

UNITED BANCSHARES INC/OH
Form 10-K
March 04, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission File No.: 000-29283

UNITED BANCSHARES, INC.

(exact name of registrant as specified in its charter)

OHIO **34-1516518**
(State or other jurisdiction of (I.R.S. Employer I.D. No.)
incorporation or organization)

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:

Common Stock, no par value – 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 \$68,123,044, based upon the last sales price as quoted on the NASDAQ Global Market as of June 30, 2018.

The number of shares of Common Stock, no par value outstanding as of January 31, 2019: 3,269,976

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2018 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 24, 2019 are incorporated by reference into Part III.

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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, 2018, 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 "continues" to occur, or that an event or trend "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 \$830.3 million at December 31, 2018. 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”). As of December 31, 2018, UBOH and its subsidiary (collectively the “Corporation”) employed approximately 179 full-time equivalent employees.

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

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”). Through Union Bank, we provide a wide range of commercial and retail banking services. Union Bank offers a full range of commercial banking services, including checking accounts, savings and money market accounts; certificates of deposit; online banking and automatic teller machines; commercial, consumer, agricultural, residential mortgage and home equity loans; wealth management services; treasury management services; safe deposit box rentals; and other personalized banking services. Through our eighteen offices located in Bowling Green, Columbus Grove, Delaware, Delphos, Findlay, Gahanna, Gibsonburg, Kalida, Leipsic, Lima, Marion, Ottawa, Pemberville, Westerville and Worthington Ohio, we serve the Ohio counties of Allen, Delaware, Franklin, Hancock, Marion, Putnam, Sandusky, Van Wert, and Wood.

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 in order to better serve the members of the community and create opportunities for them. Union Bank concentrates its efforts on serving the financial needs of the businesses in the Ohio counties that it serves as well as on providing financing to customers seeking to purchase or build their own homes; routinely seeking opportunities to foster economic growth and wealth accumulation in local economies through the financing of local entrepreneurs

and residences in the areas we serve.

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.

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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 2018, 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 2019. 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, 2018 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 9.46% of the aggregate deposits. The Bank operates its remaining five branch banking offices in the Ohio counties of Delaware, Franklin, Hancock and Sandusky. According to the most recent market data, there were 38 banking institutions competing in these markets, with the Bank ranking 22nd in deposit market share with approximately 0.21% of the aggregate deposits.

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.

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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.

Regulatory capital and liquidity

Current regulatory capital requirements

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to UBOH and 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.

The risk-based capital guidelines adopted by the federal banking regulators and effective through December 31, 2018, include both a definition and a framework for calculating risk weighted assets by assigning assets and off-balance sheet items to broad risk categories. The minimum ratio of total capital to risk weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least 4% is to be comprised of common shareholders' equity (including retained earnings but excluding treasury stock), noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interest in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets ("Tier 1 capital"). The remainder ("Tier 2 capital") may consist, among other things, of mandatory convertible debt securities, a limited amount of subordinated debt, other preferred stock and a limited amount of allowance for loan losses. Each of the federal banking agencies also impose a minimum leverage ratio (Tier 1 capital to total assets) for banking organizations. The minimum leverage ratio is currently 3% for bank holding companies that are considered "strong" under the Federal Reserve Board's guidelines or which have implemented the Federal Reserve Board's risk-based capital measure for market risk. The minimum leverage ratio is 1%-2% higher for other bank holding companies and banks based on their particular circumstances and risk profiles and for those banks experiencing or anticipating significant growth. The FDIC imposes similar capital requirements on Union Bank adopted by the FDIC.

The Corporation currently satisfies all capital requirements. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC. 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, 2018, Union Bank has total risk-based capital of 11.7%, tier 1 risk-based capital and CET 1 capital of 11.1%, and tier 1 leverage of 8.8%.

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.

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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 standard 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. While UBOH and Union Bank currently meet all regulatory capital requirements, the ultimate impact upon the financial condition or results of operations cannot be predicted until the rules become fully-phased in.

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.

FDIA and Resolution Authority

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.

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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.

Other Regulatory Developments under 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.

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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.

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 2018 Annual Report.

Table of Contents**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:

	2018	2017	2016
	(in thousands)		
ASSETS			
Interest-earning assets			
Securities ⁽¹⁾			
Taxable	\$ 112,896	\$ 118,335	\$ 121,442
Non-taxable	60,696	71,480	70,371
Interest-bearing deposits	8,601	6,999	11,042
Loans ⁽²⁾	540,687	421,564	361,437
Total interest-earning assets	722,880	618,378	564,292
Non-interest-earning assets			
Cash and due from banks	9,268	9,155	9,081
Premises and equipment, net	19,117	16,504	11,929
Accrued interest receivable and other assets	54,906	42,160	32,984
Allowance for loan losses	(3,182)	(3,033)	(3,598)
	\$ 802,989	\$ 683,164	\$ 614,688
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing liabilities			
Deposits			
Savings and interest-bearing demand deposits	\$ 367,536	\$ 323,805	\$ 285,729
Time deposits	173,574	141,757	140,562
Junior subordinated deferrable interest debentures	12,858	12,825	12,791
Other borrowings	60,357	23,090	4,525
Total interest-bearing liabilities	614,325	501,477	443,607
Non-interest-bearing liabilities			
Demand deposits	106,877	100,148	92,811
Accrued interest payable and other liabilities	5,645	5,942	4,203
Shareholders' equity ⁽³⁾	76,142	75,597	74,067
	\$ 802,989	\$ 683,164	\$ 614,688

Securities include securities available-for-sale, which are carried at fair value, and restricted bank stock carried at (1) 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.

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

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.

	2018			
	Average		Average	
	Balance	Interest	Rate	
	(dollars in thousands)			
Interest-earning assets				
Securities ⁽¹⁾				
Taxable	\$ 112,896	\$ 2,573	2.28	%
Non-taxable ⁽²⁾	60,696	1,971	3.25	%
Loans ^(3, 4)	540,687	29,722	5.50	%
Interest-bearing deposits	8,601	513	5.96	%
Total interest-earning assets	722,880	34,779	4.81	%
INTEREST-BEARING LIABILITIES				
Deposits				
Savings and interest-bearing demand deposits	\$ 367,536	1,552	0.42	%
Time deposits	173,574	2,297	1.32	%
Junior subordinated deferrable interest debentures	12,858	697	5.42	%
Other borrowings	60,357	1,612	2.67	%
Total interest-bearing liabilities	\$ 614,325	6,158	1.00	%
Net interest income, tax equivalent basis		\$ 28,621		
Net interest income as a percent of average interest-earning assets			3.96	%

Securities include securities available-for-sale, which are carried at fair value, and restricted bank stock carried at (1) 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).

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

(4) Interest income on loans includes fees of \$2,127,000.

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

	2017			
	Average		Average	
	Balance	Interest	Rate	
	(dollars in thousands)			
Interest-earning assets				
Securities ⁽¹⁾				
Taxable	\$ 118,335	\$ 2,403	2.03	%
Non-taxable ⁽²⁾	71,480	2,549	3.57	%
Loans ^(3, 4)	421,564	21,305	5.05	%
Interest-Bearing Deposits	6,999	382	5.46	%
Total interest-earning assets	618,378	26,639	4.31	%
INTEREST-BEARING LIABILITIES				
Deposits				
Savings and interest-bearing demand deposits	\$ 323,805	888	0.27	%
Time deposits	141,757	1,237	0.87	%
Junior subordinated deferrable interest debentures	12,825	596	4.65	%
Other borrowings	23,090	397	1.72	%
Total interest-bearing liabilities	\$ 501,477	3,118	0.62	%
Net interest income, tax equivalent basis		\$ 23,521		
Net interest income as a percent of average interest-earning assets			3.80	%

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

(2) Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

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

(4) Interest income on loans includes fees of \$1,137,000.

Table of Contents**DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)**

	2016			
	Average		Average	
	Balance	Interest	Rate	
	(dollars in thousands)			
Interest-earning assets				
Securities ⁽¹⁾				
Taxable	\$ 121,442	\$ 2,202	1.81	%
Non-taxable ⁽²⁾	70,371	2,479	3.52	%
Loans ^(3, 4)	361,437	17,457	4.83	%
Interest-Bearing Deposits	11,042	332	3.01	%
Total interest-earning assets	564,292	22,470	3.98	%
INTEREST-BEARING LIABILITIES				
Deposits				
Savings and interest-bearing demand deposits	\$ 285,729	578	0.20	%
Time deposits	140,562	1,109	0.79	%
Junior subordinated deferrable interest debentures	12,791	495	3.87	%
Other borrowings	4,525	49	1.08	%
Total interest-bearing liabilities	\$ 443,607	2,231	0.50	%
Net interest income, tax equivalent basis		\$ 20,239		
Net interest income as a percent of average interest-earning assets			3.59	%

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

(2) Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

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

(4) Interest income on loans includes fees of \$971,000.

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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.

Rate/volume 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 2018 and 34% for 2017 in the table that follows:

	2018/2017		
	Total	Variance Attributable To	
		Variance	Volume Rate
	(in thousands)		
INTEREST INCOME			
Securities -			
Taxable	\$170	\$(114)	\$284
Non-taxable	(578)	(1,240)	662
Loans	8,417	6,423	1,994
Other	131	92	39
Subtotal	8,140	5,161	2,979
INTEREST EXPENSE			

Deposits -			
Savings and interest-bearing demand deposits	664	130	534
Time deposits	1,060	320	740
Junior subordinated deferrable interest debentures	472	2	470
Other borrowings	844	604	240
Subtotal	3,040	1,056	1,984
NET INTEREST INCOME	\$5,100	\$4,105	\$995

Table of Contents**DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)**

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

	2017/2016		
	Total	Variance	Attributable To
	Variance	Volume	Rate
	(in thousands)		
INTEREST INCOME			
Securities -			
Taxable	\$201	\$(57)	\$258
Non-taxable	70	39	31
Loans	3,848	3,009	839
Other	50	(152)	202
Subtotal	4,169	2,839	1,330
INTEREST EXPENSE			
Deposits -			
Savings and interest-bearing demand deposits	310	78	232
Time deposits	128	9	119
Junior subordinated deferrable interest debentures	101	1	100
Other borrowings	348	304	44
Subtotal	887	392	495
NET INTEREST INCOME	\$3,282	\$2,447	\$835

Table of Contents**II. INVESTMENT PORTFOLIO**

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

	2018	2017	2016
	(in thousands)		
Obligations of states and political subdivisions	\$59,466	\$67,979	\$70,624
Mortgage-backed securities	106,924	100,463	118,595
Other	964	986	986
	\$167,354	\$169,428	\$190,205

B. The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2018 are as follows ⁽¹⁾:

	Maturing							
	Within One Year	But Within Five Years	But Within Ten Years	After Ten Years				
	(dollars in thousands)							
Obligations of states and political subdivisions	\$2,887	\$11,113	\$22,231	\$23,235				
Mortgage-backed securities ⁽²⁾	-	-	17,091	89,833				
	\$2,887	\$11,113	\$39,322	\$113,068				
	Weighted Average Yield							
Obligations of states and political subdivisions	3.85	%	2.47	%	2.77	%	4.08	%
Mortgage-backed securities ⁽²⁾	-		-		2.66	%	3.04	%
Weighted Average Yield - Portfolio	3.85	%	2.47	%	2.72	%	3.25	%

(1) Table excludes restricted bank stock and \$964,000 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, 2018.

Table of Contents**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:

	2018	2017	2016	2015	2014
	(in thousands)				
Commercial and agricultural	\$435,076	\$380,330	\$283,205	\$272,297	\$275,769
Real estate mortgage	127,547	123,802	90,379	78,443	80,598
Consumer loans	6,696	4,664	4,012	3,857	4,800
	\$569,319	\$508,796	\$377,596	\$354,597	\$361,167

Real estate mortgage loans include real estate construction loans of \$1.3 million in 2018, \$3.0 million in 2017, \$2.2 million in 2016, \$10.3 million in 2015, and \$1.3 million in 2014. There were no lease financing receivables in any year.

CONCENTRATIONS OF CREDIT RISK – The Corporation’s depository institution subsidiary grants commercial, real estate, installment, and credit card loans to customers primarily located in Northwestern and West Central Ohio. Commercial loans include loans collateralized by business assets and agricultural loans collateralized by farm equipment. As of December 31, 2018, commercial and agricultural loans make up 76.42% of the loan portfolio; the loans are expected to be repaid from cash flow from operations of the businesses. As of December 31, 2018, real estate mortgage loans make up 22.40% of the loan and lease portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2018, consumer loans to individuals make up 1.18% of the loan and lease portfolio and are primarily collateralized by consumer assets.

Maturities and Sensitivities of Loans and Leases to Changes in Interest Rates – The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2018 which, based on remaining B. 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 agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

Maturing	Commercial and Agricultural
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	(in thousands)
Within one year	\$ 689
After one year but within five years	90,091
After five years	344,296
	\$ 435,076

Table of Contents**III. LOAN AND LEASE PORTFOLIO (CONTINUED)**

	Interest Sensitivity		
	Fixed	Variable and	
	Rate	Adjustable Rate	Total
	(in thousands)		
Due after one year but within five years	\$38,620	\$51,471	\$90,091
Due after five years	44,274	300,022	344,296
	\$82,894	\$351,493	\$434,387

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:

	2018	2017	2016	2015	2014
	(in thousands)				
(a) Loans accounted for on a non-accrual basis	\$1,445	\$2,767	\$6,003	\$5,945	\$5,220
(b) Loans contractually past due 90 days or more as to interest or principal payments and still accruing interest	161	170	154	260	1,513
(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	624	712	1,208	1,795	2,121
	\$2,230	\$3,649	\$7,365	\$8,000	\$8,854

The following is reported for the years ended December 31:

2018 2017 2016 2015 2014
(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	\$15	\$131	\$275	\$432	\$596
Interest income actually recorded on non- accrual loans and included in net income for the period	-	-	-	-	-
Interest income not recognized during the period	\$15	\$131	\$275	\$432	\$596

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III. LOAN 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, 2018, in addition to the \$2.2 million of loans reported under Item III C, there are approximately \$4.5 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, 2018, there were no other interest-bearing assets that are required to be disclosed.

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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:

	2018	2017	2016	2015	2014
	(dollars in thousands)				
LOANS					
Loans outstanding at end of period (1)	\$569,319	\$508,796	\$377,596	\$354,597	\$361,167
Average loans outstanding during period (1)	\$540,687	\$421,564	\$361,437	\$358,368	\$310,237
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	\$2,835	\$3,345	\$3,834	\$3,840	\$4,014
Loans charged off:					
Commercial and agricultural	(135)	(616)	(98)	(447)	(368)
Real estate mortgage	(52)	(45)	(52)	(176)	(117)
Consumer loans to individuals	(10)	(28)	(10)	(16)	(12)
	(197)	(689)	(160)	(639)	(497)
Recoveries of loans previously charged off:					
Commercial and agricultural	363	506	351	222	739
Real estate mortgage	75	14	61	20	9
Consumer loans	1	9	9	9	5
	439	529	421	251	753
Net loan (charge offs) recoveries	242	(160)	261	(388)	256
Provision (credit) for loan losses	450	(350)	(750)	382	(430)
Balance at end of period	\$3,527	\$2,835	\$3,345	\$3,834	\$3,840
Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	(0.04 %)	0.04 %	(0.07 %)	0.11 %	(0.08 %)

(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 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. In 2014, the net recoveries of \$256,000 included seven commercial or agricultural borrowers, with the largest charge-off being \$181,000.

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IV. SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

The Corporation recognized a provision for loan losses of \$450,000 in 2018, a credit for loan losses of \$350,000 in 2017, and a credit for loan losses of \$750,000 in 2016. Problem and potential problem loans aggregated \$6.7 million at December 31, 2018 compared to \$8.0 million December 31, 2017. 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.

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IV. SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

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

	Allocation of the Allowance for Loan Losses					
	Percentage of Loans in Each Category			Percentage of Loans in Each Category		
	Allowance	Total		Allowance	Total	
	Amount	Loans		Amount	Loans	
	(dollars in thousands)					
	December 31, 2018			December 31, 2017		
Commercial and agricultural	\$2,889	81.93	%	\$2,247	79.26	%
Real Estate mortgages	576	16.34	%	545	19.22	%
Consumer loans to individuals	61	1.73	%	43	1.52	%
	\$3,526	100.0	%	\$2,835	100.0	%
	December 31, 2016			December 31, 2015		
Commercial and agricultural	\$2,772	82.87	%	\$3,433	89.54	%
Real Estate mortgages	542	16.20	%	373	9.73	%
Consumer loans to individuals	31	0.93	%	28	0.73	%
	\$3,345	100.0	%	\$3,834	100.0	%
	December 31, 2014					
Commercial and agricultural	\$3,453	76.40	%			
Real Estate mortgages	363	22.30	%			
Consumer loans to individuals	23	1.30	%			
	\$3,839	100.0	%			

The allowance for loan losses at December 31, 2018 included specific reserves for impaired loans amounting to \$128,000. There were no specific reserves for impaired loans at December 31, 2017.

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.

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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:

	(dollars in thousands)					
	2018	2018	2017	2017		
	Average	Average	Average	Average		
	Amount	Rate	Amount	Rate		
Savings and interest-bearing demand deposits	\$367,536	0.42 %	\$323,805	0.27 %		
Time deposits	173,574	1.32 %	141,757	0.87 %		
Demand deposits (non-interest bearing)	106,877	-	100,148	-		
	\$647,987		\$565,710			
	2016	2016				
	Average	Average				
	Amount	Rate				
Savings and interest-bearing demand deposits	\$285,729	0.20 %				
Time deposits	140,562	0.79 %				
Demand deposits (non-interest bearing)	92,811	-				
	\$519,102					

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

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V. DEPOSITS (CONTINUED)

D. Maturities of certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2018 are summarized as follows:

	(in thousands)
Three months or less	\$ 4,996
Over three months and through six months	8,300
Over six months and through twelve months	44,152
Over twelve months	24,107
	\$ 81,555

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:

	2018	2017	2016
	(dollars in thousands)		
Average total assets	\$802,989	\$683,164	\$614,688
Average shareholders' equity (1)	\$76,142	\$75,597	\$74,067
Net Income	\$8,220	\$3,846	\$5,521
Cash dividends declared	\$1,568	\$1,569	\$1,446
Return on average total assets	1.02	% 0.56	% 0.90
Return on average shareholders' equity	10.80	% 5.09	% 7.45
Dividend payout ratio (2)	19.08	% 40.80	% 26.19
Average shareholders' equity to average total assets	9.48	% 11.07	% 12.05

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

(2) Dividends declared divided by net income.

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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, 2018, the Corporation had \$4,412,000 of federal funds purchased, out of the \$162.5 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, 2018, 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.

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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.

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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, 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.

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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 and 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.

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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.

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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.

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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. 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

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Item 2. Properties

The following is a listing and brief description of the properties owned by the Corporation and the Bank and used in its business. All of the 16 properties are suitable for their intended use. In total, the facilities represent approximately 111,787 square feet.

Full Service Branch Locations:

Bowling Green 1300 North Main Street	Kalida 110 East North Street
Columbus Grove <i>Drive-Thru Facility</i> 101 Progressive Drive	Lima 701 Shawnee Road 1410 Bellefontaine Avenue 3211 Elida Road
Delaware 30 Coal Bend	Leipsic 318 South Belmore Street
Delphos 114 East Third Street	Marion 111 South Main Street
Findlay 1500 Bright Road	Ottawa 245 West Main Street
Gahanna 461 Beecher Road	Pemberville 132 East Front Street
Gibsonburg 30 West Madison Street	Operations Facility: Columbus Grove 105 Progressive Drive

Item 3. Legal Proceedings

As of March 4, 2019, 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

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PART II

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 2018 (“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, 2018:

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 (a)	Maximum number of shares that may yet be purchased under the plan or program (a)
10/01/18 - 10/31/18	-	\$ -	397,334	202,666
11/01/18 - 11/30/18	-	\$ -	397,334	202,666
12/01/18 - 12/31/18	-	\$ -	397,334	202,666

(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.

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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 2018 (“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 16 (“Management’s Discussion and Analysis”) of United Bancshares’ Annual Report to Shareholders for 2018 (“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 18 through 60 of United Bancshares’ Annual Report to Shareholders for 2018 (“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, 2018. 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.

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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, 2018, 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, 2018, the Corporation’s internal control over financial reporting met the criteria for effectiveness.

There were no changes in the Corporation’s internal control over financial reporting that occurred during the Corporation’s year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Our Proxy Statement will be filed with the SEC no later than March 30, 2019, in preparation for the 2019 Annual Meeting of Shareholders scheduled for April 24, 2019. 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 24, 2019, 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 24, 2019 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 24, 2019, 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 2019. 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 24, 2019, 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 24, 2019, which is incorporated herein by reference.

	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	93,069	\$ 21.39	156,931
Equity compensation plans not approved by security holders	-	-	-
Total	93,069	\$ 21.39	156,931

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 24, 2019, which is incorporated herein by reference.

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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 24, 2019, 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 2018 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, 2018 and 2017

Consolidated Statements of Income - Years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Comprehensive Income - Years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Shareholders' Equity - Years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Cash Flows - Years ended December 31, 2018, 2017, and 2016

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.

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(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)
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	(2)
10.4	Salary Continuation Agreement – Heather M. Oatman	(4)
10.5	2016 Stock Option Plan	(5)
10.6	<u>Form of Award Agreement under the 2016 Stock Option Plan</u>	
13	<u>2018 Annual Report to Shareholders</u>	
21	<u>Subsidiaries</u>	
23	<u>Consent of Independent Registered Public Accounting Firm</u>	
31.1	<u>Rule 13a-14(a)/15d-14(a) CEO's Certification</u>	
31.2	<u>Rule 13a-14(a)/15d-14(a) CFO's Certification</u>	
32.1	<u>Section 1350 CEO's Certification</u>	
32.2	<u>Section 1350 CFO's Certification</u>	
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 Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002, SEC file reference number 333-86543.

(2) Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005, SEC file reference number 333-86543.

(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.

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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 4, 2019

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 4, 2019
<u>/s/ HERBERT H. HUFFMAN</u> Herbert H. Huffman	Director	March 4, 2019
<u>/s/ H. EDWARD RIGEL</u> H. Edward Rigel	Director	March 4, 2019
<u>/s/ R. STEVEN UNVERFERTH</u>	Director	March 4, 2019

R. Steven Unverferth

/s/ ROBERT L. BENROTH

Director March 4, 2019

Robert L. Benroth

/s/ DAVID P. ROACH

Director March 4, 2019

David P. Roach

/s/ DANIEL W. SCHUTT

Director March 4, 2019

Daniel W. Schutt

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