

UNITED BANCORP INC /OH/  
Form 10-Q  
November 14, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-16540

**UNITED BANCORP, INC.**

(Exact name of registrant as specified in its charter)

Ohio 34-1405357  
(State or other jurisdiction of (IRS Employer Identification No.)

incorporation or organization)

201 South Fourth Street, Martins Ferry, Ohio 43935-0010

(Address of principal executive offices)

(740) 633-0445

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller Reporting  
Company

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

Yes  No

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of November 7, 2016, 5,425,304 shares of the Company's common stock, \$1.00 par value, were issued and outstanding.

PART I - FINANCIAL INFORMATION

|        |  |    |
|--------|--|----|
| Item 1 | <u>Condensed Consolidated Balance Sheets</u>   | 3  |
|        | <u>Condensed Consolidated Statements of Income</u>   | 4  |
|        | <u>Condensed Consolidated Statements of Comprehensive Income</u>                             | 5  |
|        | <u>Condensed Consolidated Statements of Cash Flows</u>                                       | 6  |
|        | <u>Notes to Condensed Consolidated Financial Statements</u>                                  | 8  |
| Item 2 | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 39 |
| Item 3 | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 48 |
| Item 4 | <u>Controls and Procedures</u>   | 49 |

PART II - OTHER INFORMATION

|         |  |    |
|---------|--|----|
| Item 1  | <u>Legal Proceedings</u>   | 50 |
| Item 1A | <u>Risk Factors</u>  | 50 |
| Item 2  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 50 |
| Item 3  | <u>Defaults Upon Senior Securities</u>                             | 50 |
| Item 4  | <u>Mine Safety Disclosures</u>                                     | 51 |
| Item 5  | <u>Exhibits</u>  | 51 |
|         | <u>SIGNATURES</u>  | 52 |

**ITEM 1. Financial Statements****United Bancorp, Inc.****Condensed Consolidated Balance Sheets****(In thousands, except share data)**

|  | September<br>30,<br>2016<br>(Unaudited) | December<br>31,<br>2015 |
|--|---|-------------------------|
| Assets   |   |                         |
| Cash and due from banks  | \$ 4,528                                | \$ 4,954                |
| Interest-bearing demand deposits   | 8,719                                   | 7,747                   |
| Cash and cash equivalents  | 13,247                                  | 12,701                  |
| Available-for-sale securities  | 31,803                                  | 34,623                  |
| Loans, net of allowance for loan losses of \$2,454 and \$2,437 at September 30, 2016 and December 31, 2015, respectively | 348,188                                 | 327,226                 |
| Premises and equipment   | 11,804                                  | 10,446                  |
| Federal Home Loan Bank stock   | 4,165                                   | 4,210                   |
| Foreclosed assets held for sale, net   | 320                                     | 357                     |
| Accrued interest receivable  | 787                                     | 803                     |
| Deferred income taxes  | 614                                     | 521                     |
| Bank-owned life insurance  | 11,742                                  | 11,509                  |
| Other assets   | 2,849                                   | 2,728                   |
| Total assets   | \$ 425,519                              | \$ 405,124              |
| Liabilities and Stockholders' Equity   |   |                         |
| Liabilities  |   |                         |
| Deposits   |   |                         |
| Demand   | \$ 195,162                              | \$ 188,328              |
| Savings  | 79,077                                  | 77,672                  |
| Time   | 53,873                                  | 57,622                  |
| Total deposits   | 328,112                                 | 323,622                 |
| Short-term borrowings  | 13,554                                  | 5,691                   |
| Federal Home Loan Bank advances  | 33,605                                  | 26,530                  |
| Subordinated debentures  | 4,124                                   | 4,124                   |
| Interest payable and other liabilities   | 3,350                                   | 3,661                   |
| Total liabilities  | 382,745                                 | 363,628                 |
| Stockholders' Equity   |   |                         |
| Preferred stock, no par value, authorized 2,000,000 shares; no shares issued   | —                                       | —                       |

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|   |            |   |            |
|---|------------|---|------------|
| Common stock, \$1 par value; authorized 10,000,000 shares; issued 2016 –5,425,304, shares, 2015 – 5,385,304 shares; outstanding 2016 – 5,210,414, shares, 2015 – 5,143,637 5,425 shares |            |   | 5,385      |
| Additional paid-in capital  | 18,074     |   | 18,245     |
| Retained earnings   | 22,450     |   | 21,443     |
| Stock held by deferred compensation plan; 2016 –209,146 shares, 2015 – 235,923 shares   | (1,845     | ) | (2,079 )   |
| Unearned ESOP compensation  | (1,105     | ) | (1,271 )   |
| Accumulated other comprehensive loss  | (179       | ) | (181 )     |
| Treasury stock, at cost<br>2016 –5,744 shares, 2015 – 5,744 shares  | (46        | ) | (46 )      |
| Total stockholders' equity  | 42,774     |   | 41,496     |
| Total liabilities and stockholders' equity  | \$ 425,519 |   | \$ 405,124 |

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

|  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2016                                | 2015     | 2016                               | 2015      |
| Interest and dividend income                                   |                                     |          |                                    |           |
| Loans, including fees  | \$ 4,014                            | \$ 3,918 | \$ 11,931                          | \$ 11,422 |
| Taxable securities   | 85                                  | 90       | 237                                | 252       |
| Non-taxable securities   | 18                                  | 39       | 67                                 | 125       |
| Federal funds sold   | 7                                   | 11       | 30                                 | 48        |
| Dividends on Federal Home Loan Bank stock and other            | 42                                  | 60       | 126                                | 170       |
| Total interest and dividend income                             | 4,166                               | 4,118    | 12,391                             | 12,017    |
| Interest expense   |                                     |          |                                    |           |
| Deposits   |                                     |          |                                    |           |
| Demand   | 34                                  | 28       | 91                                 | 83        |
| Savings  | 9                                   | 9        | 27                                 | 25        |
| Time   | 140                                 | 219      | 453                                | 675       |
| Borrowings   | 249                                 | 322      | 773                                | 958       |
| Total interest expense   | 432                                 | 578      | 1,344                              | 1,741     |
| Net interest income  | 3,734                               | 3,540    | 11,047                             | 10,276    |
| Provision for loan losses                                      | 131                                 | 126      | 307                                | 387       |
| Net interest income after provision for loan losses            | 3,603                               | 3,414    | 10,740                             | 9,889     |
| Noninterest income   |                                     |          |                                    |           |
| Service charges on deposit accounts                            | 667                                 | 731      | 1,968                              | 2,141     |
| Realized gains on sales of loans                               | 25                                  | 11       | 68                                 | 40        |
| BOLI benefit in excess of surrender value                      | —                                   | 29       | —                                  | 29        |
| Realized gains on sales of available –for-sale securities, net | —                                   | —        | —                                  | 31        |
| Other income   | 364                                 | 216      | 789                                | 621       |
| Total noninterest income                                       | 1,056                               | 987      | 2,825                              | 2,862     |
| Noninterest expense  |                                     |          |                                    |           |
| Salaries and employee benefits                                 | 1,835                               | 1,587    | 5,185                              | 4,757     |
| Net occupancy and equipment expense                            | 507                                 | 466      | 1,388                              | 1,460     |
| Professional services  | 175                                 | 187      | 555                                | 555       |
| Insurance  | 60                                  | 65       | 165                                | 191       |
| Deposit insurance premiums                                     | 63                                  | 63       | 169                                | 177       |
| Franchise and other taxes                                      | 76                                  | 78       | 244                                | 218       |
| Advertising  | 86                                  | 84       | 237                                | 253       |
| Stationery and office supplies                                 | 28                                  | 33       | 85                                 | 110       |
| Amortization of intangible asset                               | —                                   | 7        | —                                  | 66        |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Provision for losses on foreclosed real estate and net of gains and losses on sales | 6       | 67      | 16      | 67      |
| Other expenses  | 509     | 545     | 1,694   | 1,572   |
| Total noninterest expense   | 3,345   | 3,182   | 9,738   | 9,426   |
| Income before federal income taxes  | 1,314   | 1,219   | 3,827   | 3,325   |
| Federal income taxes  | 386     | 360     | 1,148   | 967     |
| Net income  | \$ 928  | \$ 859  | \$2,679 | \$2,358 |
| EARNINGS PER COMMON SHARE   |         |         |         |         |
| Basic   | \$ 0.18 | \$ 0.17 | \$0.54  | \$0.48  |
| Diluted   | \$ 0.18 | \$ 0.17 | \$0.53  | \$0.47  |
| DIVIDENDS PER COMMON SHARE  |         |         |         |         |
|   | \$ 0.11 | \$ 0.09 | \$0.31  | \$0.27  |

*See Notes to Condensed Consolidated Financial Statements*



United Bancorp, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

|   | Three months<br>ended<br>September 30, |        | Nine months ended<br>September 30, |          |
|---|--|--------|------------------------------------|----------|
|   | 2016                                   | 2015   | 2016                               | 2015     |
| Net income  | \$ 928                                 | \$ 859 | \$ 2,679                           | \$ 2,358 |
| Other comprehensive income, net of tax:   |  |        |                                    |          |
| Reclassification adjustment for net realized gains on available-for-sale securities included in net income during the period, net of taxes of \$0, \$0, \$0 and \$(11) for each respective period | —                                      | —      | —                                  | (20 )    |
| Unrealized holding (losses) gains on securities during the period, net of taxes (benefits) of \$(3), \$27, \$1 and \$0 for each respective period   | (6 )                                   | 52     | 2                                  | —        |
| Comprehensive income  | \$ 922                                 | \$ 911 | \$ 2,681                           | \$ 2,338 |

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

|  | Nine months ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2016                               | 2015         |
| <b>Operating Activities</b>  |                                    |              |
| Net income   | \$2,679                            | \$2,358      |
| Items not requiring (providing) cash                                 |                                    |              |
| Depreciation and amortization  | 601                                | 729          |
| Amortization of intangible asset                                     | —                                  | 66           |
| Expense related to share based compensation plans                    | 103                                | 126          |
| Provision for loan losses  | 307                                | 387          |
| Provision for losses on foreclosed real estate                       | 6                                  | 55           |
| Bank-owned life insurance  | (233 )                             | 124          |
| Accretion of premiums and discounts on securities, net               | (1 )                               | (1 )         |
| Originations of loans held for sale                                  | (3,294 )                           | (2,337 )     |
| Proceeds from sale of loans held for sale                            | 3,362                              | 2,377        |
| Realized gains on sales of loans                                     | (68 )                              | (40 )        |
| Amortization of ESOP   | 165                                | 144          |
| Realized losses on sales of other real estate and repossessed assets | 10                                 | 12           |
| Realized gains on available-for-sale securities                      | —                                  | (31 )        |
| Realized gains on sale of Great Lake Bankers stock                   | (162 )                             | —            |
| Amortization of mortgage servicing rights                            | 9                                  | 10           |
| Net change in accrued interest receivable and other assets           | (280 )                             | (99 )        |
| Net change in accrued expenses and other liabilities                 | (309 )                             | (284 )       |
| <b>Net cash provided by operating activities</b>                     | <b>2,895</b>                       | <b>3,596</b> |
| <b>Investing Activities</b>  |                                    |              |
| Securities available for sale:                                       |                                    |              |
| Maturities, prepayments and calls                                    | 23,827                             | 27,348       |
| Purchases  | (21,000)                           | (38,997)     |
| Proceeds from sale of available-for-sale securities                  | —                                  | 383          |
| Securities held to maturity:   |                                    |              |
| Maturities, prepayments and calls                                    | —                                  | 215          |
| Net change in loans  | (21,250)                           | (10,591)     |
| Proceeds from sale of Great Lake Bankers Bank stock                  | 208                                | —            |
| Purchases of premises and equipment                                  | (1,959 )                           | (1,063 )     |
| Proceeds from sale of other real estate and repossessed assets       | 70                                 | 710          |

|                                       |          |          |
|---------------------------------------|----------|----------|
| Net cash used by investing activities | (20,104) | (21,995) |
|---------------------------------------|----------|----------|

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

Condensed Consolidated Statements of Cash Flows (continued)

(In thousands)

(Unaudited)

|   | Nine months ended<br>September 30, |              |
|---|------------------------------------|--------------|
|   | 2016                               | 2015         |
| <b>Financing Activities</b>   |                                    |              |
| Net change in deposits  | \$4,490                            | \$516        |
| Net change in short-term borrowings   | 7,863                              | 5,146        |
| Net change in Federal Home Loan Bank overnight borrowings                         | 13,200                             | —            |
| Repayments of long-term borrowings  | (6,125 )                           | (132 )       |
| Cash dividends paid on common stock   | (1,673 )                           | (1,451 )     |
| <br>Net cash provided by financing activities                                     | <br>17,755                         | <br>4,079    |
| <br>Increase (Decrease) in Cash and Cash Equivalents                              | <br>546                            | <br>(14,320) |
| Cash and Cash Equivalents, Beginning of Period                                    | 12,701                             | 39,164       |
| <br>Cash and Cash Equivalents, End of Period                                      | <br>\$13,247                       | <br>\$24,844 |
| <br><b>Supplemental Cash Flows Information</b>                                    |                                    |              |
| Interest paid on deposits and borrowings  | \$1,362                            | \$1,753      |
| <br>Federal income taxes paid   | <br>\$1,007                        | <br>\$605    |
| <br><b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b> |                                    |              |
| Vesting of restricted stock   | \$—                                | \$39         |

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

#### Note 1: Summary of Significant Accounting Policies

These interim financial statements are prepared without audit and reflect all adjustments which, in the opinion of management, are necessary to present fairly the financial position of United Bancorp, Inc. (“Company”) at September 30, 2016, and its results of operations and cash flows for the interim periods presented. All such adjustments are normal and recurring in nature. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not purport to contain all the necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances and should be read in conjunction with the Company’s consolidated financial statements and related notes for the year ended December 31, 2015 included in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Consolidated Financial Statements contained in its Annual Report on Form 10-K. The results of operations for the three months and nine months ended, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2015 has been derived from the audited consolidated balance sheet of the Company as of that date.

#### Principles of Consolidation

The consolidated financial statements include the accounts of United Bancorp, Inc. (“United” or “the Company”) and its wholly-owned subsidiary, The Citizens Savings Bank of Martins Ferry, Ohio (“the Bank” or “Citizens”). The Bank operates two divisions, The Community Bank, a division of The Citizens Savings Bank and The Citizens Bank, a division of The Citizens Savings Bank. All intercompany transactions and balances have been eliminated in consolidation.

#### Nature of Operations

The Company’s revenues, operating income, and assets are almost exclusively derived from banking. Accordingly, all of the Company’s banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Athens, Belmont, Carroll, Fairfield, Harrison, Jefferson, and Tuscarawas Counties and the surrounding localities in northeastern, east-central and southeastern Ohio, and include a wide range

of individuals, businesses and other organizations. The Citizens Bank division conducts its business through its main office in Martins Ferry, Ohio and branches in Bridgeport, Colerain, Dellroy, Dillonvale, Dover, Jewett, New Philadelphia, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg, and Tiltonsville, Ohio. The Citizens Bank division also operates a Loan Production office in Wheeling, West Virginia. The Community Bank division conducts its business through its main office in Lancaster, Ohio and branches in Amesville, Glouster, Lancaster, and Nelsonville, Ohio. The Company's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate and are not considered "sub prime" type loans. The targeted lending areas of our Bank operations encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's branch locations.

#### Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

## Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off residential and consumer loans when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 120 days past due, charge-off of unsecured open-end loans when the loan is 120 days past due, and charge down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

#### 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 uncollectability 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 collectability 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.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior five years. Management believes the three year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. 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 non-homogenous type loans such as commercial, non-owner residential 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. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as bad debt expense.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old, and a new appraisal is not performed, due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted generally 10% -35% based on the age of the appraisal, condition of the subject property, and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses. The potential for outdated appraisal values is considered in our determination of the allowance for loan losses through our analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, trouble debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

#### Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential 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 Company relate to outstanding stock options and restricted stock awards and are determined using the treasury stock method.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Treasury stock shares, deferred compensation shares and unearned ESOP shares are not deemed outstanding for earnings per share calculations.

|   | Three months ended<br>September 30,             |           | Nine months ended<br>September 30, |           |
|---|---|-----------|------------------------------------|-----------|
|   | 2016  | 2015      | 2016                               | 2015      |
|   | (In thousands, except share and per share data) |           |                                    |           |
| <b>Basic</b>  |   |           |                                    |           |
| Net income  | \$928   | \$859     | \$2,679                            | \$2,358   |
| Dividends on non-vested restricted stock  | (20 )   | (14 )     | (48 )                              | (42 )     |
| Net income allocated to stockholders  | \$908   | \$845     | \$2,631                            | \$2,316   |
| Weighted average common shares outstanding                                      | 4,944,328                                       | 4,860,742 | 4,895,371                          | 4,856,308 |
| Basic earnings per common share   | \$0.18  | \$0.17    | \$0.54                             | \$0.48    |
| <b>Diluted</b>  |   |           |                                    |           |
| Net income allocated to stockholders  | \$908   | \$845     | \$2,631                            | \$2,316   |
| Weighted average common shares outstanding for basic earnings per common share  | 4,944,328                                       | 4,860,742 | 4,895,371                          | 4,856,308 |
| Add: Dilutive effects of assumed exercise of stock options and restricted stock | 116,277   | 89,411    | 116,276                            | 89,411    |
| Average shares and dilutive potential common shares                             | 5,060,605                                       | 4,950,153 | 5,011,647                          | 4,945,719 |
| Diluted earnings per common share   | \$0.18  | \$0.17    | \$0.53                             | \$0.47    |

Options to purchase 53,714 shares of common stock at a weighted-average exercise price of \$10.34 per share were outstanding at September 30, 2015, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. There are no outstanding options at September 30, 2016.

Income Taxes

The Company is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before 2012.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

#### Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15 "*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*." ASU 2016-15 provides cash flow statement classification guidance for certain transactions including how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is assessing ASU 2016-15 but does not expect a significant impact on its accounting and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*." The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of ASU 2016-13 on its accounting and disclosures.

*ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"*



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

ASU No. 2016-09 was issued in March 2016 and affects all entities that issue share-based payment awards to their employees. The new guidance involves several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU No. 2016-09, any excess tax benefits or tax deficiencies should be recognized as income tax expense or benefit in the income statement. Excess tax benefits are to be classified as an operating activity in the statement of cash flows. In accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, as required under current guidance, or account for forfeitures when they occur. For an award to qualify for equity classification, an entity cannot partially settle the award in excess of the employer's maximum statutory withholding requirements. Such cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. The amendments in ASU No. 2016-09 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Adoption of ASU No. 2016-09 is not expected to have a material impact on Company's results of operations or financial position.

*ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"*

ASU No. 2016-01 was issued in January 2016 and applies to all entities that hold financial assets or owe financial liabilities. It makes targeted changes to generally accepted accounting principles for public companies as follows:

1. Requires most equity investments to be measured at fair value with changes in fair value recognized in net income. Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.
2. Eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
3. Requires use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

Requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

7. Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

For public business entities, the new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. Adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's results of operations or financial position.

In May 2014, the FASB issued ASU No. 2014-09 "*Revenue from Contracts with Customers (Topic 606)*" (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. Originally, the amendments in ASU 2014-09 were effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. In July 2015, the FASB extended the implementation date to annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 31, 2016, including interim periods within that reporting period. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

ASU No. 2014-11, Transfer and Servicing (Topic) 860): "*Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*"

ASU No. 2014-11 was issued in June 2014 and requires two accounting changes:

The accounting for repurchase-to-maturity transactions is changed to secured borrowings accounting, and

for repurchase financing arrangements, separate accounting is required for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which results in secured borrowing accounting.

Additional disclosures are required. ASU No. 2014-11 was effective for first interim or annual reporting period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Company adopted ASU 2014-11 as required, without a material impact on the Company's financial position or results of operations.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

On February 25, 2016, the FASB issued ASU 2016-02 “*Leases (Topic 842)*.” ASU 2016-02 is intended to improve financial reporting about leasing transactions. This ASU affects all companies and other organization that lease assets such as real estate, airplanes, and manufacturing equipment.

Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement:

- (a) Some leases are classified as capital where by the lessee would recognize lease assets and liabilities on the balance sheet.
- (b) Other leases are classified as operating leases whereby the lessee would not recognize lease assets and liabilities on the balance sheet.

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease.

However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet.

For public companies, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Thus, for a calendar year company, it would be effective January 1, 2019. The Company is currently evaluating the effects of this ASU on its financial statements and disclosures, if any.

Note 2: Securities

The amortized cost and fair values, together with gross unrealized gains and losses of securities are as follows:

|                                  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|----------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                  | (In thousands)    |                              |                               |               |
| Available-for-sale Securities:   |                   |                              |                               |               |
| September 30, 2016               |                   |                              |                               |               |
| U.S. government agencies         | \$30,000          | \$ 2                         | \$ (18                        | ) \$29,984    |
| State and political subdivisions | 1,813             | 6                            | —                             | 1,819         |
|                                  | \$31,813          | \$ 8                         | \$ (18                        | ) \$31,803    |
| Available-for-sale Securities:   |                   |                              |                               |               |
| December 31, 2015:               |                   |                              |                               |               |
| U.S. government agencies         | \$32,000          | \$ 11                        | \$ (50                        | ) \$31,961    |
| State and political subdivisions | 2,637             | 25                           | —                             | 2,662         |
|                                  | \$34,637          | \$ 36                        | \$ (50                        | ) \$34,623    |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

The amortized cost and fair value of available-for-sale securities at September 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                   | Available-for-sale |            |
|-------------------|--------------------|------------|
|                   | Amortized Cost     | Fair Value |
|                   | (in thousands)     |            |
| Within one year   | \$ 520             | \$ 521     |
| One to five years | 31,293             | 31,282     |
| Totals            | \$ 31,813          | \$ 31,803  |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$28.8 and \$22.6 million at September 30, 2016 and December 31, 2015, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at September 30, 2016 and December 31, 2015, was \$15.0 million and \$24.0 million, which represented approximately 47.2% and 69.2%, respectively, of the Company's available-for-sale portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary and are a result on an general increase in longer term interest rates.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2016 and December 31, 2015:

September 30, 2016

| Description of Securities | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                           | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
|                           | (In thousands)      |                   |                   |                   |            |                   |
| U.S. Government agencies  | \$14,982            | \$ (18 )          | \$ —              | \$ —              | \$14,982   | \$ (18 )          |



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

December 31, 2015

| Description of Securities | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                           | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |

(In thousands)

|                          |          |          |      |      |          |          |
|--------------------------|----------|----------|------|------|----------|----------|
| U.S. Government agencies | \$23,950 | \$ (50 ) | \$ — | \$ — | \$23,950 | \$ (50 ) |
|--------------------------|----------|----------|------|------|----------|----------|

The unrealized losses on the Company's investments in U.S. Government agency were caused primarily by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely the Company will be required or need to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016 and December 31, 2015.

For the nine months ended September 30, 2015, proceeds from the sale of investment securities available-for-sale were \$383,000, with gross realized gains of \$31,000, and gross realized losses of zero. The gain is included in realized gains on sales of available-for-sale securities, net in the noninterest income section of the statement of income. There were no available-for-sale investment sales for the nine months ended September 30, 2016.

There were no investment sales for the three months ended September 30, 2016 and 2015.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Note 3: Loans and Allowance for Loan Losses

Categories of loans include:

|                                    | September<br>30,<br>2016<br>(In thousands) | December 31,<br>2015 |
|------------------------------------|--|----------------------|
| Commercial loans                   | \$89,820                                   | \$ 67,247            |
| Commercial real estate             | 168,517                                    | 163,459              |
| Residential real estate            | 77,469                                     | 81,498               |
| Installment loans                  | 14,836                                     | 17,459               |
| <br>Total gross loans              | <br>350,642                                | <br>329,663          |
| <br>Less allowance for loan losses | <br>(2,454 )                               | <br>(2,437 )         |
| <br>Total loans                    | <br>\$348,188                              | <br>\$ 327,226       |

The risk characteristics of each loan portfolio segment are as follows:

#### Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial Real Estate

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Residential and Consumer

Residential and consumer loans consist of two segments - residential mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

**Allowance for Loan Losses and Recorded Investment in Loans****As of and for the three and nine month period ended September 30, 2016**

|   | Commercial     | Commercial<br>Real Estate | Residential | Installment | Unallocated | Total     |
|---|----------------|---------------------------|-------------|-------------|-------------|-----------|
|   | (In thousands) |                           |             |             |             |           |
| Allowance for loan losses:                            |                |                           |             |             |             |           |
| Balance, July 1, 2016                                 | \$497          | \$ 427                    | \$ 163      | \$ 141      | \$ 1,237    | \$2,465   |
| Provision charged to expense                          | (272 )         | 246                       | 11          | 41          | 105         | 131       |
| Losses charged off                                    | —              | (108 )                    | (24 )       | (53 )       | —           | (185 )    |
| Recoveries  | 1              | 14                        | 10          | 18          | —           | 43        |
| Balance, September 30, 2016                           | \$226          | \$ 579                    | \$ 160      | \$ 147      | \$ 1,342    | \$2,454   |
| Balance, January 1, 2016                              | \$184          | \$ 597                    | \$ 170      | \$ 113      | \$ 1,373    | \$2,437   |
| Provision charged to expense                          | (34 )          | 69                        | 83          | 220         | (31 )       | 307       |
| Losses charged off                                    | (2 )           | (108 )                    | (115 )      | (244 )      | —           | (469 )    |
| Recoveries  | 78             | 21                        | 22          | 58          | —           | 179       |
| Balance, September 30, 2016                           | \$226          | \$ 579                    | \$ 160      | \$ 147      | \$ 1,342    | \$2,454   |
| Ending balance: individually evaluated for impairment | \$—            | \$ 156                    | \$—         | \$—         | \$—         | \$156     |
| Ending balance: collectively evaluated for impairment | \$226          | \$ 423                    | \$ 160      | \$ 147      | \$ 1,342    | \$2,298   |
| Loans:  |                |                           |             |             |             |           |
| Ending balance: individually evaluated for impairment | \$ 19          | \$ 1,340                  | \$—         | \$—         | \$—         | \$1,359   |
| Ending balance: collectively evaluated for impairment | \$89,801       | \$ 167,177                | \$ 77,469   | \$ 14,836   | \$—         | \$349,283 |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

**Allowance for Loan Losses and Recorded Investment in Loans****As of and for the three and nine month period ended September 30, 2015**

|   | Commercial     | Commercial<br>Real Estate | Residential | Installment | Unallocated | Total     |
|---|----------------|---------------------------|-------------|-------------|-------------|-----------|
|   | (In thousands) |                           |             |             |             |           |
| Allowance for loan losses:                            |                |                           |             |             |             |           |
| Balance, July 1, 2015                                 | \$234          | \$ 771                    | \$ 172      | \$ 276      | \$ 1,244    | \$2,697   |
| Provision charged to expense                          | 7              | (28 )                     | 14          | 46          | 87          | 126       |
| Losses charged off                                    | —              | —                         | (20 )       | (103 )      | —           | (123 )    |
| Recoveries  | —              | 4                         | 7           | 16          | —           | 27        |
| Balance, September 30, 2015                           | \$241          | \$ 747                    | \$ 173      | \$ 235      | \$ 1,331    | \$2,727   |
| Balance, January 1, 2015                              | \$254          | \$ 1,116                  | \$ 92       | \$ 147      | \$ 791      | \$2,400   |
| Provision charged to expense                          | (39 )          | (380 )                    | 80          | 186         | 540         | 387       |
| Losses charged off                                    | —              | —                         | (20 )       | (196 )      | —           | (216 )    |
| Recoveries  | 26             | 11                        | 21          | 98          | —           | 156       |
| Balance, September 30, 2015                           | \$241          | \$ 747                    | \$ 173      | \$ 235      | \$ 1,331    | \$2,727   |
| Ending balance: individually evaluated for impairment | \$84           | \$ 331                    | \$ —        | \$ 129      | \$ —        | \$544     |
| Ending balance: collectively evaluated for impairment | \$157          | \$ 416                    | \$ 173      | \$ 106      | \$ 1,331    | \$2,183   |
| Loans:  |                |                           |             |             |             |           |
| Ending balance: individually evaluated for impairment | \$96           | \$ 1,496                  | \$ —        | \$ 224      | \$ —        | \$1,816   |
| Ending balance: collectively evaluated for impairment | \$61,625       | \$ 161,726                | \$ 83,200   | \$ 17,958   | \$ —        | \$324,509 |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

### Allowance for Loan Losses and Recorded Investment in Loans

As of December 31, 2015

|   | Commercial     | Commercial<br>Real Estate | Residential | Installment | Unallocated | Total     |
|---|----------------|---------------------------|-------------|-------------|-------------|-----------|
|   | (In thousands) |                           |             |             |             |           |
| Allowance for loan losses:                            |                |                           |             |             |             |           |
| Ending balance: individually evaluated for impairment | \$9            | \$ 172                    | \$ —        | \$ —        | \$ —        | \$181     |
| Ending balance: collectively evaluated for impairment | \$175          | \$ 425                    | \$ 170      | \$ 113      | \$ 1,373    | \$2,256   |
| Loans:  |                |                           |             |             |             |           |
| Ending balance: individually evaluated for impairment | \$57           | \$ 1,273                  | \$ —        | \$ 80       | \$ —        | \$1,410   |
| Ending balance: collectively evaluated for impairment | \$67,190       | \$ 162,186                | \$ 81,498   | \$ 17,379   | \$ —        | \$328,253 |

The following tables show the portfolio quality indicators.

| Loan Class      | September 30, 2016 |                           |             |             |           |
|-----------------|--------------------|---------------------------|-------------|-------------|-----------|
|                 | Commercial         | Commercial<br>Real Estate | Residential | Installment | Total     |
|                 | (In thousands)     |                           |             |             |           |
| Pass Grade      | \$86,543           | \$ 163,821                | \$ 77,469   | \$ 14,836   | \$342,669 |
| Special Mention | 3,183              | 3,274                     | —           | —           | 6,457     |
| Substandard     | 94                 | 1,422                     | —           | —           | 1,516     |
| Doubtful        | —                  | —                         | —           | —           | —         |
|                 | \$89,820           | \$ 168,517                | \$ 77,469   | \$ 14,836   | \$350,642 |

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| Loan Class      | December 31, 2015 |                           | Residential | Installment | Total     |
|-----------------|-------------------|---------------------------|-------------|-------------|-----------|
|                 | Commercial        | Commercial<br>Real Estate |             |             |           |
|                 | (In thousands)    |                           |             |             |           |
| Pass Grade      | \$67,150          | \$ 158,362                | \$ 81,498   | \$ 17,363   | \$324,373 |
| Special Mention | 39                | 996                       | —           | —           | 1,035     |
| Substandard     | 58                | 4,101                     | —           | 96          | 4,255     |
| Doubtful        | —                 | —                         | —           | —           | —         |
|                 | \$67,247          | \$ 163,459                | \$ 81,498   | \$ 17,459   | \$329,663 |



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

To facilitate the monitoring of credit quality within the loan portfolio, and for purposes of analyzing historical loss rates used in the determination of the ALLL, the Company utilizes the following categories of credit grades: pass, special mention, substandard, and doubtful. The four categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass ratings, which are assigned to those borrowers that do not have identified potential or well defined weaknesses and for which there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on at least a quarterly basis.

The Company assigns a special mention rating to loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or the Company's credit position.

The Company assigns a substandard rating to loans that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans and leases in this grade also are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies noted are not addressed and corrected.

The Company assigns a doubtful rating to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant changes were made to either during the past year to date period.

**Loan Portfolio Aging Analysis****As of September 30, 2016**

|                        | 30-59<br>Days<br>Past<br>Due<br>and<br>Accruing<br>(In thousands) | 60-89 Days<br>Past Due<br>and<br>Accruing | Greater<br>Than 90<br>Days and<br>Accruing | Non<br>Accrual | Total Past<br>Due and<br>Non Accrual | Current   | Total Loans<br>Receivable |
|------------------------|---|---|--|----------------|--------------------------------------|-----------|---------------------------|
| Commercial             | \$198   | \$ —                                      | \$ 75                                      | \$ 49          | \$ 322                               | \$89,498  | \$ 89,820                 |
| Commercial real estate | 34  | —   | —  | 290            | 324                                  | 168,193   | 168,517                   |
| Residential            | 363   | 586                                       | —  | 1,001          | 1,950                                | 75,519    | 77,469                    |
| Installment            | 93  | —   | —  | 59             | 152                                  | 14,684    | 14,836                    |
| Total                  | \$688   | \$ 586                                    | \$ 75                                      | \$ 1,399       | \$ 2,748                             | \$347,894 | \$ 350,642                |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

### Loan Portfolio Aging Analysis

As of December 31, 2015

|                        | 30-59<br>Days<br>Past<br>Due<br>and<br>Accruing<br>(In thousands) | 60-89 Days<br>Past Due<br>and<br>Accruing | Greater<br>Than 90<br>Days and<br>Accruing | Non Accrual | Total Past<br>Due and<br>Non Accrual | Current    | Total Loans<br>Receivable |
|------------------------|---|---|--|-------------|--------------------------------------|------------|---------------------------|
| Commercial             | \$ 141  | \$ —                                      | \$ —                                       | \$ 63       | \$ 204                               | \$ 67,043  | \$ 67,247                 |
| Commercial real estate | 319   | —   | 132  | 250         | 701                                  | 162,758    | 163,459                   |
| Residential            | 737   | 500                                       | —  | 599         | 1,836                                | 79,662     | 81,498                    |
| Installment            | 220   | 71  | —  | 132         | 423                                  | 17,036     | 17,459                    |
| Total                  | \$ 1,417  | \$ 571                                    | \$ 132                                     | \$ 1,044    | \$ 3,164                             | \$ 326,499 | \$ 329,663                |

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

**Impaired Loans**

|   | As of September 30, 2016 |                                |                       | For the three months<br>ended<br>September 30, 2016 |                                  | For the nine months<br>ended<br>September 30, 2016 |                                  |
|---|--------------------------|--------------------------------|-----------------------|---|----------------------------------|--|----------------------------------|
|   | Recorded<br>Balance      | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in<br>Impaired<br>Loans    | Interest<br>Income<br>Recognized | Average<br>Investment<br>in<br>Impaired<br>Loans   | Interest<br>Income<br>Recognized |
|   | (In thousands)           |                                |                       |   |                                  |  |                                  |
| Loans without a specific valuation allowance: |                          |                                |                       |   |                                  |  |                                  |
| Commercial                                    | \$19                     | \$19                           | \$ —                  | \$ 19   | \$ —                             | \$ 19  | \$ —                             |
| Commercial real estate                        | 707                      | 815                            | —                     | 1,219   | 15                               | 1,228  | 32                               |
| Residential                                   | —                        | —                              | —                     | —   | —                                | —  | —                                |
| Installment                                   | —                        | —                              | —                     | —   | —                                | —  | —                                |
|   | 726                      | 834                            | —                     | 1,238   | 15                               | 1,247  | 32                               |
| Loans with a specific valuation allowance:    |                          |                                |                       |   |                                  |  |                                  |
| Commercial                                    | —                        | —                              | —                     | —   | —                                | —  | —                                |
| Commercial real estate                        | 633                      | 633                            | 156                   | 757   | 4                                | 769  | 21                               |
| Residential                                   | —                        | —                              | —                     | —   | —                                | —  | —                                |
| Installment                                   | —                        | —                              | —                     | —   | —                                | —  | 2                                |
|   | 633                      | 633                            | 156                   | 757   | 4                                | 769  | 23                               |
| Total:  |                          |                                |                       |   |                                  |  |                                  |
| Commercial                                    | \$19                     | \$19                           | \$ —                  | \$ 19   | \$ —                             | \$ 19  | \$ —                             |
| Commercial real estate                        | \$1,340                  | \$1,448                        | \$ 156                | \$ 1,976  | \$ 19                            | \$ 1,997   | \$ 53                            |
| Residential                                   | \$—                      | \$—                            | \$ —                  | \$ —  | \$ —                             | \$ —   | \$ —                             |
| Installment                                   | \$—                      | \$—                            | \$ —                  | \$ —  | \$ —                             | \$ —   | \$ 2                             |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

**Impaired Loans**

|   | As of December 31, 2015 |                                |                       | For the three months<br>ended<br>September 30, 2015 | For the nine months<br>ended<br>September 30, 2015 |  |                                  |
|---|-------------------------|--------------------------------|-----------------------|---|--|--|----------------------------------|
|   | Recorded<br>Balance     | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in<br>Impaired<br>Loans    | Interest<br>Income<br>Recognized                   | Average<br>Investment<br>in<br>Impaired<br>Loans | Interest<br>Income<br>Recognized |
| (In thousands)                                |                         |                                |                       |   |  |  |                                  |
| Loans without a specific valuation allowance: |                         |                                |                       |   |  |  |                                  |
| Commercial                                    | \$44                    | \$ 74                          | \$ —                  | \$ —  | \$ —   | \$ —   | \$ —                             |
| Commercial real estate                        | 464                     | 464                            | —                     | 895   | 5  | 1,162  | 31                               |
| Residential                                   | 80                      | 203                            | —                     | —   | —  | —  | —                                |
| Installment                                   | —                       | —                              | —                     | —   | —  | —  | —                                |
|   | 588                     | 741                            | —                     | 895   | 5  | 1,162  | 31                               |
| Loans with a specific valuation allowance:    |                         |                                |                       |   |  |  |                                  |
| Commercial                                    | 13                      | 49                             | 9                     | 98  | 1  | 101  | 5                                |
| Commercial real estate                        | 809                     | 961                            | 172                   | 1,077   | 9  | 1,078  | 27                               |
| Residential                                   | —                       | —                              | —                     | —   | —  | —  | —                                |
| Installment                                   | —                       | —                              | —                     | 235   | 10   | 237  | 14                               |
|   | 822                     | 1,010                          | 181                   | 1,410   | 20   | 1,416  | 46                               |
| Total:  |                         |                                |                       |   |  |  |                                  |
| Commercial                                    | \$57                    | \$ 123                         | \$ 9                  | \$ 98   | \$ 1   | \$ 101   | \$ 5                             |
| Commercial real estate                        | \$1,273                 | \$ 1,425                       | \$ 172                | \$ 1,972  | \$ 14  | \$ 2,240   | \$ 58                            |
| Residential                                   | \$80                    | \$ 203                         | \$ —                  | \$ —  | \$ —   | \$ —   | \$ —                             |
| Installment                                   | \$—                     | \$—                            | \$ —                  | \$ 235  | \$ 10  | \$ 237   | \$ 14                            |

Interest income recognized on a cash basis was not materially different than interest income recognized.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

For the TDRs noted in the tables below, the Company extended the maturity dates and granted interest rate concessions as part of each of those loan restructurings. The loans included in the tables are considered impaired and specific loss calculations are performed on the individual loans. In conjunction with the restructuring there were no amounts charged-off.

Three Months ended September 30, 2016

|                        | Number<br>of<br>Contracts | Pre- Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|------------------------|---------------------------|--|--|
|                        |                           | (In thousands)   |  |
| Commercial             | 1                         | \$ 17  | \$ 17  |
| Commercial real estate | 1                         | 29   | 29   |
| Residential            | —                         | —  | —  |
| Installment            | —                         | —  | —  |

Three Months ended September 30, 2016

|                        | Interest<br>Only | Term           | Combination | Total<br>Modification |
|------------------------|------------------|----------------|-------------|-----------------------|
|                        |                  | (In thousands) |             |                       |
| Commercial             | \$ —             | \$ 17          | \$ —        | \$ 17                 |
| Commercial real estate | —                | 29             | —           | 29                    |
| Residential            | —                | —              | —           | —                     |
| Consumer               | —                | —              | —           | —                     |

**Nine Months ended September 30, 2016**

|  | Number<br>of<br>Contracts | Pre- Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|--|---------------------------|--|--|
|  |                           | (In thousands)   |  |

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|                        |   |       |       |
|------------------------|---|-------|-------|
| Commercial             | 1 | \$ 17 | \$ 17 |
| Commercial real estate | 3 | 115   | 115   |
| Residential            | — | —     | —     |
| Installment            | — | —     | —     |

Nine Months Ended September 30, 2016

|                        | Interest<br>Only | Term  | Combination | Total<br>Modification |
|------------------------|------------------|-------|-------------|-----------------------|
|                        | (In thousands)   |       |             |                       |
| Commercial             | \$ —             | \$ 17 | \$ —        | \$ 17                 |
| Commercial real estate | —                | 115   | —           | 115                   |
| Residential            | —                | —     | —           | —                     |
| Consumer               | —                | —     | —           | —                     |



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Three Months ended September 30, 2015

|                        | Number<br>of<br>Contracts | Pre- Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|------------------------|---------------------------|--|--|
|                        | (In thousands)            |  |  |
| Commercial             | 2                         | \$ 40  | \$ 40  |
| Commercial real estate | 1                         | 62   | 62   |
| Residential            | —                         | —  | —  |
| Installment            | —                         | —  | —  |

Three Months Ended September 30, 2015

|                        | Interest<br>Only | Term  | Combination | Total<br>Modification |
|------------------------|------------------|-------|-------------|-----------------------|
|                        | (In thousands)   |       |             |                       |
| Commercial             | \$ —             | \$ 40 | \$ —        | \$ 40                 |
| Commercial real estate | —                | 62    | —           | 62                    |
| Residential            | —                | —     | —           | —                     |
| Consumer               | —                | —     | —           | —                     |

Nine Months ended September 30, 2015

|                        | Number<br>of<br>Contracts | Pre- Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|------------------------|---------------------------|--|--|
|                        | (In thousands)            |  |  |
| Commercial             | 2                         | \$ 40  | \$ 40  |
| Commercial real estate | 1                         | 62   | 62   |
| Residential            | —                         | —  | —  |
| Installment            | —                         | —  | —  |

Nine Months Ended September 30, 2015

Term                      Combination

|                        | Interest<br>Only      |       | Total<br>Modification |       |
|------------------------|-----------------------|-------|-----------------------|-------|
|                        | <b>(In thousands)</b> |       |                       |       |
| Commercial             | \$ —                  | \$ 40 | \$ —                  | \$ 40 |
| Commercial real estate | —                     | 62    | —                     | 62    |
| Residential            | —                     | —     | —                     | —     |
| Consumer               | —                     | —     | —                     | —     |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

During the nine the months ended September 30, 2016, troubled debt restructurings described above increased the allowance for loan losses by \$8,000. During the nine months ended September 30, 2015, troubled debt restructurings did not have an impact on the allowance for loan losses.

At September 30, 2016 and 2015 and for three and nine month periods then ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

Note 4: Benefit Plans

Pension expense includes the following:

|   | Three<br>months<br>ended<br>September<br>30, |      | Nine months ended<br>September 30, |        |
|---|--|------|------------------------------------|--------|
|   | 2016   | 2015 | 2016                               | 2015   |
|   | (In thousands)                               |      |                                    |        |
| Service cost                                    | \$78   | \$85 | \$ 234                             | \$ 255 |
| Interest cost                                   | 50   | 48   | 150                                | 144    |
| Expected return on assets                       | (86)   | (94) | (258 )                             | (282 ) |
| Amortization of prior service cost and net loss | (2 )   | (12) | (6 )                               | (36 )  |
| Pension expense                                 | \$40   | \$27 | \$ 120                             | \$ 81  |

Note 5: Off-balance-sheet Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contracts are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk at the indicated dates is as follows:

|   | September<br>30,<br>2016<br>(In thousands) | December 31,<br>2015 |
|---|--|----------------------|
| Commercial loans unused lines of credit | \$23,857                                   | \$ 18,604            |
| Commitment to originate loans           | 13,121                                     | 11,275               |
| Consumer open end lines of credit       | 35,632                                     | 36,410               |

Note 6: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

|   | September<br>30,<br>2016<br>(In thousands) | December 31,<br>2015 |
|---|--|----------------------|
| Net unrealized loss on securities available-for-sale                    | \$(10 )                                    | \$ (14 )             |
| Net unrealized loss for funded status of defined benefit plan liability | (261 )                                     | (261 )               |
| Tax effect  | (271 )<br>92                               | (275 )<br>94         |
| Net-of-tax amount   | \$(179 )                                   | \$ (181 )            |

Note 7: Fair Value Measurements

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company also utilizes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Company's equity securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and December 31, 2015:

|                          | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------|------------|--|---|---|
|                          |            | Fair Value Measurements Using                                  |   |   |
|                          |            | Quoted Prices in Active Markets for Identical Assets (Level 1) |   |   |
|                          |            | Significant Other Observable Inputs (Level 2)                  |   |   |
|                          |            | Significant Unobservable Inputs (Level 3)                      |   |   |
|                          |            | (In thousands)   |   |   |
| September 30, 2016       |            |  |   |   |
| U.S. government agencies | \$29,984   | \$ —   | \$ 29,984                                     | \$ —                                      |

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|                                  |          |      |           |      |
|----------------------------------|----------|------|-----------|------|
| State and political subdivisions | 1,819    | —    | 1,819     | —    |
| December 31, 2015                |          |      |           |      |
| U.S. government agencies         | \$31,961 | \$ — | \$ 31,961 | \$ — |
| State and political subdivisions | 2,662    | —    | 2,662     | —    |



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

#### Impaired Loans (Collateral Dependent)

Collateral dependent impaired loans consisted primarily of loans secured by nonresidential real estate. Management has determined fair value measurements on impaired loans primarily through evaluations of appraisals performed. Due to the nature of the valuation inputs, impaired loans are classified within Level 3 of the hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Company's Chief Lender. Appraisals are reviewed for accuracy and consistency by the Company's Chief Lender. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Company's Chief Lender by comparison to historical results.

#### Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value (based on current appraised 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. Management has determined fair value measurements on other real estate owned primarily through evaluations of appraisals performed, and current and past offers for the other real estate under evaluation. Due to the nature of the valuation inputs, foreclosed assets held for sale are classified within Level 3 of the hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the Company's Chief lender. Appraisals are reviewed for accuracy and consistency by the Company's Chief Lender and are selected from the list of approved appraisers maintained by management.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and December 31, 2015.

|                                     | Fair Value Measurements Using   |   |  |        |
|-------------------------------------|---|---|--|--------|
|                                     | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |        |
|                                     | (In thousands)  |   |  |        |
| September 30, 2016                  |   |   |  |        |
| Collateral dependent impaired loans | \$477   | \$ —  | \$ —   | \$ 477 |
| Foreclosed assets held for sale     | 56  | —   | —  | 56     |
| December 31, 2015                   |   |   |  |        |
| Collateral dependent impaired loans | \$641   | \$ —  | \$ —   | \$ 641 |
| Foreclosed assets held for sale     | 327   | —   | —  | 327    |

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

| Fair Value | Valuation<br>Technique | Unobservable Inputs | Range |
|------------|------------------------|---------------------|-------|
| at         |                        |                     |       |

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9/30/16  
(In thousands)

|                                     |       |                              |                           |               |
|-------------------------------------|-------|------------------------------|---------------------------|---------------|
| Collateral-dependent impaired loans | \$477 | Market comparable properties | Comparability adjustments | Not available |
| Foreclosed assets held for sale     | 56    | Market comparable properties | Marketability discount    | 10% – 15%     |

Fair  
Value Valuation  
at Technique  
12/31/15  
(In thousands)

Unobservable Inputs

Range

|                                     |       |                              |                           |               |
|-------------------------------------|-------|------------------------------|---------------------------|---------------|
| Collateral-dependent impaired loans | \$641 | Market comparable properties | Comparability adjustments | Not available |
| Foreclosed assets held for sale     | 327   | Market comparable properties | Marketability discount    | 10% – 35%     |

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

There were no significant changes in the valuation techniques used during 2016.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

|                                 | Carrying Amount | Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------|-----------------|--|---|---|
| (In thousands)                  |                 |  |   |   |
| September 30, 2016              |                 |  |   |   |
| <b>Financial assets</b>         |                 |  |   |   |
| Cash and cash equivalents       | \$13,247        | \$13,247   | \$ —  | \$ —                                      |
| Loans, net of allowance         | 348,188         | —  | —   | 348,101                                   |
| Federal Home Loan Bank stock    | 4,165           | —  | 4,165   | —   |
| Accrued interest receivable     | 787             | —  | 787   | —   |
| <b>Financial liabilities</b>    |                 |  |   |   |
| Deposits                        | 328,112         | —  | 314,174                                       | —   |
| Short term borrowings           | 13,554          | —  | 13,554  | —   |
| Federal Home Loan Bank Advances | 33,605          | —  | 34,177  | —   |
| Subordinated debentures         | 4,124           | —  | 3,238   | —   |
| Interest payable                | 105             | —  | 105   | —   |



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

|                                 | Carrying<br>Amount | Fair Value Measurements Using<br>Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------|--------------------|--|---|--|
| (In thousands)                  |                    |  |   |  |
| December 31, 2015               |                    |  |   |  |
| Financial assets                |                    |  |   |  |
| Cash and cash equivalents       | \$12,701           | \$12,701   | \$ —  | \$ —   |
| Loans, net of allowance         | 327,226            | —  | —   | 325,354  |
| Federal Home Loan Bank stock    | 4,210              | —  | 4,210   | —  |
| Accrued interest receivable     | 803                | —  | 803   | —  |
| Financial liabilities           |                    |  |   |  |
| Deposits                        | 323,622            | —  | 307,172   | —  |
| Short term borrowings           | 5,691              | —  | 5,691   | —  |
| Federal Home Loan Bank Advances | 26,530             | —  | 27,347  | —  |
| Subordinated debentures         | 4,124              | —  | 3,238   | —  |
| Interest payable                | 123                | —  | 123   | —  |

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

Cash and Cash Equivalents, Accrued Interest Receivable and Federal Home Loan Bank Stock

The carrying amounts approximate fair value.





United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

#### Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

#### Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

#### Interest Payable

The carrying amount approximates fair value.

#### Short-term Borrowings, Federal Home Loan Bank Advances and Subordinated Debentures

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

#### Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at September 30, 2016 and December 31, 2015.

Note 8: Repurchase Agreements

Securities sold under agreements to repurchase (“repurchase agreements”) with customers represent funds deposited by customers, generally on an overnight basis that are collateralized by investment securities owned by the Company.

At September 30, 2016 and December 31, 2015, repurchase agreement borrowings totaled \$13,554,000 and \$5,691,000, respectively and are included in short-term borrowings on the consolidated condensed balance sheets. All repurchase agreements are subject to term and conditions of repurchase/security agreements between the Company and the customer and are accounted for as secured borrowings. The Company’s repurchase agreements reflected in short-term borrowings consist of customer accounts and securities which are pledged on an individual security basis.

The following table presents the Company’s repurchase agreements accounted for as secured borrowings:

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2016 and 2015

Remaining Contractual Maturity of the Agreement

(In thousands)

| September 30, 2016               | Overnight<br>and<br>Continuous | Up to 30 Days | 30-90 Days | Greater than 90<br>Days | Total    |
|----------------------------------|--------------------------------|---------------|------------|-------------------------|----------|
| Repurchase Agreements            |                                |               |            |                         |          |
| U.S. government agencies         | \$13,554                       | \$ —          | \$ —       | \$ —                    | \$13,554 |
| State and political subdivisions | —                              | —             | —          | —                       | —        |
| Total                            | \$13,554                       | \$ —          | \$ —       | \$ —                    | \$13,554 |

| December 31, 2015                | Overnight<br>and<br>Continuous | Up to 30 Days | 30-90 Days | Greater than 90<br>Days | Total   |
|----------------------------------|--------------------------------|---------------|------------|-------------------------|---------|
| Repurchase Agreements            |                                |               |            |                         |         |
| U.S. government agencies         | \$1,622                        | \$ —          | \$ —       | \$ —                    | \$1,622 |
| State and political subdivisions | 4,069                          | —             | —          | —                       | 4,069   |
| Total                            | \$5,691                        | \$ —          | \$ —       | \$ —                    | \$5,691 |

These borrowings were collateralized with U.S. government and agency securities with a carrying value of \$15.5 million at September 30, 2016 and \$8.5 million at December 31, 2015. Declines in the fair value would require the Company to pledge additional securities.

**United Bancorp, Inc.**

**ITEM 2. Management's Discussion and Analysis of Financial  
Condition and Results of Operations**

The following discusses the financial condition of the Company as of September 30, 2016, as compared to December 31, 2015, and the results of operations for the three and nine months ended September 30, 2016, compared to the same period in 2015. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

**Introduction**

United Bancorp, Inc. (NASDAQ: UBCP), headquartered in Martins Ferry, Ohio, reported diluted earnings per share of \$0.53 for the nine months ended September 30, 2016, as compared to \$0.47 for the nine months ended September 30, 2015, an increase of 12.8%. This growth in earnings can be attributed to several factors that are explained below in detail. The Company's diluted earnings per share for the three months ended September 30, 2016, was \$0.18, compared to \$0.17 for the same period last year, an increase of 5.9%.

The earnings improvement of our Company for the nine months ended September 30, 2016 is reflective of the growth in loan related earning assets. During this period, the Company's net interest margin increased to a level of 3.87%, as compared to 3.68% for the same period in 2015. This increase in the net interest margin is primarily attributed to the Company experiencing positive organic growth in its loan portfolio, which produced higher levels of interest income, and the continued lowering of its interest expense levels year-over-year. As of September 30, 2016, the Company had gross loans of \$350.6 million, which is an increase of \$24.3 million, or 7.45%, over the same period last year. This is a direct result of the Company's enhanced loan origination platform started in the late second quarter of last year. Having a higher level of funding invested in quality loans, as compared to lower-yielding federal funds, helped drive the increase in the margin. This occurred even though the loan portfolio continued to reprice downward over the course of the past year as the long-end of the yield curve remained at historic low levels. Considering that longer-term Treasury rates (which have a correlation to how the Company's loans reprice) have been priced at relatively the same levels for the past several years, the overall yield in the Company's loan portfolio has stabilized in recent months. The combination of both loan growth and the stabilization of the yield in the Company's loan portfolio should lead to higher levels of interest income being generated in the coming quarters. With stronger loan growth, the Company's funds management policy changed during 2016. In prior years, the majority of surplus funding was invested in very liquid, lower-yielding excess reserves at the Federal Reserve. During the first quarter of 2016, these excess reserves previously invested in lower-yielding investment alternatives were fully depleted and the Company, for the first time in several years, switched to a borrowed position to fund its loan growth by utilizing wholesale funding alternatives. Also, with stronger loan growth, securities and other required stock balances decreased by \$876 thousand to a level of \$36.0 million at the most recent quarter-end as compared to the same period in 2015. Going forward, it is anticipated that the Company's securities portfolio will be maintained at this present level to support its pledge requirement for public depository accounts until investment yields get to more normalized levels. The Company's credit quality has not changed significantly and has remained strong on a year-over-year basis, as nonaccrual loans decreased by \$150,000

to a level of \$1.4 million. Net charge-offs for the nine months ended September 30, 2016, were \$291,000, or 0.09% of average loans. The Company continued to see a decrease in its other real estate and repossessions (“OREO,”) as balances decreased by \$42,000, or 11.7%, to a level of \$320,000. Lastly, the overall total allowance for loan losses to total loans was 0.70%, resulting in a total allowance for loan losses to nonperforming loans of 175.39% at September 30, 2016, as compared to 0.84% and 176.08% respectively at September 30, 2015. During the third quarter of 2016, the Company sold its Bankers Bancshares, Inc. stock and realized a gain of \$162,215.

United Bancorp, Inc.

## **Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

On the liability-side of the balance sheet, the Company continued to see a positive return on its strategy of attracting lower-cost funding accounts, while allowing higher-cost funding to run off. Year-over-year, lower-cost funding, consisting of demand and savings deposits, increased by \$12.0 million and comprised 83.58% of total deposits as of September 30, 2016, as compared to 81.13% of total deposits the year prior. This was one factor that helped the Company reduce its total interest expense by \$398,000, or 22.9%, on a year-over-year basis. The other factors that helped the Company reduce its total interest expense levels during the first nine months of 2016 were the previously announced repricing of the Company's \$4.1 million subordinated debenture on January 1, 2016, from a fixed rate of 6.25% to an average variable rate of approximately 1.96% (which is based on three-month LIBOR plus a margin of 1.35%) and a \$6.0 million Federal Home Loan Bank advance that matured in May at a rate of 3.28%, which was replaced with a short-term borrowing at approximately 50 basis points. Both of these events should save the Company approximately \$344,000 in interest expense on an annualized basis. Lastly, for the quarter, noninterest expense levels increased by \$311,000, or 3.3%. Part of this increase is attributed to the increase in lending personnel that have driven the solid growth in loan production. But, during the second quarter of 2016, the Company was not immune to industry trends related to debit card fraud losses occurring in the primary markets that it serves. As a result, fraud losses and card-related reissuance costs of approximately \$208,000 (\$138,000 after tax or approximately \$0.025 per share dilution) were realized during the second quarter of 2016. During the three-months ended September 30, 2016, the Company received an insurance refund on this fraud of \$50,000. Under consumer regulation, the Company bears the financial loss relating to debit card fraud and its customers are made whole on the loss. During the third quarter, the Company implemented newer fraud prevention technology relating to its debit cards that included a chip-enabled debit card and a smart phone app, "My Mobile Money," that allows our customers to monitor and control their debit card usage by sending transaction alerts. Our goal is to control our level of noninterest expense while continuing to build and strengthen our operational foundation, which should lead to future growth, higher levels of operating income and, ultimately, a higher level of performance. Over the next 15 months, it is projected that our Company's interest expense will be positively impacted by the repricing of \$20 million in fixed-rate advances with the Federal Home Loan Bank ("FHLB") that are set to mature. The average cost of these advances is 3.91% and, given the current interest rate environment, should lead to continued savings in interest expense. By growing our loan portfolio and reducing our overall levels of interest expense, we believe that we will see continued growth in the level of the net interest income that our Company generates. It is projected that this will lead to a higher level of earnings and profitability for our Company in future periods.

United Bancorp, Inc.

## **Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

We are seeing the positive results of the efforts expended over the course of the past couple of years within our Company to gain efficiencies through process improvement, while building and leveraging our loan origination platforms to generate higher levels of revenue. We are pleased with these results that we are now seeing and will continue looking for additional opportunities that will help our organization become more operationally efficient, generate higher levels of revenue and produce higher levels of quality earnings. As we previously announced, our Company is embarking upon a new period, whereby our exclusive focus is to grow our assets in a profitable fashion that will produce consistent and increasing earnings. This vision, which is called Mission 2020, sets the course for our Company to grow its assets to a level of \$1.0 billion, or greater, by the end of 2020. In order to achieve this ambitious growth plan, we will need to continue focusing on being operationally efficient, while taking on higher levels of non-interest expense to support an origination platform that will drive the organic growth of our Company. It is projected that this enhanced platform, which began being implemented in the late second quarter of last year, will continue to lead to the origination of higher levels of quality loans as seen in recent quarters. This will help our Company generate higher levels of interest income, which, in turn, should produce an increase in the all-important revenue line... net interest income. During the mid-part of this year, our Company further added to its commercial loan origination platform by hiring supplementary origination personnel in addition to recently opening a new Loan Production Office (LPO) in Wheeling, West Virginia. Having a LPO in this highly desirable, local market will create value for our Company going forward and will help us achieve our strategic plan of expanding our markets. As previously announced, the Company also envisions expanding its geographic footprint by acquiring other community-minded banking organizations within the tri-state area of Ohio, West Virginia and Pennsylvania, to help it attain the lofty level of growth envisioned under Mission 2020. Being a very well capitalized and profitable Company in today's environment will help us achieve the goals that are defined under this vision within our current strategic plan. With the aforementioned change in our funds management policy during the first half of this year, our Company is now positioned to attract higher levels of funding, both retail and wholesale, which will allow us to leverage our capital at a more optimal level and produce higher earnings and returns. As of September 30, 2016, our Company is considered to be well-capitalized by regulatory standards, having equity to assets of 10.03%. With the excess capital that our Company presently has, we will be able to begin the growth trajectory that we envision, which should benefit all of our valued shareholders. In 2015, we paid a regular cash dividend of \$0.37 and a special dividend of \$0.05. With our Company's present regular cash dividend of \$0.11, which began being paid in the third quarter of 2016, our forward yield as of quarter-end is 4.04%. At this level, our Company's cash dividend yield is nearly twice that of the average bank in our country. With our present focus of increasing our operating leverage by driving the revenue of our Company while containing expenses, we firmly believe that we will continue to reward our shareholders by paying higher dividends, while seeing appreciation in our market value. On a year-over-year basis, the market value of our Company's stock increased by \$1.81, or 20.0%, to a level of \$10.88. Our number one focus continues to be growing our shareholders' investment in our Company through profitable operations and strategic growth. In addition to driving the market value appreciation of our shareholders' ownership, we will continue striving to reward our owners by paying a solid cash dividend. Overall, we are very pleased with the present operating performance of our Company and the direction that we are going. We are extremely optimistic about our future potential and look forward to carrying the earnings momentum that we have seen in recent quarters well into the foreseeable future!

## **Forward-Looking Statements**

When used in this document, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “projected” or similar expressions are intended to identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Bank’s market areas, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Bank’s market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Factors listed above could affect the Company’s financial performance and could cause the Company’s actual results for future periods to differ materially from any statements expressed with respect to future periods.



United Bancorp, Inc.

## **Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

The Company is not aware of any trends, events or uncertainties that will have or are reasonably likely to have a material effect on its financial condition, results of operations, liquidity or capital resources except as discussed herein. The Company is not aware of any current recommendation by regulatory authorities that would have such effect if implemented except as discussed herein.

The Company does not undertake, and specifically disclaims any obligation, to publicly revise any forward-looking statements to reflect events or circumstances after the date such statements were made or to reflect the occurrence of anticipated or unanticipated events.

### **Critical Accounting Policies**

Management makes certain judgments that affect the amounts reported in the financial statements and footnotes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements, and as this information changes, the financial statements could reflect different estimates, assumptions, and judgments.

The procedures for assessing the adequacy of the allowance for loan losses reflect our evaluation of credit risk after careful consideration of all information available to management. In developing this assessment, management must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

The allowance is regularly reviewed by management and the board to determine whether the amount is considered adequate to absorb probable losses. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based on the size, quality and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower's ability to repay and current economic and industry conditions. Also considered as part of that judgment is a review of the Bank's trend in delinquencies and loan losses, and economic factors.



**United Bancorp, Inc.**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable loan losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on management's current judgment about the credit quality of the loan portfolio. While the Company strives to reflect all known risk factors in its evaluation, judgment errors may occur.

**Analysis of Financial Condition**

*Earning Assets – Loans*

Our focus as a community bank is to meet the credit needs of the markets we serve. At September 30, 2016, gross loans were \$350.6 million, compared to \$329.7 million at December 31, 2015, an increase of \$20.9 million after offsetting repayments for the period. The overall increase in the loan portfolio was comprised of a \$27.6 million increase in commercial and commercial real estate loans a \$4.0 million decrease in residential loans and a \$2.7 million decrease in installment loans since December 31, 2015.

Commercial and commercial real estate loans comprised 73.7% of total loans at September 30, 2016, compared to 70.0% at December 31, 2015. Commercial and commercial real estate loans have increased \$27.6 million, or 12.0% since December 31, 2015. This segment of the loan portfolio includes originated loans in our market areas and purchased participations in loans from other banks for out-of-area commercial and commercial real estate loans to benefit from consistent economic growth outside the Company's primary market area, but mainly within the state of Ohio and West Virginia. During the third quarter of 2016, the Company opened up a Loan Production office in Wheeling, West Virginia. It is anticipated this market will provide the Company with continued strong loan growth opportunities.

Residential real estate loans were 22.1% of total loans at September 30, 2016 and 24.7% at December 31, 2015, representing a decrease of \$4.0 million, or less than 4.9% since December 31, 2015. As of September 30, 2016, the Bank has approximately \$4.4 million in fixed-rate loans that have been sold in the secondary market but still serviced by the Company as compared to \$7.1 million at December 31, 2015. The level of fixed rate mortgages serviced by the Company will continue to decline as the Company will not retain servicing rights on new sales going forward for these types of products. The Company will continue to service these loans for a fee that is typically 25 basis points. At September 30, 2016, the Company did not hold any loans for sale.

Installment loans represented 4.2% of total loans at September 30, 2016 and 5.3% at December 31, 2015. Some of the installment loans carry somewhat more risk than real estate lending; however, it also provides for higher yields. Installment loans have decreased \$2.7 million, or 15.0%, since December 31, 2015. The targeted lending areas encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's banking locations. The strategic direction of the Company is not to grow installment based loans at this time.

The allowance for loan losses totaled \$2.5 million at September 30, 2016, which represented 0.69% of total loans, and \$2.4 million at December 31, 2015, or 0.73% of total loans. The allowance represents the amount which management and the Board of Directors estimates is adequate to provide for probable losses inherent in the loan portfolio. The allowance balance and the provision charged to expense are reviewed by management and the Board of Directors monthly using a risk evaluation model that considers borrowers' past due experience, economic conditions and various other circumstances that are subject to change over time. Management believes the current balance of the allowance for loan losses is adequate to absorb probable incurred credit losses associated with the loan portfolio. Net charge-offs for the nine months ended September 30, 2016 were approximately \$290,000, compared to \$60,000 during the same period in 2015.

United Bancorp, Inc.

**Management's Discussion and Analysis of Financial  
Condition and Results of Operations**

***Earning Assets – Securities***

The securities portfolio is comprised of U.S. Government agency-backed securities, tax-exempt obligations of state and political subdivisions and certain other investments. Securities available for sale at September 30, 2016 decreased approximately \$2.8 million from December 31, 2015 totals. The Company has invested in shorter duration securities to reinvest liquid funds.

***Sources of Funds – Deposits***

The Company's primary source of funds is core deposits from retail and business customers. These core deposits include all categories of interest-bearing and noninterest-bearing deposits, excluding certificates of deposit greater than \$100,000. For the period ended September 30, 2016, total core deposits increased approximately \$5.1 million, or 1.4%. The Company's savings accounts increased \$1.4 million or 1.9% from December 31, 2015 totals. The Company's interest-bearing and non-interest bearing demand deposits increased \$6.8 million or 3.6% while certificates of deposit under \$100,000 decreased by \$3.1 million, or 7.2%. The Company considers core deposit to be stable; therefore, the amount of funds anticipated to flow out in the next three to six months is not considered material to the overall liquidity position of the Company.

The Company has a strong deposit base from public agencies, including local school districts, city and township municipalities, public works facilities and others that may tend to be more seasonal in nature resulting from the receipt and disbursement of state and federal grants. These entities have maintained fairly static balances with the Company due to various funding and disbursement timeframes.

Certificates of deposit greater than \$100,000 are not considered part of core deposits and as such are used to balance rate sensitivity as a tool of funds management. At September 30, 2016, certificates of deposit greater than \$100,000 decreased \$612,000 or 4.3%, from December 31, 2015 totals.

***Sources of Funds – Securities Sold under Agreements to Repurchase and Other Borrowings***

Other interest-bearing liabilities include securities sold under agreements to repurchase and Federal Home Loan Bank (“FHLB”) advances. The majority of the Company’s repurchase agreements are with local school districts and city and county governments. The Company’s short-term borrowings increased approximately \$7.9 million from December 31, 2015 totals. In prior years, the majority of surplus funding was invested in very liquid, lower-yielding excess reserves at the Federal Reserve. During the first quarter of 2016, these excess reserves previously invested in lower-yielding investment alternatives were fully depleted and the Company, for the first time in several years, switched to a borrowed position to fund its loan growth by utilizing wholesale funding alternatives, mainly overnight borrowings from the FHLB. At September 30, 2016, FHLB Overnight advances totaled \$13.2 million. At December 31, 2015, the Company did have FHLB Overnight advances as the Company had excess reserves. Over the next 15 months, it is projected that our Company’s interest expense will be positively impacted by the repricing of \$20 million in fixed-rate advances with the Federal Home Loan Bank (“FHLB”) that are set to mature. The average cost of these advances is 3.91% and, given the current interest rate environment, should lead to continued savings in interest expense.

United Bancorp, Inc.

**Management's Discussion and Analysis of Financial  
Condition and Results of Operations**

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

***Net Income***

For the nine months ended September 30, 2016 the Company reported net earnings of \$2,679,000, compared to \$2,358,000 for the nine months ended September 30, 2015. On a per share basis, the Company's diluted earnings were \$0.53 for the nine months ended September 30, 2016, as compared to \$0.47 for the nine months ended September 30, 2015.

***Net Interest Income***

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the composition or mix of interest-earning assets in relation to interest-bearing liabilities. Net interest income increased 7.6%, or \$771,000 for the nine months ended September 30, 2016 compared to the same period in 2015. The earnings improvement of our Company for the nine months ended September 30, 2016 is reflective of the growth in loan related earning assets. During this period, the Company's net interest margin increased to a level of 3.87%, as compared to 3.68% for the same period in 2015. This increase in the net interest margin is primarily attributed to the Company experiencing positive organic growth in its loan portfolio, which produced higher levels of interest income, and the continued lowering of its interest expense levels year-over-year.

***Provision for Loan Losses***

Non-accrual loans were decreased \$150,000 to a level of \$1.4 million as of September 30, 2016. With the decrease in the level of non-accrual loans and loans past due 30 plus days, the level of risk in loss exposure has decreased since December 31, 2015. Net loans charged off were \$291,000 or 0.09% of average loans. The Company decreased the

provision for loan losses which was \$387,000 for the nine months ended September 30, 2015 compared to \$307,000 for the nine months ended September 30, 2016, a decrease of \$80,000 or 20.7%.

### ***Noninterest Income***

Total noninterest income is made up of bank related fees and service charges, as well as other income producing services provided, sales of loans in the secondary market, ATM income, early redemption penalties for certificates of deposit, safe deposit rental income, internet bank service fees, earnings on bank-owned life insurance and other miscellaneous items.

The Company's service charges on deposit accounts decreased by \$173,000 for the nine months ended September 30, 2016 as compared to the same period in 2015. During the nine months ended September 30, 2015, the Company recorded approximately \$95,000 of a gain related to a one time payment from its debit card processor.

### ***Noninterest Expense***

Noninterest expense increased on a year-over-year basis by \$312,000 or 3.3%. Salaries and employee benefit expense increased \$428,000, or 9.0%, for the nine month period ended September 30, 2016, compared to the same period in 2015. Part of this increase in salaries and employee benefit expense is attributed to the increase in lending personnel that have driven the solid growth in loan production. Provision for losses on foreclosed real estate decreased \$51,000 for the nine months ended September 30, 2016 as compared to the same period in 2015. Net occupancy decreased \$72,000, or 4.9% for the nine months ended September 30, 2016, compared to the same period in 2015.

### ***Federal Income Taxes***

The provision for federal income taxes was \$1,148,000 for the nine months ended September 30, 2016, an increase of \$181,000 compared to the same period in 2015. The effective tax rate was 29.9% and 29.1% for the nine months ended September 30, 2016 and 2015, respectively.



United Bancorp, Inc.

**Management's Discussion and Analysis of Financial  
Condition and Results of Operations**

Results of Operations for the Three Months Ended September 30, 2016 and 2015

***Net Income***

For the three months ended September 30, 2016 the Company reported net earnings of \$928,000, compared to \$859,000 for the three months ended September 30, 2015. On a per share basis, the Company's diluted earnings were \$0.18 for the three months ended September 30, 2016, as compared to \$0.17 for the three months ended September 30, 2015.

***Net Interest Income***

Net interest income increased 5.5%, or \$189,000 for the three months ended September 30, 2016 compared to the same period in 2015. The earnings improvement of our Company for the three months ended September 30, 2016 is reflective of the growth in loan related earning assets.

***Provision for Loan Losses***

The provision for loan losses was \$131,000 for the three months ended September 30, 2016, compared to \$126,000 for the same period in 2014.

***Noninterest Income***

The Company's service charges on deposit accounts decreased by \$64,000 for the three months ended September 30, 2016 as compared to the same period in 2015.

***Noninterest Expense***

Noninterest expense increased on a quarter-over-quarter basis by \$163,000 or 5.1%. Salaries and employee benefit expense increased \$248,000, or 15.6%, for the three month period ended September 30, 2016, compared to the same period in 2015. Part of this increase in salaries and employee benefit expense is attributed to the increase in lending personnel that have driven the solid growth in loan production.

***Federal Income Taxes***

The provision for federal income taxes was \$386,000 for the three months ended September 30, 2016, an increase of \$26,000 compared to the same period in 2015. The effective tax rate was 29.4% and 29.5% for the three months ended September 30, 2016 and 2015, respectively.

United Bancorp, Inc.

## **Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

#### *Capital Resources*

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Stockholders' equity totaled \$42.8 million at September 30, 2016 compared to \$41.5 million at December 31, 2015, a \$1.3 million increase. Total average stockholders' equity in relation to total average assets was 10.03% at September 30, 2016 and 10.2% at December 31, 2015. Our shareholders approved an amendment to the Company's Articles of Incorporation to create a class of preferred shares with 2,000,000 authorized shares. This enables the Company, at the option of the Board of Directors, to issue series of preferred shares in a manner calculated to take advantage of financing techniques which may provide a lower effective cost of capital to the Company. The amendment also provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. Although this preferred stock is a financial tool, it has not been utilized to date.

The Company has offered for many years a Dividend Reinvestment Plan ("The Plan") for shareholders under which the Company's common stock will be purchased by the Plan for participants with automatically reinvested dividends. The Plan does not represent a change in the Company's dividend policy or a guarantee of future dividends.

The Company is subject to the regulatory requirements of The Federal Reserve System as a bank holding company. The Bank is subject to regulations of the FDIC and the State of Ohio, Division of Financial Institutions. The most important of these various regulations address capital adequacy.

On January 1, 2015, the final rules of the Federal Reserve Board went into effect implementing in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Under the final rule, minimum requirements increased for both the quality and quantity of capital held by banking organizations. The rule requires a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations.

As of September 30, 2016, the Company continues to be well-capitalized in accordance with Federal regulatory capital requirements as the capital ratios below show:

|                                    |        |
|------------------------------------|--------|
| Common equity tier 1 capital ratio | 12.17% |
| Tier 1 capital ratio               | 13.32% |
| Total capital ratio                | 14.03% |
| Leverage ratio                     | 11.11% |

United Bancorp, Inc.

## **Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

#### *Liquidity*

Management's objective in managing liquidity is maintaining the ability to continue meeting the cash flow needs of its customers, such as borrowings or deposit withdrawals, as well as its own financial commitments. The principal sources of liquidity are net income, loan payments, maturing securities and sales of securities available for sale, federal funds sold and cash and deposits with banks. Along with its liquid assets, the Company has additional sources of liquidity available to ensure that adequate funds are available as needed. These include, but are not limited to, the purchase of federal funds, the ability to borrow funds under line of credit agreements with correspondent banks, a borrowing agreement with the Federal Home Loan Bank of Cincinnati and the adjustment of interest rates to obtain depositors. Management feels that it has the capital adequacy and profitability to meet the current and projected liquidity needs of its customers.

#### *Inflation*

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, certain impaired loans and certain other real estate and loans that may be measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other, but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

### **ITEM 3 Quantitative and Qualitative Disclosures About Market Risk**

There has been no significant change from disclosures included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

United Bancorp, Inc.

## **Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

#### **ITEM 4. Controls and Procedures**

The Company, under the supervision, and with the participation, of its management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the requirements of Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2016, in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's periodic SEC filings.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**United Bancorp, Inc.**

**Part II – Other Information**

**ITEM 1. Legal Proceedings**

None, other than ordinary routine litigation incidental to the Company’s business.

**ITEM 1A. Risk Factors**

There have been no material changes from risk factors as previously disclosed in Part 1 Item 1A of the Company’s Form 10-K for the year ended December 31, 2015.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period      | (a)<br>Total Number of<br>Shares (or Units)<br>Purchased | (b)<br>Average Price Paid<br>Per Share (or Unit) | (c)<br>Total Number of<br>Shares (or Units)<br>Purchased as Part<br>Of Publicly<br>Announced Plans<br>Or Programs | (d)<br>Maximum Number or<br>Approximate Dollar<br>Value) of Shares (or<br>Units) that May Yet Be<br>Purchased Under the<br>Plans or Programs |
|-------------|--|--|---|--|
| Month #1    |  |  |   |  |
| 7/1/2016 to | —  | —  | —   | —  |
| 7/31/2016   |  |  |   |  |
| Month #2    |  |  |   |  |
| 8/1/2016 to | —  | —  | —   | —  |



8/31/2016  
Month #3

9/1/2016 to

9/30/2016

The Company adopted the United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan (the "Plan"), which is an unfunded deferred compensation plan. Amounts deferred pursuant to the Plan remain unrestricted assets of the Company, and the right to participate in the Plan is limited to members of the Board of Directors and Company officers. Under the Plan, directors or other eligible participants may defer fees and up to 50% of their annual incentive award payable to them by the Company, which are used to acquire common shares which are credited to a participant's respective account. Except in the event of certain emergencies, no distributions are to be made from any account as long as the participant continues to be an employee or member of the Board of Directors. Upon termination of service, the aggregate number of shares credited to the participant's account are distributed to him or her along with any cash proceeds credited to the account which have not yet been invested in the Company's stock. On May 11, 2016, the Plan purchased a total of 4,136 common shares for participant accounts. All purchases under this deferred compensation plan are funded with either earned director fees or officer incentive award payments.

No underwriting fees, discounts, or commissions are paid in connection with the Plan. The shares allocated to participant accounts have not been registered under the Securities Act of 1933 in reliance upon the exemption provided by Section 4(2) thereof.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

**United Bancorp, Inc.**

**Part II – Other Information**

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Exhibits**

EX-3.1 Amended Articles of Incorporation of United Bancorp, Inc. <sup>(1)</sup>

EX-3.2 Amended Code of Regulations of United Bancorp, Inc. <sup>(2)</sup>

EX-4.0 Instruments Defining the Rights of Security Holders  
(See Exhibits 3.1 and 3.2)

EX 31.1 Rule 13a-14(a) Certification – CEO

EX 31.2 Rule 13a-14(a) Certification – CFO

EX 32.1 Section 1350 Certification – CEO

EX 32.2 Section 1350 Certification – CFO

EX 101.INS XBRL Instance Document

EX 101.SCH XBRL Taxonomy Extension Schema Document

EX 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

EX 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

EX 101.LAB XBRL Taxonomy Extension Label Linkbase Document

EX 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

(1)

Incorporated by reference to Appendix B to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.

<sup>(2)</sup> Incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2014.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

/s/United Bancorp, Inc.

Date: November 14, 2016 By: /s/Scott A. Everson  
Scott A. Everson  
President and Chief Executive Officer

Date: November 14, 2016 By: /s/Randall M. Greenwood  
Randall M. Greenwood  
Senior Vice President, Chief Financial Officer and Treasurer

**Exhibit Index**

**Exhibit No. Description**

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