2004 Annual Report

United Bancshares, Inc.

Locations

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Office Manager
Kim Verhoff

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Office Manager
Doris Neumeier

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230 W. Madison
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Office Manager
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Office Manager
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Troy Verhoff

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Office Manager
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Lima West
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Office Manager
Amy Reese

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Office Manager
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UNITED BANCSHARES, INC.
2004 ANNUAL REPORT

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United Bancshares, Inc.

100 South High Street
Columbus Grove, Ohio 45830

www.theubank.com 419/659-2141

March 23, 2005

Dear Shareholder:

Thank you for your continued investment in United Bancshares, Inc. stock. United Bancshares, Inc. through its wholly-owned subsidiary, The Union Bank Company, continues to provide quality financial services to the communities of Northwest Ohio with eleven offices located in four counties.

The year-end financial report for your Company is enclosed. If you have a question on any of the information presented, please feel free to contact our Chief Financial Officer, Brian Young, or me. Considering the banking environment during 2004, an item from our financial information that should be noted was our ability to increase loan balances. Total loans increased 4.9% from $292.2 million at December 31, 2003 to $306.6 million at December 31, 2004.

The year 2004 saw a significant change for United Bancshares with the retirement of President and CEO E. Eugene Lehman. Mr. Lehman had been with the Company for 16 years, which saw the Company grow from approximately $44 million in assets and 30 employees to approximately $559 million in assets and 165 employees as of December 31, 2004. The efforts of Mr. Lehman during his time at the Company are greatly appreciated. The growth the Company has experienced under his leadership should be considered quite remarkable.

This is the first correspondence you are receiving from me as the new President and CEO of your Company. It will be my goal, as well as that of the board of directors, senior management and the staff to put forth our best effort for you and our customers. The Company has established goals for the year 2005 and will actively pursue appropriate opportunities to enhance shareholder value. As the year progresses, it is our intention to keep you informed of our endeavors with quarterly updates.

Respectfully,

Daniel W. Schutt

Daniel W. Schutt
President/CEO

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 January 31, 2005, the common stock was held by 1,673 shareholders of record. Below are the trading highs and lows for the periods noted.

Year 2004	**High**	**Low**
First Quarter	$16.75	$14.25
Second Quarter	16.99	15.31
Third Quarter	16.00	14.10
Fourth Quarter	17.70	14.75

Year 2003	**High**	**Low**
First Quarter	$14.35	$11.96
Second Quarter	15.85	14.00
Third Quarter	16.80	14.60
Fourth Quarter	16.70	16.20

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

	2004	**2003**
First Quarter	$ .11	$ .11
Second Quarter	.11	.11
Third Quarter	.11	.11
Fourth Quarter	.11	.11
Total	$ .44	$ .44

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,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share data)				
Statements of income:					
Total interest income	$ 26,985	$ 24,765	$ 24,679	$ 26,234	$ 18,940
Total interest expense	10,334	10,067	11,695	14,830	10,687
Net interest income	16,651	14,698	12,984	11,404	8,253
Provision for loan losses	577	450	722	449	502
Net interest income after provision for loan losses	16,074	14,248	12,262	10,955	7,751
Total non-interest income	3,023	4,083	3,099	2,827	1,028
Total non-interest expense	15,533	13,560	11,081	9,497	7,059
Income before federal income taxes	3,564	4,771	4,280	4,285	1,720
Federal income taxes	476	1,080	1,721	1,031	235
Income before change in accounting principle	3,088	3,691	2,559	3,254	1,485
Cumulative effect of change in accounting principle	-	-	3,807	-	-
Net income	$ 3,088	$ 3,691	$ 6,366	$ 3,254	$ 1,485
Per share of common stock:					
Net income - basic	$ 0.84	$ 1.01	$ 1.77	$ 0.96	$ 0.66
Dividends	0.44	0.44	0.44	0.44	0.44
Book value	11.99	11.69	11.28	9.65	8.48
Average shares outstanding - basic	3,670,981	3,644,642	3,601,184	3,376,652	2,254,420
Year end balances:					
Loans	$ 306,591	$ 292,221	$ 243,555	$ 243,995	$ 178,951
Securities	217,841	174,559	154,977	105,629	54,976
Total assets	559,323	498,695	424,997	386,401	256,815
Deposits	369,767	388,300	323,657	310,897	205,506
Shareholders' equity	44,229	42,710	40,958	34,672	19,049
Average balances:					
Loans	$ 297,732	$ 280,303	$ 242,688	$ 264,243	$ 175,743
Securities	195,444	161,522	136,018	74,597	54,925
Total assets	526,065	478,518	408,500	364,915	244,855
Deposits	378,485	366,336	310,740	287,011	198,526
Shareholders' equity	43,250	42,005	39,856	31,661	17,506
Selected ratios:					
Net yield on average interest-earning assets	3.59%	3.47%	3.56%	3.44%	3.80%
Return on average assets	0.59%	0.77%	0.63%	0.89%	0.61%
Return on average shareholders' equity	7.14%	8.79%	6.42%	10.28%	8.48%
Net loan charge-offs as a percentage of average outstanding net loans	0.20%	0.17%	0.22%	0.19%	0.14%
Allowance for loan losses as a percentage of year end loans	0.90%	0.95%	1.14%	1.06%	1.08%
Shareholders' equity as a percentage of total assets	7.91%	8.56%	9.64%	8.97%	7.42%

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 2004 was $3.1 million compared to $3.7 million in 2003 and $6.4 million in 2002. 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 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 Bank of Delphos and the Bank of Leipsic (wholly-owned subsidiaries of the Corporation) were merged into The Union Bank Company. Basic income per share was $0.84 in 2004, a decrease of 16.8% from $1.01 in 2003. 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 2004 operating results included provisions for stock options and the retirement of the Corporation's Chief Executive Officer which reduced net income $825,000 ($.22 per share). 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

2004 Compared With 2003

Net interest income for 2004 was $16.7 million, an increase of $2.0 million (13.3%) over 2003. The increase was due to an increase in the Corporation's interest-earning assets, primarily the result of the $60 million leverage strategy that was put in place in June of 2004 and loan growth. The average yield on loans for 2004 decreased to 6.38% compared to 6.57% for 2003, while the average rate paid on interest-bearing liabilities decreased to 1.78% in 2004 from 2.12% in 2003. 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 3.47% in 2003 to 3.59% in 2004.

At December 31, 2004, total loans (including loans held for sale) were $306.6 million compared to $292.2 million at December 31, 2003, an increase of $14.4 million (4.9%). Loans held for sale decreased to $801,000 at December 31, 2004 from $2.8 million in 2003. Within the loan portfolio, residential real estate loans increased $6.6 million (6.2%) during 2004. Commercial loans decreased $1.6 million (1.3%), agricultural loans increased $7.0 million (15.4%) and consumer loans increased $4.2 million (27.1%) during 2004.

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 2004, net gain on sale of loans was $704,000, including $376,000 of capitalized servicing rights. The net gain on sale of loans was $2.3 million, including $936,000 of capitalized servicing rights, in 2003.

Securities, including Federal Home Loan Bank (FHLB) stock, totaled $217.8 million at December 31, 2004, representing an increase of $43.2 million (24.7%) from total securities of $174.6 million at December 31, 2003. The increase in securities resulted from the $70.0 million borrowing program described below. 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, 2004, unrealized gains, net of income taxes, of $714,000 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, 2004 were $369.8 million, a decrease of $18.5 million (4.8%) over total deposits of $388.3 million at December 31, 2003. This decrease was offset by additional borrowings for 2004.

Long-term borrowings, excluding debentures, at December 31, 2004 were $132.0 million compared to $54.4 million at December 31, 2003, an increase of $77.6 million (142.4%). The increase includes the $64.0 million balance at December 31, 2004, resulting from the Corporation's $70.0 million program with respect to securities sold under agreements to repurchase. Long-term borrowings are summarized in Note 10 to the consolidated financial statements. The Corporation utilizes long-term borrowings as an alternative source of funding to support its asset growth as necessary.

The allowance for loan losses at December 31, 2004 was $2.8 million (0.90% of total loans) compared to $2.8 million (0.95% of total loans) at December 31, 2003. Although the allowance remained approximately the same, the allowance for loan losses as a percentage of total loans decreased as a result of the increase in loan balances.

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 $577,000 in 2004 compared to $450,000 in 2003. The increase in the provision for loan losses in 2004 was due to the increase in the loan portfolio and ongoing monitoring by management.

Total non-interest income decreased $1.1 million to $3.0 million in 2004 from $4.1 million in 2003. The significant components of non-interest income are summarized in Note 12 to the consolidated financial statements. Net gain on sale of residential real estate loans decreased $1.6 million to $704,000 in 2004 from $2.3 million in 2003 due to decreased volume. The significant activity in 2003, resulted from historically low residential real estate rates which prompted a significant level of refinancing activity. Service charges on deposit accounts increased $170,000 (19.7%) to $1.0 million in 2004 compared to $864,000 in 2003 largely due to the impact of the Corporation increasing fees charged to customers. Gain on sale of securities was $550,000 for 2004, a $306,000 increase (125.4%) from $244,000 in 2003. In 2003, the Company also recognized $202,000 of income from insurance demutualization.

Total non-interest expenses increased $2.0 million (14.5%) to $15.5 million in 2004 from $13.5 million in 2003. Salaries and related costs increased $974,000 (14.3%) to $7.8 million in 2004 from $6.8 million in 2003. The increase was substantially due to the impact of the severance payment made to the Corporation's former CEO in November 2004. Net occupancy expenses, including buildings, furnishings, and equipment, increased $98,000 (7.2%) to $1.5 million in 2004 from $1.4 million in 2003. Other non-interest expenses increased $901,000 (16.7%) to $6.3 million in 2004 compared to $5.4 million in 2003. The significant components of other non-interest expenses are summarized in Note 12 to the consolidated financial statements. Data processing costs decreased $67,000 (6.2%) to $1.0 million in 2004 from $1.1 million in 2003. Advertising costs increased $86,000 (22.9%) to $460,000 in 2004 compared to $374,000 in 2003. In addition, the 2004 operating results included a provision for stock options which amounted to $597,000 (see note 16 to the consolidated financial statements).

The provision for income taxes for 2004 was $476,000, a decrease of $604,000 (55.9%) from $1.1 million 2003. This decrease primarily resulted from the $1.2 million decrease in income before income taxes and a higher percentage of the Corporation's income deriving from tax-exempt income on state and municipal securities, as more fully described in Note 14 to the consolidated financial statements.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

2003 Compared With 2002

Net interest income for 2003 was $14.7 million, an increase of $1.7 million (13.2%) 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 6.57% compared to 7.22% for 2002, while the average rate paid on interest-bearing liabilities decreased to 2.12% 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 3.47% 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 increased $9.1 million (9.4%) during 2003. Commercial loans increased $22.9 million (23.1%), Agricultural loans increased $12.4 million (37.3%) and Consumer loans increased $3.6 million (30.6%) during 2003.

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 .22% 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 12 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 $2.5 million (22.4%) to $13.6 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 $1.2 million (28.6%) to $5.4 million in 2003 compared to $4.2 million in 2002. The significant components of other non-interest expenses is summarized in Note 12 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 14 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 2004, 2003, and 2002 follows.

The Corporation generated cash from operating activities of $6.8 million in 2004, $3.1 million in 2003, and $11.0 million in 2002. The 2002 increase largely resulted from secondary market activities relating to the continued selling of loans held for sale.

Net cash flows used in investing activities was $61.2 million in 2004, $8.7 million in 2003, and $52.8 million in 2002. The 2004 increase was largely due to the increases in the loan portfolio ($17.6 million) and purchase of securities ($166.6 million), offset by sales ($70.9 million) and maturing ($52.3 million) of securities. The net cash used in investing cash activities in 2003 and 2002 was primarily due to growth in the securities portfolio offset in 2003 by $5.8 million of cash from the RFCBC branch acquisitions.

Net cash flows provided by (used in) financing activities were $57.9 million in 2004, $(30,000) in 2003, and $32.6 million in 2002. The 2004 increase was largely due to net proceeds from long-term borrowings ($77.5 million), offset by decreased deposits ($18.2 million). 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 $10.3 million. The net cash provided in 2002 was attributable to proceeds from FHLB borrowings, net of repayments, of $21.2 million and growth in deposits of $12.8 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 119% assets to liabilities or slightly positive.

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, 2004:

	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	$ 20,795	$ 19,106	$ 681	$ 1,008	$ -
Real estate lines-of-credit	33,174	4,143	5,255	1,960	21,816
Consumer lines-of-credit	1,354	1,254	100		
Credit card lines-of-credit	3,307	3,307	-	-	-
Guarantees	-	-	-	-	-
Total commitments	$ 58,630	$ 27,810	$ 6,036	$ 2,968	$ 21,816

As indicated in the preceding table, the Corporation had $58.6 million in total loan commitments at December 31, 2004, with $27.8 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, 2004:

	Payments due by period				
	Total Amount	**Less than 1 year**	**1– 3 years**	**4 – 5 years**	**Over 5 years**
	(Dollars in thousands)				
Contractual obligations					
Long-term debt	$ 142,258	$ 26,107	$ 63,773	$ 30,178	$ 22,200

Capital leases	-	-	-	-	-
Operating leases	-	-	-	-	-
Unconditional purchase obligations	-	-	-	-	-
Other long-term liabilities reflected under GAAP	362	7	17	21	317
Total obligations	$ 142,620	$ 26,114	$ 63,790	$ 30,199	$ 22,517

The long-term debt noted in the preceding table represents $68.0 million in borrowings from the Federal Home Loan Bank of Cincinnati ("FHLB"); $64.0 million in securities sold under agreements to repurchase; and $10.3 million from the issuance of junior subordinated deferrable interest debentures (see Notes 10 and 11 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 $63.0 million in advances that have fixed interest rates and $5.0 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, 2004, the net present value of future deferred compensation payments amounted to $362,000. Such amount is included in other liabilities in the December 31, 2004 consolidated balance sheet. (See Note 15 of the consolidated financial statements)

As indicated in the table, the Corporation had no capital leases or unconditional purchase obligations as of December 31, 2004. 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 $576,000 at December 31, 2004 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The following table shows the Corporation's estimated earnings sensitivity profile as of December 31, 2004:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income	Percentage Change in Net Income
+200	-1.67%	-4.43%
-200	-1.94%	-5.43%

Given a linear 200bp increase in the yield curve used in the simulation model, it is estimated that net interest income for the Corporation would decrease by 1.67% and net income would decrease by 4.43%. A 200bp decrease in interest rates would decrease net interest income by 1.94% and decrease net income by 5.43%. Management does not expect any significant adverse effect to net interest income in 2005 based on the composition of the portfolio and anticipated trends in rates.

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 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 PRONOUCEMENTS

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 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 and 2004 consolidated financial statements reflect the $10.3 million of junior subordinated deferrable interest debentures issued by the Corporation.

The Corporation does not believe the adoption of any recently issued pronouncements by the Financial Accounting Standards Board, including Statement of Financial Accounting Standards No. 123 (Revised), "Share-Based Payments", will have a significant impact on its consolidated financial statements.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Report of Independent Registered Public Accounting Firm

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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
February 2, 2005

Offices in 14 states and Washington, DC

Member of HLB International

UNITED BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003

ASSETS	2004	2003
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 9,187,378	$ 10,532,844
Interest-bearing deposits in other banks	867,571	31,277
Federal funds sold	4,517,000	531,000
Total cash and cash equivalents	14,571,949	11,095,121
SECURITIES, available-for-sale	213,617,118	170,504,529
FEDERAL HOME LOAN BANK STOCK, at cost	4,224,400	4,054,700
LOANS HELD FOR SALE	801,066	2,760,312
LOANS	305,789,653	289,460,412
Less allowance for loan losses	2,757,491	2,767,521
Net loans	303,032,162	286,692,891
PREMISES AND EQUIPMENT, net	6,720,388	7,222,175
GOODWILL	7,282,013	7,282,013
OTHER INTANGIBLE ASSETS, net	1,423,384	1,754,764
OTHER ASSETS, including accrued interest receivable	7,650,723	7,328,622
TOTAL ASSETS	$ 559,323,203	$ 498,695,127
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 37,476,832	$ 32,144,405
Interest-bearing	332,290,064	356,155,722
Total deposits	369,766,896	388,300,127
Long-term debt	131,958,033	54,446,143
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Other liabilities	3,069,087	2,938,444
Total liabilities	515,094,016	455,984,714
SHAREHOLDERS' EQUITY		
Common stock, stated value $1. Authorized 4,750,000 shares; issued 3,760,557 shares in 2004 and 3,740,468 shares in 2003	3,760,557	3,740,468
Surplus	14,598,030	14,459,593
Retained earnings	26,166,782	24,697,441
Accumulated other comprehensive income	713,857	1,055,610
Treasury stock, 71,576 shares in 2004 and 88,064 shares in 2003	(1,010,039)	(1,242,699)
Total shareholders' equity	44,229,187	42,710,413
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 559,323,203	$ 498,695,127

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, 2004, 2003 and 2002

	2004	2003	2002
INTEREST INCOME			
Loans, including fees	$ 18,995,472	$ 18,416,881	$ 17,513,362
Securities:			
Taxable	5,777,900	4,470,411	5,827,316
Tax-exempt	2,181,370	1,794,905	1,159,933
Other	30,740	82,973	178,102
Total interest income	26,985,482	24,765,170	24,678,713
INTEREST EXPENSE			
Deposits	6,137,770	7,210,734	9,052,380
Borrowings	4,196,253	2,856,069	2,642,213
Total interest expense	10,334,023	10,066,803	11,694,593
Net interest income	16,651,459	14,698,367	12,984,120
PROVISION FOR LOAN LOSSES	577,072	450,000	722,000
Net interest income after provision for loan losses	16,074,387	14,248,367	12,262,120
NON-INTEREST INCOME	3,022,485	4,083,130	3,098,581
NON-INTEREST EXPENSES			
Salaries, wages and employee benefits	7,767,266	6,793,531	5,759,729
Occupancy expenses	1,459,894	1,362,104	1,116,072
Other operating expenses	6,305,489	5,404,423	4,204,936
Total non-interest expenses	15,532,649	13,560,058	11,080,737
Income before income taxes and change in accounting principle	3,564,223	4,771,439	4,279,964
PROVISION FOR INCOME TAXES			
Current	476,946	940,947	1,784,061
Deferred	(946)	139,053	(63,061)
Total provision for income taxes	476,000	1,080,000	1,721,000
Income before change in accounting principle	3,088,223	3,691,439	2,558,964
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	-	3,807,073
NET INCOME	$ 3,088,223	$ 3,691,439	$ 6,366,037
NET INCOME PER SHARE			
Basic:			
Income before change in accounting principle	$ 0.84	$ 1.01	$ 0.71
Change in accounting principle	-	-	1.06
Total	$ 0.84	$ 1.01	$ 1.77
Diluted:			
Income before change in accounting principle	$ 0.83	$ 1.00	$ 0.70
Change in accounting principle	-	-	1.04
Total	$ 0.83	$ 1.00	$ 1.74

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, 2004, 2003 and 2002

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
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, net of reclassification adjustments and income taxes	-	-	-	1,327,882	-	1,327,882
Total comprehensive income						7,693,919
Exercise of stock options	36,649	141,528	-	-	-	178,177
Cash dividends declared, $.44 per share	-	-	(1,586,303)	-	-	(1,586,303)
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)	-	(440,749)
Total comprehensive income						3,250,690
Exercise of stock options	22,191	85,696	-	-	-	107,887
Cash dividends declared, $.44 per share	-	-	(1,606,140)	-	-	(1,606,140)
BALANCE AT DECEMBER 31, 2003	3,740,468	14,459,593	24,697,441	1,055,610	(1,242,699)	42,710,413
Comprehensive income:						
Net income	-	-	3,088,223	-	-	3,088,223
Change in net unrealized gain, net of reclassification adjustments and income taxes	-	-	-	(341,753)	-	(341,753)
Total comprehensive income						2,746,470
Exercise of stock options, including 9,321 treasury shares	20,089	138,194	-	-	131,533	289,816
Sale of 7,167 treasury shares	-	243	(1,906)	-	101,127	99,464
Cash dividends declared, $.44 per share	-	-	(1,616,976)	-	-	(1,616,976)
BALANCE AT DECEMBER 31, 2004	$ 3,760,557	$ 14,598,030	$ 26,166,782	$ 713,857	$(1,010,039)	$ 44,229,187

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, 2004, 2003 and 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,088,223	$ 3,691,439	$ 6,366,037
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	1,476,426	1,851,491	1,499,401
Provision for accrued compensation – stock options	597,099	-	-
Deferred income taxes	(946)	139,053	(63,061)
Provision for loan losses	577,072	450,000	722,000
Gain on sale of loans	(703,921)	(2,336,756)	(1,947,726)
Net securities gains	(550,114)	(244,108)	(107,225)
Federal Home Loan Bank stock dividends	(169,700)	(158,000)	(173,800)
Net amortization (accretion) of security premiums and discounts	287,245	840,257	274,633
Provision for deferred compensation	85,400	59,659	2,066
Loss (gain) on disposal of premises and equipment	32,350	(6,500)	(14,905)
Proceeds from sale of loans held-for-sale	42,737,012	96,197,474	98,164,180
Originations of loans held-for-sale	(40,449,946)	(95,473,631)	(92,904,169)
Decrease (increase) in other assets	(30,514)	(45,548)	1,463,914
Increase (decrease) in other liabilities	(182,700)	(1,888,430)	1,514,514
Net cash provided by operating activities	6,792,986	3,076,400	10,988,786
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of available-for-sale securities	70,885,028	11,346,383	7,772,021
Proceeds from maturities of available-for-sale securities, including paydowns on mortgage-backed securities	52,348,097	106,718,173	52,377,462
Purchases of available-for-sale securities	(166,600,652)	(138,753,232)	(107,453,442)
Net decrease (increase) in loans	(17,570,822)	7,201,972	(4,518,306)
Proceeds from sale of premises and equipment	-	6,500	387,737
Net cash received from branch acquisitions	-	5,748,394	-
Investment in business trust	-	(300,000)	-
Purchases of premises and equipment	(261,372)	(653,817)	(1,363,721)
Net cash used in investing activities	(61,199,721)	(8,685,627)	(52,798,249)

UNITED BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	$ (18,208,475)	$ (7,056,287)	$ 12,827,792
Long-term debt borrowings:			
Proceeds	106,500,000	14,000,000	36,000,000
Repayments	(28,988,110)	(15,510,332)	(14,805,209)
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	97,660	107,887	178,177
Proceeds from sale of treasury shares	99,464	-	-
Cash dividends paid	(1,616,976)	(1,606,140)	(1,586,303)
Net cash provided by (used in) financing activities	57,883,563	(29,872)	32,614,457
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,476,828	(5,639,099)	(9,195,006)
CASH AND CASH EQUIVALENTS			
At beginning of year	11,095,121	16,734,220	25,929,226
At end of year	$ 14,571,949	$ 11,095,121	$ 16,734,220
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Cash paid during the year for:			
Interest	$ 10,154,985	$ 10,043,013	$ 11,846,460
Federal income taxes	$ 320,000	$ 2,115,726	$ 250,000
Non-cash operating activity:			
Change in deferred income taxes on net unrealized gain on available-for-sale securities	$ (176,054)	$ (227,053)	$ 684,061
Non-cash investing activities:			
Transfer of loans to foreclosed assets	$ 352,667	$ -	$ -
Change in net unrealized gain on available-for-sale securities	$ (517,807)	$ (667,802)	$ 2,011,943
Non-cash financing activities:			
Addition to surplus resulting from tax benefit of exercise of options	$ 45,350	$ -	$ -
Treasury stock issued for accrued compensation – stock options	$ 146,806	$ -	$ -

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, 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. In 2004, the Bank opened a full-service banking center in Bowling Green, Ohio.

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 the Bank, 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.

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 $7,455 at December 31, 2004 and $30,954 at December 31, 2003.

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. 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.

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 $ 706,941 and $453,049 at December 31, 2004 and 2003, 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. Servicing fee income is recorded for fees earned for servicing loans, based on a contractual percentage of the outstanding principal.

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.

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.

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, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Basic	3,670,981	3,644,642	3,601,184
Diluted	3,701,983	3,687,768	3,647,663

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

ADVERTISING COSTS

All advertising costs are expensed as incurred.

STOCK-BASED COMPENSATION

During 2004, the Board of Directors approved an alternative payment method for the exercise of all remaining outstanding options effectively resulting in the expensing of the fair value of options, as more fully described in Note 16. Prior to 2004, compensation expense under stock option plans was reported only if options were granted below market price at the grant date. Pro forma disclosures of compensation cost of stock-based awards for 2003 and 2002 have been determined and are presented below 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 for 2003 and 2002 would have approximated the pro forma amounts indicated below.

	2003	2002
Net income as reported	$ 3,691,439	$ 6,366,037
Pro forma net income	3,517,465	6,294,197
Basic net income per share, as reported	1.01	1.77
Pro forma basic net income per share	.97	1.75
Diluted net income per share as reported	1.00	1.74
Pro forma diluted net income per share	.95	1.73

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

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

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

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Revised), "Share-Based Payments" (FAS 123R), which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. FAS 123R also establishes fair value as the measurement objective in accounting for share-based payment arrangements, including share options. The Statement will require the Corporation to measure compensation expense based on the grant-date fair value of options awarded over the period during which the recipient is required to provide services in exchange for the award.

The Corporation will be required to adopt the provisions of FAS 123R for the year ending December 31, 2006. Statement 123R applies to all options awarded after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying Statement 123R, if any, will be recognized in 2006. The Corporation does not expect the impact of adoption of Statement 123R will have a significant impact on the consolidated financial statements since options have been expensed as described in Note 16.

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.

RECLASSIFICATIONS

Certain reclassifications of 2003 amounts have been made to conform with the 2004 presentation.

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 Citizens 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, including accrued interest receivable	2,314,575
Total assets acquired	$ 72,383,931
Liabilities assumed:	
Deposits	$ 71,954,732
Other liabilities	429,199
Total liabilities assumed	$ 72,383,931

Other assets acquired 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.

NOTE 3 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
U.S. Treasury and agencies	$ 25,078,303	$ 24,904,144	$ 21,952,263	$ 21,769,585
Obligations of states and political subdivisions	43,513,203	44,430,857	64,933,697	66,245,969
Mortgage-backed	143,891,001	144,229,108	81,966,151	82,435,966
Other	53,009	53,009	53,009	53,009
Total	$212,535,516	$213,617,118	$168,905,120	$170,504,529

A summary of unrealized gains and losses on investment securities at December 31, 2004 and 2003 follows:

	2004		2003	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Available-for-sale:				
U.S. Treasury and agencies	$ 954	$ 175,113	$ 35,391	$ 218,069
Obligations of states and political subdivisions	1,000,676	83,022	1,532,906	220,634
Mortgage-backed	992,291	654,184	871,788	401,973
Total	$ 1,993,921	$ 912,319	$ 2,440,085	$ 840,676

The amortized cost and fair value of securities at December 31, 2004, 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.

	Amortized cost	Fair value
Due in one year or less	$ 8,493,430	$ 8,522,270
Due after one year through five years	86,854,702	86,637,256
Due after five years through ten years	81,140,049	81,961,952
Due after ten years	35,994,326	36,442,631
Other securities having no maturity date	53,009	53,009
Total	$212,535,516	$213,617,118

Securities with a carrying value of approximately $ 117,429,000 at December 31, 2004 and $52,917,000 at December 31, 2003 were pledged to secure public deposits and for other purposes as required or permitted by law, including those described in Note 10.

NOTE 3 - 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, 2004 and 2003:

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
2004	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. Treasury and agencies	$ 159,562	$ 19,418,741	$ 15,551	$ 484,449	$ 175,113	$ 19,903,190
Obligations of states and political subdivisions	72,392	4,148,224	10,630	1,217,388	83,022	5,365,612
Mortgage-backed	527,721	48,332,248	126,463	5,646,159	654,184	53,978,407
Total temporarily impaired securities	$ 759,675	$ 71,899,213	$ 152,644	$ 7,347,996	$ 912,319	$ 79,247,209
2003						
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	383,232	30,999,443	18,741	490,632	401,973	31,490,075
Total temporarily impaired securities	$ 821,935	$ 63,514,874	$ 18,741	$ 490,632	$ 840,676	$ 64,005,506

There were 60 securities in an unrealized loss position at December 31, 2004, nine 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, 2004 were primarily the result of customary and expected fluctuations in the bond market. As a result, all security impairments as of December 31, 2004 are considered temporary.

Gross realized gains from sale of securities, including securities calls, amounted to $877,599 in 2004, $297,829 in 2003, and $107,225 in 2002, with the income tax provision applicable to such gains amounting to $289,762 in 2004, $101,262 in 2003, and $36,457 in 2002. Gross realized losses from sale of securities amounted to $ 327,485 in 2004 and $53,721 in 2003 (none in 2002) with related income tax effect of $ 111,345 in 2004 and $18,265 in 2003.

NOTE 4 - LOANS

Loans at December 31, 2004 and 2003 consist of the following:

	2004	2003
Residential real estate	$ 111,984,630	$ 105,419,293
Commercial	120,289,459	121,905,682
Agriculture	52,528,595	45,517,537
Consumer	19,584,404	15,408,196
Credit cards	1,402,565	1,209,704
Total loans	$ 305,789,653	$ 289,460,412

Fixed rate loans approximated $60,563,000 at December 31, 2004 and $63,904,000 at December 31, 2003, including loans classified as held-for-sale.

Impaired loans were as follows as of December 31, 2004 and 2003:

	2004	2003
Loans with no allowance for loan losses allocated	$ 1,077,775	$ 1,143,889
Loans with allowance for loan losses allocated	1,209,762	718,967
Total impaired loans	$ 2,287,537	$ 1,862,856
Amount of the allowance allocated	$ 181,465	$ 107,845

The average balance of impaired loans approximated $2,075,000 in 2004, $1,939,000 in 2003, and $1,321,000 in 2002. The amount of interest accrued and received on a cash basis relating to impaired loans approximated $108,000 in 2004 and 2003, and was not significant in 2002.

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 $4,278,813 and $3,688,835 at December 31, 2004 and 2003, respectively. The following is a summary of activity during 2004 and 2003 for such loans:

	2004	2003
Beginning of year	$ 3,688,835	$ 1,783,529
Additions	1,642,313	4,287,087
Repayments	(1,052,335)	(2,381,781)
End of year	$ 4,278,813	$ 3,688,835

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

NOTE 4 - LOANS (CONTINUED)

Most of the Banks' lending activities are with customers primarily located in Northwestern and West Central Ohio. As of December 31, 2004 and 2003, the Bank's loans from borrowers in the agriculture industry represent the single largest industry and amounted to $52,528,595 and $45,517,537, 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 $2,135,000 and $1,625,000 at December 31, 2004 and 2003, respectively. Loans past due more than 90 days and still accruing interest amounted to $707,000 and $1,207,000 at December 31, 2004 and 2003, respectively.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following represents a summary of the activity in the allowance for loan losses for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Balance at beginning of year	$ 2,767,521	$ 2,784,509	$ 2,592,081
Provision charged to operations	577,072	450,000	722,000
Loans charged-off	(848,371)	(655,168)	(655,229)
Recoveries of loans charged-off	261,269	188,180	125,657
Balance at end of year	$ 2,757,491	$ 2,767,521	$ 2,784,509

NOTE 6 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2004 and 2003:

	2004	2003
Land and improvements	$ 1,473,829	$ 1,473,829
Buildings	5,885,241	5,931,411
Equipment	3,697,924	4,124,566
	11,056,994	11,529,806
Less accumulated depreciation	4,336,606	4,307,631
Premises and equipment, net	$ 6,720,388	$ 7,222,175

Depreciation expense amounted to $730,809 in 2004, $779,061 in 2003 and $568,037 in 2002.

NOTE 7 - 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 includes cost of $2,551,549, net of accumulated amortization of $1,128,165 and $796,785 at December 31, 2004 and 2003, respectively.

Amortization of other intangible assets amounted to $331,380 in 2004, $267,885 in 2003 and $77,400 in 2002. Expected amortization expense for the five years subsequent to 2004 is as follows: 2005, $331,380; 2006, $266,513; 2007, $253,980; 2008, $253,980; and 2009, $253,980.

NOTE 8 - 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 $214,319,000 and $208,131,000 at December 31, 2004 and 2003, respectively.

The balance of capitalized servicing rights, net of a valuation allowance, included in other assets amounted to $1,408,839 and $1,416,919 at December 31, 2004 and 2003, respectively. The estimated fair value of these rights, determined using discount rates and prepayment speeds, approximated $1,628,614 and $1,597,000 at December 31, 2004 and 2003, respectively.

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

	2004	2003	2002
Mortgage servicing rights capitalized	$ 376,101	$ 936,488	$ 967,478
Mortgage servicing rights amortization	384,181	672,380	663,297
Valuation allowance:			
Beginning of year	$ 652,065	$ 314,949	$ -
Addition (reduction)	(140,602)	337,116	314,949
End of year	$ 511,463	$ 652,065	$ 314,949

NOTE 9 - DEPOSITS

Time deposits at December 31, 2004 and 2003 include individual deposits of $100,000 or more approximating $28,825,000 and $31,495,000, respectively. Interest expense on time deposits of $100,000 or more approximated $627,000 for 2004, $678,000 for 2003 and $992,000 for 2002.

At December 31, 2004, time deposits approximated $209,247,000 and were scheduled to mature as follows: 2005, $76,983,000; 2006, $84,969,000; 2007, $22,346,000; 2008, $9,457,000; 2009, $15,027,000; and thereafter, $465,000.

UNITED BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2004 and 2003:

	2004	2003
Federal Home Loan Bank borrowings:		
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
Secured note, with interest at 4.13%, due October 29, 2004	-	3,000,000
Secured note, with interest at 5.02%, due March 28, 2005	4,000,000	4,000,000
Secured note, with interest at 2.34%, due April 11, 2005	2,000,000	-
Secured note, with interest at 2.59%, due October 13, 2005	3,000,000	-
Secured note, with interest at 2.95%, due August 4, 2006	10,000,000	-
Secured note, with floating rate based on 1 month LIBOR plus 16 basis points (2.51% at December 31, 2004), due October 6, 2006	5,000,000	-
Secured note, with interest at 3.06%, due October 13, 2006	5,000,000	-
Secured $5,000,000 term note, with monthly principal and interest payments of $93,990, including interest at 4.84%, due May 1, 2007	2,567,464	3,465,565
Secured note, with interest at 4.02%, due August 30, 2007	8,000,000	8,000,000
Secured note, with interest at 3.81%, due October 10, 2008	2,500,000	-
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 3.25%, due March 6, 2009	4,000,000	-
Secured $2,500,000 term note with interest at 3.08%, with monthly principal and interest payments of $45,011, due May 1, 2009	2,227,753	-
Secured $2,500,000 term note with interest at 3.08%, with monthly principal and interest payments of $45,011, due May 1, 2009	2,227,753	-
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	935,063	1,480,578
Total Federal Home Loan Bank borrowings	67,958,033	54,446,143

NOTE 10 - LONG-TERM DEBT (CONTINUED)

	2004	2003
Securities sold under agreements to repurchase:		
4.01%, due October 13, 2009	$ 5,000,000	$ -
4.28%, due June 24, 2008	12,000,000	-
3.91%, due June 25, 2007	12,000,000	-
3.51%, due October 15, 2007	5,000,000	-
3.38%, due June 24, 2006	15,000,000	-
2.56%, due June 24, 2005	15,000,000	-
Total securities sold under agreements to repurchase	64,000,000	-
Total long-term debt	$ 131,958,033	$ 54,446,143

Federal Home Loan Bank borrowings are secured by Federal Home Loan Bank stock, other securities and all eligible mortgage loans. Interest on advances outstanding at December 31, 2004 secured by individual mortgages under blanket agreement ranged from 5.62% to 8.80%, with maturities ranging from November 2005 through July 2019.

During 2004, the Bank entered into various repurchase agreements with the proceeds used to purchase securities, principally mortgage-backed securities with 7-year rate reset. Outstanding repurchase agreements are secured by mortgage-backed securities with an aggregate carrying value approximating $70,400,000. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

Future contractual maturities of long-term debt are as follows at December 31, 2004: 2005, $26,106,844; 2006, $37,177,714; 2007, $26,595,046; 2008, $20,656,152; 2009, $9,521,863; and thereafter, $11,900,414.

NOTE 11 - 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. United Trust is not consolidated by the Corporation. 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 $640,000 in 2004 and $480,000 in 2003 and is included in interest expense-borrowings in the accompanying consolidated statements of income.

Each issue of the trust preferred securities carries an interest rate identical to that of the related debenture. The securities have been structured to qualify as Tier I capital for regulatory purposes and the dividends paid on such are tax deductible. However, the securities cannot be used to constitute more than 25% of the Corporation's 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 12 - NON-INTEREST INCOME AND EXPENSES

Non-interest income consisted of the following for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Service charges on deposit accounts	$ 1,033,876	$ 863,614	$ 712,180
Gain on sale of loans	703,921	2,336,756	1,947,726
Net securities gains	550,114	244,108	107,225
Other operating income	734,574	638,652	331,450
Total non-interest income	$ 3,022,485	$ 4,083,130	$ 3,098,581

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.

Other operating expenses consisted of the following for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Data processing	$ 1,014,321	$ 1,081,564	$ 921,364
Professional fees	387,546	375,968	365,205
Stationery and supplies	232,932	271,846	271,622
Advertising	460,035	374,430	257,477
Franchise tax	520,000	442,962	433,000
Provision for accrued compensation – stock options	597,099	-	-
Other	3,093,556	2,857,653	1,956,268
Total other operating expenses	$ 6,305,489	$ 5,404,423	$ 4,204,936

NOTE 13 - OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Unrealized holding gains (losses) on available-for-sale securities	$ 32,307	$ (423,694)	$ 2,119,168
Reclassification adjustments for net securities gains realized to income	(550,114)	(244,108)	(107,225)
Net unrealized gains (losses)	(517,807)	(667,802)	2,011,943
Tax effect	(176,054)	(227,053)	684,061
Net-of-tax amount	$ (341,753)	$ (440,749)	$ 1,327,882

NOTE 14 - 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:

	2004	2003	2002
Expected tax using statutory tax rate of 34%	$ 1,211,800	$ 1,622,300	$ 1,455,200
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	(740,800)	(612,600)	(413,500)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	69,700	62,600	48,800
Amortization of deferred credit – purchase accounting	-	-	-
Other, net	(64,700)	7,700	(500)
Total provision for income taxes	$ 476,000	$ 1,080,000	$ 1,721,000

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 repealed 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 its acquisition by the Corporation 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 and a provision for income taxes of $631,000 was provided.

The deferred income tax provision (credit) of ($946) in 2004, $139,053 in 2003, and ($63,061) in 2002 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.

NOTE 14 - INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 are presented below:

	2004	2003
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	$ 367,745	$ 543,799
Federal Home Loan Bank stock dividends	649,900	592,200
Capitalized mortgage servicing rights	479,000	481,800
Depreciation and amortization	174,800	24,300
Cash surrender value of life insurance	108,900	79,300
Other	102,455	37,700
Total deferred tax liabilities	1,882,800	1,759,099
Deferred tax assets:		
Allowance for loan losses	815,400	808,600
Deferred compensation	319,000	293,600
Accrued compensation – stock options	153,100	-
Alternative minimum tax credit carryforward	81,600	-
Accrued expenses and other	81,700	47,899
Total deferred tax assets	1,450,800	1,150,099
Net deferred tax liabilities	$ 432,000	$ 609,000

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

The Company has available at December 31, 2004, an alternative minimum tax credit carryforward of approximately $81,600, which may be utilized in the future to the extent computed regular tax exceeds the alternative minimum tax.

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, 2004 and 2003.

NOTE 15 - EMPLOYEE AND DIRECTOR BENEFITS

The Corporation and Bank sponsor a salary deferral, defined contribution plan which provides for both profit sharing and employer matching contributions. The plan permits the investing in the Corporation's stock subject to certain limitations. Participants who meet certain eligibility conditions are eligible to participate and defer a specified percentage of their eligible compensation subject to certain income tax law limitations. The Corporation and Bank make discretionary matching and profit sharing contributions, as approved annually by the Board of Directors, subject to certain income tax law limitations. Contributions to the plan amounted to $517,908, $434,084 and $370,100 in 2004, 2003 and 2002, respectively. At December 31, 2004, the Plan owned 250,121 shares of the Corporation's common stock.

NOTE 15 - EMPLOYEE AND DIRECTOR BENEFITS (CONTINUED)

The Bank also sponsors 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 $ 1,764,395 and $1,693,787 at December 31, 2004 and 2003, 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 $576,262 at December 31, 2004 and $495,529 at December 31, 2003 which is included in other liabilities in the accompanying consolidated balance sheets.

Under an employee stock purchase plan which was established effective January 1, 2004, eligible employees may defer a portion of their compensation and use the proceeds to purchase stock of the Corporation at a price determined semi-annually by the Board of Directors. During 2004, the Corporation issued 7,167 shares under the plan.

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. At December 31, 2004 and 2003, 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 $361,936 and $368,097, respectively. Such amounts are included in other liabilities in the December 31, 2004 and 2003 consolidated balance sheets. A split dollar life insurance policy has been purchased and is available to fund a portion of the future deferred compensation payments and the cash value of the policy, amounting to $ 456,072 and $439,362 at December 31, 2004 and 2003, respectively, is included in other assets in the accompanying consolidated balance sheets.

On November 17, 2004, the Corporation's former Chief Executive Officer and the Board of Directors of the Corporation reached an agreement, which resulted in the Chief Executive Officer retiring from all executive management positions and resigning from all board positions, effective December 1, 2004. Under the terms of the agreement, the Corporation agreed to make a lump sum severance payment and provide certain other benefits to the former executive aggregating approximately $653,000 (net income effect of $431,000, or $.12 per share). Such amounts were all paid prior to December 31, 2004 and are included in salaries, wages and employee benefits in the 2004 consolidated statement of income.

On January 14, 2005, the Corporation entered into a five-year employment agreement with an individual who will serve as President and Chief Executive Officer of the Corporation and Bank. The terms of the agreement include an annual base salary of $238,000, a $25,000 signing bonus, participation in the Bank's nonqualified deferred compensation plan, and a change of control agreement that will be executed in the event certain conditions are met. The Corporation also entered into an agreement with its Chief Financial Officer on January 18, 2005, which will provide termination payments and benefits should certain events occur as described in the agreement which expires in July 2006.

NOTE 16 - 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.

NOTE 16 - STOCK OPTIONS (CONTINUED)

The following summarizes the stock options activity for the years ended December 31, 2004, 2003 and 2002:

	2004		2003		2002	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Outstanding at beginning of year	114,417	$ 9.70	136,608	$ 8.91	189,543	$ 8.29
Exercised	(47,530)	8.06	(22,191)	4.86	(36,649)	4.86
Forfeited	-	-		-	(16,286)	10.80
Outstanding at end of year	66,887	$ 10.86	114,417	$ 9.70	136,608	$ 8.91
Options exercisable at year end	66,887	$ 10.86	114,417	$ 8.91	136,608	$ 8.29

Options outstanding at December 31, 2004 were as follows:

	Outstanding and exercisable	
Range of exercise prices	Number	Remaining contractual life (years)
$ 9.66	5,146	6
10.40	54,881	3
15.42	6,860	4
Outstanding at year end	66,887	
Weighted average contractual life		3.3

In connection with its acquisition in March 2001 of Citizens, the Corporation issued options to certain directors and a senior officer of Citizens under the terms of Citizens' Amended and Restated Stock-Based Incentive Plan (the Plan). The Plan provides that in the event of a change in control, options may be exercised through an "alternative option payment mechanism" referred to in the Plan using "pyramiding transactions" where options are exercised, the shares gained through the exercise rate are tendered back to the Corporation as payment for a greater number of options, and the process is repeated as needed until all options are exercised. Ultimately, the holder of the option ends up with a lower number of shares than exercised but at essentially no cash outlay.

In October 2004, the Board of Directors approved the use of pyramiding for the exercise of the Corporation's remaining stock options which were all held by former directors and a senior officer of Citizens. Consequently, the Corporation recognized a provision for compensation expense approximating $597,000 (net income effect of $394,000, or $.11 per share) representing the fair value of the 34,327 shares which may be tendered, at the discretion of the option holders, under the pyramiding transactions exercise method. On November 29, 2004, one of the option holders exercised 27,441 options resulting in 9,321 shares, with a fair value of $146,806, being tendered under the pyramiding transactions exercise method. At December 31, 2004, 25,600 shares may be tendered from the 66,887 remaining outstanding options under the pyramiding transactions exercise method. The fair value of the shares that may be tendered, amounting to $450,300, is included in other liabilities in the December 31, 2004 consolidated balance sheet.

NOTE 17 - 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.

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, 2004 and 2003:

	Contract amount	
	2004	2003
Commitments to extend credit	$ 57,276,000	$ 53,176,000
Letters of credit	$ 1,354,000	$ 2,236,000

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, 2004, letters of credit totalling $1,254,000 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 18 - 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.

NOTE 18 - 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, 2004 and 2003, that the Corporation and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2004, 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, 2004 and 2003 are presented in the following table:

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2004:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 47,725	14.3%	$ 26,706	≥ 8.0%	N/A	N/A
Bank	45,376	13.6%	26,613	≥ 8.0%	$ 33,266	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	$ 44,968	13.5%	$ 13,353	≥ 4.0%	N/A	N/A
Bank	42,619	12.8%	13,306	≥ 4.0%	$ 19,960	6.0%
Tier I Capital (to Average Assets)						
Consolidated	$ 44,968	8.2%	$ 22,046	≥ 4.0%	N/A	N/A
Bank	42,619	7.8%	21,998	≥ 4.0%	$ 27,498	5.0%

NOTE 18 - REGULATORY MATTERS (CONTINUED)

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 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%

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.

NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the parent company as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 are as follows:

CONDENSED BALANCE SHEETS	2004	2003
Assets:		
Cash	$ 566,917	$ 735,759
Investment in bank subsidiaries	52,179,959	48,897,919
Premises and equipment, net of accumulated depreciation	565,278	594,771
Other assets, including income taxes receivable from bank subsidiary of $1,015,587 in 2004 and $2,822,621 in 2003	1,845,218	3,077,531
Total assets	$ 55,157,372	$ 53,305,980
Liabilities:		
Accrued expenses, including $450,304 accrued compensation for stock options in 2004	$ 628,185	$ 295,567
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Total liabilities	10,928,185	10,595,567
Shareholders' equity:		
Common stock	3,760,557	3,740,468
Surplus	14,598,030	14,459,593
Retained earnings	26,166,782	24,697,441
Accumulated other comprehensive income	713,857	1,055,610
Treasury stock, at cost	(1,010,039)	(1,242,699)
Total shareholders' equity	44,229,187	42,710,413
Total liabilities and shareholders' equity	$ 55,157,372	$ 53,305,980

CONDENSED STATEMENTS OF INCOME	2004	2003	2002
Income – dividends from bank subsidiaries	$ 500,000	$ 500,000	$ 7,800,000
Expenses – interest expense, professional fees and other expenses, net of federal income tax benefit	(1,035,570)	(496,587)	(224,267)
Income (loss) before equity in undistributed net income of bank subsidiaries	(535,570)	3,413	7,575,733
Equity in undistributed net income of bank subsidiaries	3,623,793	3,688,026	(1,209,696)
Net income	$ 3,088,223	$ 3,691,439	$ 6,366,037

NOTE 19 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 3,088,223	$ 3,691,439	$ 6,366,037
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of bank subsidiaries	(3,623,793)	(3,688,026)	1,209,696
Provision for accrued compensation – stock options	597,099	-	-
Depreciation and amortization	82,493	70,746	8,268
Gain on sale of security	-	(4,400)	-
Decrease (increase) in other assets	1,179,313	(1,982,038)	(286,541)
Increase (decrease) in accrued expenses	(72,325)	72,027	172,586
Net cash provided by (used in) operating activities	1,251,010	(1,840,252)	7,470,046
Cash flows from investing activities:			
Proceeds from sale of available-for-sale security	-	104,400	-
Capital contribution to bank subsidiary	-	(11,600,000)	-
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	-	-	(51,121)
Net cash used in investing activities	-	(11,897,620)	(583,136)
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	97,660	107,887	178,177
Proceeds from sale of treasury shares	99,464	-	-
Cash dividends paid	(1,616,976)	(1,606,140)	(1,586,303)
Net cash provided by (used in) financing activities	(1,419,852)	8,536,747	(1,408,126)
Net increase (decrease) in cash	(168,842)	(5,201,125)	5,478,784
Cash at beginning of the year	735,759	5,936,884	458,100
Cash at end of the year	$ 566,917	$ 735,759	$ 5,936,884

NOTE 20 - 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, 2004 and 2003 are as follows:

	2004		2003	
	Carrying amount	**Estimated value**	**Carrying amount**	**Estimated value**
		(dollars in thousands)		
FINANCIAL ASSETS				
Cash and cash equivalents	$ 14,572	$ 14,572	$ 11,095	$ 11,095
Securities, including Federal Home Loan Bank stock	217,841	217,841	174,559	174,559
Net loans, including loans held for sale	303,833	305,760	289,453	297,556
Total	$ 536,246	$ 538,173	$ 475,107	$ 483,210
FINANCIAL LIABILITIES				
Deposits	$ 369,767	$ 369,142	$ 388,300	$ 391,482
Long-term debt	131,958	132,735	54,446	56,786
Junior subordinated deferrable interest debentures	10,300	10,351	10,300	10,645
Other liabilities	3,069	3,206	2,938	3,186
Total	$ 515,094	$ 515,434	$ 455,984	$ 462,099

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.

There are also unrecognized financial instruments at December 31, 2004 and 2003 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to $58,630,000 at December 31, 2004 and $55,412,000 at December 31, 2003. 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.

NOTE 20 - 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 15 (carrying value of obligation of $361,936 and a fair value of $499,000). 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.

NOTE 21 - 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 22 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents a summary of selected unaudited quarterly financial data for 2004 and 2003:

	Interest income	Net interest income	Net income	Earnings per common share Basic	Earnings per common share Diluted
	(Dollars in thousands, except per share data)				
2004					
First quarter	$ 6,205	$ 3,653	$ 845	$ .23	$ .23
Second quarter	6,358	3,856	763	.21	.21
Third quarter	7,083	4,316	1,097	.30	.30
Fourth quarter	7,339	4,826	383	.10	.09
2003					
First quarter	$ 5,914	$ 3,499	$ 1,061	$ .29	$ .29
Second quarter	6,517	3,959	915	.25	.25
Third quarter	6,246	3,743	748	.21	.21
Fourth quarter	6,088	3,497	967	.26	.25

The fourth quarter 2004 results included provisions for stock options and the retirement of the Corporation's Chief Executive Officer which collectively reduced fourth quarter net income approximately $825,000, or $.22 per share.

UNITED BANCSHARES, Inc.
Columbus Grove, Ohio
As of 03/01/05

DIRECTORS – UNITED BANCSHARES, Inc.

NAME	AGE	DIRECTOR SINCE	NAME	AGE	DIRECTOR SINCE
Robert L. Dillhoff *District Highway Mgmt. Adm.*	58	2001	Robert L. Benroth *Putnam County Treasurer*	42	2003
Joe S. Edwards, Jr. *Businessman/Investor/Pres. Buckeye Stave Co.*	62	2000	James N. Reynolds *Chairman, Retired Banker*	67	2000
P. Douglas Harter *Associate of Harter & Son Funeral Home*	58	2001	H. Edward Rigel *Farmer*	62	2000
Daniel W. Schutt *President/CEO*	57	2005	David P. Roach *Manager of Maverick Media Radio Station of Ohio*	54	2001
Robert M. Schulte, Sr. *Businessman/Spherion Services*	72	2002			

DIRECTORS – The UNION BANK Co.

NAME	AGE	DIRECTOR SINCE (a)	NAME	AGE	DIRECTOR SINCE (a)
Robert L. Benroth *Putnam County Treasurer*	42	2001	James Anthony O'Neill, M.D. *Physician*	48	2001
Joe S. Edwards, Jr. *Businessman/Investor/Pres. Buckeye Stave Co.*	62	1977	James N. Reynolds *Retired Banker*	67	1966
Herbert H. Huffman *Educator*	54	1993	Robert M. Schulte, Sr. *Businessman/Spherion Services*	72	1994
Daniel W. Schutt *Chairman, Pres. and Chief Executive Officer*	57	2005	R. Steven Unverferth *President, Unverferth Manufacturing*	52	1993
Kevin L. Lammon *Insurance and Real Estate Sales*	50	1996	H. Edward Rigel *Farmer*	62	1979
William R. Perry *Farmer*	46	1990	P. Douglas Harter *Associate of Harter & Son Funeral Home*	58	1969
David P. Roach *Manager of Maverick Media Radio Station of Ohio*	54	1997	Robert L. Dillhoff *District Highway Mgmt. Adm.*	58	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.

OFFICERS – UNITED BANCSHARES, Inc.

James N. Reynolds – Chairman	Daniel W. Schutt – President / Chief Executive Officer
Bonita R. Selhorst – Secretary	Brian D. Young – Chief Financial Officer & Treasurer

OFFICERS – The UNION BANK Co.

Daniel W. Schutt – President/CEO/Chairman

David A. Anderson	Senior Vice President	Lewis R. Renollet	Senior Vice President
Nancianne Carroll	Senior Vice President	Bonita R. Selhorst	Senior Vice President, Sec.
Scott C. Lehman	Senior Vice President	Brian D. Young	Senior Vice President
Heather M. Oatman	Senior Vice President	Melissa L. Zureich	Senior Vice President
Michael D. Ebbeskotte	Vice President	John P. Miller	Vice President
Steven G. Freeman	Vice President	Norman V. Schnipke	Vice President
Mark G. Honigford	Vice President	Barry J. von der Embse	Vice President
Donald W. Miller	Vice President	Brent A. Gibson	Commercial Loan Officer
Edward B. Beecher	Assistant Vice President	Jeffrey L. Point	Assistant Vice President
Kimberly K. Dray	Assistant Vice President	Rose Ann Recker	Assistant Vice President
Vicky K. Gilbert	Assistant Vice President	Amy E. Reese	Assistant Vice President
Shawn C. Goetz	Assistant Vice President	Kevin E. Rice	Assistant Vice President
Jason P. Juergens	Assistant Vice President	Gary G. Ricker	Assistant Vice President
Elizabeth A. Kahlenberg	Assistant Vice President	Michelle L. Schafer	Assistant Vice President
Kimberly J. Kandik	Assistant Vice President	Mary L. Schroeder	Assistant Vice President
Amy L. Laibe	Assistant Vice President	D. R. Soldenwagner	Assistant Vice President
Dana F. Lawrence	Assistant Vice President	T. A. Stein-Moenter	Assistant Vice President
Max E. Long	Assistant Vice President, Security Officer	Kimberly S. Verhoff	Assistant Vice President
Dennis J. Meuleman	Assistant Vice President	Troy M. Verhoff	Assistant Vice President
Doris A. Neumeier	Assistant Vice President	Brian W. Wentling	Assistant Vice President
J. Sue Alexander	Construction Loan Admin.	M. Chris Sanderson	Compliance Officer
Amy E. Blankemeyer	Comm/Cons Loan Serv. Super.	Craig R. Stechschulte	Indirect Lending Officer
Sharon M. Kohler	Loan Review Officer	Carol J. Swords	Comm/Cons Loan Proc. Super.
Cynthia A. Long	Accounting Officer	LeAnn Wilkins	Mortgage Underwriter
Gail H. Richer	Mortgage Loan Super.		