the caption “Board of Directors Independence” in the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020, which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item is contained under the caption “Independent Public Accountants” in the Corporation’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held April 22, 2020, which is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following consolidated financial statements (and reports thereon) are set forth on pages 18 through 60 of the Corporation’s 2019 Annual Report to Shareholders (Exhibit 13 to this Annual Report on Form 10-K) and are incorporated herein by reference:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets - December 31, 2019 and 2018
Consolidated Statements of Income - Years ended December 31, 2019, 2018, and 2017
Consolidated Statements of Comprehensive Income - Years ended December 31, 2019, 2018, and 2017
Consolidated Statements of Shareholders' Equity - Years ended December 31, 2019, 2018, and 2017
Consolidated Statements of Cash Flows - Years ended December 31, 2019, 2018, and 2017
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

Financial statement schedules have been omitted either because they are not applicable or because the required information is provided in the Consolidated Financial Statements, including the notes thereto.

(a)(3) Exhibits

The following exhibits are filed with or incorporated by reference (in accordance with Item 601 of SEC Regulation S-K) in this filing:

| Exhibit No. | | |
|-------------|--|-----|
| 3.1 | Articles of Incorporation | (1) |
| 3.2 | Regulations | (1) |
| 4 | Description of Registrant's Common Stock | |
| 10.1 | Preferred Trust Securities, Placement and Debenture agreements | (2) |
| 10.2 | Agreement – Brian D. Young | (3) |
| 10.3 | Salary Continuation Agreement - Brian D. Young | |
| 10.4 | Salary Continuation Agreement – Heather M. Oatman | (4) |
| 10.5 | 2016 Stock Option Plan | (5) |
| 10.6 | Form of Award Agreement under the 2016 Stock Option Plan | |
| 10.7 | Change in Control Agreement- Curtis E. Shepherd | |
| 10.8 | Change in Control Agreement- Stacy A. Cox | (6) |
| 13 | 2019 Annual Report to Shareholders | |
| 21 | Subsidiaries | |
| 23 | Consent of Independent Registered Public Accounting Firm | |
| 31.1 | Rule 13a-14(a)/15d-14(a) CEO's Certification | |
| 31.2 | Rule 13a-14(a)/15d-14(a) CFO's Certification | |
| 32.1 | Section 1350 CEO's Certification | |
| 32.2 | Section 1350 CFO's Certification | |
| 101.INS | XBRL Instance Document (a) | |
| 101.SCH | XBRL Taxonomy Extension Schema | |
| 101.CAL | XBRL Taxonomy Extension Calculation | |
| 101.DEF | XBRL Taxonomy Extension Definition | |
| 101.LAB | XBRL Taxonomy Extension Label | |
| 101.PRE | XBRL Taxonomy Extension Presentation | |

(1) Incorporated herein by reference to the Corporation's Form 10-Q for the quarter ended June 30, 2006.

(2) Incorporated herein by reference to the Corporation's Form 10-Q for the quarter ended June 30, 2007.

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

(4) Incorporated herein by reference to the Corporation's Form 10-K filed March 20, 2009.

(5) Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 1, 2017, SEC file reference number 333-86543.

(6) Incorporated herein by reference to the Corporation's Form 8-K filed February 19, 2019

SIGNATURES

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

UNITED BANCSHARES, INC.

By: /s/ BRIAN D. YOUNG
Brian D. Young, CEO, President

By: /s/ STACY A. COX
Stacy A. Cox
Chief Financial Officer

Date: March 6, 2020

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

| <u>Signatures</u> | <u>Title</u> | <u>Date</u> |
|---|--------------|---------------|
| <u>/s/ BRIAN D. YOUNG</u> Brian D. Young | Director | March 6, 2020 |
| <u>/s/ HERBERT H. HUFFMAN</u> Herbert H. Huffman | Director | March 6, 2020 |
| <u>/s/ H. EDWARD RIGEL</u> H. Edward Rigel | Director | March 6, 2020 |
| <u>/s/ R. STEVEN UNVERFERTH</u> R. Steven Unverferth | Director | March 6, 2020 |
| <u>/s/ ROBERT L. BENROTH</u> Robert L. Benroth | Director | March 6, 2020 |
| <u>/s/ DAVID P. ROACH</u> David P. Roach | Director | March 6, 2020 |
| <u>/s/ DANIEL W. SCHUTT</u> Daniel W. Schutt | Director | March 6, 2020 |

DESCRIPTION OF REGISTERED SECURITIES

Common Stock

United Bancshares, Inc. (the “Registrant”) is a corporation organized under the laws of the State of Ohio and a financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Registrant’s common shares are registered with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934.

Set forth below is a description of the Registrant’s common shares. This description is qualified in its entirety by reference to the Registrant’s Amended Articles of Incorporation (the “Articles”), its Amended Code of Regulations (the “Code”), and the relevant provisions of Ohio law.

Voting rights

Under the Registrant’s Articles, each shareholder is entitled to one vote for each share of stock standing in the shareholder’s name on the books of the Registrant. The shareholders present in person or by proxy at any meeting shall constitute a quorum unless a larger proportion is required to take an action stated in the notice of the meeting, in which case, to constitute a quorum, there shall be present in person or by proxy the holders of record of shares entitling them to exercise the voting power required by the Articles or applicable law to take the action stated.

Directors are elected by a plurality of the votes cast, which means that the nominees receiving the largest number of votes FOR will be elected. The Articles provide that no shareholder shall have the right to cumulate the shareholder’s voting power in the election of directors.

Preemptive rights

The Ohio General Corporation Law provides that shareholders having preemptive rights shall have the right, during a reasonable time and on reasonable terms fixed by the Directors, to purchase additional shares of the Registrant in connection with any offering of its shares, which rights shall be in proportion to their respective holdings, subject to a limited number of exceptions. Article XI of the Registrant’s Articles provide that shareholders do not possess the preemptive right to subscribe for additional shares of the Registrant if and when offered for sale thereby.

Conversion, redemption and sinking fund rights; shares nonassessable

Upon receipt of consideration by the Registrant as fixed by its Board, each Share issued is then fully paid and nonassessable. There are no conversion terms, sinking fund provisions or redemption rights associated with the Registrant’s Shares. When authorized by the board of directors, without any action or approval of shareholders required, the Registrant may from time repurchase shares of its common stock, either in the open market or in privately negotiated transactions, for such mutually agreed upon terms, prices and conditions as the Directors shall deem appropriate.

Payment of dividends

The holders of the Registrant’s Shares, are entitled to the payment of dividends when, as and if the Board may in its discretion periodically declare, which dividends may be paid out of funds legally available for dividends and distributions under applicable laws and regulations.

Special meetings

Special meetings of shareholders may be called in accordance with Registrant’s Code and the Ohio General Corporation Law by any of the following:

- The chairperson of the Board, the president, or, in case of the president’s absence, death, or disability, the vice-president authorized to exercise the authority of the president;
 - The Board by action at a meeting, or a majority of the Directors acting without a meeting; and
 - At least five persons who hold, in the aggregate, 25% of Registrant’s shares outstanding and entitled to vote at the meeting.
-

Shareholder vote required to approve business combinations with Interested Persons

Article X of the Articles provides that certain business combination and recapitalization transactions between the Registrant and a party that owns, either directly or indirectly, 5% or more of the Registrant's outstanding common shares require the affirmative vote or consent of the holders of not less than eighty percent (80%) of the voting power of the Registrant. The foregoing special vote requirements shall not apply to any proposed transaction:

- where a majority of the outstanding shares of the counterparty's capital voting stock is owned by the Registrant and/or its subsidiaries; or
- where the Registrant's board shall have approved an agreement in principle with such counterparty setting forth the principal terms of such transaction and such transaction is substantially consistent therewith, provided, however, that a majority of the directors voting in favor of such resolution were members of the board prior to the time the counterparty became the beneficial owner of 5% or more of the Registrant's outstanding common shares.

The provisions contained in Article X of the Articles could have the effect of delaying, deferring or preventing a change in control of the Registrant.

In the absence of the special vote requirement provided under Article X of the Articles, the vote required to approve any business combination transaction requiring shareholder approval is the affirmative vote of the holders of shares entitling them to exercise at least two-thirds of the voting power of the Registrant on such proposal.

Restrictions on Alienation

No restrictions on alienation of the Shares are imposed by the Registrant's Articles or Code.

Amendments to Articles and Code

Under the Ohio General Corporation Law, the shareholders, at a meeting held for that purpose, may adopt any amendment to Registrant's Articles by the affirmative vote of the holders of shares entitling them to exercise two-thirds of the voting power of the Registrant on the proposal.

Under the Ohio General Corporation Law, the Code may be amended or repealed by the Registrant's shareholders at any meeting held for that purpose by the affirmative vote of the holders of shares entitling them to exercise a majority of the voting power of the Registrant on the proposal. The Code may also be amended or repealed by the shareholders without a meeting by the written consent of the holders of shares entitling them to exercise two-thirds of the voting power of the corporation on the proposal.

Removal of Directors

For corporations that do not grant shareholders the right to vote cumulatively in the election of directors, the Ohio General Corporation Law provides that any director may be removed from office, without assigning any cause, by the vote of the holders of a majority of the voting power entitling them to elect directors in place of those to be removed.

Dissolution and Liquidation

Under the Registrant's Articles, the affirmative vote or consent of the holders of not less than 80% of the voting power of the Registrant shall be required for the adoption of any plan for the dissolution of the Registrant if the board shall not have unanimously adopted a resolution recommending such plan to the shareholders for adoption.

If the Board of Directors shall have so recommended to the shareholders such plan for dissolution, the shareholders at a meeting held for such purpose may adopt a resolution of dissolution by the affirmative vote of the holders of shares entitling them to exercise two-thirds of the voting power of the Registrant on such proposal.

In the event of any liquidation, dissolution or winding up of the Registrant, the remaining assets of the Registrant, after the payment of all debts and necessary expenses, will be distributed among the holders of the Shares pro rata in accordance with their respective holdings.

**THE UNION BANK COMPANY
AMENDED AND RESTATED
SALARY CONTINUATION AGREEMENT**

THIS SALARY CONTINUATION AGREEMENT (the "Agreement") is amended and restated this 1st day of August, 2012, by and between THE UNION BANK COMPANY, a state-chartered commercial bank located in Columbus Grove, Ohio (the "Company"), and BRIAN YOUNG (the "Executive").

The purpose of this Agreement is to provide specified benefits to the Executive, a member of a select group of management or highly compensated employees who contribute materially to the continued growth, development, and future business success of the Company. This Agreement shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended from time to time. The Company will pay the benefits from its general assets.

The Company and the Executive agree as provided herein.

**Article 1
Definitions**

Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

- 1.1. "Accrual Balance" means the liability that should be accrued by the Company, under Generally Accepted Accounting Principles ("GAAP"), for the Company's obligation to the Executive under this Agreement, by applying Accounting Principles Board Opinion Number 12 ("APB 12") as amended by Statement of Financial Accounting Standards Number 106 ("FAS 106") and the Discount rate. Any one of a variety of amortization methods may be used to determine the Accrual Balance. However, once chosen, the method must be consistently applied. The Accrual Balance shall be reported by the Company to the Executive on Schedule A.
 - 1.2. "Beneficiary" means each designated person, or the estate of the deceased Executive, entitled to benefits, if any, upon the death of the Executive determined pursuant to Article 4.
 - 1.3. "Beneficiary Designation Form" means the form established from time to time by the Plan Administrator that the Executive completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.
 - 1.4. "Code" means the Internal Revenue Code of 1986, as amended.
 - 1.5. "Death Benefit" means the benefit described in Article 3.
 - 1.6. "Disability" means the Executive's suffering a sickness, accident or injury which has been determined by the insurance carrier of any individual or group disability insurance policy covering the Executive, or by the Social Security Administration, to be a disability rendering the Executive totally and permanently disabled. The Executive must submit proof to the Plan Administrator of the insurance carrier's or Social Security Administration's determination upon the request of the Plan Administrator.
 - 1.7. "Disability Benefit" means the benefit described in Section 2.3.
 - 1.8. "Discount Rate" means the rate used by the Plan Administrator for determining the Accrual Balance. The initial Discount Rate is six and one-half percent (6.5%). However, the Plan Administrator, in its sole discretion, may adjust the Discount Rate to maintain the rate within reasonable standards according to GAAP.
-

- 1.9. “Early Termination” means the Termination of Employment before Normal Retirement Age for reasons other than death, Disability Termination for Cause.
- 1.10. “Early Termination Date” means the month, day and year in which Early Termination occurs.
- 1.11. “Early Termination Benefit” means the benefit described in Section 2.2.
- 1.12. “Effective Date” means the amended and restated effective as of August 1, 2012. The original Effective Date was January 1, 2004.
- 1.13. “Normal Retirement Age” means the Executive attaining age sixty (60).
- 1.14. “Normal Retirement Benefit” means the benefit described in Section 2.1.
- 1.15. “Normal Retirement Date” means the later of the Normal Retirement Age or Termination of Employment.
- 1.16. “Plan Administrator” means the plan administrator described in Article 8.
- 1.17. “Plan Year” means a twelve-month period commencing on January 1 and ending on December 31 of each year. The initial Plan Year shall commence on the Effective Date of this Agreement.
- 1.18. “Schedule A” means the benefit description form attached to this Agreement, which is updated by the Plan Administrator on an annual basis. If there is a conflict in any terms or provisions between the Schedule A and this Agreement, the terms and provisions of this Agreement shall prevail.
- 1.19. “Specified Employee” means a key employee (as defined in Section 416(i) of the Code without regard to paragraph 5 thereof) of the Company if any stock of the Company is publicly traded on an established securities market or otherwise.
- 1.20. “Termination for Cause” has that meaning set forth in Article 5.
- 1.21. “Termination of Employment” means the termination of the Executive’s employment with the Company for reasons other than death. Whether a Termination of Employment takes place is determined based on the facts and circumstances surrounding the termination of the Executive’s employment and whether the Company and the Executive intended for the Executive to provide significant services for the Company following such termination. A change in the Executive’s employment status will not be considered a Termination of Employment if:
- (a) the Executive continues to provide services as an employee of the Company at an annual rate that is twenty percent (20%) or more of the services rendered, on average, during the immediately preceding three full calendar years of employment (or, if employed less than three years, such lesser period) and the annual remuneration for such services is twenty percent (20%) or more of the average annual remuneration earned during the final three full calendar years of employment (or, if less, such lesser period), or
 - (b) the Executive continues to provide services to the Company in a capacity other than as an employee of the Company at an annual rate that is fifty percent (50%) or more of the services rendered, on average, during the immediately preceding three full calendar years of employment (or if employed less than three years, such lesser period) and the annual remuneration for such services is fifty percent (50%) or more of the average annual remuneration earned during the final three full calendar years of employment (or if less, such lesser period).
- 1.22. “Years of Service” means the total number of calendar years during which the Executive is employed on a full-time basis by the Company, or any of its affiliates or subsidiaries, with a minimum of 1,000 hours in any calendar year, inclusive of any approved leaves of absence, beginning on the Executive’s date of hire.

Article 2
Benefits During Lifetime

- 2.1. Normal Retirement Benefit. Upon Termination of Employment on or after the Normal Retirement Age for reasons other than death, the Company shall pay to the Executive the benefit described in Section 2.1 in lieu of any other benefit under this Article.
- 2.1.1 Amount of Benefit. The benefit under this Section 2.1 is the Normal Retirement lump sum benefit determined by the benefit level of \$55,000 and by applying the Accrual Balance as set forth on Schedule A for the Plan Year during which the Normal Retirement Date occurs. This benefit is determined by vesting the Executive in one hundred percent (100%) of the Accrual Balance.
- 2.1.2 Payment of Benefit. The Company shall pay the benefit to the Executive in a lump sum within ninety (90) days following the Normal Retirement Date.
- 2.2. Early Termination Benefit. Upon Early Termination, the Company shall pay to the Executive the benefit described in this Section 2.2 in lieu of any other benefit under this Article.
- 2.2.1 Amount of Benefit. The benefit under this Section 2.2 is the Early Termination lump sum benefit set forth on Schedule A for the Plan Year during which the Early Termination Date occurs. This benefit is determined by vesting the Executive in one hundred percent (100%) of the Accrual Balance.
- 2.2.2 Payment of Benefit. The Company shall pay the benefit to the Executive in a lump sum within ninety (90) days following the Early Termination Date.
- 2.3. Disability Benefit. Upon Termination of Employment due to Disability prior to Normal Retirement Age, the Company shall pay to the Executive the benefit described in this Section 2.3 in lieu of any other benefit under this Article.
- 2.3.1 Amount of Benefit. The benefit under this Section 2.3 is the Disability lump sum benefit set forth on Schedule A for the Plan Year during which Termination of Employment occurs. This benefit is determined by vesting the Executive in one hundred percent (100%) of the Accrual Balance.
- 2.3.2 Payment of Benefit. The Company shall pay the benefit to the Executive in a lump sum within ninety (90) days following Termination of Employment.
- 2.4. Restriction on Timing of Distributions. Notwithstanding any provision of this Agreement to the contrary, if the Executive is considered a Specified Employee at Termination of Employment under such procedures as established by the Company in accordance with Section 409A of the Code, benefit distributions that are made upon Termination of Employment may not commence earlier than six (6) months after the date of such Termination of Employment. Therefore, in the event this Section 2.5 is applicable to the Executive, any distribution which would otherwise be paid to the Executive within the first six months following the Termination of Employment shall be accumulated and paid to the Executive in a lump sum on the first day of the seventh month following the Termination of Employment. All subsequent distributions shall be paid in the manner specified.
- 2.5. Distributions Upon Income Inclusion Under Section 409A of the Code. Upon the inclusion of any amount into the Executive's income as a result of the failure of this non-qualified deferred compensation plan to comply with the requirements of Section 409A of the Code, to the extent such tax liability can be covered by the Accrual Balance, a distribution shall be made as soon as is administratively practicable following the discovery of the plan failure.

- 2.6. Change in Form or Timing of Distributions. All changes in the form of timing of distributions hereunder must comply with the following requirements. The changes:
- (a) may not accelerate the time or schedule of any distributions, except as provided in Section 409A of the Code and the regulations thereunder;
 - (b) must, for benefits distributable under Sections 2.1, 2.2, 2.3 and 2.4, delay the commencement of distributions for a minimum of five (5) years from the date the first distribution was originally scheduled to be made; and
 - (c) must take effect not less than twelve (12) months after the election is made.

**Article 3
Death Benefits**

- 3.1. Death During Active Service. If the Executive dies while in the active service of the Company, the Company shall pay to the Beneficiary the benefit described in this Section 3.1. This benefit shall be paid in lieu of the benefits under Article 2.
- 3.1.1 Amount of Benefit. The benefit under this Section 3.1 is the Normal Retirement Benefit amount described in Section 2.1.1.
- 3.1.2 Payment of Benefit. The Company shall pay the benefit to the Beneficiary in a lump sum within ninety (90) days following receipt by the Company of the Executive's death certificate.
- 3.2. Death During Payment of a Benefit. If the Executive dies after any benefit payments have commenced under Article 2 of this Agreement, but before receiving all such payments, the Company shall pay the remaining benefits to the Beneficiary at the same time and in the same amounts they would have been paid to the Executive had the Executive survived. In the event of death prior to Normal Retirement Age and during payment of a Disability benefit, the Company shall pay the following death benefits in lieu of the benefit just described:
- 3.2.1 Death Prior to Normal Retirement Age and During Payment of a Disability Benefit. In the event of the Executive's death while Disabled and prior to attaining Normal Retirement Age, the Company shall cease paying the Disability Benefit described in Section 2.3 and pay to the Executive's beneficiary the Death Benefit described in Section 3.1, less any Disability Benefit payments already paid out under Section 2.3.
- 3.3. Death After Termination of Employment But Before Payment of a Benefit Commences. If the Executive is entitled to any benefit payments under Article 2 of this Agreement, but dies prior to the commencement of said benefit payments, the Company shall pay the same benefit payments to the Beneficiary that the Executive was entitled to prior to death except that the benefit payments shall commence on the first day of the month following the date of the Executive's death.
- 3.4. Commencement of Death Benefit. Unless a delay exists with respect to the issuance of the death certificate with respect to the death of the Executive, no benefit under this Article 3 shall commence any later than the 90th day following the Executive's death.

**Article 4
Beneficiaries**

- 4.1. Beneficiary Designation. The Executive shall have the right, at any time, to designate a Beneficiary(ies) to receive any benefits payable under this Agreement upon the death of the Executive. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designation under any other benefit plan of the Company in which the Executive participates.

- 4.2. Beneficiary Designation: Change. The Executive shall designate a Beneficiary by completing and signing the Beneficiary Designation Form, and delivering it to the Plan Administrator or its designated agent. The Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator prior to the Executive's death.
- 4.3. Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received, accepted and acknowledged in writing by the Plan Administrator or its designated agent.
- 4.4. No Beneficiary Designation. If the Executive dies without a valid beneficiary designation, or if all designated Beneficiaries predecease the Executive, then the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, the benefits shall be made to the personal representative of the Executive's estate.
- 4.5. Facility of Payment. If the Plan Administrator determines in its discretion that a benefit is to be paid to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of that person's property, the Plan Administrator may direct payment of such benefit to the guardian, legal representative, or person having the care or custody of such minor, incompetent person, or incapable person. The Plan Administrator may require proof of incompetence, minority, or guardianship as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Executive and the Executive's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Agreement for such payment amount.

Article 5 General Limitations

- 5.1. Termination for Cause. Notwithstanding any provision of this Agreement to the contrary, the Company shall not pay any benefit under this Agreement if the Company's Board of Directors terminates the Executive's employment for:
- (a) Conviction of a felony; or
 - (b) Fraud, disloyalty, dishonesty, or willful violation of any law or significant Company policy committed in connection with the Executive's employment and resulting in a material adverse effect on the Company; or
 - (c) Issuance of an order for removal of the Executive by the Company's banking regulators.
- 5.2. Suicide or Misstatement. The Company shall not pay any benefit under this Agreement if the Executive commits suicide within two years after the Effective Date. In addition, the Company shall not pay any benefit under this Agreement if the Executive has made any material misstatement of fact on any application for life insurance owned by the Company on the Executive's life.
- 5.3. Excess Parachute Payment. Notwithstanding any provision of this Agreement to the contrary, to the extent any benefit would create an excise tax under the excess parachute rules of Section 280G of the Code, the Company shall reduce the benefit paid under this Agreement to the maximum benefit that would not result in any such excise tax.

Article 6
Claims And Review Procedures

- 6.1. Claims Procedure. An Executive or Beneficiary (“claimant”) who has not received benefits under the Agreement that he or she believes should be paid shall make a claim for such benefits as follows:
- 6.1.1 Initiation – Written Claim. The claimant initiates a claim by submitting to the Plan Administrator a written claim for the benefits.
- 6.1.2 Timing of Plan Administrator Response. The Plan Administrator shall respond to such claimant within 90 days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional 90 days by notifying the claimant in writing, prior to the end of the initial 90-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.
- 6.1.3 Notice of Decision. If the Plan Administrator denies in part or all of the claim, the Plan Administrator shall notify the claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth.
- (a) The specific reasons for the denial;
 - (b) A reference to the specific provisions of the Agreement on which the denial is based;
 - (c) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed;
 - (d) An explanation of the Agreement’s review procedures and the time limits applicable to such procedures; and
 - (e) A statement of the claimant’s right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.
- 6.2. Review Procedure. If the Plan Administrator denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Plan Administrator of the denial, as follows:
- 6.2.1 Initiation – Written Request. To initiate the review, the claimant, within 60 days after receiving the Plan Administrator’s notice of denial, must file with the Plan Administrator a written request for review.
- 6.2.2 Additional Submissions – Information Access. The claimant shall then have the opportunity to submit written comments, documents, records, and other information relating to the claim. The Plan Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant’s claim for benefits.
- 6.2.3 Considerations on Review. In considering the review, the Plan Administrator shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.
- 6.2.4 Timing of Plan Administrator Response. The Plan Administrator shall respond in writing to such claimant within 60 days after receiving the request for review. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional 60 days by notifying the claimant in writing, prior to the end of the initial 60-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

6.2.5 Notice of Decision. The Plan Administrator shall notify the claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a) The specific reasons for the denial;
- (b) A reference to the specific provisions of the Agreement on which the denial is based;
- (c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits; and
- (d) A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

Article 7 Amendments and Termination

- 7.1. Amendments. This Agreement may be amended only by a written agreement signed by the Company and the Executive. However, the Company may unilaterally amend this Agreement to conform with written directives to the Company from its auditors or banking regulators or to comply with legislative changes or tax law, including without limitation Section 409A of the Code and any and all Treasury regulations and guidance promulgated thereunder.
- 7.2. Plan Termination Generally. The Company and the Executive may terminate this Agreement at any time. The benefit hereunder shall be the Accrual Balance as of the date the Agreement is terminated. Except as provided in Section 7.3, the termination of this Agreement shall not cause a distribution of benefits under this Agreement. Rather, after such termination benefit distributions will be made at the earliest distribution event permitted under Article 2 or Article 3.
- 7.3. Plan Terminations Under Section 409A. Notwithstanding anything to the contrary in Section 7.2, if this Agreement terminates in the following circumstances.
- (a) Within thirty (30) days before or twelve (12) months after a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company as described in Section 409A(20)(A)(v) of the code, provided that all distributions are made no later than twelve (12) months following such termination of the Agreement and further provided that all the Company's arrangements which are substantially similar to the Agreement are terminated so the Executive and all participants in the similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the termination of the arrangements.
 - (b) Upon the Company's dissolution or with the approval of a bankruptcy court provided that the amounts deferred under the Agreement are included in the Executive's gross income in the latest of (i) the calendar year in which the Agreement terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the distribution is administratively practical; or
 - (c) Upon the Company's termination of this and all other non-account balance plans (as referenced in Section 409A of the Code or the regulations thereunder), provided that all distributions are made no earlier than twelve (12) months and no later than twenty-four (24) months following such termination, and the Company does not adopt any new non-account balance plans for a minimum of five (5) years following the date of such termination;

the Company may distribute the Accrual Balance, determined as of the date of the termination of the Agreement, to the Executive in a lump sum subject to the above terms.

Article 8 Administration of Agreement

- 8.1. Plan Administrator Duties. This Agreement shall be administered by a Plan Administrator which shall consist of the Board or such committee or person(s) as the Board shall appoint. The Executive may be a member of the Plan Administrator. The Plan Administrator shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Agreement; and (ii) decide or resolve any and all questions including interpretations of this Agreement, as may arise in connection with the Agreement.
- 8.2. Agents. In the administration of this Agreement, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit, (including acting through a duly appointed representative), and may from time to time consult with counsel who may be counseled to the Company.
- 8.3. Binding Effect of Decisions. The decision or action of the Plan Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Agreement. No Executive or Beneficiary shall be deemed to have any right, vested or nonvested, regarding the continued use of any previously adopted assumptions, including but not limited to the Discount Rate.
- 8.4. Indemnity of Plan Administrator. The Company shall indemnify and hold harmless the members of the Plan Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator or any of its members.
- 8.5. Company Information. To enable the Plan Administrator to perform its functions, the Company shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the retirement, Disability, death, or Termination of Employment of the Executive, and such other pertinent information as the Plan Administrator may reasonably require.
- 8.6. Annual Statement. The Plan Administrator shall provide to the Executive, within 120 days after the end of each Plan Year, a statement setting forth the benefits payable under this Agreement.

Article 9 Miscellaneous

- 9.1. Binding Effect. This Agreement shall bind the Executive and the Company, and their beneficiaries, survivors, executors, successors, administrators, and transferees.
- 9.2. No Guarantee of Employment. This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Company, nor does it interfere with the Company's right to discharge the Executive. It also does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.
- 9.3. Non-Transferability. Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached, or encumbered in any manner.

- 9.4. Tax Withholding. The Company shall withhold any taxes that, in its reasonable judgment, are required to be withheld from the benefits provided under this Agreement. The Executive acknowledges that the Company's sole liability regarding taxes is to forward any amounts withheld to the appropriate taxing authority(ies).
- 9.5. Applicable Law. The Agreement and all rights hereunder shall be governed by the laws of the State of Ohio, except to the extent preempted by the laws of the United States of America.
- 9.6. Unfunded Arrangement. The Executive and Beneficiary are general unsecured creditors of the Company for the payment of benefits under this Agreement. The benefits represent the mere promise by the Company to pay such benefits. The rights to benefits are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors. Any insurance on the Executive's life is a general asset of the Company to which the Executive and Beneficiary have no preferred or secured claim.
- 9.7. Reorganization. The Company shall not merge or consolidate into or with another company, or reorganize, or sell substantially all of its assets to another company, firm, or person unless such succeeding or continuing company, firm, or person agrees to assume and discharge the obligations of the Company under this Agreement. Upon the occurrence of such event, the term "Company" as used in this Agreement shall be deemed to refer to the successor or survivor company.
- 9.8. Entire Agreement. This Agreement constitutes the entire agreement between the Company and the Executive as to the subject matter hereof. No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein.
- 9.9. Interpretation. Wherever the fulfillment of the intent and purpose of this Agreement requires, and the context will permit, the use of the masculine gender includes the feminine and use of the singular includes the plural.
- 9.10. Alternative Action. In the event it shall become impossible for the Company or the Plan Administrator to perform any act required by this Agreement due to regulatory or other constraints, the Company or Plan Administrator may in its discretion perform such alternative act as most nearly carries out the intent and purpose of this Agreement and is in the best interests of the Company, provided that such alternative acts do not violate Section 409A of the Code.
- 9.11. Headings. Articles and section headings are for convenient reference only and shall not control or affect the meaning or construction of any of its provisions.
- 9.12. Validity. In case any provision of this Agreement shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Agreement shall be construed and enforced as if such illegal and invalid provision has never been inserted herein.
- 9.13. Notice. Any notice or filing required or permitted to be given to the Company or Plan Administrator under this Agreement shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.
- Any notice or filing required or permitted to be given to the Executive under this Agreement shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Executive.
- 9.14. Compliance with Section 409A. This Agreement shall at all times be administered and the provisions of this Agreement shall be interpreted consistent with the requirements of Section 409A of the Code and any and all regulations thereunder, including such regulations as may be promulgated after the Effective Date of this Agreement.

IN WITNESS WHEREOF, the Executive and a duly authorized representative of the Company have signed this Agreement.

EXECUTIVE

COMPANY:
THE UNION BANK COMPANY

Brian D. Young

Title: Board of Director

Date: _____

Dated: _____

THE UNION BANK COMPANY
SALARY CONTINUATION PLAN
SCHEDULE A
FOR
BRIAN YOUNG

| Period Ending | Discount Rate | Accrual Balance | Early Termination Benefit | Disability Benefit | Pre-Retire. Death Benefit |
|----------------------|----------------------|------------------------|----------------------------------|---------------------------|----------------------------------|
| 12/31/2012 | 6.50% | 26,792 | 26,792 | 26,792 | 528,988 |
| 12/31/2013 | 6.50% | 43,774 | 43,774 | 43,774 | 528,988 |
| 12/31/2014 | 6.50% | 62,912 | 62,912 | 62,912 | 528,988 |
| 12/31/2015 | 6.50% | 84,416 | 84,416 | 84,416 | 528,988 |
| 12/31/2016 | 6.50% | 108,518 | 108,518 | 108,518 | 528,988 |
| 12/31/2017 | 6.50% | 135,470 | 135,470 | 135,470 | 528,988 |
| 12/31/2018 | 6.50% | 165,545 | 165,545 | 165,545 | 528,988 |
| 12/31/2019 | 6.50% | 199,041 | 199,041 | 199,041 | 528,988 |
| 12/31/2020 | 6.50% | 236,281 | 236,281 | 236,281 | 528,988 |
| 12/31/2021 | 6.50% | 277,616 | 277,616 | 277,616 | 528,988 |
| 12/31/2022 | 6.50% | 323,429 | 323,429 | 323,429 | 528,988 |
| 12/31/2023 | 6.50% | 374,132 | 374,132 | 374,132 | 528,988 |
| 12/31/2024 | 6.50% | 430,176 | 430,176 | 430,176 | 528,988 |
| 12/31/2025 | 6.50% | 492,049 | 492,049 | 492,049 | 528,988 |
| 07/11/2026 | 6.50% | 528,988 | 528,988 | 528,988 | 528,988 |

*All Benefits will be payable in the form of a single lump sum on the date specified in the Agreement

**If there is any conflict in any terms or provisions between this Schedule A and the Agreement, the terms and conditions of the Agreement shall prevail. If a triggering event occurs, refer to the Agreement to determine the actual benefit amount based on the date of the event.

OPTION GRANT AGREEMENT
under the
UNITED BANCSHARES, INC.
2018 STOCK OPTION PLAN

This Agreement, dated this ___ **day of** ___, **20**__, (the “Grant Date”) by and between United Bancshares, Inc., an Ohio corporation, (the “Company”) and [employee] (herein the “Eligible Person”).

1. **Grant of Option.** Subject to the provisions of the United Bancshares, Inc. 2016 Stock Option Plan (the “Plan”), which is incorporated herein by reference, Options (the “Options”) for a total of _____ (____) Shares, are hereby granted to the Eligible Person.

2. **Option Price.** The Fair Market Value of one Share on the date of this Agreement is ___ **dollars and** ___ **cents (\$**___). The Option price for the Options granted under paragraph 1 shall be equal to the Fair Market Value described in the preceding sentence.

3. **Terms and Conditions.**

a. Employee Status and Vesting. Provided the Eligible Person is an employee of the Company on such dates, a portion of the Options granted herein shall vest and be exercisable on each anniversary of the Grant Date, as follows:

| Years after the Grant Date | Vested Percentage |
|----------------------------|-------------------|
| 1 year | 33.33% |
| 2 years | 33.33% |
| 3 years | 33.34% |

b. Expiration Date. Any Options which are vested and not exercised within 10 years from the date of the grant or _____, **20**__ shall be deemed expired and no longer exercisable by the Eligible Person.

c. Change of Control. Notwithstanding the provisions of subparagraph a, during the period beginning three months prior to the effective date of any Change of Control and ending on the first anniversary of such a Change of Control, one hundred percent (100%) of the Options granted herein which have then been outstanding hereunder for at least six months and which remain outstanding hereunder shall vest and be exercisable by the Eligible Person in the event that: (i) the Company Terminates Employment of the Eligible Person involuntarily for any reason other than Cause, or (ii) the Eligible Person Terminates Employment voluntarily for any Good Reason.

d. Employment Status. The Eligible Person is an employee of the Company as of the date of this Agreement.

4. **Non-Solicitation of Customers and Employees.** Employee covenants and agrees that, during Employee's employment and for a period of one (1) year after the voluntary or involuntary termination of Employee's employment with the Company, for any reason, or for no reason (the "Restricted Period"):
- a. Employee shall not directly or indirectly solicit or seek business from any person or entity which is a customer of the Company or actively-sought prospective customer of the Company during Employee's employment ("respective customers"). Employee further agrees that Employee shall not induce, or assist others to induce, any customer of the Company to terminate its association with the Company, or cease to do business in whole or in part with the Company, or do anything, directly or indirectly, to interfere with the business relationship between the Company and any of its respective customers.
 - b. Employee also covenants and agrees that, during the Restricted Period, Employee shall not solicit or encourage, directly or indirectly, then-current employees of the Company to terminate their employment with the Company, nor shall Employee hire, solicit, or encourage, directly or indirectly, then-current employees of the Company to become employed by, or perform services for, a person or entity engaged in a business which provides services competitive to the Company. Employee further agrees that Employee shall not induce, or assist others to induce, any employee, agent, representative or other person associated with the Company to terminate his or her association or business relationship with the Company during the Restricted Period.
5. **Payments.** Payment of the Option price upon exercise of any Option granted hereunder shall be made in accordance with the terms of the Plan in cash (or in such other manner permitted under the Plan and approved by the Committee).
6. **Exercise Notice.** The Eligible Person, or other person who may be entitled to exercise the Option, may serve notice to the Company of his intention to voluntarily exercise any Option which has become vested. This notice shall be in writing, in a format acceptable to the Company, shall specify the proposed exercise date, the number of Options which are to be exercised, and shall identify such Options by date of the grant.
7. **Expiration Date.** This Agreement shall be effective as of the date first set forth above. The Options granted under this Agreement shall expire on the earlier of: (i) the date after which the Options may no longer be exercised under the terms of the Plan, or (ii) the expiration date specified in paragraph 3, subparagraph (b) of this Agreement.
8. **Eligible Person Bound by Plan.** The Eligible Person hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. The Eligible Person hereby accepts the Options granted herein and the Shares received upon exercise thereof subject to all the terms and provisions of the Plan. The Eligible Person hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Committee upon any questions arising under the Plan. As a condition to the issuance of Shares under these Options, the Eligible Person agrees to remit to the Company at the time of any exercise of the Options any taxes required to be withheld by the Company under Federal, State, or local law as a result of the exercise of the Options. Capitalized terms not defined in this Agreement shall have the same meaning set forth in the Plan.

9. **Notices.** Any notice hereunder to the Company shall be addressed to it at its office at **105 Progressive Drive, Columbus Grove, Ohio, 45830**. Any notice hereunder to the Eligible Person shall be addressed to him at the address set forth below, subject to the right of either party to designate some other address.
10. **Limitations.** The Options granted hereunder may not be exercised if the issuance of Shares upon such exercise would constitute a violation of any applicable Federal or State securities or other law or applicable regulation.
11. **Miscellaneous.**
- a. The Eligible Person hereby agrees that this agreement shall be governed by the laws of the State of Ohio, without regard to such state's conflict of law rules.
 - b. The Eligible Person hereby agrees that if any provision of this shall be deemed unenforceable, the remaining provisions of this Agreement shall remain in full force and effect, and that the Eligible Person shall abide by those remaining provisions with the full intent of honoring the spirit of this Agreement, as if this Agreement was still fully intact.

THE COMPANY

United Bancshares, Inc.

By: _____

Title: _____

ELIGIBLE PERSON

Signature: _____

Address: _____

**UNITED BANCSHARES, INC.
CHANGE IN CONTROL AGREEMENT**

THIS CHANGE IN CONTROL AGREEMENT ("Agreement") is made and entered into as of this 13th day of July, 2011, by and between United Bancshares, Inc., an Ohio corporation ("Holding Company"), The Union Bank Company, an Ohio state-chartered bank ("Bank") and Curtis Shepherd (the "Employee").

WITNESSETH:

WHEREAS, the Employee is employed by the Bank; and

WHEREAS, the Bank and Holding Company recognize the possibility that a change in control of the Bank and/or Holding Company may occur and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Bank, the Holding Company and their respective shareholders; and

WHEREAS, the Bank and Holding Company believe it is in the best interests of the Bank and Holding Company to enter into this Agreement with the Employee in order to assure continuity of management of the Bank and to reinforce and encourage the attention and dedication of the Employee to his assigned duties without distraction in the face of potentially disruptive circumstances arising from the possibility of a change in control of the Bank and/or Holding Company; and

WHEREAS, the Bank and the Holding Company has approved and authorized the execution of this Agreement with the Employee;

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, it is agreed as follows:

1. TERM. The term of this Agreement (the "Term") shall commence on the date first set forth above (the "Effective Date"), and shall terminate upon the earlier of: (i) the payment of all Change in Control Payments due to the Employee hereunder; or (ii) the termination of Employee's employment under the circumstances described in Section 2 which would cause the Employee not to be eligible to receive a Change in Control payment hereunder.

2. CHANGE IN CONTROL PAYMENT.

a. Cause for Payment. In the event that Employee remains employed by the Bank on the closing date of any transaction constituting a Change in Control, or if the Employee's employment by the Bank is terminated during a 90-day period prior to the closing date of any transaction constituting a Change in Control for any reason other than: (i) Cause; (ii) Employee's voluntary termination of employment without Good Reason; or (iii) the Employee's death, Employee shall be entitled to receive the Change in Control Payment from the Bank as described in this Section.

b. Amount of Change in Control Payment. Except as otherwise required by subparagraph c. below, the amount of the Change in Control Payment to be paid to the Employee shall be equal to 1.50 multiplied by the Employee's Base Amount.

c. Reduction of Change in Control Payment. In the event the Employee is to receive other compensation or consideration, including, but not limited to, bonus payments or acceleration of vesting of equity incentives, which would be considered a parachute payment under Code section 280G and Treasury Regulations issued thereunder as a result of a Change in Control resulting in a payment pursuant to this Section 2, the Change in Control Payment made pursuant to subparagraph b. above shall be reduced such that the sum of such other parachute payments and the Change in Control Payment do not exceed 2.99 multiplied by the Employee's Base Amount.

d. Timing of Change in Control Payment. The Change in Control Payment shall be paid to the Employee at or simultaneously with the closing or consummation of the transaction which constitutes the Change in Control; provided, however, that in no event shall the payment be made any later than March 15th of the calendar year immediately following the calendar year in which the Change in Control occurs.

3. TERMINATION OF OTHER AGREEMENTS/AT-WILL EMPLOYMENT. This Agreement shall supersede any other agreement, oral, written, implied or otherwise, pertaining to the terms of employment of the Employee for the Bank and, if any such agreement previously exists, such agreement shall hereinafter be considered null and void. Nothing in this Agreement shall be construed to limit or impair the Bank's right to terminate Employee at will.

4. DEFINITIONS. For the purposes of this Agreement, the following words and phrases shall have the meanings indicated:

a. Base Amount. "Base Amount" shall have the same definition as is provided to that phrase under Code section 280G(b)(3)(A) and shall be interpreted in accordance with Treasury Regulations issued thereunder.

b. Board. "Board" shall mean the Board of Directors of the Bank, or any individual or committee designated by the Board to perform its obligations hereunder.

c. Cause. "Cause" shall mean, and is limited to, either:

- i. the continued willful refusal (other than a willful refusal resulting from Employee's incapacity due to physical or mental illness) by Employee to substantially perform such duties as are reasonably imposed on him by the Board;

- ii. the willful and continued engagement by Executive in conduct which Employee knows or reasonably should know is contrary to the best interests of the Bank, as reasonably determined by the Board;
- iii. Employee's conviction of, or plea of *nolo contendere* to, a felony which involves moral turpitude or which materially impairs Employee's ability to perform his duties with the Bank; or
- iv. the Employee willfully engaging in conduct which violates any applicable law, governmental regulation or governmental executive order, which could reasonably be expected to subject the Bank to a material penalty or substantial damages (for example, but without limitation thereto, sexual harassment or illegal discrimination).

d. Change in Control. "Change in Control" means the occurrence of any of the events described in paragraphs (i), (ii), and (iii) of this definition. All of such events shall be determined under and, even if not so indicated in the following paragraphs of this definition, shall be subject to all of the terms of Section 1.409A-3(i)(5) of the Treasury Regulations.

- i. A change in the ownership of the Bank and/or Holding Company (within the meaning of Section 1.409A-3(i)(5)(v) of the Treasury Regulations). In very general terms, Section 1.409A-3(i)(5)(v) of the Treasury Regulations provides that a change in the ownership of the Bank and/or Holding Company occurs when a person or more than one person acting as a group acquires outstanding voting securities of the Bank and/or Holding Company that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Bank and/or Holding Company.
- ii. A change in the effective control of the Bank and/or Holding Company (within the meaning of Section 1.409A-3(i)(5)(vi) of the Treasury Regulations). In very general terms, Section 1.409A-3(i)(5)(vi) of the Treasury Regulations provides that a change in the effective control of the Bank and/or Holding Company occurs either:
 - A. when a person or more than one person acting as a group acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Bank and/or Holding Company possessing 30% or more of the total voting power of the stock of the Bank and/or Holding Company; or
 - B. when a majority of members of the board of directors of either the Bank and/or Holding Company is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the respective board prior to the date of the appointment or election.

iii. A change in the ownership of a substantial portion of the assets of the Bank and/or Holding Company (within the meaning of Section 1.409A-3(i)(5)(vii) of the Treasury Regulations). In very general terms, Section 1.409A-3(i)(5)(vii) of the Treasury Regulations provides that a change in the ownership of a substantial portion of the assets of the Bank and/or Holding Company occurs when a person or more than one person acting as a group acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or persons) assets from the Bank and/or Holding Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets (determined without regard to any liabilities associated with such assets) of the Bank and/or Holding Company, respectively, immediately prior to such acquisition or acquisitions.

e. **Code.** "Code" means the Internal Revenue Code of 1986, as amended.

f. **Disability.** "Disability" means the Employee's physical or mental disability that prevents the performance by the Employee of the Employee's duties with the Bank lasting (or likely to last, based on competent medical evidence presented to the Bank) for a continuous period of six months or longer. The reasoned and good faith judgment of the Bank as to whether the Participant has a Disability shall be final and shall be based on such competent medical evidence as shall be presented to it by the Employee or by any physician or group of physicians or other competent medical experts employed by the Employee or the Bank to advise the Bank.

g. **Good Reason.** "Good Reason" shall mean, and is limited to:

i. the voluntary termination of employment of the Employee within 90 days following:

A. any assignment to the Employee of any duties, functions or responsibilities that are significantly different from, and result in a substantial and material diminution of, the duties, functions or responsibilities that the Employee has on the Effective Date;

B. any requirement by the Bank that the Employee be based more than 50 miles from Columbus Grove, Ohio; or

C. a reduction in base salary or employee benefits equal to 10% or more (other than in connection with a reduction generally applicable to similarly situated employees); or

- ii. termination resulting from the Disability of the Employee.

5. MISCELLANEOUS.

a. Obligation of the Bank. The Bank, and not the Board or any member thereof, shall be liable for any and all claims made in connection with this Agreement and for any and all payments to which Employee may be entitled under this Agreement. The Agreement shall be unfunded.

b. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto, the heirs and legal representatives of Employee, and the successors and assigns of the Bank, except that Employee may not assign this Agreement.

c. Modification. This Agreement may not be changed, amended, or modified except by a writing signed by both parties; provided, however, that any obligation arising under this Agreement shall remain subject to the jurisdiction and ruling of any bank regulatory authority, including, but not limited to, the Federal Deposit Insurance Corporation and the Ohio Division of Financial Institutions, and upon a proper exercise of regulatory authority by such entity or agency the obligations in this Agreement will be decreased or eliminated so as to comply with the judgment and rulings of such entity or agency.

d. Notices. Any notice, request, demand, waiver, consent, approval, or other communication which is required to be or may be given under this Agreement shall be in writing and shall be deemed given only if delivered to the party personally or sent to the party by a commercially reputable overnight delivery service, delivery charges prepaid, to the parties at the addresses set forth herein or to such other address as either party may designate from time to time by notice to the other party sent in like manner.

e. Governing Law. This Agreement constitutes the entire agreement between the parties and shall be governed by and construed in accordance with the laws of the State of Ohio applicable to agreements made and to be performed solely within such state.

f. Tax Liability. The Bank may withhold from any payment of benefits under this Agreement, or from any other compensation payable to the Employee by the Bank, such amounts as the Bank determines are reasonably necessary to pay any taxes (and interest thereon) required to be withheld under applicable law.

g. Headings. The section headings contained in this Agreement are for reference purposes only and shall not be deemed to be a part of this Agreement or to affect the construction or interpretation of this Agreement.

h. No Mitigation. The Employee shall not be required to mitigate the amount of any payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Agreement be reduced by any compensation earned by the Employee as the result of employment by another employer, by retirement benefits after the date of termination or otherwise.

i. Confidentiality. This Agreement shall be confidential, and Employee agrees not to disclose the existence of this Agreement or its terms to anyone other than Employee's attorney and Employee's financial and tax advisors.

(signature page immediately follows)

IN WITNESS WHEREOF, the parties hereto have caused the Agreement to be executed as of the day and year first above written.

THE UNION BANK COMPANY

EMPLOYEE

By: _____

Its: _____

UNITED BANCSHARES, INC.

By: _____

Its: _____

Exhibit 13
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Shareholders, Clients, and Team Members:

I am pleased to report that as a result of the effort and commitment of our team members that once again your Company had a successful year. In addition to reporting income before taxes of approximately \$12.3 million, return on average tangible equity of 18.49% and return on average assets of 1.24%, all noticeable increases from previous years, your company continues to focus on sustainable growth. We continue to believe that growth in full relationships with our clients is key to the continued increase in income generation for our shareholders. As such, we continue to focus our activities around driving those relationships across services and product lines.

These focused activities led to year over year growth of 2.6% in loans and 6.1% in deposits. During this same period, the Company recognized a 94.0% increase in gain on loan sales. While net interest income will continue to be our largest source of income, the enduring challenges of industry-wide margin compression make it increasingly important to generate non-interest income. Both our residential mortgage activities and governmental lending units are providing those opportunities, while at the same time capturing customer relationships during those transactions. Relationship banking is, has been, and will continue to be the fundamental driver of our long-term profitability and success.

It is also important to note that during the fourth quarter of 2019, the company realized an increase in other non-interest income due to the settlement of claims related to prior year tax adjustments which resulted in recording a one-time net income recovery of \$1,980,000.

In 2020, we plan to continue to invest in our most important driver of success, our team members. In addition to further development of our current team members, we are always exploring ways to add team members with the desired expertise as we continue to expand in size and complexity. All the while, we remain unwavering in the promotion of our core values throughout that process. Those core values are not just a tag line or a feel good cliché, but undeniably the primary driver of our financial successes.

The Company also continues to make investments in technology to create internal efficiencies, reduce the risk of fraud, and enhance customer tools and resources. Such efforts have yielded positive results in our customers' use of technology-based products. We believe that effectively implementing technology will promote growth and support for our growing footprint and provide the opportunity to increase the effectiveness of our team members in serving our clients.

The continued accomplishments of your Company is the undeniable result of the ongoing efforts of the Company's dedicated team members and Board of Directors in implementing our Strategic Plan. Their efforts and our strong corporate values of respect for and accountability to our shareholders, clients, colleagues, and communities are the foundation for the continued success of your Company. Thank you for your ongoing support and the trust you have placed in us.

Respectfully,

Brian D. Young
President & CEO

UNITED BANCSHARES, INC.

DESCRIPTION OF THE CORPORATION

United Bancshares, Inc., an Ohio corporation (the “Corporation”), is a financial 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 105 Progressive Drive, Columbus Grove, Ohio 45830. Effective February 1, 2007, the Bank formed a wholly-owned subsidiary, UBC Investments, Inc. (“UBC”) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. Effective, December 4, 2009, the Bank formed a wholly-owned subsidiary UBC Property, Inc. to hold and manage certain property that was acquired in lieu of foreclosure. At this time all other real estate owned property is being held at the Bank. Through its subsidiary, the Bank, the Corporation is engaged in the business of commercial banking and offers a full range of commercial banking services.

The Union Bank Company is an Ohio state-chartered bank, which serves Allen, Delaware, Franklin, Hancock, Huron, Marion, Putnam, Sandusky, Van Wert and Wood Counties, with office locations in Bowling Green, Columbus Grove, Delaware, Delphos, Findlay, Gahanna, Gibsonburg, Kalida, Leipsic, Lima, Marion, Ottawa, Pemberville, Plymouth, Westerville and Worthington, Ohio.

United Bancshares, Inc. has traded its common stock on the Nasdaq Markets Exchange under the symbol “UBOH” since March 2001. As of December 31, 2019, the common stock was held by 1,143 shareholders of record.

AVAILABILITY OF MORE INFORMATION

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

Heather Oatman, Secretary
United Bancshares, Inc.
105 Progressive Drive
Columbus Grove, Ohio 45830
800-837-8111

UNITED BANCSHARES, INC.
FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

Years ended December 31,

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|------------|------------|------------|------------|------------|
| Statements of income: | | | | | |
| Total interest income | \$ 37,819 | \$ 34,365 | \$ 25,772 | \$ 21,627 | \$ 22,836 |
| Total interest expense | 8,924 | 6,158 | 3,118 | 2,231 | 2,077 |
| Net interest income | 28,895 | 28,207 | 22,654 | 19,396 | 20,759 |
| Provision (credit) for loan losses | 550 | 450 | (350) | (750) | 382 |
| Net interest income after provision (credit) for loan losses | 28,345 | 27,757 | 23,004 | 20,146 | 20,377 |
| Total non-interest income | 15,048 | 9,428 | 6,099 | 4,832 | 4,572 |
| Total non-interest expenses | 31,117 | 27,436 | 22,378 | 17,713 | 17,627 |
| Income before federal income taxes | 12,276 | 9,749 | 6,725 | 7,265 | 7,322 |
| Federal income taxes | 1,615 | 1,529 | 2,879 | 1,744 | 1,405 |
| Net income | \$ 10,661 | \$ 8,220 | \$ 3,846 | \$ 5,521 | \$ 5,917 |
| Per share of common stock: | | | | | |
| Net income - basic | \$ 3.26 | \$ 2.51 | \$ 1.18 | \$ 1.68 | \$ 1.77 |
| Dividends | 0.52 | 0.48 | 0.48 | 0.44 | 0.36 |
| Book value | \$ 29.00 | \$ 24.76 | \$ 23.17 | \$ 22.21 | \$ 21.62 |
| Average shares outstanding - basic | 3,270,878 | 3,268,667 | 3,267,305 | 3,289,497 | 3,309,339 |
| Average shares outstanding - diluted | 3,277,198 | 3,269,834 | 3,272,310 | 3,289,497 | 3,309,339 |
| Year end balances: | | | | | |
| Loans (1) | \$ 591,725 | \$ 569,319 | \$ 508,796 | \$ 377,596 | \$ 354,597 |
| Securities (2) | 188,913 | 172,656 | 174,730 | 195,035 | 187,759 |
| Total assets | 880,014 | 830,300 | 780,450 | 633,119 | 608,665 |
| Deposits | 707,134 | 666,236 | 630,548 | 524,680 | 518,419 |
| Shareholders' equity | 94,781 | 80,944 | 75,704 | 72,558 | 71,561 |
| Average balances: | | | | | |
| Loans (1) | 582,377 | 540,687 | 421,564 | 361,437 | 358,368 |
| Securities (2) | 179,075 | 173,592 | 189,815 | 191,813 | 207,738 |
| Total assets | 861,693 | 802,989 | 683,164 | 614,688 | 628,753 |
| Deposits | 694,857 | 647,987 | 565,710 | 519,102 | 531,359 |
| Shareholders' equity | 86,652 | 76,142 | 75,597 | 74,067 | 69,981 |
| Selected ratios: | | | | | |
| Net yield on average interest earning assets (3) | 3.75 % | 3.96 % | 3.80 % | 3.59 % | 3.75 % |
| Return on average assets | 1.24 % | 1.02 % | 0.56 % | 0.90 % | 0.94 % |
| Return on average shareholders' equity | 12.30 % | 10.80 % | 5.09 % | 7.45 % | 8.46 % |
| Net loan charge-offs (recoveries) as a percentage of average outstanding net loans | (0.01)% | (0.04)% | 0.04 % | (0.07)% | 0.11 % |
| Allowance for loan losses as a percentage of year end loans (4) | 0.72 % | 0.63 % | 0.56 % | 0.89 % | 1.09 % |
| Shareholders' equity as a percentage of total assets | 10.77 % | 9.75 % | 9.70 % | 11.46 % | 11.76 % |

Notes:

- 1) Includes loans held for sale.
- 2) Includes restricted bank stock.
- 3) Net yield on average interest-earning assets was computed on a tax-equivalent basis.
- 4) Does not include loans held for sale
- 5) Financial data for 2017 and subsequent years includes the impact of the Benchmark Bancorp acquisition.

Forward-looking Statements

This report includes certain forward-looking statements by the Corporation relating to such matters as anticipated operating results, prospects for new lines of business, technological developments, economic trends (including interest rates), and similar matters. Statements that do not describe historical or current facts, including statements about beliefs and expectations, are forward-looking statements. Forward-looking statements may be identified by words such as expect, anticipate, believe, intend, estimate, plan, target, goal, or similar expressions, or future or conditional verbs such as will, may, might, should, would, could, or similar variations. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements, and the purpose of this paragraph is to secure the use of the safe harbor provisions. While the Corporation believes that the assumptions underlying the forward looking statements contained herein and in other public documents are reasonable, any of the assumptions could prove to be inaccurate, and accordingly, actual results and experience could differ materially from the anticipated results or other expectations expressed by the Corporation in its forward-looking statements. Factors that could cause actual results or experience to differ from results discussed in the forward-looking statements include, but are not limited to: economic conditions, volatility and direction of market interest rates, governmental legislation and regulation, material unforeseen changes in the financial condition or results of operations of the Corporation's customers, customer reaction to and unforeseen complications with respect to the integration of acquisition, product design initiative, and other risks identified, from time-to-time in the Corporation's other public documents on file with the Securities and Exchange Commission.

The following discussion provides additional information relating to the financial condition and results of operations of United Bancshares, Inc. which include the impact of the acquisition of Benchmark Bancorp, Inc. and its wholly-owned subsidiary, Benchmark Bank ("Benchmark") on September 8, 2017. This section should be read in conjunction with the consolidated financial statements and the supplemental data contained elsewhere in the Annual Report on Form 10-K.

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

Overview

United Bancshares, Inc. (the "Corporation") is a financial holding company that conducts business through its wholly-owned subsidiary, The Union Bank Company (the "Bank"). The Bank is an Ohio state-chartered commercial bank that provides financial services to communities based in northwest Ohio and central Ohio, where it operates 19 full-service branches.

As a commercial bank, the Bank concentrates its efforts on serving the financial needs of the businesses in and around the counties it serves. The Bank also provides financing to customers seeking to purchase or build their own homes. The Bank provides deposit, treasury management, wealth management, and other traditional banking products through its full-service branch office network and its electronic banking services.

Financial Condition

Consolidated assets for the Corporation and the Bank totaled \$880.0 million at December 31, 2019, compared to \$830.3 million at December 31, 2018, representing an increase of \$49.7 million or 6.0%. The increase in total assets was primarily the result of an increase of \$14.2 million (2.6%) in net loans, \$7.6 million (98.6%) in loans held for sale, \$16.3 million (9.7%) in securities available for sale and \$9.9 million (60.3%) in cash and cash equivalents. Deposits during this same period increased \$40.9 million (6.1%), other borrowings decreased \$6.7 million (10.2%) and Shareholders' equity increased \$13.8 million (17.1%).

Loans and Leases

At December 31, 2019, total loans and leases, including loans and leases held for sale, amounted to \$591.7 million compared to \$569.3 million at December 31, 2018, an increase of \$22.4 million (3.9%). The following categories within the loan and lease portfolio represent the majority of the change during 2019: Commercial and multi-family real estate increased \$13.2 million (3.7%), residential real estate increased \$3.1 million (2.6%), loans held for sale increased \$7.6 million (98.6%), and consumer loans increased \$1.6 million (23.1%). This growth was slightly offset by a decrease in commercial loans of \$3.0 million (3.7%).

Securities

Management monitors the earnings performance and liquidity of the securities portfolio on a regular basis through Asset/Liability Committee (ALCO) meetings. As a result, all securities, except Federal Home Loan Bank of Cincinnati (FHLB) stock, have been designated as available-for-sale and may be sold if needed for liquidity, asset-liability management or other reasons. Such securities are reported at fair value, with any net unrealized gains or losses reported as a separate component of shareholders' equity, net of related income taxes.

Securities, including FHLB stock, totaled \$188.9 million at December 31, 2019 compared to \$172.7 million at December 31, 2018, an increase of \$16.2 million (9.7%). The portfolio experienced an increase in net unrealized gains on securities of \$5.9 million during 2019.

The Corporation is required to maintain a certain level of FHLB stock based on outstanding borrowings from the FHLB. FHLB stock is considered a restricted security which is carried at cost and evaluated periodically for impairment. There were no changes to the FHLB stock balance during 2019.

At December 31, 2019, the Corporation's investment securities portfolio included \$72.6 million in U.S. states and political subdivisions securities, which is \$22.2 million (23.5%) lower than shareholders' equity as of that date. The largest exposure to any one state is \$14.0 million, or 20%, from issuers located within the state of Wisconsin. The Corporation's procedures for evaluating investments in securities issued by states, municipalities and political subdivisions are in accordance with guidance issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies" (SR 12-15) and other regulatory guidance. Credit ratings are considered in our analysis only as a guide to the historical default rate associated with similarly-rated bonds. There have been no significant differences in our internal analyses compared with the ratings assigned by the third-party credit rating agencies.

At December 31, 2019 the net unrealized gain on available-for-sale securities amounted to \$3.6 million while at December 31, 2018, there was a net unrealized loss on available-for-sale securities of \$2.2 million. At December 31, 2019, the Corporation held 29 securities which were in a loss position with the fair value of \$29.2 million and gross unrealized losses \$249,000. Management has considered the current interest rate environment, typical volatility in the bond market, and the Corporation's liquidity needs in the near term in concluding that the impairment on these securities is temporary.

Cash and Cash equivalents

Cash and cash equivalents at December 31, 2019 were \$26.4 million, a \$9.9 million (60.3%) increase from \$16.5 million at December 31, 2018. The increase is due to an increase of overnight funds on deposit at the Federal Reserve.

Deposits

Total deposits at December 31, 2019 were \$707.1 million, an increase of \$40.9 million (6.1%) compared with total deposits of \$666.2 million at December 31, 2018. The increase in deposits consisted of a \$39.9 million increase in interest bearing deposits and a \$1.0 million increase in non-interest bearing deposits.

Other Borrowings

In addition to customer deposits, the Corporation utilizes other borrowings as an alternative source of funding, as necessary, to support asset growth. Other borrowings at December 31, 2019, include FHLB secured advances of \$50.0 million and term borrowings from another bank of \$8,750,000. Other borrowings at December 31, 2018, included FHLB secured advances of \$51.3 million, \$9,750,000 of term borrowings from another bank, and federal funds purchased from correspondent banks of \$4.4 million. FHLB borrowings consist of multiple advances due at various dates through September 2022. Term borrowings from another bank were used to facilitate the 2017 Benchmark acquisition and are payable in quarterly installments of \$250,000 with any remaining principal due in September 2022.

Shareholders' Equity

Total shareholders' equity increased \$13.8 million (17.1%) to \$94.8 million at December 31, 2019 compared to \$80.9 million at December 31, 2018. The increase was a result of 2019 net income of \$10.7 million and other comprehensive income of \$4.6 million, offset by the declaration of \$1.7 million in common stock dividends.

Results of Operation – 2019 Compared to 2018

Performance Summary

Consolidated net income for the Corporation was \$10.7 million in 2019 compared to \$8.2 million in 2018 and \$3.8 million in 2017.

Net income in 2019, as compared to 2018 was favorably impacted by increases in net interest income of \$688,000 and non-interest income of \$5.6 million, offset by increases in non-interest expenses of \$3.7 million and provision for loan losses of \$100,000.

The Corporation's return on average assets was 1.24% in 2019, compared to 1.02% in 2018, and 0.56% in 2017. The Corporation's return on average tangible shareholders' equity was 18.49% in 2019, 16.79% in 2018, and 6.4% in 2017. Basic net income per share was \$3.26 per share in 2019, an increase of \$0.75 per share from \$2.51 in 2018. Basic net income per share of \$2.51 in 2018 represented an increase of \$1.33 per share from \$1.18 in 2017. Changes in these amounts from year to year were generally reflective of changes in the level of net income.

Net Interest Income

Net interest income, which represents the revenue generated from interest-earning assets in excess of the interest cost of funding those assets, is the Corporation's principal source of income. Net interest income is influenced by market interest rate conditions and the volume and mix of interest-earning assets and interest-bearing liabilities. Many external factors affect net interest income and typically include the strength of client loan demand, client preference for individual deposit account products, competitors' loan and deposit product offerings, the national and local economic climates, and Federal Reserve monetary policy.

Net interest income for 2019 was \$28.9 million, an increase of \$688,000 (2.4%) from 2018. The increase in net interest income was primarily due to growth in interest earning assets which outpaced the rising cost of interest earning liabilities. Total average interest-earning assets increased \$59.0 million to \$781.9 million in 2019 from \$722.9 in 2018. The yield on average interest-earning assets, on a tax-equivalent basis, increased 8 basis points in 2019 to 4.89% from 4.81% in 2018. Total average interest-bearing liabilities increased \$33.5 million to \$647.8 million in 2019 compared to \$614.3 million in 2018, and the cost of interest bearing liabilities increased 38 basis points to 1.38% in 2019 compared to 1.00% in 2018.

Provision for Loan and Lease Losses and the Allowance for Loan and Lease Losses

The Corporation's loan policy provides guidelines for managing both credit risk and asset quality. The policy details acceptable lending practices, establishes loan-grading classifications, and prescribes the use of a loan review process. The Corporation has a credit administration department that performs regular credit file reviews which facilitate the timely identification of problem or potential problem credits, ensure sound credit decisions, and assist in the determination of the allowance for loan losses. The Corporation also engages an outside credit review firm to supplement the credit analysis function and to provide an independent assessment of the loan review process. The loan policy, loan review process, and credit analysis function facilitate management's evaluation of the credit risk inherent in the lending function.

As mentioned, ongoing reviews are performed to identify potential problem and nonperforming loans and also provide in-depth analysis with respect to the quarterly allowance for loan losses calculation. Part of this analysis involves assessing the need for specific reserves relative to impaired loans. This evaluation typically includes a review of the recent performance history of the credit, a comparison of the estimated collateral value in relation to the outstanding loan balance, the overall financial strength of the borrower, industry risks pertinent to the borrower, and competitive trends that may influence the borrower's future financial performance. Loans are considered to be impaired when, based upon the most current information available, it appears probable that the borrower will not be able to make payments according to the contractual terms of the loan agreement. Impaired loans are recorded at the observable market price of the loan, the fair value of the underlying collateral (if the loan is collateral dependent), or the present value of the expected future cash flows discounted at the loan's effective interest rate. Given that the Corporation's impaired loans are typically collateralized by real estate or other borrower assets, the fair value of individual impaired loans is most often based upon the underlying collateral value net of estimated selling costs. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

To determine the allowance for loan and lease losses, the Corporation prepares a detailed analysis that focuses on delinquency trends, the status of nonperforming loans (i.e., impaired, nonaccrual, restructured, and past due 90 days or more), current and historical trends of charged-off loans within each loan category (i.e., commercial, real estate, and consumer), existing local and national economic conditions, and changes within the volume and mix in each loan category. Higher loss rates are applied in calculating the allowance for loan losses relating to potential problem loans. Loss rates are periodically evaluated considering historic loss rates in the respective potential problem loan categories (i.e., special mention, substandard, doubtful) and current trends.

Regular provisions are made in amounts sufficient to maintain the balance in the allowance for loan losses at a level considered by management to be adequate for losses within the portfolio. Even though management uses all available information to assess possible loan losses, future additions or reductions to the allowance may be required as changes occur in economic conditions and specific borrower circumstances. The regulatory agencies that periodically review the Corporation's allowance for loan and lease losses may also require additions to the allowance or the charge-off of specific loans based upon the information available to them at the time of their examinations.

The allowance for loan and lease losses at December 31, 2019 was \$4.1 million, or 0.72% of total loans, compared to \$3.5 million, or 0.63% of total loans at December 31, 2018. The change in the allowance for loan and lease losses during 2019 included a \$550,000 provision for loan losses and loan recoveries, and net recoveries of \$54,000.

The provision or credit for loan and lease losses is determined by management after considering the amount of net losses incurred as well as management's estimation of losses inherent in the portfolio based on an evaluation of loan portfolio risk and current economic factors. Favorable settlements of impaired or potential problem loans can also result in a reduction in the required allowance for loan and lease losses and a negative provision, or credit, being reflected in current operations. The provision for loan and lease losses of \$550,000 in 2019 was a \$100,000 increase compared to the provision of \$450,000 in 2018. The increase was primarily attributable to loan growth of \$14.8 million during 2019 and an increase in the specific reserve on impaired loans.

Impaired loans, principally consisting of commercial and commercial real estate, amounted to \$2,778,000 at December 31, 2019. Impaired loans at December 31, 2019 included \$848,000 of loans with no specific reserves included in the allowance for loan losses and \$1,930,000 of loans with specific reserves of \$435,000 included in the Corporation's December 31, 2019 allowance for loan losses. Total impaired loans of \$1,331,000 at December 31, 2018 included \$959,000 of loans with no specific reserves included in the allowance for loan losses and \$372,000 of loans with specific reserves of \$128,000 included in the Corporation's December 31, 2018 allowance for loan losses.

In addition to impaired loans, the Corporation had other potential problem credits of \$4.9 million at December 31, 2019 compared to \$6.7 million at December 31, 2018, a decrease of \$1.8 million (26.9%). The Corporation's credit administration department continues to closely monitor these credits.

Non-Interest Income

Total non-interest income increased \$5.6 million (59.6%) to \$15.0 million in 2019 from \$9.4 million in 2018, which was primarily attributable to increases in gain on sale of loans of \$4.4 million and other non-interest operating income of \$1.6 million.

Significant recurring components of non-interest income include service charges on deposit accounts, secondary market lending activities, and increases in the cash surrender value of life insurance. Service charges on deposit accounts was \$1.5 million in 2019 compared to \$1.6 million in 2018.

The Corporation has elected to sell in the secondary market substantially all fixed rate residential real estate loans originated, and retains the servicing rights relating to certain of those loans. During 2019, gain on sale of loans was \$9.1 million, including \$192,000 of capitalized servicing rights. Gain on sale of loans was \$4.7 million in 2018, including \$164,000 of capitalized servicing rights. A significant contributing factor to the increase in gain on sale of loans was the favorable rate environment for refinancing existing mortgages and the growth of the residential mortgage and governmental lending operations. The Corporation's serviced portfolio increased \$2.5 million during 2019 to \$175.7 million at December 31, 2019.

The Corporation reports its mortgage servicing rights using the fair value measurement method. As a result, the Corporation recognized a \$258,000 decrease in the fair value of mortgage servicing rights during 2019, compared to a \$26,000 increase in the fair value of mortgage servicing rights in 2018. Prepayment assumptions are a key valuation input used in determining the fair value of mortgage servicing rights. While prepayment assumptions are constantly subject to change, such changes typically occur within a relatively small parameter from period to period. The prepayment assumptions used in determining the fair value of servicing are based on the Public Securities Association (PSA) Standard Prepayment Model. At December 31, 2019 the PSA factor was 214 compared to 136 at December 31, 2018.

Other operating income increased \$1.6 million to \$4.4 million in 2019 from \$2.7 million in 2018. The increase in other non-interest income resulted from the Corporation's settlement of claims related to prior year tax adjustments, which resulted in a one-time net income recovery of \$1,980,000 during the fourth quarter of 2019.

Non-Interest Expenses

For the year ended December 31, 2019, non-interest expenses totaled \$31,117,000, compared to \$27,436,000 for the same period of 2018, an increase of \$3,681,000 (13.4%) which was primarily attributable to increases in salaries and benefits expense of \$2,762,000 (17.4%), loan fees of \$433,000 (46.9%), legal fees of \$77,000 (24.3%), consultant fees of \$93,000, ATM processing and other fees of \$101,000 (15.2%), and information technology expenses of \$105,000 (92.0%), offset by a decrease in the FDIC assessment of \$185,000 (69.9%).

The significant components of other operating expenses are summarized in Note 11 to the consolidated financial statements.

Provision for Income Taxes

The provision for income taxes for 2019 was \$1.6 million an effective tax rate of 13.2%, compared to \$1.5 million in 2018, an effective rate of 15.7%. The decrease in the effective tax rate in 2019 as compared to 2018 resulted from the Corporation's \$1,980,000 settlement claim being tax exempt.

Results of Operation – 2018 Compared to 2017

Performance Summary

Consolidated net income for the Corporation was \$8.2 million in 2018 compared to \$3.8 million in 2017 and \$5.5 million in 2016.

Net income in 2018, as compared to 2017 was favorably impacted by increases in net interest income of \$5.6 million and non-interest income of \$3.3 million as well as a decrease in the provision for income taxes of \$1.4 million, offset by an increase in non-interest expenses of \$5.0 million and a provision for loan losses of \$450,000 compared to a credit for loan losses of \$350,000 for the year ended December 31, 2017.

The Corporation's return on average assets was 1.02% in 2018, compared to 0.56% in 2017, and 0.90% in 2016. The Corporation's return on average tangible shareholders' equity was 16.79% in 2018, 6.40% in 2017, and 7.45% in 2016. Basic net income per share was \$2.51 per share in 2018, an increase of \$1.33 per share from \$1.18 in 2017. Basic net income per share of \$1.18 in 2017 represented a decrease of \$0.50 per share from \$1.68 in 2016. Changes in these amounts from year to year were generally reflective of changes in the level of net income.

Net Interest Income

Net interest income for 2018 was \$28.2 million, an increase of \$5.6 million (24.5%) from 2017. The increase in net interest income was primarily due to an increase in loan interest income. The net interest yield on average interest-earning assets, on a tax-equivalent basis, increased in 2018 to 4.81% from 4.31% in 2017. A majority of this increase was a result of the average yield on loans for 2018 increasing to 5.50% compared to 5.05% in 2017 coupled with loans comprising 74.8% of interest-earning assets in 2018 compared to 68.2% in 2017. Conversely, the average rate on interest-bearing liabilities increased to 1.00% in 2018 from 0.62% in 2017. The increase in net interest income included a \$5.0 million volume increase and a \$600,000 rate increase which is indicative of the growth in the interest-earning asset base from both organic loan growth and the Benchmark transaction, as well as the aforementioned increase in market interest rates.

Provision for Loan and Lease Losses and the Allowance for Loan and Lease Losses

The allowance for loan and lease losses at December 31, 2018 was \$3.5 million, or 0.63% of total loans, compared to \$2.8 million, or 0.56% of total loans at December 31, 2017. The change in the allowance for loan and lease losses during 2018 included a \$450,000 provision for loan losses and loan recoveries, net of charge offs, of \$242,000.

The provision for loan and lease losses of \$450,000 in 2018 compares to a credit of \$350,000 in 2017. The increase was primarily attributable to loan growth of \$54.5 million during 2018.

Impaired loans, principally consisting of commercial and commercial real estate, amounted to \$1,331,000 at December 31, 2018 (none at December 31, 2017). Impaired loans at December 31, 2018 included \$959,000 of loans with no specific reserves included in the allowance for loan losses and \$372,000 of loans with specific reserves of \$128,000 included in the Corporation's December 31, 2018 allowance for loan losses.

In addition to impaired loans, the Corporation had other potential problem credits of \$6.7 million at December 31, 2018 compared to \$8.0 million at December 31, 2017, a decrease of \$1.3 million (16.1%).

Non-Interest Income

Total non-interest income increased \$3.3 million (52.7%) to \$9.4 million in 2018 from \$6.2 million in 2017, which was primarily attributable to increases in gain on sale of loans of \$2.8 million and other operating income of \$472,000.

Significant recurring components of non-interest income include service charges on deposit accounts, secondary market lending activities, and increases in the cash surrender value of life insurance. Service charges on deposit accounts was \$1.6 million in 2018 and 2017.

During 2018, gain on sale of loans was \$4.7 million, including \$164,000 of capitalized servicing rights. Gain on sale of loans was \$1.8 million in 2017, including \$183,000 of capitalized servicing rights. A significant contributing factor to the increase in gain on sale of loans was the Benchmark acquisition which included the addition of their nationwide mortgage origination program. Gains on sale of loans in the nationwide mortgage origination program amounted to \$4.2 million in 2018 and \$1.4 million in 2017. The Corporation's serviced portfolio decreased \$1.4 million during 2018 to \$173.2 million at December 31, 2018.

The Corporation recognized a \$26,000 increase in the fair value of mortgage servicing rights during 2018, compared to a \$31,000 decrease in the fair value of mortgage servicing rights in 2017. Prepayment assumptions are a key valuation input used in determining the fair value of mortgage servicing rights. While prepayment assumptions are constantly subject to change, such changes typically occur within a relatively small parameter from period to period. The prepayment assumptions used in determining the fair value of servicing are based on the Public Securities Association (PSA) Standard Prepayment Model. At December 31, 2018 the PSA factor was 136 compared to 159 at December 31, 2017.

Other operating income increased \$472,000 (20.9%) to \$2.7 million in 2018 from \$2.3 million in 2017. The increase in non-interest income for the year ended December 31, 2018 was primarily attributable to \$341,000 of hedging income and a \$118,000 increase in debit card fee income.

Non-Interest Expenses

For the year ended December 31, 2018, non-interest expenses totaled \$27,436,000, compared to \$22,378,000 for the same period of 2017, an increase of \$5,050,000 (22.6%). This increase is primarily attributable to salary, wage and employee benefit increases related to the Benchmark operations and was mitigated by \$1,271,000 of acquisition costs incurred by the Corporation during the year ended December 31, 2017 in connection with the acquisition. The year over year results included increases in salaries and benefits expense of \$3,865,000 (32.1%), premises and equipment of \$239,000 (8.2%), advertising and promotion of \$647,000 and loan fees of \$501,000, offset by a decrease in consultant fees of \$590,000.

Provision for Income Taxes

The provision for income taxes for 2018 was \$1.5 million an effective tax rate of 15.7%, compared to \$2.9 million in 2017, an effective rate of 42.8%. The decrease in the effective tax rate in 2018 as compared to 2017 resulted from a one-time \$1,136,000 tax provision recognized in 2017 due to the impact of the Tax Cuts and Jobs Act, which was enacted in December 2017 and more fully described in Note 12 to the consolidated financial statements. As a result of this tax law change, the Corporation's effective tax rate was reduced from the federal statutory rate of 34% to 21% resulting in a reduction of deferred tax assets. At December 31, 2018, the corporation had \$46,000 of federal alternative minimum tax credit carryforwards which were subsequently refunded in 2019.

Liquidity

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

The consolidated statements of cash flows for the years presented provide an indication of the Corporation's sources and uses of cash as well as an indication of the ability of the Corporation to maintain an adequate level of liquidity. A discussion of cash flows for 2019, 2018, and 2017 follows.

The Corporation generated cash from operating activities of \$3.6 million in 2019, \$5.1 million in 2018, and \$5.9 million in 2017.

Net cash flows used in investing activities amounted to \$26.1 million in 2019, \$58.4 million in 2018, and \$39.9 million in 2017. Significant investing cash flow activities in 2019 included \$11.3 million of net cash outflows resulting from securities purchases, net of proceeds received from sales and maturities and \$14.1 million of net cash outflow to fund net loan growth. Significant investing cash flow activities in 2018 included \$53.8 million of net cash outflow to fund net loan growth. Significant investing cash flow activities in 2017 included \$21.1 million of net cash inflows resulting from securities purchases, net of proceeds received from sales and maturities; \$34.3 million of net cash outflow resulting from an increase in loans; and a \$24.7 million cash outflow for the acquisition of Benchmark.

Net cash flows provided by financing activities amounted to \$32.4 million in 2019, \$42.5 million in 2018, and \$47.1 million in 2017. Net cash provided by financing activities in 2019 primarily resulted from an increase in deposits of \$41.0 million offset by payments on other borrowings of \$6.7 million, and \$1,702,000 in cash dividends paid. Net cash provided by financing activities in 2018 primarily resulted from an increase in deposits of \$35.9 million and other borrowings of \$8.3 million, offset by \$1,568,000 in cash dividends paid. Net cash provided by financing activities in 2017 primarily resulted from an increase in other borrowings of \$38.4 million and deposits of \$10.4 million, offset by \$1,569,000 in cash dividends paid.

Asset Liability Management

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

The difference between a financial institution's interest rate sensitive assets (assets that will mature or reprice within a specific time period) and interest rate sensitive liabilities (liabilities that will mature or reprice within the same time period) is commonly referred to as its "interest rate sensitivity gap" or, simply, its "gap". An institution having more interest rate sensitive assets than interest rate sensitive liabilities within a given time interval is said to have a "positive gap". This generally means that, when interest rates increase, an institution's net interest income will increase and, when interest rates decrease, the institution's net interest income will decrease. An institution having more interest rate sensitive liabilities than interest rate sensitive assets within a given time interval is said to have a "negative gap". This generally means that, when interest rates increase, the institution's net interest income will decrease and, when interest rates decrease, the institution's net interest income will increase. The Corporation's one year cumulative gap (ratio of risk-sensitive assets to risk-sensitive liabilities) at December 31, 2019 is approximately 115% which means the Corporation has more assets than liabilities re-pricing within one year. Under the current low interest rate environment, the Corporation's liabilities do not have the ability to reprice down the full 100 bps which is why the margin decreases in a 100 bps down shock scenario.

Effects of Inflation

The assets and liabilities of the Corporation are primarily monetary in nature and are more directly affected by fluctuations in interest rates than inflation. Movement in interest rates is a result of the perceived changes in inflation as well as monetary and fiscal policies. Interest rates and inflation do not necessarily move with the same velocity or within the same period; therefore, a direct relationship to the inflation rate cannot be shown. The financial information presented in the Corporation's consolidated financial statements has been presented in accordance with accounting principles generally accepted in the United States, which require that the Corporation measure financial position and operating results primarily in terms of historical dollars.

Significant Accounting Policies

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

The Corporation's most significant accounting policies are presented in Note 1 to the consolidated financial statements. These policies, along with other disclosures presented in the Notes to Consolidated Financial Statements and Management's Discussion and Analysis, provide information about how significant assets and liabilities are valued in the financial statements and how those values are determined. Management has identified the determination of the allowance for loan losses, valuation of goodwill and mortgage servicing rights, and fair value of securities and other financial instruments as the areas that require the most subjective and complex estimates, assumptions and judgments and, as such, could be the most subjective to revision as new information becomes available.

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

Management considers the valuation of goodwill from various past acquisitions through an annual impairment test which considers, among other things, the assets and equity of the Corporation as well as price multiples for sales transactions involving other local financial institutions. Management engaged an independent valuation specialist to perform a goodwill impairment evaluation as of September 30, 2019, which supported management's assessment that no impairment adjustments to goodwill were warranted. To date, none of the goodwill evaluations have revealed the need for an impairment charge. Management does not believe that any significant conditions have changed relating to the goodwill assessment through December 31, 2019.

Mortgage servicing rights are recognized when acquired through sale of mortgage loans and are reported at fair value. Changes in fair value are reported in net income for the period the changes occur. The Corporation generally estimates fair value for servicing rights based on the present value of future expected cash flows, using management's best estimates of the key assumptions – credit losses, prepayment speeds, servicing costs, earnings rate and discount rates commensurate with the risks involved. The Corporation has engaged an independent consultant to calculate the fair value of mortgage servicing rights on a quarterly basis. Management regularly reviews the calculation, including assumptions used in making the calculation, and discusses with the consultant. Management also reconciles information used by the consultant, with respect to the Corporation's serviced portfolio, to the Corporation's accounting records.

The Corporation reviews securities prices and fair value estimates of other financial instruments supplied by an independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. The Corporation's securities portfolio primarily consists of U.S. Government agencies, and political subdivision obligations, and mortgage backed securities. Pricing for such instruments is typically based on models with observable inputs. From time to time, the Corporation will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from other third-party sources or derived using internal models. The Corporation also considers the reasonableness of inputs for financial instruments that are priced using unobservable inputs.

Impact of Recent Accounting Pronouncements

A summary of new accounting standards adopted or subject to adoption in 2019, as well as newly-issued but not effective accounting standards at December 31, 2019, is presented in Note 2 to the consolidated financial statements.

Off-Balance Sheet Arrangements, Contractual Obligations, and Contingent Liabilities and Commitments

The following table summarizes loan commitments, including letters of credit, as of December 31, 2019:

| | Amount of commitment to expire per period | | | | |
|-----------------------------|---|---------------------|------------------|-----------------|------------------|
| | Total Amount | Less than 1 year | 1 - 3 years | 4 - 5 years | Over 5 years |
| Type of Commitment | | | (in thousands) | | |
| Commercial lines-of-credit | \$ 55,335 | \$ 52,069 | \$ 2,495 | \$ - | \$ 771 |
| Real estate lines-of-credit | 76,924 | 5,143 | 13,209 | 9,566 | 49,006 |
| Consumer lines-of-credit | 346 | - | - | - | 346 |
| Letters of Credit | 615 | 515 | 100 | - | - |
| Total commitments | \$ 133,220 | \$ 57,727 | \$ 15,804 | \$ 9,566 | \$ 50,123 |

As indicated in the preceding table, the Corporation had \$133.2 million in total loan commitments at December 31, 2019, with \$57.7 million of that amount expiring within one year. All lines-of-credit represent either fee-paid or legally binding loan commitments for the loan categories noted. Letters-of-credit are also included in the amounts noted in the table since the Corporation requires that each letter-of-credit be supported by a loan agreement. The commercial and consumer lines represent both unsecured and secured obligations. The real estate lines are secured by mortgages in residential and nonresidential property. Many of the commercial lines are due on a demand basis, and are established for seasonal operating purposes. It is anticipated that a significant portion of these lines will expire without being drawn upon.

Off-Balance Sheet Arrangements, Contractual Obligations, and Contingent Liabilities and Commitments – Continued

The following table summarizes the Corporation's contractual obligations as of December 31, 2019:

| | Payments due by period | | | | |
|--|-------------------------|-----------------------------|------------------------|------------------------|-------------------------|
| | <u>Total Amount</u> | <u>Less than 1 year</u> | <u>1 - 3 years</u> | <u>4 - 5 Years</u> | <u>Over 5 years</u> |
| | | | (in thousands) | | |
| Contractual obligations | | | | | |
| Long-term debt | \$ 71,658 | \$ 7,000 | \$ 51,750 | \$ - | \$ 12,908 |
| Operating leases | 2,588 | 311 | 561 | 566 | 1,150 |
| Time deposits | 197,391 | 135,003 | 60,234 | 1,997 | 157 |
| Deposits without stated maturities | 509,743 | - | - | - | 509,743 |
| Future deferred compensation payments, including interest | 1,207 | 116 | 183 | 138 | 770 |
| Total obligations | <u>\$ 782,587</u> | <u>\$ 142,430</u> | <u>\$ 112,728</u> | <u>\$ 2,701</u> | <u>\$ 524,728</u> |

Long-term debt presented in the preceding table consists of Federal Home Loan Bank borrowings of \$50.0 million, \$8.75 million term loan with a bank, and \$12.9 million of junior subordinated deferrable interest debentures, including \$10.4 million issued by the Corporation and \$2.5 million assumed from the November 2014 OSB acquisition.

Time deposits and deposits without stated maturities included in the preceding table are comprised of customer deposit accounts. Management believes that they have the ability to attract and retain deposit balances by adjusting the interest rates offered.

The future deferred compensation payments, including interest, as noted in the preceding table, includes the Corporation's agreement with its former Chairman of the Board of Directors to provide for retirement compensation benefits. A deferred compensation liability was also assumed with The OSB acquisition for the benefit of its retired president, with payment that began on May 1, 2010. At December 31, 2019, the net present value of future deferred compensation payments amounted to \$761,000, which is included in other liabilities in the December 31, 2019 consolidated balance sheet.

As indicated in the table, the Corporation had no capital lease obligations as of December 31, 2019. The Corporation also has a non-qualified deferred compensation plan covering certain directors and officers, and has provided an estimated liability of \$1,324,000 at December 31, 2019 for supplemental retirement benefits.

Quantitative and Qualitative Disclosures about Market Risk

The most significant market risk to which the Corporation is exposed is interest rate risk. The business of the Corporation and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans and securities), which are funded by interest bearing liabilities (deposits and borrowings). These financial instruments have varying levels of sensitivity to changes in the market rates of interest, resulting in market risk. None of the Corporation's financial instruments are held for trading purposes.

The Corporation manages interest rate risk regularly through its Asset Liability Committee. The Committee meets on a regular basis and reviews various asset and liability management information, including but not limited to, the Corporation's liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

The Corporation monitors its interest rate risk through a sensitivity analysis, whereby it measures potential changes in its future earnings and the fair values of its financial instruments that may result from one or more hypothetical changes in interest rates. This analysis is performed by estimating the expected cash flows of the Corporation's financial instruments using interest rates in effect at year-end. For the fair value estimates, the cash flows are then discounted to year-end to arrive at an estimated present value of the Corporation's financial instruments. Hypothetical changes in interest rates are then applied to the financial instruments, and the cash flows and fair values are again estimated using these hypothetical rates. For the net interest income estimates, the hypothetical rates are applied to the financial instruments based on the assumed cash flows. The Corporation applies these interest rate "shocks" to its financial instruments up and down 100, 200 and 300 and up 400 basis points.

Quantitative and Qualitative Disclosures about Market Risk - Continued

The following table shows the Corporation's estimated earnings sensitivity profile as of December 31, 2019:

| Change in Interest Rates (basis points) | Percentage Change in Net Interest Income | Percentage Change in Net Income |
|--|---|--|
| +100 | -0.9% | -3.0% |
| -100 | -2.6% | -7.7% |
| +200 | -2.4% | -7.6% |
| -200 | -5.4% | -15.9% |
| +300 | -4.2% | -13.3% |
| -300 | N/A | N/A |
| +400 | -6.2% | -19.9% |

Given a linear 100bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 0.9% and net income would decrease by 3.0%. A 100bp decrease in interest rates would decrease net interest income by 2.6% and decrease net income by 7.7%. Given a linear 200bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 2.4% and net income would decrease by 7.6%. A 200bp decrease in interest rates would decrease net interest income by 5.4% and decrease net income by 15.9%. Given a linear 300bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 4.2% and net income would decrease by 13.3%. A 300bp decrease in interest rates cannot be simulated at this time due to the historically low interest rate environment and a 400bp increase in interest rates would decrease net interest income by 6.2% and decrease net income by 19.9%. Management does not expect any significant adverse effect to net interest income in 2019 based on the composition of the portfolio and anticipated trends in rates.



CliftonLarsonAllen LLP
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
United Bancshares, Inc.
Columbus Grove, Ohio

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Bancshares, Inc. and subsidiaries (the "Corporation") as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019 and the related notes and schedules (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

We have served as the Corporation's auditors since 2000.

Toledo, Ohio
March 6, 2020



UNITED BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

(in thousands except share data)

| | 2019 | 2018 |
|---|-------------------|-------------------|
| ASSETS | | |
| CASH AND CASH EQUIVALENTS | | |
| Cash and due from banks | \$ 9,167 | \$ 11,698 |
| Interest-bearing deposits in other banks | 17,245 | 4,777 |
| Total cash and cash equivalents | <u>26,412</u> | <u>16,475</u> |
| SECURITIES, available-for-sale | 183,611 | 167,354 |
| FEDERAL HOME LOAN BANK STOCK, at cost | 5,302 | 5,302 |
| LOANS HELD FOR SALE | 15,301 | 7,705 |
| LOANS AND LEASES | 576,424 | 561,614 |
| Less allowance for loan and lease losses | 4,131 | 3,527 |
| Net loans and leases | <u>572,293</u> | <u>558,087</u> |
| PREMISES AND EQUIPMENT, net | 18,789 | 18,968 |
| GOODWILL | 28,616 | 28,616 |
| CORE DEPOSIT INTANGIBLE ASSETS, net | 794 | 953 |
| CASH SURRENDER VALUE OF LIFE INSURANCE | 18,613 | 18,223 |
| OTHER REAL ESTATE OWNED | - | 108 |
| OTHER ASSETS, including accrued interest receivable | 10,283 | 8,509 |
| TOTAL ASSETS | <u>\$ 880,014</u> | <u>\$ 830,300</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Non-interest bearing | \$ 116,360 | \$ 115,333 |
| Interest-bearing | 590,774 | 550,903 |
| Total deposits | <u>707,134</u> | <u>666,236</u> |
| Other borrowings | 58,750 | 65,443 |
| Junior subordinated deferrable interest debentures | 12,908 | 12,874 |
| Other liabilities | 6,441 | 4,803 |
| Total liabilities | <u>785,233</u> | <u>749,356</u> |
| SHAREHOLDERS' EQUITY | | |
| Common stock, stated value \$1.00, authorized 10,000,000 shares; issued 3,760,557 shares; 3,268,095 and 3,269,358 shares outstanding at December 31 2019 and 2018, respectively | 3,761 | 3,761 |
| Surplus | 15,251 | 14,960 |
| Retained earnings | 80,629 | 71,670 |
| Accumulated other comprehensive income (loss) | 2,872 | (1,764) |
| Treasury stock, at cost, 492,462 shares at December 31, 2019 and 491,199 shares at December 31, 2018 | <u>(7,732)</u> | <u>(7,683)</u> |
| Total shareholders' equity | <u>94,781</u> | <u>80,944</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 880,014</u> | <u>\$ 830,300</u> |

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

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2019, 2018 and 2017

| | (in thousands except share data) | | |
|--|----------------------------------|-----------------|-----------------|
| | Year Ended December 31, | | |
| | 2019 | 2018 | 2017 |
| INTEREST INCOME | | | |
| Loans and leases, including fees | \$ 32,867 | \$ 29,722 | \$ 21,305 |
| Securities: | | | |
| Taxable | 2,601 | 2,573 | 2,403 |
| Tax-exempt | 1,704 | 1,557 | 1,682 |
| Other | 647 | 513 | 382 |
| Total interest income | <u>37,819</u> | <u>34,365</u> | <u>25,772</u> |
| INTEREST EXPENSE | | | |
| Deposits | 6,440 | 3,849 | 2,125 |
| Borrowings | 2,484 | 2,309 | 993 |
| Total interest expense | <u>8,924</u> | <u>6,158</u> | <u>3,118</u> |
| Net interest income | 28,895 | 28,207 | 22,654 |
| PROVISION (CREDIT) FOR LOAN AND LEASE LOSSES | 550 | 450 | (350) |
| Net interest income after provision (credit) for loan and lease losses | <u>28,345</u> | <u>27,757</u> | <u>23,004</u> |
| NON-INTEREST INCOME | | | |
| Service charges on deposit accounts | 1,486 | 1,610 | 1,636 |
| Gain on sale of loans | 9,071 | 4,675 | 1,843 |
| Net securities gains (losses) | 4 | (6) | (2) |
| Change in fair value of mortgage servicing rights | (258) | 26 | (31) |
| Increase in cash surrender value of life insurance | 390 | 395 | 397 |
| Other operating income | 4,355 | 2,728 | 2,256 |
| Total non-interest income | <u>15,048</u> | <u>9,428</u> | <u>6,099</u> |
| NON-INTEREST EXPENSES | | | |
| Salaries, wages and employee benefits | 18,665 | 15,903 | 12,038 |
| Occupancy expenses | 3,174 | 3,155 | 2,917 |
| Other operating expenses | 9,278 | 8,378 | 7,423 |
| Total non-interest expenses | <u>31,117</u> | <u>27,436</u> | <u>22,378</u> |
| Income before income taxes | 12,276 | 9,749 | 6,725 |
| PROVISION FOR INCOME TAXES | 1,615 | 1,529 | 2,879 |
| NET INCOME | <u>\$ 10,661</u> | <u>\$ 8,220</u> | <u>\$ 3,846</u> |
| NET INCOME PER SHARE BASIC | <u>\$ 3.26</u> | <u>\$ 2.51</u> | <u>\$ 1.18</u> |
| NET INCOME PER SHARE DILUTED | <u>\$ 3.25</u> | <u>\$ 2.51</u> | <u>\$ 1.18</u> |

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

UNITED BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2019, 2018 and 2017

| | (in thousands) | | |
|--|-------------------------|-----------------|-----------------|
| | Year Ended December 31, | | |
| | 2019 | 2018 | 2017 |
| NET INCOME | \$ 10,661 | \$ 8,220 | \$ 3,846 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) during period | 5,873 | (2,051) | 1,122 |
| Reclassification adjustments for losses (gains) included in net income | (4) | 6 | 2 |
| Other comprehensive income (loss), before income taxes | 5,869 | (2,045) | 1,124 |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 1,233 | (429) | 382 |
| Other comprehensive income (loss) | 4,636 | (1,616) | 742 |
| COMPREHENSIVE INCOME | <u>\$ 15,297</u> | <u>\$ 6,604</u> | <u>\$ 4,588</u> |

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

UNITED BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2019, 2018 and 2017

| | (in thousands) | | | | | |
|---|-----------------|------------------|----------------------|--|-------------------|------------------|
| | 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 | - | - | 3,846 | - | - | 3,846 |
| Other comprehensive income | - | - | - | 742 | - | 742 |
| Sale of 1,126 treasury shares | - | 9 | - | - | 18 | 27 |
| Stock option expense | - | 100 | - | - | - | 100 |
| Cash dividends declared, \$0.48 per share | - | - | (1,569) | - | - | (1,569) |
| BALANCE AT DECEMBER 31, 2017 | 3,761 | 14,783 | 64,994 | (124) | (7,710) | 75,704 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 8,220 | - | - | 8,220 |
| Other comprehensive loss | - | - | - | (1,616) | - | (1,616) |
| Reclassification for accounting change | - | - | 24 | (24) | - | - |
| Sale of 1,715 treasury shares | - | 12 | - | - | 27 | 39 |
| Stock option expense | - | 165 | - | - | - | 165 |
| Cash dividends declared, \$0.48 per share | - | - | (1,568) | - | - | (1,568) |
| BALANCE AT DECEMBER 31, 2018 | 3,761 | 14,960 | 71,670 | (1,764) | (7,683) | 80,944 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 10,661 | - | - | 10,661 |
| Other comprehensive income | - | - | - | 4,636 | - | 4,636 |
| Repurchase of 4,220 shares | - | - | - | - | (95) | (95) |
| Sale of 2,957 treasury shares | - | 25 | - | - | 46 | 71 |
| Stock option expense | - | 266 | - | - | - | 266 |
| Cash dividends declared, \$0.52 per share | - | - | (1,702) | - | - | (1,702) |
| BALANCE AT DECEMBER 31, 2019 | <u>\$ 3,761</u> | <u>\$ 15,251</u> | <u>\$ 80,629</u> | <u>\$ 2,872</u> | <u>\$ (7,732)</u> | <u>\$ 94,781</u> |

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

UNITED BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019, 2018 and 2017

| | (in thousands) | | |
|---|--------------------------|-----------------|-----------------|
| | Years Ended December 31, | | |
| | 2019 | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 10,661 | \$ 8,220 | \$ 3,846 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,240 | 1,052 | 938 |
| Purchase accounting loan discount accretion | (670) | (1,233) | (891) |
| Deferred income taxes | 529 | 1,740 | 2,660 |
| Provision (credit) for loan losses | 550 | 450 | (350) |
| Gain on sale of loans | (9,071) | (4,675) | (1,843) |
| Net securities losses (gains) | (4) | 6 | 2 |
| Change in fair value of mortgage servicing rights | 258 | (26) | 31 |
| Loss (gain) on sale or write-down of other real estate owned | 40 | 59 | (22) |
| Increase in cash surrender value of life insurance | (390) | (395) | (397) |
| Net amortization of security premiums and discounts | 921 | 792 | 848 |
| Stock option expense | 266 | 165 | 100 |
| Deferred compensation expense | 210 | 138 | 90 |
| Proceeds from sale of loans held for sale | 281,269 | 175,288 | 63,495 |
| Originations of loans held for sale | (279,986) | (176,098) | (59,430) |
| Increase in other assets | (1,259) | (944) | (519) |
| Increase (decrease) in other liabilities | (941) | 610 | (2,698) |
| Net cash provided by operating activities | <u>\$ 3,623</u> | <u>\$ 5,149</u> | <u>\$ 5,860</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sales of available-for-sale securities | 15,985 | 21,282 | 38,087 |
| Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities | 26,724 | 16,056 | 16,591 |
| Purchases of available-for-sale securities | (54,014) | (38,107) | (33,627) |
| Net proceeds from certificates of deposits | - | - | 1,494 |
| Acquisition of Benchmark Bancorp, Inc., net of cash received | - | (3,413) | (24,660) |
| Proceeds from sale of other real estate owned | 68 | 62 | 823 |
| Net increase in loans and leases | (14,086) | (53,797) | (34,311) |
| Bank owned life insurance premium | - | - | (80) |
| Purchases of premises and equipment | (753) | (525) | (4,182) |
| Net cash used in investing activities | <u>(26,076)</u> | <u>(58,442)</u> | <u>(39,865)</u> |

Continued

UNITED BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2019, 2018 and 2017

| | | | |
|---|-------------------|-------------------|------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net increase in deposits | 40,969 | 35,883 | 10,405 |
| Other borrowings: | | | |
| Proceeds from other borrowings | - | 30,693 | 57,148 |
| Principal payments on other borrowings | (6,693) | (22,398) | (18,774) |
| Purchase of treasury shares | (95) | - | - |
| Proceeds from sale of treasury shares | 71 | 39 | 27 |
| Payments of deferred compensation | (160) | (155) | (144) |
| Cash dividends paid | (1,702) | (1,568) | (1,569) |
| Net cash provided by financing activities | <u>32,390</u> | <u>42,494</u> | <u>47,093</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>9,937</u> | <u>(10,799)</u> | <u>13,088</u> |
| CASH AND CASH EQUIVALENTS | | | |
| At beginning of year | 16,475 | 27,274 | 14,186 |
| At end of year | <u>\$ 26,412</u> | <u>\$ 16,475</u> | <u>\$ 27,274</u> |
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | | |
| Cash paid during the year for: | | | |
| Interest | <u>\$ 8,986</u> | <u>\$ 6,131</u> | <u>\$ 3,394</u> |
| Federal income taxes | <u>\$ 700</u> | <u>\$ 3,259</u> | <u>\$ 425</u> |
| Non-cash operating activity: | | | |
| Change in deferred income taxes on net unrealized gain or loss on available-for-sale securities | <u>\$ (1,233)</u> | <u>\$ 429</u> | <u>\$ 382</u> |
| Non-cash investing activities: | | | |
| Transfer of loans to other real estate owned | <u>\$ -</u> | <u>\$ 70</u> | <u>\$ 241</u> |
| Non-cash investing and financing activity: | | | |
| Recognition of right-of-use lease asset (other assets) and lease liability (other liabilities) | <u>\$ 2,112</u> | <u>\$ -</u> | <u>\$ -</u> |
| Change in net unrealized gain or loss on available-for-sale securities | <u>\$ 5,869</u> | <u>\$ (2,045)</u> | <u>\$ 1,124</u> |

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

United Bancshares, Inc. (the "Corporation") was incorporated in 1985 in the state of Ohio as a single-bank holding company for The Union Bank Company (the "Bank"). The 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 certain property that is acquired in lieu of foreclosure.

The Corporation, through its wholly-owned subsidiary, the Bank, operates in one industry segment, the commercial banking industry. The Bank, organized in 1904 as an Ohio-chartered bank, is headquartered in Columbus Grove, Ohio, with branch offices in Bowling Green, Delaware, Delphos, Findlay, Gahanna, Gibsonburg, Kalida, Leipsic, Lima, Marion, Ottawa, Pemberville, Plymouth and Westerville, Ohio.

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

Significant accounting policies followed by the Corporation are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The estimates most susceptible to significant change in the near term include the determination of the allowance for loan losses; valuation of securities, deferred tax assets, and goodwill; and fair value of assets acquired and liabilities assumed in a business combination.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, the Bank, and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

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

Restrictions on Cash

The Corporation was required to maintain cash on hand or on deposit with the Federal Reserve Bank of approximately \$1.0 million at December 31, 2019 and 2018, respectively, to meet regulatory reserve and clearing requirements.

Securities and Federal Home Loan Bank Stock

The Corporation has designated all securities as available-for-sale. Such securities are recorded at fair value, with unrealized gains and losses, net of applicable income taxes, excluded from income and reported as accumulated other comprehensive income (loss).

The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of securities below their cost that are deemed to be other-than-temporary are reflected in income as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent to sell the securities and the more likely than not requirement that the Corporation will be required to sell the securities prior to recovery, (2) the length of time and the extent to which the fair value has been less than cost, and (3) the financial condition and near-term prospects of the issuer. Gains and losses on the sale of securities are recorded on the trade date, using the specific identification method, and are included in non-interest income.

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

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined based on quoted market prices in the secondary market. Any net unrealized losses are recognized through a valuation allowance by charges to income. The Corporation had no unrealized losses at December 31, 2019 and 2018.

Loans and Leases

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

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

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

Allowance for Loan and Lease Losses

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

The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of loans and leases in light of historical experience, the nature and volume of the loan and lease portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in estimates will occur in the near term and that such changes could be material to the amounts reported in the Corporation's consolidated financial statements.

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

A loan or lease is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan or lease agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans and leases that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan or lease and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured individually for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Under certain circumstances, the Corporation will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Corporation, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt.

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

Acquired Loans

Purchased loans acquired in a business combination are segregated into three types: pass rated loans with no discount attributable to credit quality, non-impaired loans with a discount attributable at least in part to credit quality and impaired loans with evidence of significant credit deterioration.

- Pass rated loans (typically performing loans) are accounted for in accordance with ASC 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of credit deterioration since origination.
- Non-impaired loans (typically past-due loans, special mention loans and performing substandard loans) are accounted for in accordance with ASC 310-30 "Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality" as they display at least some level of credit deterioration since origination.
- Impaired loans (typically substandard loans on non-accrual status) are accounted for in accordance with ASC 310-30 as they display significant credit deterioration since origination.

In accordance with ASC 310-30, for both purchased non-impaired loans and purchased impaired loans, the difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. This amount is not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. If the Corporation does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less estimated cost to sell, at the date of foreclosure, establishing a new cost basis with loan balances in excess of fair value charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and subsequent valuation adjustments are included in other operating expenses.

Loan Sales and Servicing

Certain mortgage loans are sold with mortgage servicing rights retained or released by the Corporation. The value of mortgage loans sold with servicing rights retained is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. The Corporation generally estimates fair value for servicing rights based on the present value of future expected cash flows, using management's best estimates of the key assumptions – credit losses, prepayment speeds, servicing costs, earnings rate, and discount rates commensurate with the risks involved. Capitalized servicing rights are reported at fair value and changes in fair value are reported in net income for the period the change occurs. Servicing fee income is recorded for servicing loans, based on a contractual percentage of the outstanding principal, and is reported as other operating income. Amortization of mortgage servicing rights is charged against loan servicing fee income.

Premises and Equipment

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

Premises and equipment is reviewed for impairment when events indicate the carrying amount may not be recoverable from future undiscounted cash flows. If impaired, premises and equipment is recorded at fair value and any corresponding write-downs are charged against current year earnings.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded. The Corporation maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments is included in other liabilities.

Goodwill and Core Deposit Intangible Assets

Goodwill arising from acquisitions is not amortized, but is subject to an annual impairment test to determine if an impairment loss has occurred. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. At December 31, 2019, the Corporation believes the Bank does not have any indicators of potential impairment based on the estimated fair value of its reporting unit.

The core deposit intangible asset resulting from the March 2010 Findlay branch acquisition was determined to have a definite life and was amortized on a straight-line basis over seven years through March 2017. The core deposit intangible asset resulting from the November 2014 Ohio State Bank ("OSB") acquisition was also determined to have a definite life and is being amortized on a straight-line basis over ten years through October 2024. The core deposit intangible asset resulting from the September 2017 Benchmark acquisition described in Note 2 was also determined to have a definite life and is being amortized on an accelerated basis over ten years through 2027. Amortization of core deposit intangible assets amounted to \$159,000, \$173,000 and \$124,000 for the years ended December 31, 2019, 2018 and 2017. Future amortization of core deposit intangible assets for the years 2020 thru 2024 are \$151,000, \$143,000, \$140,000, \$139,000 and \$121,000, respectively.

Supplemental Retirement Benefits

Annual provisions are made for the estimated liability for accumulated supplemental retirement benefits under agreements with certain officers and directors. These provisions are determined based on the terms of the agreements, as well as certain assumptions, including estimated service periods and discount rates.

Advertising Costs

All advertising costs are expensed as incurred.

Income Taxes

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

Benefits from tax positions taken or expected to be taken in a tax return are not recognized if the likelihood that the tax position would be sustained upon examination by a taxing authority is considered to be 50% or less. The Corporation has adopted the policy of classifying any interest and penalties resulting from the filing of its income tax returns in the provision for income taxes.

The Corporation is not currently subject to state or local income taxes.

Transfers of Financial Assets

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

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Comprehensive Income (Loss)

Recognized revenue, expenses, gains and losses are included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

Per Share Data

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued.

The weighted average number of shares used for the years ended December 31, 2019, 2018 and 2017 are as follows:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---------|------------------|------------------|------------------|
| Basic | <u>3,270,878</u> | <u>3,268,667</u> | <u>3,267,305</u> |
| Diluted | <u>3,277,198</u> | <u>3,269,834</u> | <u>3,272,310</u> |

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

Derivative Financial Instruments

The price risk related to changes in the fair value of interest rate lock commitments (IRLCs) and mortgage loans held for sale not committed to investors are subject to change primarily due to changes in market interest rates. The Corporation is exposed to this interest rate risk for IRLCs and mortgage loans held for sale originated until those loans are sold in the secondary market. The Corporation manages the interest rate and price risk associated with its outstanding IRLCs and mortgage loans held for sale not committed to investors by entering into derivative instruments such as forward loan sales commitments and mandatory delivery commitments. Management expects these derivative instruments will experience changes in fair value opposite to changes in the fair value of the IRLCs and mortgage loans held for sale not committed to investors, thereby reducing earnings volatility. Best effort sale commitments are also executed for certain loans at the time the IRLC is locked with the borrower. The fair value of the best effort IRLC and mortgage loans held for sale are valued using the commitment price to the investor. At December 31, 2019 and 2018, derivative assets and liabilities relating to rate lock commitments were not material to the consolidated financial statements. The Corporation started hedging in May of 2019 and takes into account various factors and strategies in determining the portion of the IRLCs and mortgage loans held for sale to be economically hedged. FASB ASC 815-25, *Derivatives and Hedging*, requires that all derivative instruments be recognized as assets or liabilities on the balance sheets at their fair value. Changes in the fair value of the derivative instruments are recognized in gain on sale of mortgage loans held for sale on the statements of operations in the period in which they occur. The Corporation accounts for all derivative instruments as free-standing derivative instruments and does not designate any for hedge accounting. For the year ended December 31, 2019, the Corporation recognized a net gain from hedging activity of \$341,000 which is included in gain on sale of loans in the 2019 consolidated statement of income and reported a net hedging asset of \$492,000, which is included in other assets in the December 31, 2019 consolidated balance sheet.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after December 31, 2019, but prior to when the consolidated financial statements were issued, that provided additional evidence about conditions that existed at December 31, 2019, have been recognized in the financial statements for the year ended December 31, 2019. Events or transactions that provided evidence about conditions that did not exist at December 31, 2019 but arose before the financial statements were issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2019.

On January 23, 2020, United Bancshares, Inc. issued a release announcing that its Board of Directors approved a cash dividend of \$0.14 per common share payable March 16, 2020 to shareholders of record at the close of business on February 28, 2020.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Clients (Topic 606). ASU 2014-09 was effective for public business entities for interim and annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, and securities. The Company has performed an assessment of revenue streams that are within the scope of the standard and concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The assessment did not identify material changes to the timing of amount of revenue recognition as the Company's current practices are consistent with the standard.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities. This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (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 (that is, securities or loans receivable) 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 adoption of ASU No. 2016-01 on January 1, 2018, did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 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 prior GAAP, which required 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 is effective for interim and annual periods beginning after December 15, 2018. The adoption of ASU No. 2016-02 effective January 1, 2019 resulted in an increase to other assets and other liabilities of \$2,168,000. The Corporation chose the effective date as the date of initial application. Consequently, prior period financial information has not been updated or restated.

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 developed four different models for calculating the allowance for loan losses under the requirements of ASU 2016-13 and are running them parallel to the Bank's existing methodology throughout 2019. Once management determines which method will be utilized, a third party will be contracted to perform a model validation prior to December 31, 2019. Management has not yet determined the expected impact the adoption of ASU 2016-13 will have on the consolidated financial statements. On October 16, 2019, the FASB extended the implementation deadline until the fiscal year and interim periods beginning after December 15, 2022. Management will continue to monitor any new developments regarding this accounting standard.

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 but Management is still evaluating.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this ASU are effective for the reporting periods after December 15, 2018. The Corporation adopted ASU No. 2017-12 effective January 1, 2019. There was no significant impact to the consolidated financial statements as a result of the adoption of ASU 2017-12.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds, and modifies certain disclosure requirements for estimated fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfer between Level 1 and Level 2 of the estimated fair value hierarchy, but will be required to disclose the range and weighted-average used to develop significant unobservable inputs for Level 3 estimated fair value measurements. ASU 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 15, 2019. The revised disclosure requirements are not expected to have a material impact on the Company's consolidated financial statements, but Management is still evaluating.

In April, 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, which affects a variety of topics in the Codification and applies to all reporting entities within the scope of the affected accounting guidance. This update is not expected to have a significant impact on the Company's consolidated financial statements.

In December, 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for the areas of Topic 740 by clarifying and amending existing guidance. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2020. Early adoption of the amendments is permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company is currently reviewing the provisions of this new pronouncement, but does not expect adoption of this guidance to have a material impact on the Company's consolidated financial statements.

NOTE 3 – ACQUISITION

On September 8, 2017, after receiving full board of director and regulatory approval, the Corporation completed the acquisition of Benchmark Bancorp, Inc. (“Benchmark”) and its wholly-owned subsidiary, Benchmark Bank, in an all cash transaction. Under the terms of the merger agreement, shareholders of Benchmark received approximately \$8.59 per share for each outstanding common share. Immediately following the merger of Benchmark with and into the Corporation, Benchmark merged with and into the Bank.

As a result of the acquisition, the two full-service banking center of Benchmark located in Gahanna and Westerville, Ohio, became full service offices of the Bank, and one mortgage loan production office located in Gahanna Ohio, became a mortgage loan production office of the Bank. The acquisition expands the geographical footprint of the Corporation in Ohio's fastest growing market and is expected to provide certain cost synergies with the existing Central Ohio operations, as well as income accretion through a larger asset base. Acquisition related costs amounted to \$1,271,000 in 2017 and are included in other non-interest expenses.

Consideration paid and the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date are as follows (dollars in thousands):

| | | |
|---|----|----------------|
| Cash and cash equivalents | \$ | 6,092 |
| Restricted stock | | 472 |
| Loans, including loans held for sale | | 98,804 |
| Premises and equipment | | 2,483 |
| Core deposit intangible asset | | 493 |
| Other real estate owned | | 141 |
| Other assets, including accrued interest receivable | | 5,342 |
| Total assets acquired | | <u>113,827</u> |
| Deposits | | 95,545 |
| Other liabilities | | 2,661 |
| Total liabilities assumed | | <u>98,206</u> |
| Net identifiable assets | | 15,621 |
| Estimated goodwill | | 15,131 |
| Total cash paid | \$ | <u>30,752</u> |

In August 2018, the Corporation completed a review of the accounting and tax implications of the transaction and determined its liability for federal income tax associated with the transaction was approximately \$3.2 million greater than estimated at the time of the acquisition. As a result, consistent with measurement date purchase accounting adjustments for business combinations as required by ASC 805 and ASU No. 2015-16, the Corporation recorded the additional tax liability, as well as certain other measurement date deferred tax adjustments, during the third quarter of 2018 with a corresponding \$3,413,000 increase to goodwill. The Company recorded a settlement of claims arising from these adjustments, which resulted in recording a one-time other non-interest income recovery of \$1,980,000 during the fourth quarter of 2019.

NOTE 4 – SECURITIES

The amortized cost, unrealized gains and losses on securities, and fair value of securities as of December 31, 2019 and 2018 are as follows:

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair Value |
|-------------------------------------|-----------------------|---------------------------------------|--|-------------------|
| | (In Thousands) | | | |
| 2019 | | | | |
| Available-for-sale: | | | | |
| Obligations of states and political | | | | |
| subdivisions | \$ 70,043 | \$ 2,593 | \$ 82 | \$ 72,554 |
| Mortgage-backed | 108,907 | 1,292 | 158 | 110,041 |
| Other | 1,025 | - | 9 | 1,016 |
| Total | \$ 179,975 | \$ 3,885 | \$ 249 | \$ 183,611 |

| | (In Thousands) | | | |
|-------------------------------------|-----------------------|---------------|-----------------|-------------------|
| 2018 | | | | |
| Available-for-sale: | | | | |
| Obligations of states and political | | | | |
| subdivisions | \$ 59,585 | \$ 354 | \$ 473 | \$ 59,466 |
| Mortgage-backed | 109,000 | 162 | 2,238 | 106,924 |
| Other | 1,002 | - | 38 | 964 |
| Total | \$ 169,587 | \$ 516 | \$ 2,749 | \$ 167,354 |

The amortized cost and fair value of securities at December 31, 2019, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | (in thousands) | |
|--|-----------------------|-------------------|
| | Amortized Cost | Fair value |
| Due in one year or less | \$ 500 | \$ 501 |
| Due after one year through five years | 6,387 | 6,471 |
| Due after five years through ten years | 26,476 | 26,999 |
| Due after ten years | 145,587 | 148,624 |
| Other securities having no maturity date | 1,025 | 1,016 |
| Total | \$ 179,975 | \$ 183,611 |

Securities with a carrying value of \$26.0 million at December 31, 2019 and \$27.6 million at December 31, 2018 were pledged to secure public deposits and for other purposes as required or permitted by law.

The following table presents gross unrealized losses and fair value of debt securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

| | (in thousands) | | | | | |
|--|---|------------|-------------------|------------|-------------------|------------------|
| | Securities in a continuous unrealized loss position | | | | | |
| | Less than 12 months | | 12 months or more | | Total | |
| | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | Total Fair value |
| 2019 | | | | | | |
| Obligations of states and political subdivisions | \$ 82 | \$ 3,816 | \$ - | \$ - | \$ 82 | \$ 3,816 |
| Mortgage-backed | 69 | 9,633 | 89 | 14,808 | 158 | 24,441 |
| Other | - | - | 9 | 991 | 9 | 991 |
| Total temporarily impaired securities | \$ 151 | \$ 13,449 | \$ 98 | \$ 15,799 | \$ 249 | \$ 29,248 |

| | (in thousands) | | | | | |
|--|---|------------|-------------------|------------|-------------------|------------------|
| | Securities in a continuous unrealized loss position | | | | | |
| | Less than 12 months | | 12 months or more | | Total | |
| | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | Total Fair value |
| 2018 | | | | | | |
| Obligations of states and political subdivisions | \$ 94 | \$ 11,074 | \$ 379 | \$ 14,636 | \$ 473 | \$ 25,710 |
| Mortgage-backed | 219 | 16,171 | 2,019 | 62,435 | 2,238 | 78,606 |
| Other | - | - | 38 | 964 | 38 | 964 |
| Total temporarily impaired securities | \$ 313 | \$ 27,245 | \$ 2,436 | \$ 78,035 | \$ 2,749 | \$ 105,280 |

There were 29 securities in an unrealized loss position at December 31, 2019, 15 of which were in a continuous unrealized loss position for 12 months or more. There were 151 securities in an unrealized loss position at December 31, 2018, 89 of which were in a continuous unrealized loss position for 12 months or more. Management has considered industry analyst reports, whether downgrades by bond rating agencies have occurred, sector credit reports, issuer's financial condition and prospects, the Corporation's ability and intent to hold securities to maturity, and volatility in the bond market, in concluding that the unrealized losses as of December 31, 2019 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2019 are considered to be temporary.

Gross realized gains from sale of securities, including securities calls, amounted to \$4,000 in 2019, \$90,000 in 2018, and \$241,000 in 2017, with the income tax provision applicable to such gains amounting to \$1,000 in 2019, \$19,000 in 2018, and \$82,000 in 2017. Gross realized losses from sale of securities amounted to \$96,000 in 2018 and \$243,000 in 2017 (none in 2019) with related income tax effect of \$20,000 in 2018 and \$83,000 in 2017 (none in 2019).

NOTE 5 – LOANS AND LEASES

Loans and leases at December 31, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Residential 1-4 family real estate | \$ 122,905 | \$ 119,841 |
| Commercial and multi-family real estate | 367,614 | 354,446 |
| Commercial | 77,658 | 80,630 |
| Consumer | 8,247 | 6,697 |
| Total loans and leases | <u>\$ 576,424</u> | <u>\$ 561,614</u> |

Fixed rate loans and leases approximated \$137,671,000 at December 31, 2019 and \$119,772,000 at December 31, 2018.

Most of the Corporation's lending activities are with customers located in Northwestern and West Central Ohio. As of December 31, 2019 and 2018, the Corporation's loans and leases from borrowers in the agriculture industry represent the single largest industry and amounted to \$44,729,000 and \$43,324,000, respectively. Agriculture loans and leases are generally secured by property and equipment. Repayment is primarily expected from cash flow generated through the harvest and sale of crops or milk production for dairy products. Agriculture customers are subject to various risks and uncertainties which can adversely impact the cash flow generated from their operations, including weather conditions; milk production; health and stability of livestock; costs of key operating items such as fertilizer, fuel, seed, or animal feed; and market prices for crops, milk, and livestock. Credit evaluation of agricultural lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

The Corporation originates 1-4 family real estate and consumer loans and leases utilizing credit reports to supplement the underwriting process. The Corporation's underwriting standards for 1-4 family loans and leases are generally in accordance with the Federal Home Loan Mortgage Corporation (FHLMC) manual underwriting guidelines. Properties securing 1-4 family real estate loans and leases are appraised by fee appraisers, which is independent of the loan and lease origination function and has been approved by the Board of Directors and the Loan Policy Committee. The loan-to-value ratios normally do not exceed 80% without credit enhancements such as mortgage insurance. The Corporation will lend up to 100% of the lesser of the appraised value or purchase price for conventional 1-4 family real estate loans, provided private mortgage insurance is obtained. The underwriting standards for consumer loans and leases include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan or lease. To monitor and manage loan and lease risk, policies and procedures are developed and modified, as needed by management. This activity, coupled with smaller loan and lease amounts that are spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis. The Corporation's 1-4 family real estate loans and leases are secured primarily by properties located in its primary market area.

Commercial and agricultural real estate loans and leases are subject to underwriting standards and processes similar to commercial and agricultural operating loans and leases, in addition to those unique to real estate loans and leases. These loans and leases are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial and agricultural real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loan to value is generally 75% of the cost or appraised value of the assets. Appraisals on properties securing these loans are generally performed by fee appraisers approved by the Board of Directors. Because payments on commercial and agricultural real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial and agricultural real estate loans and leases based on cash flows, collateral and risk rating criteria. The Corporation may require guarantees on these loans and leases. The Corporation's commercial and agricultural real estate loans and leases are secured primarily by properties located in its primary market area.

Commercial and agricultural operating loans and leases are underwritten based on the Corporation's examination of current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. This underwriting includes the evaluation of cash flows of the borrower, underlying collateral, if applicable and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans and leases may fluctuate in value after the initial evaluation. A first priority lien on the general assets of the business normally secures these types of loans and leases. Loan to value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and/or hail insurance may be required for agricultural borrowers. Loans are generally guaranteed by the principal(s). The Corporation's commercial and agricultural operating lending is primarily in its primary market area.

The Corporation maintains an internal audit department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The internal audit process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Corporation's policies and procedures.

The following tables present the activity in the allowance for loan and lease losses by portfolio segment for the years ended December 31, 2019, 2018 and 2017:

(in thousands)

| | Residential 1 – 4 family real estate | Commercial and multi- family real estate | Commercial | Consumer | Total |
|-------------------------------------|---|---|-------------------|-----------------|-----------------|
| Balance at December 31, 2018 | \$ 576 | \$ 2,355 | \$ 534 | \$ 62 | \$ 3,527 |
| Provision for loan and lease losses | 22 | 52 | 465 | 11 | 550 |
| Losses charged off | (46) | (23) | (101) | (10) | (180) |
| Recoveries | 40 | 152 | 41 | 1 | 234 |
| Balance at December 31, 2019 | <u>\$ 592</u> | <u>\$ 2,536</u> | <u>\$ 939</u> | <u>\$ 64</u> | <u>\$ 4,131</u> |

| | Residential 1 – 4 family real estate | Commercial and multi- family real estate | Commercial | Consumer | Total |
|--|---|---|-------------------|-----------------|-----------------|
| Balance at December 31, 2017 | \$ 545 | \$ 1,746 | \$ 501 | \$ 43 | \$ 2,835 |
| Provision (credit) for loan and lease losses | 8 | 417 | (3) | 28 | 450 |
| Losses charged off | (52) | (114) | (21) | (10) | (197) |
| Recoveries | 75 | 306 | 57 | 1 | 439 |
| Balance at December 31, 2018 | <u>\$ 576</u> | <u>\$ 2,355</u> | <u>\$ 534</u> | <u>\$ 62</u> | <u>\$ 3,527</u> |

| | Residential 1 – 4 family real estate | Commercial and multi- family real estate | Commercial | Consumer | Total |
|--|---|---|-------------------|-----------------|-----------------|
| Balance at December 31, 2016 | \$ 542 | \$ 1,876 | \$ 896 | \$ 31 | \$ 3,345 |
| Provision (credit) for loan and lease losses | 34 | 9 | (424) | 31 | (350) |
| Losses charged off | (45) | (553) | (63) | (28) | (689) |
| Recoveries | 14 | 414 | 92 | 9 | 529 |
| Balance at December 31, 2017 | <u>\$ 545</u> | <u>\$ 1,746</u> | <u>\$ 501</u> | <u>\$ 43</u> | <u>\$ 2,835</u> |

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 as of December 31, 2019 and 2018:

| | (in thousands) | | | | |
|--|--|---|------------------|-----------------|-------------------|
| | Residential 1 – 4 family real estate | Commercial and multi- family real estate | Commercial | Consumer | Total |
| 2019 | | | | | |
| Allowance for loan and lease losses: | | | | | |
| Attributable to loans and leases individually evaluated for impairment | \$ - | \$ 93 | \$ 342 | \$ - | \$ 435 |
| Collectively evaluated for impairment | 592 | 2,443 | 597 | 64 | 3,696 |
| Total allowance for loan and lease losses | \$ 592 | \$ 2,536 | \$ 939 | \$ 64 | \$ 4,131 |
| Loans and leases: | | | | | |
| Individually evaluated for impairment | \$ - | \$ 1,499 | \$ 1,279 | \$ - | \$ 2,778 |
| Acquired with deteriorated credit quality | 61 | 127 | - | - | 188 |
| Collectively evaluated for impairment | 122,844 | 365,988 | 76,379 | 8,247 | 573,458 |
| Total ending loans and leases balance | \$ 122,905 | \$ 367,614 | \$ 77,658 | \$ 8,247 | \$ 576,424 |

| | Residential 1 – 4 family real estate | Commercial and multi- family real estate | Commercial | Consumer | Total |
|--|--|---|------------------|-----------------|-------------------|
| 2018 | | | | | |
| Allowance for loan and lease losses: | | | | | |
| Collectively evaluated for impairment | \$ - | \$ 65 | \$ 63 | \$ - | \$ 128 |
| Collectively evaluated for impairment | 576 | 2,290 | 471 | 62 | 3,399 |
| Total allowance for loan and lease losses | \$ 576 | \$ 2,355 | \$ 534 | \$ 62 | \$ 3,527 |
| Loans and leases: | | | | | |
| Individually evaluated for impairment | \$ - | \$ 970 | \$ 361 | \$ - | \$ 1,331 |
| Acquired with deteriorated credit quality | 70 | 226 | - | - | 296 |
| Collectively evaluated for impairment | 119,771 | 353,250 | 80,269 | 6,697 | 559,987 |
| Total ending loans and leases balance | \$ 119,841 | \$ 354,446 | \$ 80,630 | \$ 6,697 | \$ 561,614 |

The following is a summary of the activity in the allowance for loan and lease losses of impaired loans, which is a part of the Corporation's overall allowance for loan and lease losses for the years ended December 31, 2019, 2018 and 2017:

| | (in thousands) | | |
|--|----------------|---------------|-------------|
| | 2019 | 2018 | 2017 |
| Balance at beginning of year | \$ 128 | \$ - | \$ 1,018 |
| Provision (credit) for loan and lease losses | 307 | 128 | (865) |
| Loans charged off | - | - | (414) |
| Recoveries | - | - | 261 |
| Balance at end of year | \$ 435 | \$ 128 | \$ - |

The average balance of impaired loans and leases (excluding loans and leases acquired with deteriorated credit quality) amounted to \$2,386,000, \$349,000 and \$1,450,000 during 2019, 2018 and 2017, respectively. There was \$263,000 of interest income on impaired loans and leases in 2019. There was no interest income on impaired loans and leases in 2018 and 2017.

The following table presents loans and leases individually evaluated for impairment by class of loans as of December 31, 2019 and 2018:

| | (in thousands) | | | |
|--|---------------------|---|---------------------|---|
| | 2019 | | 2018 | |
| | Recorded investment | Allowance for loan and lease losses allocated | Recorded investment | Allowance for loan and lease losses allocated |
| With no related allowance recorded: | | | | |
| Residential 1-4 family real estate | \$ - | \$ - | \$ - | \$ - |
| Commercial and multi-family real estate | 822 | - | 719 | - |
| Agricultural real estate | 4 | - | - | - |
| Commercial | 22 | - | 24 | - |
| Agriculture | - | - | 216 | - |
| Consumer | - | - | - | - |
| With an allowance recorded: | | | | |
| Residential 1-4 family real estate | - | - | - | - |
| Commercial and multi-family real estate | 673 | 93 | 251 | 65 |
| Agricultural real estate | - | - | - | - |
| Commercial | 1,257 | 342 | 121 | 63 |
| Agriculture | - | - | - | - |
| Consumer | - | - | - | - |
| Total | \$ 2,778 | \$ 435 | \$ 1,331 | \$ 128 |

The following table presents the recorded investment in nonaccrual loans and leases, loans and leases past due over 90 days still on accrual and troubled debt restructurings by class of loans as of December 31, 2019 and 2018:

(in thousands)

| | 2019 | | | 2018 | | |
|---|---------------|---|---------------------------------------|-----------------|---|---------------------------------------|
| | Nonaccrual | Loans and leases past due over 90 days still accruing | Accruing Troubled Debt Restructurings | Nonaccrual | Loans and leases past due over 90 days still accruing | Accruing Troubled Debt Restructurings |
| Residential 1-4 family real estate | \$ 414 | \$ 138 | \$ 223 | \$ 354 | \$ 161 | \$ 372 |
| Commercial and multi family real estate | 545 | - | 623 | 754 | - | 228 |
| Agricultural real estate | 4 | - | - | 216 | - | - |
| Commercial | - | - | 772 | 121 | - | 24 |
| Agriculture | - | - | - | - | - | - |
| Consumer | - | - | - | - | - | - |
| Total | \$ 963 | \$ 138 | \$ 1,618 | \$ 1,445 | \$ 161 | \$ 624 |

The nonaccrual balances in the table above include troubled debt restructurings that have been classified as nonaccrual.

The following table presents the aging of the recorded investment in past due loans and leases as of December 31, 2019 and 2018 by class of loans and leases:

(in thousands)

| | 30 – 59 days past due | 60 – 89 days past due | Greater than 90 days past due | Total past due | Loans and leases not past due | Total |
|---|-----------------------|-----------------------|-------------------------------|-----------------|-------------------------------|-------------------|
| | 2019 | | | | | |
| Residential 1-4 family real estate | \$ 2,709 | \$ 99 | \$ 322 | \$ 3,130 | \$ 119,775 | \$ 122,905 |
| Commercial and multi family real estate | 177 | 302 | 15 | 494 | 332,161 | 332,655 |
| Agricultural real estate | - | - | - | - | 34,959 | 34,959 |
| Commercial | - | 57 | 5 | 62 | 67,826 | 67,888 |
| Agriculture | - | - | - | - | 9,770 | 9,770 |
| Consumer | 2 | - | - | 2 | 8,245 | 8,247 |
| Total | \$ 2,888 | \$ 458 | \$ 342 | \$ 3,688 | \$ 572,736 | \$ 576,424 |
| | | | | | | |
| 2018 | | | | | | |
| Residential 1-4 family real estate | \$ 2,471 | \$ 371 | \$ 278 | \$ 3,120 | \$ 116,721 | \$ 119,841 |
| Commercial and multi family real estate | 580 | - | 155 | 735 | 322,032 | 322,767 |
| Agricultural real estate | 7 | - | 241 | 248 | 31,431 | 31,679 |
| Commercial | 482 | - | - | 482 | 68,503 | 68,985 |
| Agriculture | - | - | - | - | 11,645 | 11,645 |
| Consumer | 4 | - | - | 4 | 6,693 | 6,697 |
| Total | \$ 3,544 | \$ 371 | \$ 674 | \$ 4,589 | \$ 557,025 | \$ 561,614 |

Credit Quality Indicators:

The Corporation categorizes loans and leases 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 Corporation analyzes loans and leases individually by classifying the loans and leases as to the credit risk. This analysis generally includes non-homogenous loans and leases, such as commercial and commercial real estate loans and leases. The Corporation uses the following definitions for risk ratings for adverse classified loans:

- **Pass:** Loans and leases not meeting the previous criteria that are analyzed individually as part of the above described process are considered to be pass rated loans and leases.
- **Special Mention:** Loans and leases which possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans and leases pose unwarranted financial risk that, if not corrected, could weaken the loan and lease 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 and leases are inadequately protected by the current sound net worth and paying ability of the borrower. Loans and leases of this type will generally display negative financial trends such as poor or negative net worth, earnings or cash flow. These loans and leases may also have historic and/or severe delinquency problems, and Corporation management may depend on secondary repayment sources to liquidate these loans and leases. The Corporation could sustain some degree of loss in these loans and leases if the weaknesses remain uncorrected.
- **Doubtful:** Loans and leases 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.

The following table provides a summary of the loan portfolio risk grades, as applicable, based on the most recent analysis performed, as of December 31, 2018 and December 31, 2019.

| | (in thousands) | | | | | |
|--|-------------------|----------------------------|--------------------|-----------------|-------------------|-------------------|
| | <u>Pass</u> | <u>Special Mention</u> | <u>Substandard</u> | <u>Doubtful</u> | <u>Not rated</u> | <u>Total</u> |
| 2019 | | | | | | |
| Residential 1 - 4 family | \$ 9,219 | \$ - | \$ - | \$ - | \$ 113,686 | \$ 122,905 |
| Commercial and multi- family real estate | 362,519 | 1,797 | 3,258 | - | 40 | 367,614 |
| Commercial | 75,559 | 410 | 1,688 | - | 1 | 77,658 |
| Consumer | 45 | - | - | - | 8,202 | 8,247 |
| Total | <u>\$ 447,342</u> | <u>\$ 2,207</u> | <u>\$ 4,946</u> | <u>\$ -</u> | <u>\$ 121,929</u> | <u>\$ 576,424</u> |
| 2018 | | | | | | |
| Residential 1 - 4 family | \$ 10,461 | \$ - | \$ - | \$ - | \$ 109,380 | \$ 119,841 |
| Commercial and multi- family real estate | 346,580 | 4,755 | 3,111 | - | - | 354,446 |
| Commercial | 79,179 | - | 1,451 | - | - | 80,630 |
| Consumer | - | - | - | - | 6,697 | 6,697 |
| Total | <u>\$ 436,220</u> | <u>\$ 4,755</u> | <u>\$ 4,562</u> | <u>\$ -</u> | <u>\$ 116,077</u> | <u>\$ 561,614</u> |

The Corporation considers the performance of the loan and lease portfolio and its impact on the allowance for loan and lease losses. For all loan classes that are not rated, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. Generally, all loans not rated that are 90 days past due or are classified as nonaccrual and collectively evaluated for impairment, are considered nonperforming. The following table presents the recorded investment in all loans that are not risk rated, based on payment activity as of December 31, 2019 and 2018:

(in thousands)

| | Residential 1-4 family | Commercial and multi-family real estate | Commercial | Consumer | Total |
|---------------|---------------------------|---|-------------|-----------------|-------------------|
| 2019 | | | | | |
| Performing | \$ 113,364 | \$ 24 | \$ - | \$ 8,202 | \$ 121,590 |
| Nonperforming | 322 | 16 | 1 | - | 339 |
| Total | <u>\$ 113,686</u> | <u>\$ 40</u> | <u>\$ 1</u> | <u>\$ 8,202</u> | <u>\$ 121,929</u> |

| | Residential 1-4 family | Commercial and multi-family real estate | Commercial | Consumer | Total |
|---------------|---------------------------|---|-------------|-----------------|-------------------|
| 2018 | | | | | |
| Performing | \$ 109,103 | \$ - | \$ - | \$ 6,696 | \$ 115,799 |
| Nonperforming | 278 | - | - | - | 278 |
| Total | <u>\$ 109,381</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,696</u> | <u>\$ 116,077</u> |

Modifications:

The Corporation's loan and lease portfolio also includes certain loans and leases that have been modified in a 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 Corporation's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. All TDRs are also classified as impaired loans and leases.

When the Corporation modifies a loan or lease, 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 or lease agreement, except when the sole (remaining) source of repayment for the loan or lease is 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 or lease is less than the recorded investment in the loan or lease (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), an impairment is recognized through a specific reserve in the allowance or a direct write down of the loan or lease balance if collection is not expected.

The following table includes the recorded investment and number of modifications for TDR loans and leases during the year ended December 31, 2019 (there were none in 2018). There were no other subsequent defaults relating to TDR loans and leases during the years ended December 31, 2019 and 2018.

| | (dollars in thousands) | | |
|---|----------------------------|------------------------|---|
| | Number of modifications | Recorded investment | Allowance for loan and lease losses allocated |
| 2019 | | | |
| Commercial and multi family real estate | 2 | \$ 545 | \$ - |
| Commercial | 1 | 750 | 342 |
| Total | 3 | \$ 1,295 | \$ 342 |
| 2018 | | | |
| Residential 1-4 family real estate | 2 | \$ 140 | \$ - |

The concessions granted during 2019 included the following: the bank modified one loan as ordered by the Bankruptcy Court, to comply with the bankruptcy plan. Additionally, the bank rewrote part of a line of credit and termed out another line of credit, which would likely have prohibited the borrower from financing/refinancing at another institution.

The concessions granted during 2018 included the following: the bank modified one loan as ordered by the Bankruptcy Court, to comply with the bankruptcy plan. Additionally, the bank provided a new note under conditions which would likely have prohibited them from financing/refinancing at another institution.

The following is additional information with respect to loans and leases acquired with the Benchmark and OSB acquisitions as of December 31, 2019 and 2018:

| | Benchmark Bank (in thousands) | | |
|--|--|--------------------------|--------------------|
| | Contractual Principal Receivable | Accretable Difference | Carrying Amount |
| 2019 | | | |
| Purchased Performing Loans and Leases | | | |
| Balance at December 31, 2018 | \$ 74,837 | \$ (1,553) | \$ 73,284 |
| Change due to payments received | (15,884) | 376 | (15,508) |
| Balance at December 31, 2019 | \$ 58,953 | \$ (1,177) | \$ 57,776 |
| Purchased Impaired Loans and Leases | | | |
| Balance at December 31, 2018 | \$ 516 | \$ (253) | \$ 263 |
| Change due to payments received | (162) | 61 | (101) |
| Balance at December 31, 2019 | \$ 354 | \$ (192) | \$ 162 |
| 2018 | | | |
| Purchased Performing Loans and Leases | | | |
| Balance at December 31, 2017 | \$ 89,151 | \$ (2,066) | \$ 87,085 |
| Change due to payments received | (14,314) | 513 | (13,801) |
| Balance at December 31, 2018 | \$ 74,837 | \$ (1,553) | \$ 73,284 |
| Purchased Impaired Loans and Leases | | | |
| Balance at December 31, 2017 | \$ 1,588 | \$ (674) | \$ 914 |
| Change due to payments received | (1,072) | 421 | (651) |
| Balance at December 31, 2018 | \$ 516 | \$ (253) | \$ 263 |

The Ohio State Bank
(in thousands)

| | Contractual Principal Receivable | Accretable Difference | Carrying Amount |
|--|---|----------------------------------|----------------------------|
| 2019 | | | |
| Purchased Performing Loans and Leases | | | |
| Balance at December 31, 2018 | \$ 19,043 | \$ (658) | \$ 18,385 |
| Change due to payments received | (5,996) | 228 | (5,768) |
| Balance at December 31, 2019 | <u>\$ 13,047</u> | <u>\$ (430)</u> | <u>\$ 12,617</u> |
| Purchased Impaired Loans and Leases | | | |
| Balance at December 31, 2018 | \$ 196 | \$ (163) | \$ 33 |
| Change due to payments received | (21) | 14 | (7) |
| Change due to loan charge-offs | (15) | 15 | - |
| Balance at December 31, 2019 | <u>\$ 160</u> | <u>\$ (134)</u> | <u>\$ 26</u> |
| 2018 | | | |
| Purchased Performing Loans and Leases | | | |
| Balance at December 31, 2017 | \$ 25,509 | \$ (929) | \$ 24,580 |
| Change due to payments received | (6,466) | 271 | (6,195) |
| Balance at December 31, 2018 | <u>\$ 19,043</u> | <u>\$ (658)</u> | <u>\$ 18,385</u> |
| Purchased Impaired Loans and Leases | | | |
| Balance at December 31, 2017 | \$ 496 | \$ (232) | \$ 264 |
| Change due to payments received | (232) | (31) | (263) |
| Change due to loan charge-offs | (68) | 100 | 32 |
| Balance at December 31, 2018 | <u>\$ 196</u> | <u>\$ (163)</u> | <u>\$ 33</u> |

As a result of the acquisitions, the Corporation has loans, for which there was at acquisition, evidence of deterioration of credit quality since origination and for which it was probable at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans was \$162,000 as of December 31, 2019 and \$263,000 as of December 31, 2018 related to the Benchmark acquisition and \$26,000 at December 31, 2019 and \$33,000 at December 31, 2018 for the OSB acquisition.

A \$101,000 provision for loan and lease losses was recognized for the year ended December 31, 2017 related to one purchase credit impaired commercial loan from the OSB acquisition for which the sheriff's appraisal was substantially below the expected collateral value. There was no provision for loan and lease losses recognized for the years ended December 31, 2019 and 2018 related to the acquired loans and leases as there was no significant change to the credit quality of the loans and leases during the periods.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan and lease customers of the Corporation. Such loans and leases are made in the ordinary course of business in accordance with the normal lending policies of the Corporation, including the interest rate charged and collateralization. Such loans amounted to \$1,154,000 and \$1,371,000 at December 31, 2019 and 2018 respectively. The following is a summary of activity during 2019, 2018 and 2017 for such loans:

| | (in thousands) | | |
|-------------------|-----------------|-----------------|---------------|
| | 2019 | 2018 | 2017 |
| Beginning of year | \$ 1,371 | \$ 491 | \$ 370 |
| Additions | - | 952 | 300 |
| Repayments | (217) | (72) | (179) |
| End of year | <u>\$ 1,154</u> | <u>\$ 1,371</u> | <u>\$ 491</u> |

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

NOTE 6 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2019 and 2018:

| | (in thousands) | |
|-------------------------------|------------------|------------------|
| | 2019 | 2018 |
| Land and improvements | \$ 4,069 | \$ 4,069 |
| Buildings | 17,327 | 17,602 |
| Equipment | <u>5,857</u> | <u>5,253</u> |
| | 27,253 | 26,924 |
| Less accumulated depreciation | <u>8,464</u> | <u>7,956</u> |
| Premises and equipment, net | <u>\$ 18,789</u> | <u>\$ 18,968</u> |

Depreciation expense amounted to \$932,000 in 2019, \$893,000 in 2018 and \$724,000 in 2017.

NOTE 7 - SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others amounted to \$175,742,000 and \$173,238,000 at December 31, 2019 and 2018, respectively.

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets. The Corporation has elected to record its mortgage servicing rights using the fair value measurement method. Significant assumptions used in determining the fair value of servicing rights as of December 31, 2019 and 2018 include:

| | |
|------------------------------------|---|
| Prepayment assumptions: | Based on the PSA Standard Prepayment Model |
| Internal rate of return: | 11% to 13% |
| Servicing costs: | \$76 – \$91 per loan, annually, increased at the rate of \$1 per 1% delinquency based on loan count |
| Inflation rate of servicing costs: | 3% |
| Earnings rate: | 0.25% |

Following is a summary of mortgage servicing rights activity for the years ended December 31, 2019, 2018 and 2017:

| | (in thousands) | | |
|---|-----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Fair value at beginning of year | \$ 1,313 | \$ 1,270 | \$ 1,247 |
| Capitalized servicing rights – new loan sales | 192 | 164 | 183 |
| Disposals (amortization based on loan payments and payoffs) | (186) | (147) | (129) |
| Change in fair value | (258) | 26 | (31) |
| Fair value at end of year | <u>\$ 1,061</u> | <u>\$ 1,313</u> | <u>\$ 1,270</u> |

The changes in fair value of servicing rights for the years ended December 31, 2019, 2018 and 2017 resulted from changes in external market conditions, including prepayment assumptions, which is a key valuation input used in determining the fair value of servicing. While prepayment assumptions are constantly changing, such changes are typically within a relatively small parameter from period to period. The prepayment assumption factor used in determining the fair value of servicing at December 31, 2019 was 214 compared to 136 at December 31, 2018 and 159 at December 31, 2017. The earnings rate used in determining the fair value of servicing was 0.25% in 2019, 2018 and 2017.

NOTE 8 - DEPOSITS

Time deposits at December 31, 2019 and 2018 include individual deposits greater than \$250,000 of \$15,568,000 and \$9,552,000, respectively. Interest expense on time deposits greater than \$250,000 amounted to \$239,000 for 2019, \$120,000 for 2018, and \$111,000 for 2017.

At December 31, 2019, time deposits amounted to \$197,391,000 and were scheduled to mature as follows: 2020, \$135,003,000; 2021, \$44,992,000; 2022, \$15,242,000; 2023, \$1,202,000; 2024, \$795,000; and thereafter, \$157,000.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are depositors of the Corporation. Such deposits amounted to \$5,536,000 and \$5,457,000 at December 31, 2019 and 2018, respectively.

NOTE 9 – OTHER BORROWINGS

Other borrowings consists of the following at December 31, 2019 and December 31, 2018:

| | (in thousands) | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Federal Home Loan Bank borrowings: | | |
| Secured note, with interest at 2.55%, due March, 2019 | \$ - | \$ 1,281 |
| Secured note, with interest at 1.72%, due September, 2020 | 6,000 | 6,000 |
| Secured note, with interest at 2.90%, due June, 2021 | 8,000 | 8,000 |
| Secured note, with variable interest, at 2.13% at December 31, 2019 and 2.99% at December 31, 2018, due September, 2021 | 7,000 | 7,000 |
| Secured note, with interest at 1.86%, due September, 2021 | 6,000 | 6,000 |
| Secured note, with interest at 2.94%, due December, 2021 | 8,000 | 8,000 |
| Secured note, with interest at 2.98%, due June, 2022 | 9,000 | 9,000 |
| Secured note, with interest at 1.97%, due September, 2022 | 6,000 | 6,000 |
| Zions Bank: | | |
| Secured note, with interest at 2.64%, due January, 2019 | - | 2,917 |
| United Bankers Bank: | | |
| Note payable, with interest at 4.875% payable quarterly, and \$250,000 principal payments, with any remaining unpaid principal due September 1, 2022. All Union Bank stock is held as collateral. | 8,750 | 9,750 |
| Secured note, with interest at 3.00%, due January, 2019 | - | 1,495 |
| Total other borrowings | <u>\$ 58,750</u> | <u>\$ 65,443</u> |

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock and eligible mortgage loans approximating \$186,076,000 at December 31, 2019. At December 31, 2019, the Corporation had \$105,524,000 of borrowing availability under various line-of-credit agreements with the Federal Home Loan Bank and other financial institutions.

Future maturities of other borrowings are as follows: 2020, \$7,000,000; 2021, \$30,000,000; and 2022, \$21,750,000

NOTE 10 - 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 at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 5.10% at December 31, 2019, 5.97% at December 31, 2018, and 4.82% at December 31, 2017, with interest 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.

The Corporation assumed \$3,093,000 of trust preferred securities from the OSB acquisition with \$3,000,000 of the liability guaranteed by the Corporation, and the remaining \$93,000 secured by an investment in the trust preferred securities. The trust preferred securities have a carrying value of \$2,608,000 at December 31, 2019 and \$2,574,000 at December 31, 2018. The difference between the principal owed and the carrying value is due to the below-market interest rate on the debentures. The debentures have a stated maturity date of April 23, 2034. Interest is at a floating rate adjustable quarterly and equal to 285 basis points over the 3-month LIBOR amounting to 4.78% at December 31, 2019 and 5.33% at December 31, 2018.

Interest expense on the debentures amounted to \$728,000 in 2019, \$697,000 in 2018, and \$596,000 in 2017, 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 Tier I capital inclusive of these securities under Federal Reserve Board guidelines.

NOTE 11 - OTHER OPERATING EXPENSES

Other operating expenses consisted of the following for the years ended December 31, 2019, 2018 and 2017:

| | (in thousands) | | |
|--|-----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Data processing | \$ 1,478 | \$ 1,318 | \$ 1,164 |
| Professional fees | 1,001 | 817 | 1,471 |
| Ohio Financial Institution tax | 552 | 505 | 523 |
| Advertising | 1,802 | 1,786 | 1,062 |
| ATM processing and other fees | 764 | 663 | 611 |
| Amortization of core deposit intangible assets | 159 | 173 | 133 |
| Postage | 69 | 50 | 43 |
| Stationery and supplies | 164 | 179 | 178 |
| FDIC assessment | 79 | 264 | 185 |
| Loan closing fees | 1,354 | 921 | 421 |
| Other real estate owned | 3 | 12 | 36 |
| Deposit losses | 52 | 63 | 72 |
| Other | 1,801 | 1,627 | 1,524 |
| Total other operating expenses | <u>\$ 9,278</u> | <u>\$ 8,378</u> | <u>\$ 7,423</u> |

Other operating expenses included \$1,271,000 in 2017 relating to the acquisition described in Note 3.

NOTE 12 - INCOME TAXES

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the Act) was signed into law. Among other things, the Act reduced the Corporation's federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Corporation was required to re-measure, through the provision for income taxes, its deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement of the net deferred tax asset resulted in an additional provision for income taxes of \$1,136,000 for the year ended December 31, 2017.

The provision for income taxes for the years ended December 31, 2019, 2018 and 2017 consist of the following:

| | (in thousands) | | |
|----------------------------------|-----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Current | \$ 1,086 | \$ (211) | \$ 219 |
| Deferred | 529 | 1,740 | 1,524 |
| Enactment of federal tax reform | - | - | 1,136 |
| Total provision for income taxes | <u>\$ 1,615</u> | <u>\$ 1,529</u> | <u>\$ 2,879</u> |

The income tax provision attributable to income from operations differed from the amounts computed by applying the U.S. federal income tax rate of 21% in 2019 and 2018, and 34% in 2017, to income before income taxes as a result of the following:

| | (in thousands) | | |
|---|-----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Expected tax using statutory tax rate | \$ 2,578 | \$ 2,047 | \$ 2,287 |
| Increase (decrease) in tax resulting from: | | | |
| Tax-exempt income on state and municipal securities and political subdivision loans | (386) | (358) | (572) |
| Tax-exempt income on life insurance contracts | (82) | (83) | (135) |
| Deductible dividends paid to United Bancshares, Inc. ESOP | (42) | (37) | (57) |
| Tax-exempt settlement | (416) | - | - |
| Non-deductible merger and acquisition costs | - | - | 117 |
| Enactment of federal tax reform | - | - | 1,136 |
| Other, net | (37) | (40) | 103 |
| Total provision for income taxes | <u>\$ 1,615</u> | <u>\$ 1,529</u> | <u>\$ 2,879</u> |

The deferred income tax provision of \$529,000 in 2019, \$1.7 million in 2018, and \$2.7 million in 2017 resulted from the tax effects of temporary differences.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are presented below:

| | (in thousands) | |
|--|-----------------|-----------------|
| | 2019 | 2018 |
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 868 | \$ 760 |
| Deferred compensation | 312 | 301 |
| Alternative minimum tax credits | - | 46 |
| Nonaccrual loan interest | 212 | 256 |
| Deferred loan fees | 130 | 139 |
| Accrued vacation expense | 96 | 91 |
| Accrued profit sharing | 123 | 108 |
| Loans fair value adjustments | 421 | 531 |
| Unrealized loss on securities available-for sale | - | 469 |
| Other | 124 | 132 |
| Net operating loss carryforwards | 1,285 | 1,718 |
| Total deferred tax assets | 3,571 | 4,551 |
| Deferred tax liabilities: | | |
| Federal Home Loan Bank stock dividends | 526 | 526 |
| Unrealized gain on securities available for sale | 764 | - |
| Capitalized mortgage servicing rights | 223 | 276 |
| Fixed asset depreciation | 424 | 337 |
| Acquisition intangibles | 1,907 | 1,881 |
| Trust preferred fair value adjustment | 77 | 109 |
| Other | 67 | 77 |
| Total deferred tax liabilities | 3,988 | 3,206 |
| Net deferred tax assets (liabilities) | \$ (417) | \$ 1,345 |

Net deferred tax assets (liabilities) at December 31, 2019 and 2018 are included in other assets (liabilities) in the consolidated balance sheets.

The Corporation acquired \$15.0 million in federal loss carryforwards with the 2014 acquisition of OSB, which losses expire in years ranging from 2029 to 2033. Since the use of these losses is limited to \$126,000 per year under Section 382 of the Internal Revenue Code, the Corporation recorded in deferred tax assets at the time of acquisition the tax benefit of only \$2.5 million of the losses that were deemed more likely than not to be utilized before expiration. At December 31, 2019, the benefit of \$1.7 million of these losses is reflected in deferred tax assets.

The Corporation acquired \$8.9 million in federal loss carryforwards with the 2017 acquisition of Benchmark, which losses expire in years ranging from 2029 to 2036. Under Section 382 of the Internal Revenue Code, the annual limitation on the use of these losses is \$652,000 subject to other adjustments, including the impact of the tax liability adjustment described in Note 3. At December 31, 2019, \$4.4 million of the loss carryforwards remain; the benefit of which is reflected in deferred tax assets.

Management believes it is more likely than not that the benefit of recorded deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2019 and 2018.

Unrecognized Tax Benefits

The Corporation had no unrecognized tax benefits at December 31, 2019 and 2018. The Corporation does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

There was no accrued interest related to uncertain tax positions at December 31, 2019 and December 31, 2018.

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Corporation and its subsidiaries are no longer subject to examination by taxing authorities for years before 2016. There are no current federal examinations of the Corporation's open tax years.

NOTE 13 - EMPLOYEE AND DIRECTOR BENEFITS

The Corporation sponsors a salary deferral, defined contribution plan which provides for both profit sharing and employer matching contributions. The plan permits investing in the Corporation's stock subject to certain limitations. Participants who meet certain eligibility conditions are eligible to participate and defer a specified percentage of their eligible compensation subject to certain income tax law limitations. The Corporation makes discretionary matching and profit sharing contributions, as approved annually by the Board of Directors, subject to certain income tax law limitations. Contribution expense for the plan amounted to \$1,201,000, \$1,025,000 and \$776,000 in 2019, 2018, and 2017, respectively. At December 31, 2019, the plan owned 397,960 shares of the Corporation's common stock.

The Corporation also sponsors nonqualified deferred compensation plans, covering certain directors and employees, which have been indirectly funded through the purchase of split-dollar life insurance policies. In connection with the policies, the Corporation has provided an estimated liability for accumulated supplemental retirement benefits amounting to \$1,484,000 and \$1,435,000 at December 31, 2019 and 2018, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. The Corporation has also purchased split-dollar life insurance policies for investment purposes and to fund other employee benefit plans. The combined cash values of these policies aggregated \$18,613,000 and \$18,223,000 at December 31, 2019 and 2018, respectively.

Under an employee stock purchase plan, eligible employees may defer a portion of their compensation and use the proceeds to purchase stock of the Corporation at a discount determined semi-annually by the Board of Directors as stipulated in the plan. The Corporation sold from treasury 2,957 shares in 2019, 1,715 shares in 2018, and 1,126 shares in 2017 under the plan.

The three members of the Corporation's senior executive management team have employment agreements which provide for certain compensation and benefits should any triggering events occur, as specified in the agreement, including change of control or termination without cause.

NOTE 14 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2019 and 2018:

| | (in thousands) | |
|------------------------------|------------------------|-------------|
| | Contract amount | |
| | 2019 | 2018 |
| Commitments to extend credit | \$ 132,605 | \$ 146,450 |
| Letters of credit | \$ 615 | \$ 1,076 |

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

Letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation requires collateral supporting these commitments when deemed necessary.

NOTE 15 - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 Capital (CET1) to risk-weighted assets (as defined), total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Corporation and Bank meet all capital adequacy requirements to which they are subject. Furthermore, the Board of Directors of the Bank has adopted a resolution to maintain Tier I capital at or above 8% of total assets.

As of December 31, 2019, the most recent notification from federal and state banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", an institution must maintain minimum CET1, total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

In July 2013 the U.S federal banking authorities approved the final rules (the "Basel III Capital Rules") which established a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules have maintained the general structure of the current prompt corrective action framework, while incorporating provisions which will increase both the quality and quantity of the Bank's capital. Generally, the Bank became subject to the new rules on January 1, 2015 with phase-in periods for many of the new provisions. Management believes the Bank is complying with the new capital requirements as they are phased-in.

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2019 and 2018 are presented in the following table:

| | Actual | | Minimum capital requirement | | Minimum to be well capitalized under prompt corrective action provisions | |
|---|-----------|-------|-----------------------------|----------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (Dollars in thousands) | | | | | | |
| As of December 31, 2019 | | | | | | |
| Common Equity Tier 1 Capital (CET1) (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 73,938 | 11.6% | \$ 44,634 | ≥ 7.0% | N/A | N/A |
| Bank | \$ 80,277 | 12.6% | \$ 44,464 | ≥ 7.0% | \$ 41,288 | 6.5% |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 78,069 | 12.2% | \$ 66,950 | ≥ 10.5% | N/A | N/A |
| Bank | \$ 84,493 | 13.3% | \$ 66,697 | ≥ 10.5% | \$ 63,521 | 10.0% |
| Tier 1 Capital (to Risk weighted Assets) | | | | | | |
| Consolidated | \$ 73,938 | 11.6% | \$ 54,198 | ≥ 8.5% | N/A | N/A |
| Bank | \$ 80,277 | 12.6% | \$ 53,992 | ≥ 8.5% | \$ 50,816 | 8.0% |
| Tier 1 Capital (to Average Assets) | | | | | | |
| Consolidated | \$ 73,938 | 8.9% | \$ 33,233 | ≥ 4.0% | N/A | N/A |
| Bank | \$ 80,277 | 9.3% | \$ 34,454 | ≥ 4.0% | \$ 43,068 | 5.0% |
| As of December 31, 2018 | | | | | | |
| Common Equity Tier 1 Capital (CET1) (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 64,426 | 10.2% | \$ 40,213 | ≥ 6.375% | N/A | N/A |
| Bank | \$ 69,742 | 11.1% | \$ 40,136 | ≥ 6.375% | \$ 62,959 | 6.5% |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 67,953 | 10.8% | \$ 62,290 | ≥ 9.875% | N/A | N/A |
| Bank | \$ 73,361 | 11.7% | \$ 62,172 | ≥ 9.875% | \$ 62,959 | 10.0% |
| Tier 1 Capital (to Risk weighted Assets) | | | | | | |
| Consolidated | \$ 64,426 | 10.2% | \$ 49,675 | ≥ 7.875% | N/A | N/A |
| Bank | \$ 69,742 | 11.1% | \$ 49,580 | ≥ 7.875% | \$ 50,367 | 8.0% |
| Tier 1 Capital (to Average Assets) | | | | | | |
| Consolidated | \$ 64,426 | 8.3% | \$ 30,875 | ≥ 4.0% | N/A | N/A |
| Bank | \$ 69,742 | 8.8% | \$ 31,745 | ≥ 4.0% | \$ 39,681 | 5.0% |

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

NOTE 16 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the parent company as of December 31, 2019 and 2018 and for each of the years in the three-year period ended December 31, 2019, is as follows:

Condensed Balance Sheets

| | (in thousands) | |
|--|-------------------|-------------------|
| | 2019 | 2018 |
| Assets: | | |
| Cash | \$ 879 | \$ 3,438 |
| Investment in bank subsidiary | 114,029 | 99,134 |
| Other assets | 2,419 | 1,198 |
| Total assets | <u>\$ 117,327</u> | <u>\$ 103,770</u> |
| Liabilities: | | |
| Junior subordinated deferrable interest debentures | \$ 12,908 | \$ 12,874 |
| Other borrowings | 8,750 | 9,750 |
| Other liabilities | 888 | 202 |
| Total Liabilities | 22,546 | 22,826 |
| Shareholders' equity | 94,781 | 80,944 |
| Total liabilities and shareholders' equity | <u>\$ 117,327</u> | <u>\$ 103,770</u> |

Condensed Statements of Income

| | (in thousands) | | |
|--|------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Income – dividends from bank subsidiary | \$ - | \$ 4,500 | \$ 28,000 |
| Litigation Settlement | 1,980 | - | - |
| Expenses – interest, professional fees and other expenses, net of federal income tax benefit and interest income | (1,313) | (1,346) | (835) |
| Income before equity in undistributed net income of bank subsidiary | 667 | 3,154 | 27,165 |
| Equity in undistributed net income of bank subsidiary | 9,994 | 5,066 | (23,319) |
| Net income | <u>\$ 10,661</u> | <u>\$ 8,220</u> | <u>\$ 3,846</u> |

| Condensed Statements of Cash Flows | (in thousands) | | |
|--|----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Cash flows from operating activities: | | | |
| Net income | \$ 10,661 | \$ 8,220 | \$ 3,846 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed net income of bank subsidiary | (9,994) | (5,066) | 23,319 |
| Stock option expense | 266 | 165 | 100 |
| Depreciation and amortization | 34 | 34 | 34 |
| (Increase) decrease in other assets | (1,221) | 969 | (945) |
| Increase (decrease) in other liabilities | 421 | 40 | (86) |
| Net cash provided by operating activities | <u>167</u> | <u>4,362</u> | <u>26,268</u> |
| Cash flows from investing activities: | | | |
| Acquisition of Benchmark | - | (3,413) | (30,752) |
| Cash flows from financing activities: | | | |
| Proceeds from other borrowings | - | - | 10,000 |
| Principal payments on other borrowings | (1,000) | (250) | - |
| Purchase of treasury stock | (95) | - | - |
| Proceeds from sale of treasury shares | 71 | 39 | 27 |
| Cash dividends paid | (1,702) | (1,568) | (1,569) |
| Net cash provided by (used in) financing activities | <u>(2,726)</u> | <u>(1,779)</u> | <u>8,458</u> |
| Net increase (decrease) in cash | (2,559) | (830) | 3,974 |
| Cash at beginning of the year | 3,438 | 4,268 | 294 |
| Cash at end of the year | <u>\$ 879</u> | <u>\$ 3,438</u> | <u>\$ 4,268</u> |

During 2005, the Board of Directors approved a program whereby the Corporation purchases shares of its common stock in the open market. The decision to purchase shares, the number of shares to be purchased, and the price to be paid depends upon the availability of shares, prevailing market prices, and other possible considerations which may impact the advisability of purchasing shares. The Corporation purchased 4,220 shares in 2019 (none in 2018 and 2017) under the program.

NOTE 17 - FAIR VALUE MEASUREMENTS

Fair value is defined 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.

FASB ASC 820-10, *Fair Value Measurements* (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.

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.

The following table summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | (in thousands) | | | Total fair value |
|---|-----------------|-------------------|-----------------|-------------------|
| 2019 | Level 1 inputs | Level 2 inputs | Level 3 inputs | |
| Recurring: | | | | |
| Securities available-for-sale: | | | | |
| Obligations of state and political subdivisions | \$ - | \$ 72,554 | \$ - | \$ 72,554 |
| Mortgage-backed | - | 110,041 | - | 110,041 |
| Other | 1,014 | 2 | - | 1,016 |
| Mortgage servicing rights | - | - | 1,061 | 1,061 |
| Total recurring | \$ 1,014 | \$ 182,597 | \$ 1,061 | \$ 184,672 |
| Nonrecurring: | | | | |
| Impaired loans | \$ - | \$ - | \$ 1,495 | \$ 1,495 |

| (in thousands) | | | | |
|---|----------------|-------------------|-----------------|-------------------|
| 2018 | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
| Recurring: | | | | |
| Securities available-for-sale: | | | | |
| Obligations of state and political subdivisions | \$ - | \$ 59,466 | \$ - | \$ 59,466 |
| Mortgage-backed | - | 106,924 | - | 106,924 |
| Other | 962 | 2 | - | 964 |
| Mortgage servicing rights | - | - | 1,313 | 1,313 |
| Total recurring | \$ 962 | \$ 166,392 | \$ 1,313 | \$ 168,667 |
| Nonrecurring: | | | | |
| Impaired loans | \$ - | \$ - | \$ 244 | \$ 244 |
| Other real estate owned | - | - | 108 | 108 |
| Total nonrecurring | \$ - | \$ - | \$ 352 | \$ 352 |

There was one security measured at fair value included in the Level 3 hierarchy during 2017 due to the lack of observable quotes in inactive markets for the instrument. The following table presents the changes in fair value for the security for the year ended December 31, 2017.

| Security valued using Level 3 inputs | (in thousands) |
|--------------------------------------|----------------|
| Balance at beginning of year | \$ 2,238 |
| Principal payments received | (2,238) |
| Changes in fair value | - |
| Balance at end of year | <u>\$ -</u> |

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 years ended December 31, 2019, 2018 and 2017:

| (in thousands) | | | |
|---|-----------------|-----------------|-----------------|
| Mortgage Servicing Rights | 2019 | 2018 | 2017 |
| Balance at beginning of year | \$ 1,313 | \$ 1,270 | \$ 1,247 |
| Gains or losses, including realized and unrealized: | | | |
| Purchases, issuances, and settlements | 192 | 164 | 183 |
| Disposals – amortization based on loan payments and payoffs | (186) | (147) | (129) |
| Changes in fair value | (258) | 26 | (31) |
| Balance at end of year | <u>\$ 1,061</u> | <u>\$ 1,313</u> | <u>\$ 1,270</u> |

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, and disclosure of unobservable inputs 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 U.S. Government and agencies, 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 may be classified within Level 3 of the valuation hierarchy.

Mortgage Servicing Rights

The Corporation records mortgage servicing rights at estimated fair value based on a discounted cash flow model which includes discount rates between 11% and 13%, in addition to assumptions disclosed in Note 7 that are considered to be unobservable inputs. Due to the significance of the level 3 inputs, mortgage servicing rights have been classified as level 3.

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 cost to sell, if repayment is expected solely from collateral. Collateral values are estimated using level 2 inputs, including market valuations and recent appraisals and level 3 inputs based on customized discounting criteria such as additional appraisal adjustments to consider deterioration of value subsequent to appraisal date and estimated cost to sell. Additional appraisal adjustments range between 10% and 30% of market value, and estimated selling cost ranges between 10% and 20% of the adjusted appraised value. 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 appraisal adjustments between 10% and 70% of appraised value, and expected selling costs between 10% and 30% of adjusted appraised value. 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.

Certain 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 December 31, 2019 and 2018.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of recognized financial instruments at December 31, 2019 and 2018 are as follows:

| | (in thousands) | | | | Input Level |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------|
| | 2019 | | 2018 | | |
| | Carrying Amount | Estimated Value | Carrying Amount | Estimated Value | |
| FINANCIAL ASSETS | | | | | |
| Cash and cash equivalents | \$ 26,412 | \$ 26,412 | \$ 16,475 | \$ 16,475 | 1 |
| Securities, including FHLB stock | 188,913 | 188,913 | 172,656 | 172,656 | 2,3 |
| Loans held for sale | 15,301 | 15,301 | 7,705 | 7,705 | 3 |
| Net loans and leases | 572,293 | 572,936 | 558,087 | 554,223 | 3 |
| Mortgage servicing rights | 1,061 | 1,061 | 1,313 | 1,313 | 3 |
| Hedging assets | 970 | 970 | 492 | 492 | 3 |
| Total financial assets | <u>\$ 804,950</u> | <u>\$ 805,593</u> | <u>\$ 756,728</u> | <u>\$ 752,864</u> | |

| | (in thousands) | | | | Input Level |
|--|-------------------|-------------------|-------------------|-------------------|-------------|
| | 2019 | | 2018 | | |
| | Carrying Amount | Estimated Value | Carrying Amount | Estimated Value | |
| FINANCIAL LIABILITIES | | | | | |
| Deposits | | | | | |
| Maturity | \$ 197,391 | \$ 197,428 | \$ 180,675 | \$ 178,947 | 3 |
| Non-maturity | 509,743 | 509,743 | 485,561 | 485,561 | 1 |
| Other borrowings | 58,750 | 58,692 | 65,443 | 65,029 | 3 |
| Junior subordinated deferrable interest debentures | 12,908 | 11,067 | 12,874 | 8,318 | 3 |
| Hedging liabilities | 27 | 27 | 86 | 86 | 3 |
| Total financial liabilities | <u>\$ 778,819</u> | <u>\$ 776,957</u> | <u>\$ 744,639</u> | <u>\$ 737,941</u> | |

The above summary does not include accrued interest receivable and cash surrender value of life insurance which are also considered financial instruments. The estimated fair value of such items is considered to be their carrying amounts, and would be considered Level 1 inputs.

There are also unrecognized financial instruments at December 31, 2019 and 2018 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$133,220,000 at December 31, 2019 and \$147,526,000 at December 31, 2018. Such amounts are also considered to be the estimated fair values.

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

Cash and cash equivalents:

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

Securities:

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 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 may be classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 3 at December 31, 2019 or 2018.

Loans and leases:

Fair value for loans and leases was estimated for portfolios of loans and leases with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed rate loans the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows. The fair value disclosures for both fixed and adjustable rate loans were adjusted to reflect the exit price amount anticipated to be received from the sale of the loans in an open market transaction.

Mortgage servicing rights:

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

Deposit liabilities:

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

Other financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount, since these financial instruments generally represent commitments at existing rates. The fair value of other borrowings is determined based on a discounted cash flow analysis using current interest rates. The fair value of the junior subordinated deferrable interest debentures is determined based on quoted market prices of similar instruments.

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

NOTE 19 – REVENUE RECOGNITION

The Corporation's revenue from contracts with customers within the scope of ASC 606 is recognized in noninterest income. The material groups of noninterest income are defined as follows:

Service charges on deposit accounts:

Service charges on deposit accounts primarily consist of account analysis fees, monthly maintenance fees, overdraft fees, and other deposit account related fees. Overdraft fees and certain service charges are fixed and the performance obligation is typically satisfied at the time of the related transaction. The consideration for analysis fees and monthly maintenance fees are variable as the fee can be reduced if the customer meets certain qualifying metrics. The Company's performance obligations are satisfied at the time of the transaction or over the course of a month.

Interchange fee income:

The Company earns interchange fees from debit and credit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrently with the transaction processing services provided to the cardholder.

Wealth management income:

The Company earns wealth management and investment brokerage fees from its services with customers to manage assets for investment, to provide advisory services, and for account transactions. Fees are based on the market value of the assets under management and are recognized monthly as the Company's performance obligations are met. Commissions on transactions are recognized on a trade-date basis as the performance obligation is satisfied at the point in time in which the trade is processed. Other related services are based on a fixed fee schedule and the revenue is recognized when the services are rendered, which is when the Company has satisfied its performance obligation.

The following table presents the Company's non-interest income for the years ended December 31, 2019, and 2018. Items outside the scope of ASC 606 are noted as such.

| | Year ended December 31, | |
|--|-------------------------|----------|
| | 2019 | 2018 |
| Service charges on deposit accounts | \$ 1,486 | \$ 1,610 |
| Gain on sale of mortgage and government loans (1) | 9,071 | 4,675 |
| Net securities gains (losses) (1) | 4 | (6) |
| Change in fair value of mortgage servicing rights (1) | (258) | 26 |
| Increase in cash surrender value of life insurance (1) | 390 | 395 |
| Other | | |
| Credit and debit card interchange fees | 1,443 | 1,388 |
| Litigation settlement (1) | 1,980 | - |
| Wealth management | 293 | 237 |
| Net loan servicing fees (1) | 327 | 375 |
| Other non-interest income | 312 | 728 |
| Total non-interest income | \$ 15,048 | \$ 9,428 |

(1) Not within the scope of ASC 606

NOTE 20 – LEASING ARRANGEMENTS

The Corporation leases various branch facilities under operating leases. Rent expense was \$314,000, \$158,000, and \$111,000 for the years 2019, 2018 and 2017, respectively. A right-of-use asset, included in other assets, and lease liability, included in other liabilities, were both \$2,112,000 at December 31, 2019.

The following is a schedule of future minimum rental payments required under the facility leases as of December 31, 2019:

| Year ending December 31, | Amount (in thousands) |
|-----------------------------|--------------------------|
| 2020 | \$ 311 |
| 2021 | 281 |
| 2022 | 280 |
| 2023 | 282 |
| 2024 | 284 |
| Thereafter | 1,150 |
| Total | <u>\$ 2,588</u> |

NOTE 21 – STOCK-BASED COMPENSATION

The United Bancshares, Inc. 2016 Stock Option Plan (the “Plan”) permits the Corporation to award non-qualified stock options to eligible participants. A total of 250,000 shares are available for issuance pursuant to the Plan.

The Corporation issued 30,151 options during 2017 at an exercise price of \$21.70, 31,267 options during 2018 at an exercise price of \$23.30, and 33,853 options during 2019 at an exercise price of \$22.97 under the Plan. Following is a summary of activity for stock options for the years ended December 31, 2019, 2018 and 2017 (number of shares):

| | 2019 | 2018 | 2017 |
|--|----------|----------|----------|
| Outstanding, beginning of year | 93,069 | 63,503 | 33,352 |
| Granted | 33,853 | 31,267 | 30,151 |
| Exercised | - | - | - |
| Forfeited | (9,275) | (1,701) | - |
| Outstanding, end of year | 117,647 | 93,069 | 63,503 |
| Weighted average exercise price at end of year | \$ 21.81 | \$ 21.39 | \$ 20.45 |

The options vest over a three-year period on the anniversary of the date of grant. At December 31, 2019, 57,033 options were vested and outstanding options had a weighted average remaining contractual term of 8.17 years.

The fair value of options granted is estimated at the date of grant using the Black Scholes option pricing model. Following are assumptions used in calculating the fair value of the options granted in 2019, 2018 and 2017:

| | 2019 | 2018 | 2017 |
|--|----------|----------|----------|
| Weighted-average fair value of options granted | \$ 7.77 | \$ 7.87 | \$ 7.35 |
| Average dividend yield | 2.26% | 2.18% | 2.23% |
| Expected volatility | 40.00% | 40.00% | 40.00% |
| Risk-free interest rate | 1.93% | 2.81% | 2.06% |
| Expected term (years) | 7 | 7 | 7 |
| Shares Granted | 33,853 | 31,267 | 30,151 |
| Exercise Price | \$ 22.97 | \$ 23.30 | \$ 21.70 |

Total compensation expense related to the stock options granted in 2017 net of forfeitures, is expected to be \$192,000 and is being recognized ratably over the 36 month period beginning August 1, 2017. Total compensation expense related to the stock options granted in 2018 is expected to be \$213,000 and is being recognized ratably over the 36 month period beginning September 1, 2018. Total compensation expense related to the stock options granted in 2019 is expected to be \$263,000 and is being recognized ratably over the 36 month period beginning July 1, 2019. Stock option expense for outstanding awards amounted to \$266,000, \$165,000 and \$100,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 22 - CONTINGENT LIABILITIES

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

NOTE 23 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents a summary of selected unaudited quarterly financial data for 2019 and 2018:

(in thousands, except share data)

| | Interest Income | Net Interest Income | Net Income | Net Income Per Share | |
|----------------|--------------------|---------------------------|---------------|-------------------------|---------|
| | | | | Basic | Diluted |
| 2019 | | | | | |
| First quarter | \$ 8,986 | \$ 6,935 | \$ 1,814 | \$ 0.55 | \$ 0.55 |
| Second quarter | \$ 9,470 | \$ 7,245 | \$ 2,285 | \$ 0.70 | \$ 0.70 |
| Third quarter | \$ 9,595 | \$ 7,271 | \$ 2,418 | \$ 0.74 | \$ 0.74 |
| Fourth quarter | \$ 9,768 | \$ 7,444 | \$ 4,144 | \$ 1.27 | \$ 1.26 |
| 2018 | | | | | |
| First quarter | \$ 7,741 | \$ 6,530 | \$ 1,799 | \$ 0.55 | \$ 0.55 |
| Second quarter | \$ 8,710 | \$ 7,326 | \$ 2,200 | \$ 0.67 | \$ 0.67 |
| Third quarter | \$ 8,758 | \$ 7,072 | \$ 1,786 | \$ 0.55 | \$ 0.55 |
| Fourth quarter | \$ 9,156 | \$ 7,279 | \$ 2,435 | \$ 0.74 | \$ 0.74 |

OFFICERS - UNITED BANCSHARES, INC.

Brian D. Young - President / Chief Executive Officer
Stacy A. Cox - Chief Financial Officer
Heather M. Oatman - Secretary

OFFICERS - THE UNION BANK COMPANY

Brian D. Young - President / CEO / Chairman
Stacy A. Cox - Executive Vice President / CFO
Curtis E. Shepherd - Executive Vice President
Heather M. Oatman - Senior Vice President / Secretary
Teresa M. Deitering - Senior Vice President
John P. Miller - Senior Vice President
Brent D. Nussbaum - Senior Vice President
Norman V. Schnipke - Senior Vice President
Travis E. Vulich - Senior Vice President

Vice President

| | |
|-------------------|---------------------|
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| Donna J. Brown | Doris A. Neumeier |
| Paul M. Cira | Michael E. Pultz |
| Thomas M. Cox | Jason A. Recker |
| Chase H. Doll | Amy E. Reese |
| Amy C. Felter | Rosemarie Roman |
| Steven L. Floyd | Ricardo Rosado |
| Vicky K. Gilbert | Thomas J. Sansone |
| Robert W. Gray | Craig R. Stechsulte |
| Erin W. Hardesty | Benjamin K. Stewart |
| Susan A. Hojnacki | J. Kevin Taylor |
| Mark G. Honigford | Jason R. Thornell |
| Karen M. Maag | Dean J. Vande Water |
| Klint D. Manz | Paul A. Walker |
| Daron S. McGuire | Vikki L. Williams |

Assistant Vice President

| | |
|-----------------------|--------------------------|
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| Thomas R. Burgoon | Peter J. Rafaniello |
| Walker K. Carr | Sharon R. Sharpe |
| Nancianne Carroll | Theresa A. Stein-Moenter |
| David M. Cornwell | Stacia R. Thompson |
| Sony S. Dawson | Matthew J. Tway |
| Christina J. Hegemier | Jarod M. Van Winkle |
| Mandy L. Hermiller | Amy J. Vasquez |
| Machiel K. Hindall | Kimberly S. Verhoff |
| Richard A. Hirsch | Lori L. Watson |
| Eric R. Holmes | Pamela J. Workman |
| Laura M. Kitchen | Jean K. Wright |
| Joyce M. Kuhlman | |

Officer

Jacqueline Fairbanks
Mary Jo Horstman
Zachary P. Nycz
Matthew A. Sargent

UNITED BANCSHARES, INC.
Columbus Grove, Ohio

DIRECTORS – UNITED BANCSHARES, INC.

| <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE</u> | <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE</u> |
|---|------------|---------------------------|---|------------|---------------------------|
| Robert L. Benroth <i>Putnam County Auditor</i> | 57 | 2003 | Daniel W. Schutt <i>Chairman, Retired Banker</i> | 72 | 2005 |
| Herbert H. Huffman <i>Retired - Educator</i> | 69 | 2018 | R. Steven Unverferth <i>Chairman, Unverferth Manufacturing Corporation, Inc.</i> | 67 | 2005 |
| H. Edward Rigel <i>Farmer, Rigel Farms, Inc.</i> | 77 | 2000 | Brian D. Young <i>President/CEO</i> | 53 | 2012 |
| David P. Roach <i>Vice-President/GM, First Family Broadcasting of Ohio</i> | 69 | 2001 | | | |

DIRECTORS – THE UNION BANK COMPANY

| <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE (a)</u> | <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE (a)</u> |
|--|------------|-------------------------------|--|------------|-------------------------------|
| Robert L. Benroth <i>Putnam County Auditor</i> | 57 | 2001 | David P. Roach <i>Vice-President/GM, First Family Broadcasting of Ohio</i> | 69 | 1997 |
| Anthony M.V. Eramo <i>Managing Director, MountainView Financial Solutions</i> | 54 | 2016 | Carol R. Russell <i>President/CEO, Schulte Group</i> | 65 | 2019 |
| Herbert H. Huffman <i>Retired - Educator</i> | 69 | 1993 | Daniel W. Schutt <i>Retired Banker</i> | 72 | 2005 |
| Kevin L. Lammon <i>Village Administrator, Village of Leipsic</i> | 65 | 1996 | R. Steven Unverferth <i>Chairman, Unverferth Manufacturing Corporation, Inc</i> | 67 | 1993 |
| William R. Perry <i>Farmer</i> | 61 | 1990 | Brian D. Young <i>President/CEO/Chairman</i> | 53 | 2008 |
| H. Edward Rigel <i>Farmer, Rigel Farms, Inc.</i> | 77 | 1979 | | | |

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

Exhibit 21

United Bancshares, Inc. Subsidiaries

The Union Bank Company
Ohio banking corporation
Columbus Grove, Ohio

United (OH) Statutory Trust I
Connecticut statutory trust
Columbus Grove, Ohio

Ohio State Bancshares Capital Trust 1
Delaware statutory trust
Acquired thru The OSB acquisition
Columbus Grove, OH

UBC Investments, Inc. – a wholly-owned subsidiary of The Union Bank Company
Delaware Corporation
Wilmington, Delaware

UBC Property, Inc. – a wholly-owned subsidiary of The Union Bank Company
Ohio Corporation
Columbus Grove, Ohio



CliftonLarsonAllen LLP
CLAAconnect.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report on Form 10-K of United Bancshares, Inc. for the year ended December 31, 2019 or our reports dated March 6, 2020 included in its Registration Statement on Form S-8 (No. 333-106929), relating to the financial statements and financial statement schedules for the three years ended December 31, 2019 listed in the accompanying index.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Toledo, Ohio
March 6, 2020

Exhibit 31.1

CERTIFICATION - CEO

In connection with the Annual Report of United Bancshares, Inc. on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, President and Chief Executive Officer of United Bancshares, Inc., certify, that:

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

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

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

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

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

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

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

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

/s/ Brian D. Young

Brian D. Young

President and Chief Executive Officer

March 6, 2020

Exhibit 31.2

CERTIFICATION - CFO

In connection with the Annual Report of United Bancshares, Inc. on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stacy A. Cox, Chief Financial Officer of United Bancshares, Inc., certify, that:

- (1) I have reviewed this Annual Report on Form 10-K of United Bancshares, Inc.;
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), and internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stacy A. Cox

Stacy A. Cox
Chief Financial Officer
March 6, 2020

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

In connection with the Annual Report of United Bancshares, Inc. (the "Corporation") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Young, Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Brian D. Young
Brian D. Young
Chief Executive Officer

Date: March 6, 2020

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

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

In connection with the Annual Report of United Bancshares, Inc. (the "Corporation") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stacy A. Cox, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Stacy A. Cox
Stacy A. Cox
Chief Financial Officer

Date: March 6, 2020

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