

UNITED BANCSHARES, INC.
2003 ANNUAL REPORT

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United Bancshares, Inc.

100 South High Street
Columbus Grove, Ohio 45830

www.theubank.com

419/659-2141

March 22, 2004

Dear Shareholder:

Thank you for your investment in United Bancshares, Inc. (UBOH) stock. We are pleased to present this 2003 Annual Report for United Bancshares, Inc.

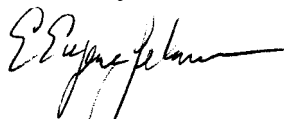
The Union Bank Company remains focused on serving our communities and customers in Northwest Ohio, on improving our efficiencies, and on growing our business one customer at a time. We are committed to prudently accumulating core-earning assets without chasing risky short-term profits. That strategy was rewarded in 2003. *WSJ.com* [Historical Quotes](#) records that UBOH stock had a closing price of \$11.96 on 12/31/02 and a closing price of \$16.25 on 12/31/03. With a \$0.44 dividend, the Total Return for 2003 was 39.5%.

In March of 2003 we streamlined and simplified our organizational structure by merging The Bank of Leipsic and Citizens Bank of Delphos into The Union Bank Company. Later that month we acquired the Pemberville and Gibsonburg Offices of RFC Banking Company that had previously comprised the Citizens Bank of Pemberville. Operating with one name and building one culture with one standard for quality service, we are aggressively preparing ourselves for the growth opportunities that a consolidating banking industry will continue to present.

Local and national economic conditions made 2003 a challenging year for internal growth of loans and deposits. Our branch acquisitions enabled us to continue to prudently grow our bank and expand our market area. Gross loans increased by 20.0%, non-interest bearing deposits increased by 42.7%, total deposits increased by 20.0%, and total assets increased by 17.3%. While historically low interest rates have severely impacted our net interest income, they will not lead us to increase the credit risk of our loan portfolios.

Although 2004 appears to be another challenging year, we have seized on the opportunity that slow growth provides to increase our job skills and customer service levels while improving our efficiencies through training and retraining at every level. Your employees, management and directors are committed to the long-term financial success and independence of United Bancshares, Inc.

Sincerely,



E. Eugene Lehman
President

UNITED BANCSHARES, INC.

DESCRIPTION OF THE CORPORATION

United Bancshares, Inc., an Ohio corporation (the "Corporation"), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. Following the merger of the Company's other two bank subsidiaries into The Union Bank Company (Columbus Grove, Ohio) in March 2003, the Company is now a one-bank holding company, as that term is defined by the Federal Reserve Board. Through its subsidiary, The Union Bank Company, Columbus Grove, Ohio ("Union"), the Corporation is engaged in the business of commercial banking and offers a full range of commercial banking services.

Union is an Ohio state-chartered bank, which serves Allen, Putnam, Sandusky, Van Wert and Wood Counties, with office locations in Bowling Green, Columbus Grove, Delphos, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville, Ohio.

MARKET PRICE AND DIVIDENDS ON COMMON STOCK

United Bancshares, Inc. has traded its common stock on the Nasdaq Markets Exchange under the symbol "UBOH" since March 2001. From January 2000 to March 2001, the Corporation's common stock was traded on the Nasdaq Over-The-Counter Bulletin Board. Prior to January 2000, there was no established public trading market for United Bancshares, Inc. common stock. As of February 27, 2004, the common stock was held by approximately 1,800 shareholders of record. Below are the trading highs and lows for the periods noted.

| Year 2003 | <u>High</u> | <u>Low</u> |
|------------------|--------------------|-------------------|
| First Quarter | \$14.35 | \$11.96 |
| Second Quarter | 15.85 | 14.00 |
| Third Quarter | 16.80 | 14.60 |
| Fourth Quarter | 16.70 | 16.20 |
| Year 2002 | <u>High</u> | <u>Low</u> |
| First Quarter | \$10.78 | \$ 9.03 |
| Second Quarter | 14.35 | 9.65 |
| Third Quarter | 14.85 | 11.68 |
| Fourth Quarter | 11.96 | 10.42 |

Dividends declared by United Bancshares, Inc. on its common stock during the past two years were as follows:

| | <u>2003</u> | <u>2002</u> |
|----------------|--------------------|--------------------|
| First Quarter | \$.11 | \$.11 |
| Second Quarter | .11 | .11 |
| Third Quarter | .11 | .11 |
| Fourth Quarter | <u>.11</u> | <u>.11</u> |
| Total | <u>\$.44</u> | <u>\$.44</u> |

AVAILABILITY OF MORE INFORMATION

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

Bonita Selhorst, Secretary
United Bancshares, Inc.
100 S. High Street
Columbus Grove, Ohio 45830
419-659-2141

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

| | Years ended December 31, | | | | |
|---|---|-----------------|----------------|-----------------|-----------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| | (Dollars in thousands, except per share data) | | | | |
| Statements of income: | | | | | |
| Total interest income | \$ 24,765 | \$ 24,679 | \$ 26,234 | \$ 18,940 | \$ 16,658 |
| Total interest expense | <u>10,335</u> | <u>11,695</u> | <u>14,830</u> | <u>10,687</u> | <u>8,599</u> |
| Net interest income | 14,430 | 12,984 | 11,404 | 8,253 | 8,059 |
| Provision for loan losses | <u>450</u> | <u>722</u> | <u>449</u> | <u>502</u> | <u>309</u> |
| Net interest income after provision for loan losses | 13,980 | 12,262 | 10,955 | 7,751 | 7,750 |
| Total non-interest income | 4,083 | 3,099 | 2,827 | 1,028 | 980 |
| Total non-interest expense | <u>13,292</u> | <u>11,081</u> | <u>9,497</u> | <u>7,059</u> | <u>6,044</u> |
| Income before federal income taxes | 4,771 | 4,280 | 4,285 | 1,720 | 2,686 |
| Federal income taxes | <u>1,080</u> | <u>1,721</u> | <u>1,031</u> | <u>235</u> | <u>544</u> |
| Income before change in accounting principle | 3,691 | 2,559 | 3,254 | 1,485 | 2,142 |
| Cumulative effect of change in accounting principle | <u>-</u> | <u>3,807</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net income | <u>\$ 3,691</u> | <u>\$ 6,366</u> | <u>\$3,254</u> | <u>\$ 1,485</u> | <u>\$ 2,142</u> |
| Per share of common stock: | | | | | |
| Net income - basic | \$ 1.01 | \$ 1.77 | \$ 0.96 | \$ 0.66 | \$ 0.94 |
| Dividends | 0.44 | 0.44 | 0.44 | 0.44 | 0.35 |
| Book value | 11.69 | 11.28 | 9.65 | 8.48 | 7.92 |
| Average shares outstanding - basic | 3,644,642 | 3,601,184 | 3,376,652 | 2,254,420 | 2,274,067 |
| Year end balances: | | | | | |
| Loans | \$ 292,221 | \$ 243,555 | \$ 243,995 | \$ 178,951 | \$ 167,229 |
| Securities | 174,559 | 154,977 | 105,629 | 54,976 | 52,264 |
| Total assets | 498,695 | 424,997 | 386,401 | 256,815 | 237,032 |
| Deposits | 388,300 | 323,657 | 310,897 | 205,506 | 198,130 |
| Stockholders' equity | 42,710 | 40,958 | 34,672 | 19,049 | 18,075 |
| Average balances: | | | | | |
| Loans | \$ 280,303 | \$ 242,688 | \$ 264,243 | \$ 175,743 | \$ 156,143 |
| Securities | 161,522 | 143,786 | 74,597 | 54,925 | 54,063 |
| Total assets | 478,518 | 408,500 | 364,915 | 244,855 | 225,139 |
| Deposits | 366,336 | 310,740 | 287,011 | 198,526 | 193,863 |
| Stockholders' equity | 42,005 | 39,856 | 31,661 | 17,506 | 18,327 |
| Selected ratios: | | | | | |
| Net yield on average interest-earning assets | 3.41% | 3.56% | 3.44% | 3.80% | 4.10% |
| Return on average assets | 0.77% | 0.63% | 0.89% | 0.61% | 0.95% |
| Return on average shareholders' equity | 8.79% | 6.42% | 10.28% | 8.48% | 11.69% |
| Net loan charge-offs as a percentage of average outstanding net loans | 0.17% | 0.27% | 0.19% | 0.14% | 0.19% |
| Allowance for loan losses as a percentage of year end loans | 0.95% | 1.14% | 1.06% | 1.08% | 1.00% |
| Shareholders' equity as a percentage of total assets | 8.56% | 9.64% | 8.97% | 7.42% | 7.63% |

Notes:

- 1) Amounts for 2001 include Citizens Bank of Delphos, since its acquisition on March 1, 2001.
- 2) 2002 ratios exclude the cumulative effect of the change in accounting principle.
- 3) Amounts for 2003 include RFCBC branch acquisitions, since their acquisition on March 28, 2003.
- 4) Net yield on average interest-earning assets was computed on a tax-equivalent basis.
- 5) Basic net income per share for 2002 includes \$1.06 relating to change in accounting principle.

UNITED BANCSHARES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
of Financial Condition and Results of Operations

EARNINGS SUMMARY

Consolidated net income for United Bancshares, Inc. (the "Corporation") for 2003 was \$3.7 million compared to \$6.4 million in 2002 and \$3.3 million in 2001. Net income for 2002 includes \$3.8 million of income resulting from the cumulative effect of a change in accounting principle as more fully described in Note 1 to the consolidated financial statements. The acquisition of Citizens Bank of Delphos ("Citizens") on March 1, 2001 was accounted for as a purchase. Consequently, the results of operations for Citizens are included only from the date of acquisition. The results of operations of the purchased RFCBC branches, as described in Note 2 to the consolidated financial statements, have been included for the period subsequent to the March 28, 2003 acquisition date. In March 2003, Citizens and the Bank of Leipsic were merged into The Union Bank Company. Basic income per share was \$1.01 in 2003, an increase of 42.3% from \$0.71 in 2002, excluding the impact of the change in accounting principle. The 2002 basic income per share represented a 26.0% decrease from \$0.96 in 2001. The 2002 operating results included a special provision of \$631,000 (\$.18 per share) for income taxes relating to the recapture of the tax bad debt reserve for Citizens.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

2003 Compared With 2002

Net interest income for 2003 was \$14.4 million, an increase of \$1.4 million (11.1%) over 2002. The increase was due to an increase in the Corporation's interest-earning assets, primarily the result of the branch acquisitions in March 2003. The average yield on loans for 2003 decreased to 6.15% compared to 7.22% for 2002, while the average rate paid on interest-bearing liabilities decreased to 2.03% from 3.21%. The net effect of these and other factors resulted in the net interest yield on average interest-earning assets, on a tax-equivalent basis, decreasing from 3.56% in 2002 to 3.41% in 2003.

At December 31, 2003, total loans (including loans held for sale) were \$292.2 million compared to \$243.6 million at December 31, 2002, an increase of \$48.6 million (20.0%). This increase was substantially due to loans balances at the acquired RFCBC branches, which were \$46.6 million as of December 31, 2003. Loans held for sale increased to \$2.8 million at December 31, 2003 from \$2.1 million in 2002. Within the loan portfolio, residential real estate loans decreased \$11.7 million (12.1%) during 2003 as a substantial portion of fixed residential real estate loans continued to be sold. Commercial loans increased \$22.9 million (23.1%), Agricultural loans increased \$12.4 million (37.3%) and Consumer loans increased \$24.4 million (206.7%) during 2003 due primarily to the aforementioned branch acquisitions.

The Corporation, through its bank subsidiary, elects to sell in the secondary market a substantial portion of the fixed rate residential real estate loans originated, and typically retains the servicing rights relating to such loans. During 2003, net gain on sale of loans was \$2.3 million, including \$936,000 of capitalized servicing rights. The net gain on sale of loans was \$1.9 million, including \$967,000 of capitalized servicing rights, in 2002.

Securities, including Federal Home Loan Bank (FHLB) stock, totaled \$174.6 million at December 31, 2003, representing an increase of \$19.6 million (12.6%) from total securities of \$155.0 million at December 31, 2002. At both year-ends, all securities except FHLB stock were designated as available-for-sale. As such, these securities may be sold if needed for liquidity, asset-liability management or other reasons. Such securities are reported at fair value, with net unrealized gains (losses) reported as a separate component of shareholders' equity, net of tax. At December 31, 2003, unrealized gains, net of income taxes, of \$1.1 million was reported as a component of shareholders' equity. Management monitors the earnings performance and liquidity of the investment portfolio on a regular basis through Asset/Liability Committee ("ALCO") meetings.

Total deposits at December 31, 2003 were \$388.3 million, an increase of \$64.6 million (20.0%) over total deposits of \$323.7 million at December 31, 2002. This increase was substantially due to the impact of the RFCBC branch acquisitions. Deposits at these acquired branches were \$64.0 million at December 31, 2003. The Corporation utilized the proceeds from the issuance of \$10.3 junior subordinated deferrable interest debentures to inject capital into the Bank to facilitate the branch acquisitions.

FHLB borrowings at December 31, 2003 were \$54.4 million compared to \$56.0 million at December 31, 2002, a decrease of \$1.6 million (2.9%). The Corporation utilizes FHLB borrowings as an alternative source of funding to support its asset growth as necessary.

The allowance for loan losses at December 31, 2003 was \$2.8 million (0.95% of total loans) compared to \$2.8 million (1.14% of total loans) at December 31, 2002. Although the allowance remained approximately the same, the allowance for loan losses as a percentage of total loans decreased as a result of the acquired branch loans being stated at estimated fair value.

The provision for loan losses charged to operations is determined by management after considering the amount of net losses incurred as well as management's estimation of future losses based on an evaluation of loan portfolio risk and current economic factors. The provision for loan losses was \$450,000 in 2003 compared to \$722,000 in 2002. The decrease in the provision for loan losses in 2003 was due to a decrease in the level of classified loans and a trend of decreasing net loan charge-offs (.17% in 2003, compared to .27% in 2002).

Total non-interest income increased \$985,000 to \$4.1 million in 2003 from \$3.1 million in 2002. The significant components of non-interest income are summarized in Note 13 to the consolidated financial statements. Net gain on sale of residential real estate loans increased \$389,000 to \$2.3 million in 2003 from \$1.9 million in 2002 due to increased volume resulting from historically low residential real estate rates which prompted a significant level of refinancing activity. Service charges on deposit accounts increased \$151,000 (21.3%) to \$864,000 in 2003 compared to \$712,000 in 2002 largely due to the impact of the RFCBC branch acquisitions. The Company also recognized \$202,000 of income in 2003 from insurance demutualization.

Total non-interest expenses increased \$2.2 million (20.0%) to \$13.3 million in 2003 from \$11.1 million in 2002. Salaries and related costs increased \$1.0 million (17.9%) to \$6.8 million in 2003 from \$5.8 million in 2002. The increase was substantially due to the impact of the RFCBC branch acquisitions; continued increases in employee benefits, especially medical insurance; and the Corporation's continued commitment to improve internal controls and specialize its workforce. Net occupancy expenses, including buildings, furnishings, and equipment, increased \$246,000 (22.0%) to \$1.4 million in 2003 from \$1.1 million in 2002 largely due to the impact of the RFCBC branch acquisitions. Other non-interest expenses increased \$932,000 (22.2%) to \$5.1 million in 2003 compared to \$4.2 million in 2002. The significant components of other non-interest expenses is summarized in Note 13 to the consolidated financial statements. Data processing costs increased \$160,000 (17.4%) to \$1.1 million in 2003 from \$921,000 in 2002. Advertising costs increased \$117,000 (45.4%) to \$374,000 in 2003 compared to \$257,000 in 2002. Such increases were primarily due to the Corporation's increase of assets under management as the result of the RFCBC branch acquisitions.

The provision for income taxes for 2003 was \$1.1 million, a decrease of \$641,000 (37.2%) from \$1.7 million 2002. This decrease primarily resulted from the \$631,000 special provision in 2002 relating to the recapture of the tax bad debt reserve for Citizens, as more fully described in Note 15 to the consolidated financial statements.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

2002 Compared With 2001

Net interest income for 2002 was \$13.0 million, an increase of \$1.6 million (13.9%) over 2001. The increase was primarily due to an increase in the Corporation's net interest margin coupled with an increase in interest-earning assets. The average yield on loans decreased to 7.22% compared to 8.12% for 2001, while the average rate paid on interest-bearing liabilities decreased to 3.21% from 4.57%. The net effect of these and other factors resulted in the net interest yield on average interest-earning assets, on a tax-equivalent basis, increasing from 3.44% in 2001 to 3.56% in 2002.

At December 31, 2002, total loans (including loans held for sale) were \$243.6 million compared to \$244.0 million at December 31, 2001. Loans held for sale decreased \$4.3 million in 2002, which was essentially offset by increases in the loan portfolio. Within the loan portfolio, residential real estate loans decreased \$16.9 million (14.9%) during 2002 as the subsidiary banks continued to sell a substantial portion of fixed residential real estate loans including loans, which became salable during the year through improvements in the Citizens loan portfolio. Commercial loans increased \$19.2 million (24.1%) as a result of continued efforts by lending management to grow this portion of the loan portfolio, including the hiring of two senior lenders at Leipsic. Consumer loans decreased \$2.7 million (18.5%) during 2002 due to competition from non-traditional sources such as automobile leasing companies.

The Corporation, through its bank subsidiaries, elects to sell in the secondary market a substantial portion of the fixed rate residential real estate loans originated, and typically retains the servicing rights relating to such loans. During 2002, net gain on sale of loans was \$1.9 million, including \$967,000 of capitalized servicing rights.

Securities, including Federal Home Loan Bank (FHLB) stock, totaled \$155.0 million at December 31, 2002, representing an increase of \$49.4 million (46.7%) from total securities of \$105.6 million at December 31, 2001. Approximately \$27 million of the increase in securities resulted from the Corporation's leveraged borrowing program implemented during the second quarter of 2002. Under this program, the Corporation borrowed from the FHLB and invested the borrowings in securities as part of the asset/liability management strategy. At both year-ends, all securities except FHLB stock were designated as available-for-sale. As such, these securities may be sold if needed for liquidity, asset-liability management or other reasons. Such securities are reported at fair value, with net unrealized gains (losses) reported as a separate component of shareholders' equity, net of tax. At December 31, 2002, unrealized gains, net of income taxes, of \$1.5 million was reported as a component of shareholders' equity.

Total deposits at December 31, 2002 were \$323.7 million, an increase of \$12.8 million (4.1%) over total deposits of \$310.9 million at December 31, 2001. This increase was substantially due to the interest-bearing deposit category and resulted from cross-selling efforts with existing customers and aggressive pricing.

FHLB borrowings at December 31, 2002 were \$56.0 million compared to \$34.8 million at December 31, 2001, an increase of \$21.2 million (61.0%). As previously mentioned, the Corporation borrowed approximately \$27 million from the FHLB during the second quarter of 2002 under the leveraged borrowing program. The Corporation utilizes FHLB borrowings as an alternative source of funding to support its asset growth as necessary.

The allowance for loan losses at December 31, 2002 was \$2.8 million (1.14% of total loans) compared to \$2.6 million (1.06% of total loans) at December 31, 2001. The increase in the allowance for loan losses as a percent of total loans was due to the increase in classified assets during 2002, as well as the aforementioned growth in the commercial loan portfolio.

The provision for loan losses charged to operations is determined by management after considering the amount of net losses incurred as well as management's estimation of future losses based on an evaluation of loan portfolio risk and current economic factors. The provision for loan losses was \$722,000 in 2002 compared to \$449,000 in 2001. The increase in the provision for loan losses in 2002 was due to an increase in the level of classified loans and a trend of increasing net loan charge-offs (.27% in 2002, compared to .19% in 2001).

Total non-interest income increased \$300,000 to \$3.1 million in 2002 from \$2.8 million in 2001. The significant components of non-interest income are summarized in Note 13 to the consolidated financial statements. Net gain on sale of residential real estate loans increased \$500,000 to \$1.9 million in 2002 from \$1.4 million in 2001 due to significant volume resulting from historically low residential real estate rates which prompted a significant level of refinancing activity. Service charges on deposit accounts remained relatively level with an increase of \$34,000 (5.0%) to \$712,000 in 2002 compared to \$678,000 in 2001. Amortization of the deferred credit relating to the 2001 acquisition of Citizens ceased effective January 1, 2002 as more fully described in Note 1 to the consolidated financial statements. Consequently, there was no income from amortization in 2002 compared to \$346,000 in 2001.

Total non-interest expenses increased \$1.6 million (16.7%) to \$11.1 million in 2002 from \$9.5 million in 2001. Salaries and related costs increased \$1.2 million (25.2%) to \$5.8 million in 2002 from \$4.6 million in 2001. The increase was due to the Corporation's continued commitment to improve internal controls, specialize the workforce, including the hiring of senior commercial lenders. Net occupancy costs, including buildings, furnishings, and equipment, increased \$236,000 (26.9%) to \$1.1 million in 2002 from \$880,000 in 2001 largely due to new facilities at Leipsic and a renovation of the Citizens facility. Other non-interest expenses increased \$200,000 (7.5%) to \$4.2 million in 2002 compared to \$4.0 million in 2001. The significant components of other non-interest expenses are summarized in Note 13 to the consolidated financial statements. Data processing costs increased \$100,000 (12.2%) to \$921,000 in 2002 from \$821,000 in 2001. Professional fees decreased \$242,000 (39.9%) to \$365,000 in 2002 compared to \$607,000 in 2001 due to the absence of significant merger activity in 2002.

The provision for income taxes for 2002 was \$1.7 million, an increase of \$690,000 (66.9%) from 1.0 million 2001. This increase primarily resulted from a \$631,000 provision relating to the recapture of a portion or all of the tax bad debt reserve for Citizens as more fully described in Note 15 to the consolidated financial statements.

LIQUIDITY

Liquidity relates primarily to the Corporation's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, securities available-for-sale, and loans held for sale. A large portion of liquidity is provided by the ability to sell securities. Accordingly, the Corporation has designated all securities other than FHLB stock as available-for-sale.

Another source of liquidity is represented by loans held for sale, which can be sold at any time. Certain other loans are also available to collateralize borrowings.

The consolidated statements of cash flows for the years presented provide an indication of the Corporation's sources and uses of cash as well as an indication of the ability of the Corporation to maintain an adequate level of liquidity. A discussion of cash flows for 2003, 2002, and 2001 follows.

The Corporation generated cash from operating activities of \$3.1 million in 2003, \$11.0 million in 2002, and \$6.8 million in 2001. The 2002 and 2001 increases largely resulted from secondary market activities relating to the continued selling of loans held for sale.

Net cash flows from investing activities was \$(8.7) million in 2003, \$(52.8) million in 2002, and \$12.2 million in 2001. The decrease in investing cash flows in 2003 and 2002 was essentially due to growth in the securities portfolio offset in 2003 by \$5.8 million of cash from the RFCBC branch acquisitions. The 2001 increase was largely due to the selling of loans acquired in the Citizens acquisition offset by securities portfolio growth.

Net cash flows from financing activities were \$(30,000) in 2003, \$32.6 million in 2002, and \$(7.0) million in 2001. In 2003, net repayments of FHLB borrowings of \$1.5 million, cash dividends of \$1.6 million, and the net decrease in deposits of \$7.1 million exceeded proceeds from the issuance of the junior subordinated deferrable interest debentures, net of fees, of \$10.0 million. The increase in 2002 was attributable to proceeds from FHLB borrowings, net of repayments, of \$21.2 million and growth in deposits of \$12.8 million. In 2001, net repayments of FHLB borrowings of \$26.2 million exceeded the growth in deposits of \$20.6 million.

ASSET LIABILITY MANAGEMENT

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

The difference between a financial institution's interest rate sensitive assets (assets that will mature or reprice within a specific time period) and interest rate sensitive liabilities (liabilities that will mature or reprice within the same time period) is commonly referred to as its "interest rate sensitivity gap" or, simply, its "gap". An institution having more interest rate sensitive assets than interest rate sensitive liabilities within a given time interval is said to have a "positive gap". This generally means that when interest rates increase, an institution's net interest income will increase and when interest rates decrease, the institution's net interest income will decrease. An institution having more interest rate sensitive liabilities than interest rate sensitive assets within a given time interval is said to have a "negative gap". This generally means that when interest rates increase, the institution's net interest income will decrease and when interest rates decrease, the institution's net interest income will increase. The Corporation's one year cumulative gap is 93% assets to liabilities or slightly negative.

EFFECTS OF INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND CONTINGENT LIABILITIES AND COMMITMENTS

The following table summarizes loan commitments, including letters of credit, as of December 31, 2003:

| | Amount of commitment to expire per period | | | | |
|-------------------------------|---|---------------------|-----------------|-----------------|------------------|
| | Total Amount | Less than 1 year | 1 – 3 years | 4 – 5 years | Over 5 years |
| (Dollars in thousands) | | | | | |
| Type of commitment | | | | | |
| Commercial lines-of-credit | \$ 22,024 | \$ 20,919 | \$ 775 | \$ 190 | \$ 140 |
| Real estate lines-of-credit | 27,154 | 4,470 | 1,722 | 2,678 | 18,284 |
| Consumer lines-of-credit | 340 | 340 | - | - | - |
| Credit card lines-of-credit | 5,894 | 5,894 | - | - | - |
| Guarantees | - | - | - | - | - |
| Total commitments | \$ 55,412 | \$ 31,623 | \$ 2,497 | \$ 2,868 | \$ 18,424 |

As indicated in the preceding table, the Corporation had \$55.4 million in total loan commitments at December 31, 2003, with \$31.6 million of that amount expiring within one year. All lines-of-credit represent either fee-paid or legally binding loan commitments for the loan categories noted. Letters-of-credit are also included in the amounts noted in the table since the Corporation requires that each letter-of-credit be supported by a loan agreement. The commercial and consumer lines represent both unsecured and secured obligations. The real estate lines are secured by mortgages in residential and nonresidential property. The credit card lines were all made on an unsecured basis. Many of the commercial lines are due on a demand basis, and are established for seasonal operating purposes. It is anticipated that a significant portion of these lines will expire without being drawn upon, particularly the credit card lines, which represent the maximum amount available to all cardholders.

The following table summarizes the Corporation's contractual obligations as of December 31, 2003:

| | <u>Total Amount</u> | <u>Payments due by period</u> | | | <u>Over 5 years</u> |
|--|-------------------------|-------------------------------|-----------------------|------------------------|-------------------------|
| | | <u>Less than 1 year</u> | <u>1- 3 years</u> | <u>4 - 5 years</u> | |
| | | | | | |
| | | (Dollars in thousands) | | | |
| Contractual obligations | | | | | |
| Long-term debt | \$ 64,746 | \$ 17,195 | \$ 6,525 | \$ 13,798 | \$ 27,228 |
| Capital leases | - | - | - | - | - |
| Operating leases | - | - | - | - | - |
| Unconditional purchase obligations | - | - | - | - | - |
| Other long-term liabilities reflected under GAAP | <u>368</u> | <u>6</u> | <u>15</u> | <u>19</u> | <u>328</u> |
| Total obligations | <u>\$ 65,114</u> | <u>\$ 17,201</u> | <u>\$ 6,540</u> | <u>\$ 13,817</u> | <u>\$ 27,556</u> |

The long-term debt noted in the preceding table represents \$54.4 million in borrowings from the Federal Home Loan Bank of Cincinnati ("FHLB") (see Note 11 of the consolidated financial statements) and \$10.3 million from the issuance of junior subordinated deferrable interest debentures (see Note 12 of the consolidated financial statements).

The FHLB borrowings include notes that require payment of interest on a monthly basis, with principal generally due at maturity. The FHLB obligations include \$45.4 million in advances that have fixed interest rates and \$9.0 million in advances that have variable interest rates. While the variable rate obligations can be prepaid without penalty, some of the fixed rate obligations have variable options, that stipulate a prepayment penalty if the note's interest rate exceeds the current market rate for similar borrowings at the time of repayment. As a note matures, the Corporation evaluates the liquidity and interest-rate circumstances at that point in time to determine whether to pay-off or renew the note. The evaluation process typically includes the strength of current and projected customer loan demand, the current federal funds sold or purchased position, projected cash flows from maturing investment securities, the current and projected market interest rate environment, local and national economic conditions, and customer demand for deposit product offerings.

The other long-term liabilities reflected under GAAP, as noted in the preceding table, represent the Corporation's agreement with its current Chairman of the Board of Directors to provide for retirement compensation benefits. Such benefits are to be paid over a period of twenty years, commencing upon retirement effective December 31, 2001. At December 31, 2003, the net present value of future deferred compensation payments amounted to \$368,000. Such amount is included in other liabilities in the December 31, 2003 consolidated balance sheet. (See Note 16 of the consolidated financial statements)

As indicated in the table, the Corporation had no capital leases or unconditional purchase obligations as of December 31, 2003. The Corporation has several minor operating lease obligations, including photocopying equipment and an office space lease, which are considered immaterial and not included in the table. The Company also has a non-qualified deferred compensation plan covering certain directors and officers, and has provided an estimated liability of \$496,000 at December 31, 2003 for supplemental retirement benefits under the plan. Since substantially all participants under the plan are still active, it is not possible to determine the terms of the contractual obligations and, consequently, such liability is not included in the table.

SIGNIFICANT ACCOUNTING POLICIES

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

The Corporation's most significant accounting policies are presented in the Summary of Significant Accounting Policies. These policies, along with other disclosures presented in the Notes to Consolidated Financial Statements and in Management's Discussion and Analysis, provide information about how significant assets and liabilities are valued in the financial statements and how those values are determined. Management has identified the determination of the allowance for loan losses and the valuation of servicing assets as the areas that require the most subjective and complex estimates, assumptions and judgments and, as such, could be the most subjective to revision as new information becomes available. The valuation of the goodwill acquired in 2003 as a result of the RFCBC branch acquisitions is another accounting area that requires estimates, assumptions and judgments.

As previously noted, a detailed analysis to assess the adequacy of the allowance for loan losses is performed. This analysis encompasses a variety of factors including the potential loss exposure for individually reviewed loans, the historical loss experience for each loan category, the volume of non-performing loans, the volume of loans past due 30 to 89 days, a segmentation of each loan category by internally-assigned risk grades, an evaluation of current and future local and national economic conditions, any significant changes in the volume or mix of loans within each category, a review of the significant concentrations of credit, and any legal, competitive, or regulatory concerns.

Servicing assets are recognized as separate assets when rights are acquired through sale of mortgage loans. Servicing assets are evaluated for impairment based upon the fair value of the rights, as determined by an independent third party, as compared to amortized cost. Impairment is determined by stratifying rights and by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

FORWARD-LOOKING STATEMENTS

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

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

As the result of the issuance of FASB Interpretation No. 46 (Consolidation of Variable Interest Entities) in January 2003, the Corporation's consolidated financial statements for 2003 do not include the business trust (United (OH) Statutory Trust) formed March 13, 2003. The Trust was formed in connection with the issuance of \$10.0 million of trust preferred securities. As a result, the 2003 consolidated financial statements reflect the \$10.3 million of junior subordinated deferrable interest debentures.

The Corporation does not believe the adoption of any recently issued pronouncements by the Financial Accounting Standards Board will have a significant impact on its consolidated financial statements.

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of United Bancshares, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Bancshares, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the consolidated financial statements, the Corporation changed its method of accounting for its purchase accounting deferred credit in 2002.

Clifton Gunderson LLP

Toledo, Ohio
January 29, 2004

UNITED BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002

| ASSETS | <u>2003</u> | <u>2002</u> |
|---|-----------------------|-----------------------|
| CASH AND CASH EQUIVALENTS | | |
| Cash and due from banks | \$ 10,532,844 | \$ 9,652,357 |
| Interest-bearing deposits in other banks | 31,277 | 1,167,863 |
| Federal funds sold | <u>531,000</u> | <u>5,914,000</u> |
| Total cash and cash equivalents | <u>11,095,121</u> | <u>16,734,220</u> |
| SECURITIES , available-for-sale | 170,504,529 | 151,079,804 |
| FEDERAL HOME LOAN BANK STOCK , at cost | 4,054,700 | 3,896,700 |
| LOANS HELD FOR SALE | 2,760,312 | 2,083,887 |
| LOANS | 289,460,412 | 241,471,498 |
| Less allowance for loan losses | <u>2,767,521</u> | <u>2,784,509</u> |
| Net loans | <u>286,692,891</u> | <u>238,686,989</u> |
| PREMISES AND EQUIPMENT , net | 7,222,175 | 6,314,033 |
| GOODWILL | 7,282,013 | - |
| OTHER INTANGIBLE ASSETS , net | 1,754,764 | 244,715 |
| OTHER ASSETS , including accrued interest receivable | <u>7,328,622</u> | <u>5,957,075</u> |
| TOTAL ASSETS | <u>\$ 498,695,127</u> | <u>\$ 424,997,423</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Non-interest bearing | \$ 32,144,405 | \$ 22,524,352 |
| Interest-bearing | <u>356,155,722</u> | <u>301,132,604</u> |
| Total deposits | 388,300,127 | 323,656,956 |
| Federal Home Loan Bank borrowings | 54,446,143 | 55,956,475 |
| Junior subordinated deferrable interest debentures | 10,300,000 | - |
| Other liabilities | <u>2,938,444</u> | <u>4,426,016</u> |
| Total liabilities | <u>455,984,714</u> | <u>384,039,447</u> |
| SHAREHOLDERS' EQUITY | | |
| Common stock, stated value \$1. Authorized 4,750,000 shares; issued 3,740,468 shares in 2003 and 3,718,277 shares in 2002 | 3,740,468 | 3,718,277 |
| Surplus | 14,459,593 | 14,373,897 |
| Retained earnings | 24,697,441 | 22,612,142 |
| Accumulated other comprehensive income | 1,055,610 | 1,496,359 |
| Treasury stock, 88,064 shares, at cost | <u>(1,242,699)</u> | <u>(1,242,699)</u> |
| Total shareholders' equity | <u>42,710,413</u> | <u>40,957,976</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 498,695,127</u> | <u>\$ 424,997,423</u> |

These consolidated financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to consolidated financial statements.

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2003, 2002 and 2001

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|---------------------|
| INTEREST INCOME | | | |
| Loans, including fees | \$ 18,416,881 | \$ 17,513,362 | \$ 21,465,191 |
| Securities: | | | |
| Taxable | 4,470,411 | 5,827,316 | 3,189,391 |
| Tax-exempt | 1,794,905 | 1,159,933 | 1,048,988 |
| Other | <u>82,973</u> | <u>178,102</u> | <u>530,613</u> |
| Total interest income | <u>24,765,170</u> | <u>24,678,713</u> | <u>26,234,183</u> |
| INTEREST EXPENSE | | | |
| Deposits | 7,478,619 | 9,052,380 | 12,336,091 |
| Borrowings | <u>2,856,069</u> | <u>2,642,213</u> | <u>2,494,398</u> |
| Total interest expense | <u>10,334,688</u> | <u>11,694,593</u> | <u>14,830,489</u> |
| Net interest income | 14,430,482 | 12,984,120 | 11,403,694 |
| PROVISION FOR LOAN LOSSES | <u>450,000</u> | <u>722,000</u> | <u>449,103</u> |
| Net interest income after provision for loan losses | <u>13,980,482</u> | <u>12,262,120</u> | <u>10,954,591</u> |
| NON-INTEREST INCOME | <u>4,083,130</u> | <u>3,098,581</u> | <u>2,826,708</u> |
| NON-INTEREST EXPENSES | | | |
| Salaries, wages and employee benefits | 6,793,531 | 5,759,729 | 4,600,830 |
| Occupancy expenses | 1,362,104 | 1,116,072 | 879,586 |
| Other operating expenses | <u>5,136,538</u> | <u>4,204,936</u> | <u>4,016,051</u> |
| Total non-interest expenses | <u>13,292,173</u> | <u>11,080,737</u> | <u>9,496,467</u> |
| Income before income taxes and change in accounting principle | <u>4,771,439</u> | <u>4,279,964</u> | <u>4,284,832</u> |
| PROVISION FOR INCOME TAXES | | | |
| Current | 940,947 | 1,784,061 | 674,017 |
| Deferred | <u>139,053</u> | <u>(63,061)</u> | <u>356,983</u> |
| Total provision for income taxes | <u>1,080,000</u> | <u>1,721,000</u> | <u>1,031,000</u> |
| Income before change in accounting principle | 3,691,439 | 2,558,964 | 3,253,832 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | <u>-</u> | <u>3,807,073</u> | <u>-</u> |
| NET INCOME | <u>\$ 3,691,439</u> | <u>\$ 6,366,037</u> | <u>\$ 3,253,832</u> |
| NET INCOME PER SHARE | | | |
| Basic: | | | |
| Income before change in accounting principle | \$ 1.01 | \$.71 | \$.96 |
| Change in accounting principle | <u>-</u> | <u>1.06</u> | <u>-</u> |
| Total | <u>\$ 1.01</u> | <u>\$ 1.77</u> | <u>\$.96</u> |
| Diluted: | | | |
| Income before change in accounting principle | \$ 1.00 | \$.70 | \$.96 |
| Change in accounting principle | <u>-</u> | <u>1.04</u> | <u>-</u> |
| Total | <u>\$ 1.00</u> | <u>\$ 1.74</u> | <u>\$.96</u> |

These consolidated financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to consolidated financial statements.

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2003, 2002 and 2001

| | Common stock | Surplus | Retained earnings | Accumulated other compre- hensive income (loss) | Treasury stock | Total |
|--|-------------------------|----------------------|------------------------------|--|---------------------------|----------------------|
| BALANCE AT DECEMBER 31, 2000 | \$ 2,300,646 | \$ 1,955,378 | \$ 16,009,977 | \$ (303,261) | \$ (913,871) | \$ 19,048,869 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 3,253,832 | - | - | 3,253,832 |
| Change in net unrealized gain (loss), net of reclassification adjustments and income taxes | - | - | - | 471,738 | - | <u>471,738</u> |
| Total comprehen- sive income | | | | | | <u>3,725,570</u> |
| Acquisition of Delphos Citizens Bancorp, Inc. | 1,367,344 | 12,224,327 | - | - | - | 13,591,671 |
| Treasury stock acquired | - | - | - | - | (328,828) | (328,828) |
| Exercise of stock options | 13,638 | 52,664 | - | - | - | 66,302 |
| Cash dividends declared, \$.44 per share | <u>-</u> | <u>-</u> | <u>(1,431,401)</u> | <u>-</u> | <u>-</u> | <u>(1,431,401)</u> |
| BALANCE AT DECEMBER 31, 2001 | 3,681,628 | 14,232,369 | 17,832,408 | 168,477 | (1,242,699) | 34,672,183 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 6,366,037 | - | - | 6,366,037 |
| Change in net unrealized gain (loss), net of reclassification adjustments and income taxes | - | - | - | 1,327,882 | - | <u>1,327,882</u> |
| Total comprehen- sive income | | | | | | <u>7,693,919</u> |
| Exercise of stock options | 36,649 | 141,528 | - | - | - | 178,177 |
| Cash dividends declared, \$.44 per share | <u>-</u> | <u>-</u> | <u>(1,586,303)</u> | <u>-</u> | <u>-</u> | <u>(1,586,303)</u> |
| BALANCE AT DECEMBER 31, 2002 | 3,718,277 | 14,373,897 | 22,612,142 | 1,496,359 | (1,242,699) | 40,957,976 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 3,691,439 | - | - | 3,691,439 |
| Change in net unrealized gain, net of reclassification adjustments and income taxes | - | - | - | (440,749) | - | <u>(440,749)</u> |
| Total comprehen- sive income | | | | | | <u>3,250,690</u> |
| Exercise of stock options | 22,191 | 85,696 | - | - | - | 107,887 |
| Cash dividends declared, \$.44 per share | <u>-</u> | <u>-</u> | <u>(1,606,140)</u> | <u>-</u> | <u>-</u> | <u>(1,606,140)</u> |
| BALANCE AT DECEMBER 31, 2003 | <u>\$ 3,740,468</u> | <u>\$ 14,459,593</u> | <u>\$ 24,697,441</u> | <u>\$ 1,055,610</u> | <u>\$(1,242,699)</u> | <u>\$ 42,710,413</u> |

These consolidated financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to consolidated financial statements.

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003, 2002 and 2001

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|--------------------|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 3,691,439 | \$ 6,366,037 | \$ 3,253,832 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Cumulative effect of change in accounting principle | - | (3,807,073) | - |
| Depreciation and amortization | 1,851,491 | 1,499,401 | 281,869 |
| Deferred income taxes | 139,053 | (63,061) | 356,983 |
| Provision for loan losses | 450,000 | 722,000 | 449,103 |
| Gain on sale of loans | (2,336,756) | (1,947,726) | (1,406,963) |
| Securities losses (gains) | (244,108) | (107,225) | 55,341 |
| Amortization of deferred credit – purchase accounting | - | - | (346,098) |
| Federal Home Loan Bank stock dividends | (158,000) | (173,800) | (298,600) |
| Net amortization (accretion) of security premiums and discounts | 840,257 | 274,633 | 52,300 |
| Provision for deferred compensation | 59,659 | 2,066 | 130,424 |
| Gain on disposal of premises and equipment | (6,500) | (14,905) | - |
| Proceeds from sale of loans held-for-sale | 96,197,474 | 98,164,180 | 55,664,397 |
| Originations of loans held-for-sale | (95,473,631) | (92,904,169) | (50,363,651) |
| Decrease (increase) in other assets | (45,548) | 1,463,914 | (237,654) |
| Increase (decrease) in other liabilities | (1,888,430) | 1,514,514 | (804,333) |
| Net cash provided by operating activities | <u>3,076,400</u> | <u>10,988,786</u> | <u>6,786,950</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sales of available-for-sale securities | 11,346,383 | 7,772,021 | - |
| Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities | 106,718,173 | 52,377,462 | 16,885,273 |
| Purchases of available-for-sale securities and Federal Home Loan Bank stock | (138,753,232) | (107,453,442) | (47,068,565) |
| Proceeds from sale of loans acquired in Delphos Citizens Bancorp, Inc. acquisition | - | - | 28,550,063 |
| Net decrease (increase) in loans | 7,201,972 | (4,518,306) | 11,706,152 |
| Proceeds from sale of premises and equipment | 6,500 | 387,737 | - |
| Net cash received from branch acquisitions | 5,748,394 | - | - |
| Net cash received from acquisition of Delphos Citizens Bancorp, Inc. | - | - | 2,742,144 |
| Proceeds from payoff of ESOP loan | - | - | 850,835 |
| Investment in business trust | (300,000) | - | - |
| Purchases of premises and equipment | (653,817) | (1,363,721) | (1,428,028) |
| Net cash provided by (used in) investing activities | <u>(8,685,627)</u> | <u>(52,798,249)</u> | <u>12,237,874</u> |

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003, 2002 and 2001

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|----------------------|----------------------|----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net increase (decrease) in deposits | \$ (7,056,287) | \$ 12,827,792 | \$ 20,572,553 |
| Federal Home Loan Bank borrowings: | | | |
| Proceeds | 14,000,000 | 36,000,000 | 6,082,705 |
| Repayments | (15,510,332) | (14,805,209) | (32,253,727) |
| Issuance of junior subordinated deferrable interest debentures | 10,300,000 | - | - |
| Fees paid on issuance of trust preferred securities | (265,000) | - | - |
| Proceeds from issuance of common stock | 107,887 | 178,177 | 66,302 |
| Purchase of treasury stock | - | - | (1,300) |
| Cash dividends paid | <u>(1,606,140)</u> | <u>(1,586,303)</u> | <u>(1,431,401)</u> |
| Net cash provided by (used in) financing activities | <u>(29,872)</u> | <u>32,614,457</u> | <u>(6,964,868)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (5,639,099) | (9,195,006) | 12,059,956 |
| CASH AND CASH EQUIVALENTS | | | |
| At beginning of year | <u>16,734,220</u> | <u>25,929,226</u> | <u>13,869,270</u> |
| At end of year | <u>\$ 11,095,121</u> | <u>\$ 16,734,220</u> | <u>\$ 25,929,226</u> |
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | | |
| Cash paid during the year for: | | | |
| Interest | <u>\$ 10,298,287</u> | <u>\$ 11,846,460</u> | <u>\$ 14,951,806</u> |
| Federal income taxes | <u>\$ 2,115,726</u> | <u>\$ 250,000</u> | <u>\$ 1,071,000</u> |
| Non-cash operating activity: | | | |
| Change in deferred income taxes on net unrealized gain on available-for-sale securities | <u>\$ (227,053)</u> | <u>\$ 684,061</u> | <u>\$ 243,017</u> |
| Non-cash investing activities: | | | |
| Transfer of loans to foreclosed assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 259,380</u> |
| Securities received in exchange for sale of loans | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,990,321</u> |
| Change in net unrealized gain on available-for-sale securities | <u>\$ (667,802)</u> | <u>\$ 2,011,943</u> | <u>\$ 714,755</u> |
| Non-cash investing and financing activities: | | | |
| Common shares issued in connection with acquisition of Delphos Citizens Bancorp, Inc. | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,591,671</u> |
| Treasury shares received as payment for ESOP loan | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 327,528</u> |

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.

UNITED BANCSHARES, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

United Bancshares, Inc. (the “Corporation”) was incorporated in 1985 in the state of Ohio as a single-bank holding company for The Union Bank Company (the Bank). The Corporation subsequently acquired the Bank of Leipsic Company (Leipsic) in 1999, and Citizens Bank of Delphos (Citizens) in 2001 (as more fully described in Note 3), and operated as a three-bank holding company. On March 7, 2003, following receipt of approval from the appropriate regulatory authorities, the charters of Leipsic and Citizens were collapsed and merged into the Bank. The Corporation, through its wholly-owned subsidiary, the Bank, operates in one industry segment, the commercial banking industry.

The Bank, organized in 1904 as an Ohio-chartered bank, is headquartered in Columbus Grove, Ohio, with branch offices in Delphos, Kalida, Leipsic, Lima, and Ottawa, Ohio. On March 28, 2003, the Bank completed the acquisition of branches located in Gibsonburg and Pemberville, Ohio, as more fully described in Note 2.

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

Significant accounting policies followed by the Corporation are presented below.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during each reporting period. The most significant areas involving the use of management’s estimates and assumptions are the allowance for loan losses and the valuation of servicing assets. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, the Bank and United Trust (described in Note 12), as well as the accounts of Leipsic and Citizens prior to the collapsing of their charters in March 2003. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

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

SECURITIES AND FEDERAL HOME LOAN BANK STOCK

Securities are generally classified as available-for-sale and recorded at fair value, with unrealized gains and losses, net of applicable income taxes, excluded from income and reported as accumulated other comprehensive income.

UNITED BANCSHARES, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SECURITIES AND FEDERAL HOME LOAN BANK STOCK (CONTINUED)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of securities below their cost that are deemed to be other than temporary are reflected in income as realized losses. Gains and losses on the sale of securities are recorded on the trade date, using the specific identification method.

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

LOANS HELD FOR SALE

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Any net unrealized losses are recognized through a valuation allowance by charges to income. Such valuation allowance amounted to \$30,954 at December 31, 2003 (none at December 31, 2002).

LOANS

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are stated at their outstanding principal amount, adjusted for charge-offs, and the allowance for loan losses. Interest is accrued as earned based upon the daily outstanding principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they come due. Loans are placed on nonaccrual 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. The 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.

ALLOWANCE FOR LOAN LOSSES

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

UNITED BANCSHARES, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

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

FORECLOSED ASSETS

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and fair value adjustments are included in other operating expenses. Foreclosed assets amounting to \$453,049 and \$314,555 at December 31, 2003 and 2002, respectively, are included in other assets in the accompanying consolidated balance sheets.

SERVICING

Servicing assets are recognized as separate assets when rights are acquired through sale of mortgage loans. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

PREMISES AND EQUIPMENT

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

UNITED BANCSHARES, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTANGIBLE ASSETS

Goodwill arising from the branch acquisitions described in Note 2, is not amortized, but is subject to an annual impairment test to determine if an impairment loss has occurred.

Other intangible assets determined to have a definite life are amortized on a straight-line basis over the estimated useful lives of the individual assets which range from 7 to 10 years.

DEFERRED CREDIT – PURCHASE ACCOUNTING

The deferred credit resulting from the purchase described in Note 3, was being recognized as income on a straight-line basis over a period of 10 years prior to the adoption of a new accounting pronouncement, effective January 1, 2002, as more fully described in Note 1.

FEDERAL INCOME TAXES

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

The Bank is not currently subject to state and local income taxes.

PER SHARE DATA

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, after restatement for stock dividends. Diluted net income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method.

The weighted average number of shares used for the years ended December 31, 2003, 2002 and 2001 were as follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---------|--------------------|--------------------|--------------------|
| Basic | <u>3,644,642</u> | <u>3,601,184</u> | <u>3,376,652</u> |
| Diluted | <u>3,687,768</u> | <u>3,647,663</u> | <u>3,392,060</u> |

Dividends per share are based on the number of shares outstanding at the declaration date, after restatement for any stock dividends.

UNITED BANCSHARES, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STOCK-BASED COMPENSATION

Compensation expense under stock option plans is reported if options are granted below market price at the grant date. Pro forma disclosures of compensation cost of stock-based awards have been determined using the fair value method that considers the time value of the option and the risk-free interest rate over the expected life of the option. Had compensation cost for stock options been measured using Financial Accounting Standards Board's Statement No. 123, net income and net income per share would have been the pro forma amounts indicated below. The pro forma effect may increase in the future if more options are granted.

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|--------------|--------------|--------------|
| Net income as reported | \$ 3,691,439 | \$ 6,366,037 | \$ 3,253,832 |
| Pro forma net income | 3,517,465 | 6,294,197 | 3,234,837 |
| Basic net income per share, as reported | 1.01 | 1.77 | .96 |
| Pro forma basic net income per share | .97 | 1.75 | .96 |
| Diluted net income per share as reported | 1.00 | 1.74 | .96 |
| Pro forma diluted net income per share | .95 | 1.73 | .95 |

The pro forma effects are computed using the following weighted-average assumptions as of grant date.

| | | | |
|---------------------------------|-------|------|------|
| Risk-free interest rate | 2.75% | 3.0% | 3.5% |
| Expected option life (in years) | 3.7 | 4.2 | 4.0 |
| Dividend yield | 2.75% | 3.5% | 3.5% |

Any subsequent tax benefit from the exercise of options is recorded by the Corporation as an addition to capital surplus.

ADVERTISING COSTS

All advertising costs are expensed as incurred.

COMPREHENSIVE INCOME

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

TRANSFERS OF FINANCIAL ASSETS

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

This information is an integral part of the accompanying
consolidated financial statements.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CHANGE IN ACCOUNTING PRINCIPLE

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (Statement 141), which addresses financial accounting and reporting for business combinations. Under the provisions of Statement 141, any unamortized deferred credit resulting from a business combination occurring before July 1, 2001 shall be written-off and reported as the cumulative effect of a change in accounting principle. Consequently, as a result of the adoption of Statement 141 effective January 1, 2002, the Corporation ceased amortizing the deferred credit relating to the Delphos acquisition and recognized as income from a change in accounting principle the unamortized deferred credit, amounting to \$3,807,073 (\$1.06 basic per share and \$1.04 diluted per share). There were no income taxes attributable to such income.

NOTE 2 - BRANCH ACQUISITIONS

In December 2002, the Bank entered into a purchase and assumption agreement to purchase certain assets and assume certain liabilities assigned to the financial services offices of RFC Banking Company (RFCBC) in Pemberville and Gibsonburg, Ohio. The acquisition received approval from regulatory authorities, and was completed on March 28, 2003.

The acquisition was accounted for as a business combination since the Bank acquired substantially all operating assets and liabilities of the branches and retained most of the branch employees. Consequently, assets acquired and liabilities assumed in connection with the acquisition were recorded at their respective fair values, as follows:

Assets acquired:

| | |
|---|------------------|
| Cash and cash equivalents | \$ 5,748,394 |
| Loans | 56,005,563 |
| Premises and equipment | 1,033,386 |
| Goodwill | 7,282,013 |
| Other assets, including accrued interest receivable | <u>2,314,575</u> |

Total assets acquired \$ 72,383,931

Liabilities assumed:

| | |
|-------------------|----------------|
| Deposits | \$ 71,954,732 |
| Other liabilities | <u>429,199</u> |

Total liabilities assumed \$ 72,383,931

Other assets include \$1,777,934 relating to deposit base premium, which is being amortized over a period of seven years.

The operating results of the branches subsequent to the acquisition are included in the Corporation's consolidated financial statements.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - BUSINESS ACQUISITION

Effective March 1, 2001, the Corporation acquired all of the outstanding shares of Delphos Citizens Bancorp, Inc. (Delphos). Delphos' wholly-owned subsidiary, Citizens Bank of Delphos, is an Ohio banking corporation with offices in Delphos, Ohio. Delphos was subsequently liquidated.

Under the terms of the Merger Agreement, shareholders of Delphos received .8749 shares of the Corporation, cash in lieu of fractional shares, and \$5.41 in cash for each share of Delphos stock held. Cash paid, including acquisition costs, totalled \$8,893,248. The total purchase price approximated \$22,313,000, including the issuance of 1,367,344 shares of the Corporation's common stock. The transaction was accounted for as a purchase and, accordingly, the results of operations of Delphos have been included in the 2001 consolidated results of the Corporation from the date of acquisition.

The fair value of the assets and liabilities acquired approximated \$143,282,000 and \$116,816,000, respectively. The major asset acquired was loans of \$127,156,000 and the major liabilities assumed were deposits of \$85,257,000 and Federal Home Loan Bank borrowings of \$30,500,000. The purchase price, including direct acquisition costs of \$311,937, was \$4,153,171 less than the fair value of assets acquired (after write-down of premises and equipment to zero), resulting in a deferred credit (liability) of \$3,807,073.

Delphos recognized an asset of \$1,178,363 at March 1, 2001, representing the unpaid balance of a loan (and related accrued interest) made to its Employee Stock Ownership Plan (ESOP) in 1996 so that the ESOP could purchase shares of Delphos stock. The loan and accrued interest was repaid by the ESOP subsequent to the acquisition through receipt of 34,659 shares of the Corporation's stock (with a fair value of \$327,528) and a cash payment of \$850,835. The ESOP was subsequently liquidated.

The following unaudited pro forma financial information for the year ended December 31, 2001 combines the historical 2001 consolidated statements of operations of the Corporation and Delphos as if the acquisition had become effective at January 1, 2001. The unaudited pro forma amounts are not necessarily indicative of what would have occurred or will occur in the future (amounts in thousands, except for share amounts):

| | |
|-----------------------|------------------|
| Net interest income | <u>\$ 11,953</u> |
| Net income | <u>\$ 3,461</u> |
| Net income per share: | |
| Basic | <u>\$.96</u> |
| Diluted | <u>\$.96</u> |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2003 and 2002 are as follows:

| | <u>2003</u> | | <u>2002</u> | |
|--|---------------------------|-----------------------|---------------------------|-----------------------|
| | <u>Amortized cost</u> | <u>Fair value</u> | <u>Amortized cost</u> | <u>Fair value</u> |
| Available-for-sale: | | | | |
| U.S. Treasury and agencies | \$ 21,952,263 | \$ 21,769,585 | \$ 12,953,586 | \$ 13,191,443 |
| Obligations of states and political subdivisions | 64,933,697 | 66,245,969 | 26,744,134 | 27,717,843 |
| Mortgage-backed | 81,966,151 | 82,435,966 | 108,961,864 | 110,097,509 |
| Other | <u>53,009</u> | <u>53,009</u> | <u>153,009</u> | <u>73,009</u> |
| Total | <u>\$ 168,905,120</u> | <u>\$ 170,504,529</u> | <u>\$ 148,812,593</u> | <u>\$ 151,079,804</u> |

A summary of unrealized gains and losses on investment securities at December 31, 2003 and 2002 follows:

| | <u>2003</u> | | <u>2002</u> | |
|--|---------------------------------------|--|---------------------------------------|--|
| | <u>Gross unrealized gains</u> | <u>Gross unrealized losses</u> | <u>Gross unrealized gains</u> | <u>Gross unrealized losses</u> |
| Available-for-sale: | | | | |
| U.S. Treasury and agencies | \$ 35,391 | \$ 218,069 | \$ 243,506 | \$ 5,649 |
| Obligations of states and political subdivisions | 1,532,906 | 220,634 | 1,022,916 | 49,207 |
| Mortgage-backed | 871,788 | 401,973 | 1,450,560 | 314,915 |
| Other | <u>-</u> | <u>-</u> | <u>-</u> | <u>80,000</u> |
| Total | <u>\$ 2,440,085</u> | <u>\$ 840,676</u> | <u>\$ 2,716,982</u> | <u>\$ 449,771</u> |

The amortized cost and fair value of securities at December 31, 2003, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | <u>Amortized cost</u> | <u>Fair value</u> |
|--|---------------------------|-----------------------|
| Due in one year or less | \$ 19,684,644 | \$ 19,712,878 |
| Due after one year through five years | 86,651,609 | 87,207,510 |
| Due after five years through ten years | 41,256,279 | 41,790,139 |
| Due after ten years | 21,259,579 | 21,740,993 |
| Other securities having no maturity date | <u>53,009</u> | <u>53,009</u> |
| Total | <u>\$ 168,905,120</u> | <u>\$ 170,504,529</u> |

Securities with a carrying value of approximately \$52,917,000 at December 31, 2003 and \$46,981,000 at December 31, 2002 were pledged to secure public deposits and for other purposes as required or permitted by law.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - SECURITIES (CONTINUED)

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2003:

| | <u>Securities in a continuous unrealized loss position</u> | | | | | |
|---|--|-----------------------|------------------------------|-----------------------|------------------------------|-----------------------|
| | <u>Less than 12 months</u> | | <u>12 months or more</u> | | <u>Total</u> | |
| | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Unrealized losses</u> | <u>Fair value</u> |
| U.S. Treasury and agencies | \$ 218,069 | \$ 17,734,194 | \$ - | \$ - | \$ 218,069 | \$ 17,734,194 |
| Obligations of states and political subdivisions | 220,634 | 14,781,237 | - | - | 220,634 | 14,781,237 |
| Mortgage-backed | <u>383,232</u> | <u>30,999,443</u> | <u>18,741</u> | <u>490,632</u> | <u>401,973</u> | <u>31,490,075</u> |
| Total temporarily impaired securities | <u>\$ 821,935</u> | <u>\$ 63,514,874</u> | <u>\$ 18,741</u> | <u>\$ 490,632</u> | <u>\$ 840,676</u> | <u>\$ 64,005,506</u> |

There were 75 securities in an unrealized loss position at December 31, 2003, two of which were in a continuous unrealized loss position for twelve months or more. Management has considered industry analyst reports, sector credit reports and volatility in the bond market in concluding that the unrealized losses as of December 31, 2003 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2003 are considered temporary.

Gross realized gains from sale of securities, including securities calls, amounted to \$297,829 in 2003, \$107,225 in 2002, and \$23,085 in 2001, with the income tax provision applicable to such gains amounting to \$101,262 in 2003, \$36,457 in 2002, and \$7,849 in 2001. Gross realized losses from sale of securities amounted to \$53,721 in 2003 and \$78,426 in 2001 (none in 2002) with related income tax effect of \$18,265 in 2003 and \$26,665 in 2001.

NOTE 5 - LOANS

Loans at December 31, 2003 and 2002 consist of the following:

| | <u>2003</u> | <u>2002</u> |
|-------------------------|-----------------------|-----------------------|
| Residential real estate | \$ 84,657,344 | \$ 96,340,462 |
| Commercial | 121,905,682 | 98,995,999 |
| Agriculture | 45,517,537 | 33,152,255 |
| Consumer | 36,170,145 | 11,796,462 |
| Credit cards | <u>1,209,704</u> | <u>1,186,320</u> |
| Total loans | <u>\$ 289,460,412</u> | <u>\$ 241,471,498</u> |

Fixed rate loans approximated \$94,797,000 at December 31, 2003 and \$69,352,000 at December 31, 2002, including loans classified as held-for-sale.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LOANS (CONTINUED)

Impaired loans amounted to \$1,862,856 at December 31, 2003 and \$1,170,435 at December 31, 2002. The average balance of impaired loans approximated \$1,939,000 in 2003, \$1,321,000 in 2002, and \$347,000 in 2001. Allowance for loan losses allocated to impaired loans approximated \$279,000 at December 31, 2003 and \$206,000 at December 31, 2002. The amount of interest accrued and received on a cash basis relating to impaired loans approximated \$108,000 in 2003, and was not significant in 2002 and 2001.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Bank. Such loans are made in the ordinary course of business in accordance with the normal lending policies of the Bank, including the interest rate charged and collateralization, and do not represent more than a normal collection risk. Such loans amounted to \$3,559,031 and \$1,647,349 at December 31, 2003 and 2002, respectively. The following is a summary of activity during 2003 and 2002 for such loans:

| | <u>2003</u> | <u>2002</u> |
|-------------------|---------------------|---------------------|
| Beginning of year | \$ 1,647,349 | \$ 1,709,947 |
| Additions | 9,737,224 | 1,485,010 |
| Repayments | <u>(7,825,542)</u> | <u>(1,547,608)</u> |
| End of year | <u>\$ 3,559,031</u> | <u>\$ 1,647,349</u> |

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

Most of the Banks' lending activities are with customers primarily located in Northwestern and West Central Ohio. As of December 31, 2003 and 2002, the Bank's loans from borrowers in the agriculture industry represent the single largest industry and amounted to \$45,517,537 and \$33,152,255, respectively. Agricultural loans are generally secured by property, equipment, and crop income. Repayment is expected from cash flow from the harvest and sale of crops. The agricultural customers are subject to the risks of weather and market prices of crops which could have an impact on their ability to repay their loans. Credit losses arising from the Bank's lending experience in the agriculture industry compare favorably with the Bank's loss experience on their loan portfolio as a whole. Credit evaluation of agricultural lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

Loans on non-accrual of interest amounted to \$1,625,035 and \$1,287,830 at December 31, 2003 and 2002, respectively. Loans past due more than 90 days and still accruing interest amounted to \$1,206,630 and \$409,910 at December 31, 2003 and 2002, respectively.

NOTE 6 - ALLOWANCE FOR LOAN LOSSES

The following represents a summary of the activity in the allowance for loan losses for the years ended December 31, 2003, 2002 and 2001:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---------------------------------|---------------------|---------------------|---------------------|
| Balance at beginning of year | \$ 2,784,509 | \$ 2,592,081 | \$ 1,935,648 |
| Acquisition of Delphos (Note 3) | - | - | 721,076 |
| Provision charged to operations | 450,000 | 722,000 | 449,103 |
| Loans charged-off | (655,168) | (655,229) | (575,293) |
| Recoveries of loans charged-off | <u>188,180</u> | <u>125,657</u> | <u>61,547</u> |
| Balance at end of year | <u>\$ 2,767,521</u> | <u>\$ 2,784,509</u> | <u>\$ 2,592,081</u> |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2003 and 2002:

| | <u>2003</u> | <u>2002</u> |
|-------------------------------|---------------------|---------------------|
| Land and improvements | \$ 1,496,329 | \$ 1,328,676 |
| Buildings | 5,908,911 | 4,947,872 |
| Equipment | <u>4,124,566</u> | <u>3,595,463</u> |
| | 11,529,806 | 9,872,011 |
| Less accumulated depreciation | <u>4,307,631</u> | <u>3,557,978</u> |
| Premises and equipment, net | <u>\$ 7,222,175</u> | <u>\$ 6,314,033</u> |

Depreciation expense amounted to \$779,061 in 2003, \$568,037 in 2002 and \$434,950 in 2001.

NOTE 8 - INTANGIBLE ASSETS

Intangible assets other than goodwill consist of deposit base premiums resulting from the branch acquisitions described in Note 2, as well as a branch acquisition completed by Leipsic in 1996. The net book value of other intangible assets consist of \$2,551,549 cost and \$796,785 accumulated amortization at December 31, 2003 and of \$773,615 cost and \$528,900 accumulated amortization at December 31, 2002.

Amortization of other intangible assets amounted to \$267,885 in 2003 and \$77,400 in 2002 and 2001. Expected amortization expense for the five years subsequent to 2003 is as follows: 2004, \$331,390; 2005, \$331,390; 2006, \$266,513; 2007, \$253,990; and 2008, \$253,990.

NOTE 9 - SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated \$208,131,000 and \$188,876,000 at December 31, 2003 and 2002, respectively.

The balance of capitalized servicing rights, net of a valuation allowance, included in other assets amounted to \$1,416,919 and \$1,152,811 at December 31, 2003 and 2002, respectively. The estimated fair value of these rights approximated \$1,597,000 and \$1,262,000 at December 31, 2003 and 2002, respectively.

The following table summarizes mortgage servicing rights capitalized and related amortization, along with activity in the related valuation allowance:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-------------------|-------------------|-------------|
| Mortgage servicing rights capitalized | \$ 936,488 | \$ 967,478 | \$ 811,262 |
| Mortgage servicing rights amortization | 672,380 | 663,297 | 100,918 |
| Valuation allowance: | | | |
| Beginning of year | \$ 314,949 | \$ - | \$ - |
| Additions | <u>337,116</u> | <u>314,949</u> | <u>-</u> |
| End of year | <u>\$ 652,065</u> | <u>\$ 314,949</u> | <u>\$ -</u> |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - DEPOSITS

Time deposits at December 31, 2003 and 2002 include individual deposits of \$100,000 or more approximating \$31,495,000 and \$29,177,000, respectively. Interest expense on time deposits of \$100,000 or more approximated \$678,000 for 2003, \$992,000 for 2002 and \$1,302,000 for 2001. At December 31, 2003, time deposits approximated \$231,918,000 and were scheduled to mature as follows: 2004, \$156,067,000; 2005, \$26,435,000; 2006, \$25,767,000; 2007, \$14,134,000; 2008, \$9,042,000; and thereafter, \$473,000.

NOTE 11 - FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank borrowings consist of the following at December 31, 2003 and 2002:

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| Secured note, with interest at 4.93%, due March 26, 2003 | \$ - | \$ 1,000,000 |
| Secured note, with interest at 3.32%, due March 28, 2003 | - | 2,000,000 |
| Secured note, with interest at 1.25%, due January 5, 2004 | 9,000,000 | - |
| Secured note, with interest at 4.38%, due March 26, 2004 | 4,000,000 | 4,000,000 |
| Secured note, with interest at floating rate equal to LIBOR plus .10% (1.88% at December 31, 2002), adjustable quarterly, due April 29, 2004 but repaid in 2003 | - | 10,000,000 |
| Secured note, with interest at 4.13%, due October 29, 2004 | 3,000,000 | 3,000,000 |
| Secured note, with interest at 5.02%, due March 28, 2005 | 4,000,000 | 4,000,000 |
| Secured \$5,000,000 term note, with monthly principal and interest payments of \$93,990, including interest at 4.84%, due May 1, 2007 | 3,465,565 | 4,401,009 |
| Secured note, with interest at 4.02%, due August 30, 2007 | 8,000,000 | 8,000,000 |
| Secured note, with interest at 4.61% through June 2003, thereafter convertible to variable rate at the option of the holder, due December 4, 2008 | 5,000,000 | 5,000,000 |
| Secured note, with interest at 6.55% through June 2003, thereafter convertible to variable rate at the option of the holder, due June 16, 2010 | 6,500,000 | 6,500,000 |
| Secured note, with interest at 6.46% through June 2003, thereafter convertible to variable rate at the option of the holder, due July 28, 2010 | 5,000,000 | 5,000,000 |
| Secured note, with interest at 1.33% through March 4, 2004, thereafter convertible to variable rate at the option of the holder, due March 4, 2013 | 5,000,000 | - |
| Advances secured by individual residential mortgages under blanket agreement | <u>1,480,578</u> | <u>3,055,466</u> |
| Total | <u>\$ 54,446,143</u> | <u>\$ 55,956,475</u> |

Outstanding borrowings are secured by Federal Home Loan Bank stock, other securities and all eligible mortgage loans. Interest on advances outstanding at December 31, 2003 secured by individual mortgages under blanket agreement ranged from 5.5% to 8.8%, with maturities ranging from January 2004 through July 2019.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - FEDERAL HOME LOAN BANK BORROWINGS (CONTINUED)

Future estimated principal payments on Federal Home Loan Bank borrowings are as follows at December 31, 2003: 2004, \$17,195,922; 2005, \$5,250,003; 2006, \$1,275,475; 2007, \$8,655,755; 2008, \$5,141,496; and thereafter, \$16,927,492

NOTE 12 – JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

During the first quarter of 2003, the Corporation formed a business trust, United (OH) Statutory Trust (United Trust) and invested \$300,000. Effective March 26, 2003, United Trust issued \$10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation's capital investment, to purchase \$10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures mature on March 26, 2033, which date may be shorted to March 26, 2008, if certain conditions are met, as well as quarterly thereafter. The interest rate of the debentures is fixed at 6.40% for a five-year period through March 2008. Thereafter, interest is at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR. Interest is payable quarterly. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures amounted to \$480,000 in 2003 and is included in interest expense-borrowings in the accompanying 2003 consolidated statement of income.

Each issue of the trust preferred securities carries an interest rate identical to that of the related debenture. The securities have been structured to qualify as Tier I capital for regulatory purposes and the dividends paid on such are tax deductible. However, the securities cannot be used to constitute more than 25% of the Corporation's core tax Tier I capital under Federal Reserve Board guidelines inclusive of these securities. The Corporation utilized the proceeds of these issuances to inject capital into the Bank to facilitate the branch acquisitions described in Note 2.

NOTE 13 - NON-INTEREST INCOME AND EXPENSES

Non-interest income consisted of the following for the years ended December 31, 2003, 2002 and 2001:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|---------------------|
| Service charges on deposit accounts | \$ 863,614 | \$ 712,180 | \$ 678,471 |
| Gain on sale of loans | 2,336,756 | 1,947,726 | 1,406,963 |
| Securities gains (losses) | 244,108 | 107,225 | (55,341) |
| Amortization of deferred credit – purchase accounting (Note 3) | - | - | 346,098 |
| Other operating income | <u>638,652</u> | <u>331,450</u> | <u>450,517</u> |
| Total non-interest income | <u>\$ 4,083,130</u> | <u>\$ 3,098,581</u> | <u>\$ 2,826,708</u> |

During 2003, the Bank received \$201,656 as a result of the demutualization of the General American Life Insurance Company. Such amount is included in other operating income.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - NON-INTEREST INCOME AND EXPENSES (CONTINUED)

Other operating expenses consisted of the following for the years ended December 31, 2003, 2002 and 2001:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--------------------------------|---------------------|---------------------|---------------------|
| Data processing | \$ 1,081,564 | \$ 921,364 | \$ 820,742 |
| Professional fees | 375,968 | 365,205 | 606,866 |
| Stationery and supplies | 271,846 | 271,622 | 244,614 |
| Advertising | 374,430 | 257,477 | 193,504 |
| Franchise tax | 442,962 | 433,000 | 407,013 |
| Other | <u>2,589,768</u> | <u>1,956,268</u> | <u>1,743,312</u> |
| Total other operating expenses | <u>\$ 5,136,538</u> | <u>\$ 4,204,936</u> | <u>\$ 4,016,051</u> |

NOTE 14 - OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the years ended December 31, 2003, 2002 and 2001:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|---------------------|---------------------|-------------------|
| Unrealized holding gains (losses) on available-for-sale securities | \$ (423,694) | \$ 2,119,168 | \$ 659,414 |
| Reclassification adjustments for securities losses (gains) realized to income | <u>(244,108)</u> | <u>(107,225)</u> | <u>55,341</u> |
| Net unrealized gains (losses) | (667,802) | 2,011,943 | 714,755 |
| Tax effect | <u>(227,053)</u> | <u>684,061</u> | <u>243,017</u> |
| Net-of-tax amount | <u>\$ (440,749)</u> | <u>\$ 1,327,882</u> | <u>\$ 471,738</u> |

NOTE 15 - INCOME TAXES

The income tax provision attributable to income from operations differed from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income taxes and change in accounting principle as a result of the following:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|---------------------|
| Expected tax using statutory tax rate of 34% | \$ 1,622,300 | \$ 1,455,200 | \$ 1,456,800 |
| Increase (decrease) in tax resulting from: | | | |
| Recapture of tax bad debt reserve | - | 631,000 | - |
| Tax-exempt income on state and municipal securities and political subdivision loans | (612,600) | (413,500) | (362,900) |
| Interest expense associated with carrying certain state and municipal securities and political subdivision loans | 62,600 | 48,800 | 62,000 |
| Amortization of deferred credit – purchase accounting | - | - | (117,700) |
| Other, net | <u>7,700</u> | <u>(500)</u> | <u>(7,200)</u> |
| Total provision for income taxes | <u>\$ 1,080,000</u> | <u>\$ 1,721,000</u> | <u>\$ 1,031,000</u> |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - INCOME TAXES (CONTINUED)

Prior to 1988, qualified savings and loan associations and other thrift lenders were allowed deductions to increase their bad debt reserve for tax purposes and were not required to provide deferred tax liabilities on such amounts.

In August 1996, legislation was enacted that repeals the percentage of taxable income method of accounting used by many thrifts to calculate their bad debt expense for federal income tax purposes. As a result, thrifts such as Citizens were required to recapture that portion of the reserve that exceeds the amount that could have been taken under the experience method for tax years beginning after December 31, 1987. The legislation also requires thrifts to account for bad debts for federal income tax purposes on the same basis as commercial banks for tax years beginning after December 31, 1995. Under this change, a tax liability relating to the tax effects of the 1987 base year tax bad debt reserve is not recognized unless it becomes apparent that it will be reduced and result in taxable income.

Retained earnings of Citizens at the time of the acquisition described in Note 3, included approximately \$1,860,000 for which no provision for federal income taxes was required under generally accepted accounting principles. Such amount represented the qualifying and non-qualifying tax bad debt reserve as of the 1987 base year. Based on dividends paid by Citizens as well as other events that transpired during 2002, the 1987 base year tax reserve was recognized as taxable income in 2002.

The deferred income tax provision (credit) of \$139,053 for 2003, (\$63,061) for 2002, and \$356,983 for 2001 resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are presented below:

| | <u>2003</u> | <u>2002</u> |
|--|--------------------|--------------------|
| Deferred tax liabilities: | | |
| Unrealized gain on securities available-for-sale | \$ 543,799 | \$ 770,852 |
| Federal Home Loan Bank stock dividends | 592,200 | 538,500 |
| Capitalized mortgage servicing rights | 481,800 | 392,000 |
| Depreciation of premises and equipment | 24,300 | 70,600 |
| Cash surrender value of life insurance | 79,300 | 61,600 |
| Securities accretion | <u>37,700</u> | <u>67,400</u> |
| Total deferred tax liabilities | <u>1,759,099</u> | <u>1,900,952</u> |
| Deferred tax assets: | | |
| Allowance for loan losses | 808,600 | 712,400 |
| Deferred compensation | 293,600 | 273,300 |
| Accrued expenses and other | <u>47,899</u> | <u>218,252</u> |
| Total deferred tax assets | <u>1,150,099</u> | <u>1,203,952</u> |
| Net deferred tax liabilities | <u>\$ 609,000</u> | <u>\$ 697,000</u> |

Net deferred tax liabilities are included in other liabilities in the consolidated balance sheets.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - INCOME TAXES (CONTINUED)

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2003 and 2002.

NOTE 16 - EMPLOYEE AND DIRECTOR BENEFITS

Prior to February 1, 2002, the Corporation sponsored an employee stock ownership plan with 401(k) provisions (referred to as a KSOP plan). Under the terms of the plan, employees meeting certain eligibility requirements could elect to participate and make voluntary salary deferral contributions, subject to Internal Revenue Service Code limitations. The Corporation and its subsidiaries made discretionary matching and profit sharing contributions to the KSOP.

Effective February 1, 2002, the name of the KSOP was changed to United Bancshares, Inc. ESOP (ESOP) and the Corporation adopted the United Bancshares, Inc. 401(k) Plan (401(k) Plan), a newly-created voluntary salary deferral plan. Under the 401(k) Plan, participants who meet certain eligibility conditions are eligible to participate and defer a specified percentage of their eligible compensation subject to certain income tax law limitations. The Corporation and Bank make discretionary matching and profit sharing contributions, as approved annually by the Board of Directors, to the ESOP, subject to certain income tax law limitations. All contributions to the ESOP have been in the form of stock of the Corporation or cash through December 31, 2003.

Total contributions under these plans amounted to \$434,084, \$370,100 and \$259,393 in 2003, 2002 and 2001, respectively. At December 31, 2003, the ESOP Plan owned 236,314 shares of the Corporation's common stock.

The Bank has a nonqualified deferred compensation plan, covering certain directors and employees, which has been indirectly funded through the purchase of bank-owned life insurance policies. The cash value of these policies aggregated \$1,693,787 and \$1,657,787 at December 31, 2003 and 2002, respectively. Such amounts are included in other assets in the accompanying consolidated balance sheets. In connection with the policies, the Bank has provided an estimated liability for accumulated supplemental retirement benefits amounting to \$495,529 at December 31, 2003 and \$430,404 at December 31, 2002 which is included in other liabilities in the accompanying consolidated balance sheets.

The Bank has an agreement with Leipsic's former President, who is the Corporation's current Chairman of the Board of Directors, to provide for retirement compensation benefits. Such benefits are to be paid over a period of twenty years commencing upon retirement effective December 31, 2001. Provision for deferred compensation amounted to \$63,072 in 2001. At December 31, 2003 and 2002, the net present value (based on the 12% discount rate in effect at the time of origination of the agreement) of future deferred compensation payments amounted to \$368,097 and \$373,563, respectively. Such amounts are included in other liabilities in the December 31, 2003 and 2002 consolidated balance sheets. A split dollar life insurance policy has been purchased to eventually fund a portion of the future deferred compensation payments and the cash value of the policy, amounting to \$439,362 and \$423,402 at December 31, 2003 and 2002, respectively, is included in other assets in the accompanying consolidated balance sheets.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - STOCK OPTIONS

The Corporation maintains both qualified and nonqualified stock option plans, under which directors and certain Union officers are entitled to purchase common shares. The plans generally provide that the exercise price of any stock option may not be less than the fair market value of the common stock on the date of the grant.

The following summarizes the stock options activity for the years ended December 31, 2003, 2002 and 2001:

| | <u>2003</u> | | <u>2002</u> | | <u>2001</u> | |
|--|----------------|--|----------------|--|----------------|--|
| | <u>Shares</u> | <u>Weighted average exercise price</u> | <u>Shares</u> | <u>Weighted average exercise price</u> | <u>Shares</u> | <u>Weighted average exercise price</u> |
| Outstanding at beginning of year | 136,608 | \$ 8.91 | 189,543 | \$ 8.29 | 108,802 | \$ 5.75 |
| Assumed in connection with Delphos acquisition | - | - | - | - | 162,932 | 10.59 |
| Exercised | (22,191) | 4.86 | (36,649) | 4.86 | (13,638) | 4.86 |
| Forfeited | - | - | (16,286) | 10.80 | (68,553) | 10.40 |
| | <u>114,417</u> | <u>\$ 9.70</u> | <u>136,608</u> | <u>\$ 8.91</u> | <u>189,543</u> | <u>\$ 8.29</u> |
| Outstanding at end of year | <u>114,417</u> | <u>\$ 9.70</u> | <u>136,608</u> | <u>\$ 8.91</u> | <u>189,543</u> | <u>\$ 8.29</u> |
| Options exercisable at year end | <u>114,417</u> | <u>\$ 9.70</u> | <u>136,608</u> | <u>\$ 8.91</u> | <u>189,543</u> | <u>\$ 8.29</u> |

Options outstanding at December 31, 2003 were as follows:

| Range of exercise prices | <u>Number</u> | <u>Outstanding and exercisable Remaining contractual life (years)</u> |
|-----------------------------------|----------------|---|
| \$ 4.86 | 20,089 | 1 |
| 9.66 | 5,146 | 7 |
| 10.40 | 82,322 | 4 |
| 15.42 | <u>6,860</u> | <u>5</u> |
| Outstanding at year end | <u>114,417</u> | |
| Weighted average contractual life | | <u>3.7</u> |

NOTE 18 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

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

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2003 and 2002:

| | Contract amount | |
|------------------------------|------------------------|----------------------|
| | 2003 | 2002 |
| Commitments to extend credit | <u>\$ 53,176,000</u> | <u>\$ 34,362,000</u> |
| Letters of credit | <u>\$ 2,236,000</u> | <u>\$ 1,062,000</u> |

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

Letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. At December 31, 2003, letters of credit totalling \$1,906,000 expire in 2004; \$230,000 expire in 2005; and \$100,000 expire in 2008. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank requires collateral supporting these commitments when deemed necessary.

NOTE 19 - REGULATORY MATTERS

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - REGULATORY MATTERS (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2003 and 2002, that the Corporation and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2003, the most recent notification from federal and state banking agencies categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized”, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2003 and the Corporation, Bank, Leipsic and Citizens as of December 31, 2002 are presented in the following table:

| | <u>Actual</u> | | <u>Minimum capital requirement</u> | | <u>Minimum to be well capitalized under prompt corrective action provisions</u> | |
|--|------------------------|--------------|------------------------------------|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| | (Dollars in Thousands) | | | | | |
| As of December 31, 2003: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | \$ 45,888 | 14.7% | \$ 24,906 | ≥ 8.0% | N/A | N/A |
| Bank | 41,759 | 13.5% | 24,826 | ≥ 8.0% | \$ 31,033 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | \$ 43,120 | 13.9% | \$ 12,453 | ≥ 4.0% | N/A | N/A |
| Bank | 38,991 | 12.6% | 12,413 | ≥ 4.0% | \$ 18,620 | 6.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | \$ 43,120 | 8.8% | \$ 19,610 | ≥ 4.0% | N/A | N/A |
| Bank | 38,991 | 8.0% | 19,610 | ≥ 4.0% | \$ 24,513 | 5.0% |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - REGULATORY MATTERS (CONTINUED)

| | <u>Actual</u> | | <u>Minimum capital requirement</u> | | <u>Minimum to be well capitalized under prompt corrective action provisions</u> | |
|--|---------------|--------------|------------------------------------|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| (Dollars in Thousands) | | | | | | |
| As of December 31, 2002: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | \$ 41,978 | 15.8% | \$ 21,218 | ≥ 8.0% | N/A | N/A |
| The Union Bank | 17,318 | 10.7% | 12,904 | ≥ 8.0% | \$ 16,130 | 10.0% |
| The Bank of Leipsic | 6,078 | 13.9% | 3,502 | ≥ 8.0% | 4,377 | 10.0% |
| Citizens Bank of Delphos | 11,646 | 20.9% | 4,456 | ≥ 8.0% | 5,570 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | \$ 39,193 | 14.8% | \$ 10,609 | ≥ 4.0% | N/A | N/A |
| The Union Bank | 15,648 | 9.7% | 6,452 | ≥ 4.0% | \$ 9,678 | 6.0% |
| The Bank of Leipsic | 5,529 | 12.6% | 1,751 | ≥ 4.0% | 2,626 | 6.0% |
| Citizens Bank of Delphos | 11,080 | 19.9% | 2,228 | ≥ 4.0% | 3,342 | 6.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | \$ 39,193 | 9.1% | \$ 17,199 | ≥ 4.0% | N/A | N/A |
| The Union Bank | 15,648 | 7.2% | 8,744 | ≥ 4.0% | \$ 10,931 | 5.0% |
| The Bank of Leipsic | 5,529 | 8.2% | 2,702 | ≥ 4.0% | 3,377 | 5.0% |
| Citizens Bank of Delphos | 11,080 | 8.0% | 5,574 | ≥ 4.0% | 6,968 | 5.0% |

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

The Board of Governors of the Federal Reserve System generally considers it to be an unsafe and unsound banking practice for a bank holding company to pay dividends except out of current operating income, although other factors such as overall capital adequacy and projected income may also be relevant in determining whether dividends should be paid.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the parent company as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 are as follows:

| CONDENSED BALANCE SHEETS | <u>2003</u> | <u>2002</u> |
|---|-----------------------------|-----------------------------|
| Assets: | | |
| Cash | \$ 735,759 | \$ 5,936,884 |
| Investment in bank subsidiaries | 48,897,919 | 34,102,252 |
| Premises and equipment, net of accumulated depreciation | 594,771 | 523,747 |
| Other assets, including income taxes receivable from bank subsidiary of \$2,822,621 in 2003 and \$470,400 in 2002 | <u>3,077,531</u> | <u>618,633</u> |
| Total assets | <u>\$ 53,305,980</u> | <u>\$ 41,181,516</u> |
| Liabilities: | | |
| Accrued expenses | \$ 295,567 | \$ 223,540 |
| Junior subordinated deferrable interest debentures | <u>10,300,000</u> | <u>-</u> |
| Total liabilities | <u>10,595,567</u> | <u>223,540</u> |
| Shareholders' equity: | | |
| Common stock | 3,740,468 | 3,718,277 |
| Surplus | 14,459,593 | 14,373,897 |
| Retained earnings | 24,697,441 | 22,612,142 |
| Accumulated other comprehensive income | 1,055,610 | 1,496,359 |
| Treasury stock, at cost | <u>(1,242,699)</u> | <u>(1,242,699)</u> |
| Total shareholders' equity | <u>42,710,413</u> | <u>40,957,976</u> |
| Total liabilities and shareholders' equity | <u>\$ 53,305,980</u> | <u>\$ 41,181,516</u> |

| CONDENSED STATEMENTS OF INCOME | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|----------------------------|----------------------------|----------------------------|
| Income – dividends from bank subsidiaries | \$ 500,000 | \$ 7,800,000 | \$ 1,685,000 |
| Expenses – interest expense, professional fees and other expenses, net of federal income tax benefit | <u>(496,587)</u> | <u>(224,267)</u> | <u>(191,506)</u> |
| Income before equity in undistributed net income of bank subsidiaries | 3,413 | 7,575,733 | 1,493,494 |
| Equity in undistributed net income of bank subsidiaries | <u>3,688,026</u> | <u>(1,209,696)</u> | <u>1,760,338</u> |
| Net income | <u>\$ 3,691,439</u> | <u>\$ 6,366,037</u> | <u>\$ 3,253,832</u> |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

| CONDENSED STATEMENTS OF CASH FLOWS | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|---------------------|---------------------|--------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 3,691,439 | \$ 6,366,037 | \$ 3,253,832 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Equity in undistributed net income of bank subsidiaries | (3,688,026) | 1,209,696 | (1,760,338) |
| Depreciation and amortization | 70,746 | 8,268 | - |
| Gain on sale of security | (4,400) | - | - |
| Increase in other assets | (1,982,038) | (286,541) | (55,758) |
| Increase in accrued expenses | <u>72,027</u> | <u>172,586</u> | <u>13,554</u> |
| Net cash provided by (used in) operating activities | <u>(1,840,252)</u> | <u>7,470,046</u> | <u>1,451,290</u> |
| Cash flows from investing activities: | | | |
| Proceeds from sale of available-for-sale security | 104,400 | - | - |
| Capital contribution to bank subsidiary | (11,600,000) | - | - |
| Net cash received from acquisition of Delphos Citizens Bancorp | - | - | 253,618 |
| Purchases of premises and equipment, including \$436,674 from the Bank in 2002 | (102,020) | (532,015) | - |
| Investment in business trust | (300,000) | - | - |
| Purchase of available-for-sale security | <u>-</u> | <u>(51,121)</u> | <u>-</u> |
| Net cash provided by (used in) investing activities | <u>(11,897,620)</u> | <u>(583,136)</u> | <u>253,618</u> |
| Cash flows from financing activities: | | | |
| Issuance of junior subordinated deferrable interest debentures | 10,300,000 | - | - |
| Fees paid on issuance of trust preferred securities | (265,000) | - | - |
| Proceeds from issuance of common stock | 107,887 | 178,177 | 66,302 |
| Purchase of treasury shares | - | - | (1,300) |
| Cash dividends paid | <u>(1,606,140)</u> | <u>(1,586,303)</u> | <u>(1,431,401)</u> |
| Net cash provided by (used in) financing activities | <u>8,536,747</u> | <u>(1,408,126)</u> | <u>(1,366,399)</u> |
| Net increase (decrease) in cash | (5,201,125) | 5,478,784 | 338,509 |
| Cash at beginning of the year | <u>5,936,884</u> | <u>458,100</u> | <u>119,591</u> |
| Cash at end of the year | <u>\$ 735,759</u> | <u>\$ 5,936,884</u> | <u>\$ 458,100</u> |

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments", requires that the estimated fair value of financial instruments, as defined by the Statement, be disclosed. Statement 107 also requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments.

The estimated fair values of recognized financial instruments at December 31, 2003 and 2002 are as follows:

| | <u>2003</u> | | <u>2002</u> | |
|---|----------------------------|--|----------------------------|----------------------------|
| | <u>Carrying amount</u> | <u>Estimated value</u> (dollars in thousands) | <u>Carrying amount</u> | <u>Estimated value</u> |
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | \$ 11,095 | \$ 11,095 | \$ 16,734 | \$ 16,734 |
| Securities, including Federal Home Loan Bank stock | 174,559 | 174,559 | 154,977 | 154,977 |
| Net loans, including loans held for sale | <u>289,453</u> | <u>297,556</u> | <u>240,771</u> | <u>247,843</u> |
| Total | <u>\$ 475,107</u> | <u>\$ 483,210</u> | <u>\$ 412,482</u> | <u>\$ 419,554</u> |
| FINANCIAL LIABILITIES | | | | |
| Deposits | \$ 388,300 | \$ 391,482 | \$ 323,657 | \$ 326,276 |
| Federal Home Loan Bank borrowings | 54,446 | 56,786 | 55,956 | 61,379 |
| Junior subordinated deferrable interest debentures | 10,300 | 10,645 | - | - |
| Other liabilities | <u>2,938</u> | <u>3,186</u> | <u>4,426</u> | <u>4,619</u> |
| Total | <u>\$ 455,984</u> | <u>\$ 462,099</u> | <u>\$ 384,039</u> | <u>\$ 392,274</u> |

The above summary does not include accrued interest receivable which is also considered a financial instrument. The estimated fair value of accrued interest receivable is considered to be the carrying amount.

The Banks also have unrecognized financial instruments at December 31, 2003 and 2002. These financial instruments relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to \$55,412,000 at December 31, 2003 and \$35,424,000 at December 31, 2002. Such amounts are also considered to be the estimated fair values.

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

Cash and cash equivalents:

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities:

The fair value of securities is determined based on quoted market prices of the individual securities or, if not available, estimated fair value was obtained by comparison to other known securities with similar risk and maturity characteristics. Such value does not consider possible tax ramifications or estimated transaction costs.

Loans:

Fair value for loans was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed rate loans the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows. The estimated value of credit card loans is based on existing loans and does not include the value that relates to estimated cash flows from new loans generated from existing cardholders over the remaining life of the portfolio.

Deposit liabilities:

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

Other financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount since these financial instruments generally represent commitments at existing rates. The fair value of Federal Home Loan Bank borrowings and junior subordinated deferrable interest debentures is determined based on a discounted cash flow analysis using current interest rates. The fair value of other liabilities is generally considered to be carrying value except for the deferred compensation agreement described in Note 16 (carrying value of obligation of \$368,097 and a fair value of \$616,000). The fair value of the contract is determined based on a discounted cash flow analysis using a current interest rate for a similar instrument.

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

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - CONTINGENT LIABILITIES

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

NOTE 23 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents a summary of selected unaudited quarterly financial data for 2003 and 2002:

| | <u>Interest income</u> | <u>Net interest income</u> | <u>Net income</u> | <u>Earnings per common share</u> | |
|----------------|--|------------------------------------|-----------------------|--------------------------------------|----------------|
| | (Dollars in thousands, except earnings per share data) | | | | |
| | | | | <u>Basic</u> | <u>Diluted</u> |
| 2003 | | | | | |
| First quarter | \$ 5,914 | \$ 3,480 | \$ 1,061 | \$.29 | \$.29 |
| Second quarter | 6,517 | 3,876 | 915 | .25 | .25 |
| Third quarter | 6,246 | 3,660 | 748 | .21 | .21 |
| Fourth quarter | 6,088 | 3,414 | 967 | .26 | .25 |
| 2002 | | | | | |
| First quarter | \$ 5,913 | \$ 2,988 | \$ 4,357 | \$ 1.21 | \$ 1.20 |
| Second quarter | 6,277 | 3,179 | 681 | .19 | .19 |
| Third quarter | 6,239 | 3,295 | 906 | .25 | .25 |
| Fourth quarter | 6,250 | 3,522 | 422 | .12 | .10 |

First quarter 2002 net income includes \$3,807,073 (\$1.06 basic per share and \$1.04 diluted per share), as a result of the change in accounting principle described in Note 1.

This information is an integral part of the accompanying
consolidated financial statements.

United Bancshares, Inc.
Columbus Grove, Ohio

DIRECTORS

DIRECTORS – UNITED BANCSHARES, INC.

As of 3/1/04

| <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE</u> | <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE</u> |
|--|------------|---------------------------|---|------------|---------------------------|
| Robert L. Dillhoff <i>District Highway Mgmt. Adm.</i> | 57 | 2001 | Robert L. Benroth <i>Putnam County Treasurer</i> | 41 | 2003 |
| Joe S. Edwards, Jr. <i>Businessman/Investor/Pres. Buckeye Stave Co.</i> | 61 | 2000 | James N. Reynolds <i>Chairman, Retired Banker</i> | 66 | 2000 |
| P. Douglas Harter <i>Associate of Harter & Son Funeral Home</i> | 57 | 2001 | H. Edward Rigel <i>Farmer</i> | 61 | 2000 |
| E. Eugene Lehman <i>President/CEO</i> | 62 | 1989 | David P. Roach <i>President Vogel Radio Broadcasting</i> | 53 | 2001 |
| Robert M. Schulte, Sr. <i>Businessman/Spherion Services</i> | 71 | 2002 | | | |

DIRECTORS – The UNION BANK Co.

As of 12/31/03

| <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE (a)</u> | <u>NAME</u> | <u>AGE</u> | <u>DIRECTOR SINCE (a)</u> |
|--|------------|-------------------------------|--|------------|-------------------------------|
| Robert L. Benroth <i>Putnam County Treasurer</i> | 41 | 2001 | James Anthony O’Neill, M.D. <i>Physician</i> | 47 | 2001 |
| Joe S. Edwards, Jr. <i>Businessman/Investor/Pres. Buckeye Stave Co.</i> | 61 | 1977 | James N. Reynolds <i>Retired Banker</i> | 66 | 1966 |
| Herbert H. Huffman <i>Educator</i> | 53 | 1993 | Robert M. Schulte, Sr. <i>Businessman/Spherion Services</i> | 71 | 1994 |
| E. Eugene Lehman <i>Chairman and Chief Executive Officer</i> | 62 | 1989 | R. Steven Unverferth <i>President, Unverferth Manufacturing</i> | 51 | 1993 |
| Kevin L. Lammon <i>Insurance and Real Estate Sales</i> | 49 | 1996 | H. Edward Rigel <i>Farmer</i> | 61 | 1979 |
| William R. Perry <i>Farmer</i> | 45 | 1990 | P. Douglas Harter <i>Associate of Harter & Son Funeral Home</i> | 57 | 1969 |
| David P. Roach <i>President Vogel Radio Broadcasting</i> | 53 | 1997 | Robert L. Dillhoff <i>District Highway Mgmt. Adm.</i> | 57 | 1991 |

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

**United Bancshares, Inc.
Columbus Grove, Ohio**

OFFICERS

OFFICERS – UNITED BANCSHARES, INC.

As of 3/1/04

James N. Reynolds – Chairman
E. Eugene Lehman – President / Chief Executive Officer
Bonita R. Selhorst – Secretary
Brian D. Young – Chief Financial Officer & Treasurer