

Section 1: 10-Q (FORM 10-Q)

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, 2019

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

(State or other jurisdiction of
incorporation or organization)

34-1405357

(IRS Employer Identification No.)

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$1.00	UBCP	NASDQ Capital Market

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer

Non-accelerated filer

Smaller reporting company

Accelerated filer

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of November 6, 2019, 5,959,351 shares of the Company's common stock, \$1.00 par value, were issued and outstanding.

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ITEM 1. Financial Statements

United Bancorp, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and due from banks	\$ 5,239	\$ 15,573
Interest-bearing demand deposits	8,108	9,680
Cash and cash equivalents	13,347	25,253
Available-for-sale securities	200,875	123,991
Loans, net of allowance for loan losses of \$2,121 and \$2,043 at September 30, 2019 and December 31, 2018, respectively	419,144	407,640
Premises and equipment	12,487	12,117
Federal Home Loan Bank stock	4,012	4,243
Foreclosed assets held for sale, net	30	91
Core deposit and other intangible assets	1,579	1,692
Accrued interest receivable	2,232	1,798
Bank-owned life insurance	17,097	13,115
Other assets	5,018	3,273
Total assets	<u>\$ 675,821</u>	<u>\$ 593,213</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 328,739	\$ 309,505
Savings	109,050	111,251
Time	112,207	104,687
Total deposits	549,996	525,443
Securities sold under repurchase agreements	9,902	8,068
Federal Home Loan Bank advances	20,800	106
Deferred federal income tax	2,018	219
Subordinated debentures	23,528	4,124
Pending available-for-sale securities purchases	3,153	---
Interest payable and other liabilities	6,369	4,610
Total liabilities	<u>615,766</u>	<u>542,570</u>
Stockholders' Equity		
Preferred stock, no par value, authorized 2,000,000 shares; no shares issued	---	---
Common stock, \$1 par value; authorized 10,000,000 shares; issued 2019 – 5,959,351 shares, 2018 – 5,926,851 shares; outstanding 2019 – 5,916,942, 2018 – 5,739,203	5,959	5,927
Additional paid-in capital	22,632	22,556
Retained earnings	26,969	24,321
Stock held by deferred compensation plan; 2019 – 169,063 shares, 2018 – 182,457 shares	(1,603)	(1,701)
Unearned ESOP compensation	(200)	(404)
Accumulated other comprehensive gain (loss)	6,760	(10)
Treasury stock, at cost		
2019 – 42,409 shares, 2018 – 5,744 shares	(462)	(46)
Total stockholders' equity	<u>60,055</u>	<u>50,643</u>
Total liabilities and stockholders' equity	<u>\$ 675,821</u>	<u>\$ 593,213</u>

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest and dividend income				
Loans, including fees	\$ 5,508	\$ 4,883	\$ 16,142	\$ 13,776
Taxable securities	296	189	698	544
Non-taxable securities	996	361	2,569	674
Federal funds sold	75	27	306	78
Dividends on Federal Home Loan Bank stock and other	46	63	169	183
Total interest and dividend income	6,921	5,523	19,884	15,255
Interest expense				
Deposits				
Demand	620	378	1,785	922
Savings	52	10	150	29
Time	613	253	1,701	680
Borrowings	441	252	766	492
Total interest expense	1,726	893	4,402	2,123
Net interest income	5,195	4,630	15,482	13,132
Provision for loan losses	120	72	330	201
Net interest income after provision for loan losses	5,075	4,558	15,152	12,931
Noninterest income				
Service charges on deposit accounts	731	667	2,138	1,948
Realized gains on sales of loans	25	17	38	54
Other income	247	213	719	663
Total noninterest income	1,003	897	2,895	2,665
Noninterest expense				
Salaries and employee benefits	2,153	1,970	6,490	5,678
Net occupancy and equipment expense	567	515	1,684	1,602
Professional services	351	331	961	820
Insurance	118	108	340	316
Deposit insurance premiums	27	48	139	123
Franchise and other taxes	108	102	322	300
Advertising	137	138	412	400
Stationery and office supplies	33	30	103	104
Amortization of core deposit premium	38	---	113	---
Net realized (gain) loss on sale of other real estate and repossessions	---	(12)	5	6
Other expenses	630	625	1,927	1,839
Total noninterest expense	4,162	3,855	12,496	11,188
Income before federal income taxes	1,916	1,600	5,551	4,408
Federal income taxes	135	269	510	717
Net income	\$ 1,781	\$ 1,331	\$ 5,041	\$ 3,691
EARNINGS PER COMMON SHARE				
Basic	\$ 0.31	\$ 0.25	\$ 0.88	\$ 0.71
Diluted	\$ 0.31	\$ 0.25	\$ 0.88	\$ 0.71
DIVIDENDS PER COMMON SHARE	\$ 0.1375	\$ 0.1300	\$ 0.4050	\$ 0.3900

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income	\$ 1,781	\$ 1,331	\$ 5,041	\$ 3,691
Unrealized holding gains (losses) on securities during the period, net of tax (benefits) of \$519, \$(171), \$1,822 and \$(195) for each respective period	1,955	(642)	6,770	(733)
Comprehensive income	<u>\$ 3,736</u>	<u>\$ 689</u>	<u>\$ 11,811</u>	<u>\$ 2,958</u>

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
Three and Nine Months Ended September 30, 2019 and 2018
(In thousands except per share data)
(Unaudited)

	Three Months Ended						
	Common Stock	Additional Paid-in Capital	Treasury Stock and Deferred Compensation	Shares Acquired By ESOP	Retained Earnings	Other Comprehensive Income (Loss)	Total
Balance, July 1, 2018	\$ 5,560	\$ 17,927	\$ (1,625)	\$ (543)	\$ 24,177	\$ (511)	\$ 44,985
Net income	—	—	—	—	1,331	—	1,331
Other comprehensive income	—	—	—	—	—	(642)	(642)
Cash dividends - \$0.1300 per share	—	—	—	—	(713)	—	(713)
Shares purchased for deferred compensation plan	—	43	(43)	—	—	—	—
Expense related to share-based compensation plans	—	82	—	—	—	—	82
Restricted stock activity	—	—	—	—	—	—	—
Amortization of ESOP	—	—	—	69	—	—	69
Balance, September 30, 2018	<u>5,560</u>	<u>18,052</u>	<u>(1,668)</u>	<u>(474)</u>	<u>24,795</u>	<u>(1,153)</u>	<u>45,112</u>
Balance July 1, 2019	5,939	22,517	(2,015)	(268)	26,002	4,805	56,980
Net income	—	—	—	—	1,781	—	1,781
Other comprehensive income	—	—	—	—	—	1,955	1,955
Cash dividends - \$0.1375 per share	—	—	—	—	(814)	—	(814)
Shares sold for deferred compensation plan	—	50	(50)	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—	—
Expense related to share-based compensation plans	—	85	—	—	—	—	85
Restricted stock activity	20	(20)	—	—	—	—	—
Amortization of ESOP	—	—	—	68	—	—	68
Balance, September 30, 2019	<u>\$ 5,959</u>	<u>\$ 22,632</u>	<u>\$ (2,065)</u>	<u>\$ (200)</u>	<u>\$ 26,969</u>	<u>\$ 6,760</u>	<u>\$ 60,055</u>

	Nine Months Ended						
	Common Stock	Additional Paid-in Capital	Treasury Stock and Deferred Compensation	Shares Acquired By ESOP	Retained Earnings	Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	\$ 5,435	\$ 18,020	\$ (1,717)	\$ (683)	\$ 23,260	\$ (420)	\$ 43,895
Net income	—	—	—	—	3,691	—	3,691
Other comprehensive loss	—	—	—	—	—	(733)	(733)
Cash dividends - \$0.3900 per share	—	—	—	—	(2,156)	—	(2,156)
Shares purchased for deferred compensation plan	—	(49)	49	—	—	—	—
Expense related to share-based compensation plans	—	206	—	—	—	—	206
Restricted stock activity	125	(125)	—	—	—	—	—
Amortization of ESOP	—	—	—	209	—	—	209
Balance, September 30, 2018	<u>5,560</u>	<u>18,052</u>	<u>(1,668)</u>	<u>(474)</u>	<u>24,795</u>	<u>(1,153)</u>	<u>45,112</u>
Balance January 1, 2019	5,927	22,556	(1,747)	(404)	24,321	(10)	50,643

Net income	---	---	---	---	5,041	---	5,041
Other comprehensive income	---	---	---	---	---	6,770	6,770
Cash dividends - \$0.4050 per share	---	---	---	---	(2,393)	---	(2,393)
Shares sold for deferred compensation plan	---	(98)	98	---	---	---	---
Repurchase of common stock	---	---	(416)	---	---	---	(416)
Expense related to share-based compensation plans	---	206	---	---	---	---	206
Restricted stock activity	32	(32)	---	---	---	---	---
Amortization of ESOP	---	---	---	204	---	---	204
Balance, September 30, 2019	<u>\$ 5,959</u>	<u>\$ 22,632</u>	<u>\$ (2,065)</u>	<u>\$ (200)</u>	<u>\$ 26,969</u>	<u>\$ 6,760</u>	<u>\$ 60,055</u>

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2019	2018
Operating Activities		
Net income	\$ 5,041	\$ 3,691
Items not requiring (providing) cash		
Accretion of premiums and discounts on securities, net	232	80
Amortization of intangible asset	113	---
Depreciation and amortization	781	712
Expense related to share based compensation plans	206	205
Expense related to ESOP	204	210
Provision for loan losses	330	201
Increase (decrease) in value of bank-owned life insurance	(230)	(220)
Gain on sale of loans	(38)	(54)
Proceeds from sale of loans held for sale	1,285	2,621
Originations of loans held for sale	(1,247)	(2,567)
Loss on sale or write down of foreclosed assets	5	(15)
Amortization of mortgage servicing rights	---	28
Deferred income taxes	---	---
Net change in accrued interest receivable and other assets	(1,971)	(886)
Net change in accrued expenses and other liabilities	1,516	(67)
Net cash provided by operating activities	6,227	3,939
Investing Activities		
Securities available for sale:		
Maturities, prepayments and calls	24,250	---
Purchases	(89,645)	(42,514)
Net change in loans	(11,825)	(25,138)
Mandatory redemption of Federal Home Loan Bank Stock	230	---
Purchase of Bank Owned Life insurance	(4,000)	---
Bank Owned Life Insurance return of principal	247	---
Purchases of premises and equipment	(1,152)	(617)
Proceeds from sale of foreclosed assets	86	285
Net cash used in investing activities	(81,809)	(67,984)

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows (continued)
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2019	2018
Financing Activities		
Net change in deposits	\$ 24,553	\$ 48,365
Net change in securities sold under repurchase agreements	1,834	4,314
Net change in FHLB overnight borrowings	20,800	12,200
Proceeds from issuance of subordinated debentures, net of origination fees	19,404	---
Repayments of long-term borrowings	(106)	(83)
Repurchase of common stock	(416)	---
Cash dividends paid on common stock	(2,393)	(2,156)
Net cash provided by financing activities	<u>63,676</u>	<u>62,640</u>
Decrease in Cash and Cash Equivalents	(11,906)	(1,405)
Cash and Cash Equivalents, Beginning of Period	<u>25,253</u>	<u>14,315</u>
Cash and Cash Equivalents, End of Period	<u>\$ 13,347</u>	<u>\$ 12,910</u>
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	<u>\$ 4,419</u>	<u>\$ 2,046</u>
Federal income taxes	<u>\$ ---</u>	<u>\$ 665</u>
Purchases of available-for-sale securities not settled	<u>\$ 3,153</u>	<u>\$ ---</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Transfers from loans to foreclosed assets held for sale	<u>\$ 30</u>	<u>\$ 280</u>

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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, 2019, 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, 2018 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 September 30, 2019, 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, 2018 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, Unified Bank of Martins Ferry, Ohio (“the 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. Unified Bank conducts its business through its main office in Martins Ferry, Ohio and branches in Amesville, Bridgeport, Colerain, Dellroy, Dillonvale, Dover, Glouster, Jewett, Lancaster Downtown, Lancaster East, Nelsonville, New Philadelphia, Powhatan, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg and Tiltonsville, Ohio. The Bank also operates a Loan Production Office in Wheeling, West Virginia.

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.

Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary and fiscal policies, that are outside of management’s control.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Revenue Recognition

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, investment securities, as well as revenue related to our mortgage banking activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures.

Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income are as follows:

Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

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.

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.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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.

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.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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 five 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.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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.

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.

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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.

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

Earnings per share (EPS) were computed as follows:

	Three Months Ended September 30, 2019		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 1,781		
Less allocated earnings on non-vested restricted stock	(37)		
Less allocated dividends on non-vested restricted stock	(30)		
Net income allocated to common stockholders	1,714		
		5,519,677	
Basic and diluted earnings per share			\$ 0.31

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	Three Months Ended September 30, 2018		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 1,331		
Less allocated earnings on non-vested restricted stock	(35)		
Less dividends on non-vested restricted stock	(39)		
Net income allocated to common stockholders	1,257		
		4,929,934	
Basic and diluted earnings per share			\$ <u>0.25</u>

	Nine Months Ended September 30, 2019		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 5,041		
Less allocated earnings on non-vested restricted stock	(92)		
Less allocated dividends on non-vested restricted stock	(81)		
Net income allocated to common stockholders	4,868		
		5,518,500	
Basic and diluted earnings per share			\$ <u>0.88</u>

	Nine Months Ended September 30, 2018		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 3,691		
Less allocated earnings on non-vested restricted stock	(75)		
Less dividends on non-vested restricted stock	(104)		
Net income allocated to common stockholders	3,512		
		4,914,859	
Basic and diluted earnings per share			\$ <u>0.71</u>

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During 2018, earnings per share began to be presented using the two-class method. This two class method is an earnings allocation method under which earnings per share is calculated for common stock and participating securities, considering both dividends declared and participation rights in undistributed earnings as if all such earnings had been distributed during the period. Basic earnings per share were previously disclosed at \$0.26 and \$0.72 for the three and nine months ended September 30, 2018, respectively. Diluted earnings per share were previously disclosed at \$0.25 and \$0.69 for the three and nine months ended September 30, 2018.

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 2015.

Recently Adopted Accounting Pronouncements

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 all 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. Right of use assets represents the Company’s right to use the underlying assets for their lease terms and lease liabilities represent the obligation to make lease payments.

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The Company adopted ASU 2016-02 January 1, 2019. The right of use asset and lease obligation recorded as of March 31, 2019 was approximately \$126,000 and is reflected in other assets and interest payable and other liabilities, respectively on the balance sheet. The modified retrospective method was applied. Due to the immateriality of the impact, certain disclosures under ASU 842 have been omitted.

Recent Accounting Pronouncements

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 collectability 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.

On October 16, 2019, FASB approved a final ASU delaying the effective date of ASU 2016-13 for small reporting companies to interim and annual periods beginning after December 15, 2022. The Company is currently evaluating the impact of these amendments to the Company’s financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. The Allowance for Loan Losses (ALL) estimate is material to the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the ALL at adoption date. The Company is anticipating a significant change in the processes and procedures to calculate the ALL, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for the other-than-temporary impairment on available-for-sale securities will be replaced with an allowance approach. The Company continues to run projections and reviewing segmentation to ensure it is fully compliant with the amendments at adoption date. For additional information on the allowance for loan losses, see Note 3.

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Note 2: Securities

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
Available-for-sale Securities:				
September 30, 2019:				
U.S. government agencies	\$ 61,000	\$ 16	\$ (110)	\$ 60,906
Subordinated notes	2,500	13	---	2,513
State and municipal obligations	<u>128,149</u>	<u>9,418</u>	<u>(111)</u>	<u>137,456</u>
Total debt securities	<u>\$ 191,649</u>	<u>\$ 9,447</u>	<u>\$ (221)</u>	<u>\$ 200,875</u>
Available-for-sale Securities:				
December 31, 2018:				
U.S. government agencies	\$ 45,250	\$ —	\$ (500)	\$ 44,750
State and municipal obligations	<u>78,083</u>	<u>1,194</u>	<u>(36)</u>	<u>79,241</u>
Total debt securities	<u>\$ 123,333</u>	<u>\$ 1,194</u>	<u>\$ (536)</u>	<u>\$ 123,991</u>

The amortized cost and fair value of available-for-sale securities at September 30, 2019, 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.

	<u>Available-for-sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In thousands)	
Within one year	\$ 3,000	\$ 3,000
One to five years	18,000	18,002
Five to ten year	42,500	42,417
Due after ten years	<u>128,149</u>	<u>137,456</u>
Totals	<u>\$ 191,649</u>	<u>\$ 200,875</u>

The carrying value of securities pledged to secure public deposits and for other purpose, was \$39.3 million and \$48.4 million at September 30, 2019 and December 31, 2018, respectively.

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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, 2019 and December 31, 2018, was \$31.3 million and \$49.9 million, which represented approximately 16% and 40%, respectively, of the Company's available-for-sale investment 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 a 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, 2019 and December 31, 2018:

Description of Securities	September 30, 2019					
	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	\$ 21,890	\$ (109)	\$ 2,999	\$ (1)	\$ 24,889	\$ (110)
State and Political Subdivisions	6,374	(111)	---	---	6,374	(111)
Total temporarily impaired securities	<u>\$ 28,264</u>	<u>\$ (220)</u>	<u>\$ 2,999</u>	<u>\$ (1)</u>	<u>\$ 31,263</u>	<u>\$ (221)</u>

Description of Securities	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
US Government agencies	\$ —	\$ —	\$ 44,750	\$ (500)	\$ 44,750	\$ (500)
State and municipal obligations	\$ 5,182	\$ (36)	\$ —	\$ —	\$ 5,182	\$ (36)
Total temporarily impaired securities	<u>\$ 5,182</u>	<u>\$ (36)</u>	<u>\$ 44,750</u>	<u>\$ (500)</u>	<u>\$ 49,932</u>	<u>\$ (536)</u>

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The unrealized losses on the Company's investments in U.S. Government agencies 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 more likely than not the Company will be required 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, 2019 and December 31, 2018.

There were no investment sales for the nine months ended September 30, 2019 and 2018.

Note 3: Loans and Allowance for Loan Losses

Categories of loans include:

	September 30, 2019	December 31, 2018
(In thousands)		
Commercial loans	\$ 101,806	\$ 93,690
Commercial real estate	234,838	223,461
Residential real estate	74,527	78,767
Installment loans	10,094	13,765
Total gross loans	421,265	409,683
Less allowance for loan losses	(2,121)	(2,043)
Total loans	\$ 419,144	\$ 407,640

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.

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Residential and Installment

Residential and installment 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 installment 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.

Allowance for Loan Losses and Recorded Investment in Loans
As of and for the three and nine month periods ended September 30, 2019

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential</u>	<u>Installment</u>	<u>Unallocated</u>	<u>Total</u>
	(In thousands)					
Allowance for loan losses:						
Balance, July 1, 2019	\$ 262	\$ 799	\$ 747	\$ 334	\$ ---	\$ 2,142
Provision charged to expense	95	(93)	53	65	---	120
Losses charged off	---	---	(100)	(54)	---	(154)
Recoveries	---	---	1	12	---	13
Balance, September 30, 2019	<u>\$ 357</u>	<u>\$ 706</u>	<u>\$ 701</u>	<u>\$ 357</u>	<u>\$ ---</u>	<u>\$ 2,121</u>
Balance, January 1, 2019	\$ 389	\$ 672	\$ 519	\$ 463	\$ ---	\$ 2,043
Provision charged to expense	(15)	34	311	---	---	330
Losses charged off	(18)	---	(140)	(136)	---	(294)
Recoveries	1	---	11	30	---	42
Balance, September 30, 2019	<u>\$ 357</u>	<u>\$ 706</u>	<u>\$ 701</u>	<u>\$ 357</u>	<u>\$ ---</u>	<u>\$ 2,121</u>
Allocation:						
Ending balance: individually evaluated for impairment	<u>\$ 63</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 63</u>
Ending balance: collectively evaluated for impairment	<u>\$ 294</u>	<u>\$ 706</u>	<u>\$ 701</u>	<u>\$ 357</u>	<u>\$ ---</u>	<u>\$ 2,058</u>
Loans:						
Ending balance: individually evaluated for impairment	<u>\$ 1,330</u>	<u>\$ 369</u>	<u>\$ 558</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 2,257</u>
Ending balance: collectively evaluated for impairment	<u>\$ 100,476</u>	<u>\$ 234,469</u>	<u>\$ 73,969</u>	<u>\$ 10,094</u>	<u>\$ ---</u>	<u>\$ 419,008</u>

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Allowance for Loan Losses and Recorded Investment in Loans As of and for the three and nine month period ended September 30, 2018

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Installment</u>	<u>Unallocated</u>	<u>Total</u>
	(In thousands)					
Allowance for loan losses:						
Balance, July 1, 2018	\$ 545	\$ 654	\$ 505	\$ 376	\$ ---	\$ 2,080
Provision charged to expense	(130)	28	109	65	---	72
Losses charged off	---	---	(98)	(74)	---	(172)
Recoveries	1	1	1	21	---	24
Balance, September 30, 2018	<u>\$ 416</u>	<u>\$ 683</u>	<u>\$ 517</u>	<u>\$ 388</u>	<u>\$ ---</u>	<u>\$ 2,004</u>
Balance, January 1, 2018	\$ 537	\$ 843	\$ 436	\$ 218	\$ 88	\$ 2,122
Provision charged to expense	(124)	(162)	255	320	(88)	201
Losses charged off	---	---	(177)	(198)	---	(375)
Recoveries	3	2	3	48	---	56
Balance, September 30, 2018	<u>\$ 416</u>	<u>\$ 683</u>	<u>\$ 517</u>	<u>\$ 388</u>	<u>\$ ---</u>	<u>\$ 2,004</u>
Allocation:						
Ending balance: individually evaluated for impairment	<u>\$ 19</u>	<u>\$ 85</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 104</u>
Ending balance: collectively evaluated for impairment	<u>\$ 397</u>	<u>\$ 598</u>	<u>\$ 517</u>	<u>\$ 388</u>	<u>\$ ---</u>	<u>\$ 1,900</u>
Loans:						
Ending balance: individually evaluated for impairment	<u>\$ 78</u>	<u>\$ 811</u>	<u>\$ ---</u>	<u>\$ 95</u>	<u>\$ ---</u>	<u>\$ 984</u>
Ending balance: collectively evaluated for impairment	<u>\$ 89,766</u>	<u>\$ 214,982</u>	<u>\$ 76,668</u>	<u>\$ 13,672</u>	<u>\$ ---</u>	<u>\$ 392,198</u>

United Bancorp, Inc.
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Allowance for Loan Losses and Recorded Investment in Loans
As of December 31, 2018

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential</u>	<u>Installment</u>	<u>Unallocated</u>	<u>Total</u>
	(In thousands)					
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	\$ ---	\$ 85	\$ ---	\$ ---	\$ ---	\$ 85
Ending balance: collectively evaluated for impairment	\$ 389	\$ 587	\$ 519	\$ 463	\$ ---	\$ 1,958
Loans:						
Ending balance: individually evaluated for impairment	\$ 57	\$ 809	\$ ---	\$ 93	\$ ---	\$ 959
Ending balance: collectively evaluated for impairment	\$ 93,633	\$ 222,652	\$ 78,767	\$ 13,672	\$ ---	\$ 408,724

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Notes to Condensed Consolidated Financial Statements
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The following tables show the portfolio quality indicators.

Loan Class	September 30, 2019				
	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	\$ 100,476	\$ 229,249	\$ 73,971	\$ 10,094	\$ 413,790
Special Mention	---	4,917	---	---	4,917
Substandard	1,330	672	556	---	2,558
Doubtful	---	---	---	---	---
	<u>\$ 101,806</u>	<u>\$ 234,838</u>	<u>\$ 74,527</u>	<u>\$ 10,094</u>	<u>\$ 421,265</u>

Loan Class	December 31, 2018				
	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	\$ 93,620	\$ 219,485	\$ 78,767	\$ 13,672	\$ 405,544
Special Mention	---	2,710	---	---	2,710
Substandard	70	1,266	---	93	1,429
Doubtful	---	---	---	---	---
	<u>\$ 93,690</u>	<u>\$ 223,461</u>	<u>\$ 78,767</u>	<u>\$ 13,765</u>	<u>\$ 409,683</u>

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.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

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 current and past year to date periods presented.

Loan Portfolio Aging Analysis As of September 30, 2019

	<u>30-59 Days Past Due and Accruing</u>	<u>60-89 Days Past Due and Accruing</u>	<u>Greater Than 90 Days and Accruing</u>	<u>Non Accrual</u>	<u>Total Past Due and Non Accrual</u>	<u>Current</u>	<u>Total Loans Receivable</u>
	(In thousands)						
Commercial	\$ ---	\$ ---	\$ ---	\$ 36	\$ 36	\$ 101,770	\$ 101,806
Commercial real estate	197	---	---	708	905	233,933	234,838
Residential	158	116	---	1,862	2,136	72,391	74,527
Installment	55	---	---	14	69	10,025	10,094
Total	<u>\$ 410</u>	<u>\$ 116</u>	<u>\$ ---</u>	<u>\$ 2,620</u>	<u>\$ 3,146</u>	<u>\$ 418,119</u>	<u>\$ 421,265</u>

Loan Portfolio Aging Analysis As of December 31, 2018

	<u>30-59 Days Past Due and Accruing</u>	<u>60-89 Days Past Due and Accruing</u>	<u>Greater Than 90 Days and Accruing</u>	<u>Non Accrual</u>	<u>Total Past Due and Non Accrual</u>	<u>Current</u>	<u>Total Loans Receivable</u>
	(In thousands)						
Commercial	\$ 98	\$ 94	\$ ---	\$ ---	\$ 192	\$ 93,498	\$ 93,690
Commercial real estate	---	---	---	741	741	222,720	223,461
Residential	1,704	262	155	485	2,606	76,161	78,767
Installment	72	4	---	19	95	13,670	13,765
Total	<u>\$ 1,874</u>	<u>\$ 360</u>	<u>\$ 155</u>	<u>\$ 1,245</u>	<u>\$ 3,634</u>	<u>\$ 406,049</u>	<u>\$ 409,683</u>

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
(Unaudited)

Impaired Loans

	As of September 30, 2019			For the three months ended September 30, 2019		For the nine months ended September 30, 2019	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
(In thousands)							
Loans without a specific valuation allowance:							
Commercial	\$ 964	\$ 964	\$ ---	\$ 966	\$ 9	\$ 956	\$ 13
Commercial real estate	369	369	---	374	2	350	8
Residential	558	558	---	640	11	644	18
Installment	---	---	---	---	---	---	---
	<u>1,891</u>	<u>1,891</u>	<u>---</u>	<u>1,980</u>	<u>22</u>	<u>1,950</u>	<u>39</u>
Loans with a specific valuation allowance:							
Commercial	366	366	63	366	---	365	3
Commercial real estate	---	---	--	---	---	---	---
Residential	---	---	--	---	---	---	---
Installment	---	---	---	---	---	---	---
	<u>366</u>	<u>366</u>	<u>63</u>	<u>---</u>	<u>---</u>	<u>365</u>	<u>3</u>
Total:							
Commercial	<u>\$ 1,330</u>	<u>\$ 1,330</u>	<u>\$ 63</u>	<u>\$ 1,332</u>	<u>\$ 9</u>	<u>\$ 1,321</u>	<u>\$ 16</u>
Commercial real estate	<u>\$ 369</u>	<u>\$ 369</u>	<u>\$ ---</u>	<u>\$ 374</u>	<u>\$ 2</u>	<u>\$ 350</u>	<u>\$ 8</u>
Residential	<u>\$ 558</u>	<u>\$ 558</u>	<u>\$ ---</u>	<u>\$ 640</u>	<u>\$ 11</u>	<u>\$ 644</u>	<u>\$ 18</u>
Installment	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

Impaired Loans

	As of December 31, 2018			For the three months ended September 30, 2018		For the nine months ended September 30, 2018	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
(In thousands)							
Loans without a specific valuation allowance:							
Commercial	\$ 57	\$ 57	\$ ---	\$ 59	\$ ---	\$ 60	\$ 2
Commercial real estate	409	409	---	438	9	446	14
Residential	93	93	---	---	---	---	---
Installment	---	---	---	97	1	99	3
	<u>559</u>	<u>559</u>	<u>---</u>	<u>594</u>	<u>10</u>	<u>605</u>	<u>19</u>
Loans with a specific valuation allowance:							
Commercial	---	---	---	19	1	20	1
Commercial real estate	400	400	85	408	1	407	2
Residential	---	---	---	---	---	---	---
Installment	---	---	---	---	---	---	---
	<u>400</u>	<u>400</u>	<u>85</u>	<u>427</u>	<u>2</u>	<u>427</u>	<u>3</u>
Total:							
Commercial	<u>\$ 57</u>	<u>\$ 57</u>	<u>\$ ---</u>	<u>\$ 78</u>	<u>\$ 1</u>	<u>\$ 80</u>	<u>\$ 3</u>
Commercial real estate	<u>\$ 809</u>	<u>\$ 809</u>	<u>\$ 85</u>	<u>\$ 846</u>	<u>\$ 10</u>	<u>\$ 853</u>	<u>\$ 16</u>
Residential	<u>\$ 93</u>	<u>\$ 93</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>
Installment	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 97</u>	<u>\$ 1</u>	<u>\$ 99</u>	<u>\$ 3</u>

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	2	\$ 82	\$ 82
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

	Three Months Ended September 30, 2019			
	Interest Only	Term	Combination	Total Modification
	(In thousands)			
Commercial	\$ —	\$ 82	\$ —	\$ 82
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

	Nine Months ended September 30, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	2	\$ 82	\$ 82
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

	Nine Months Ended September 30, 2019			
	Interest Only	Term	Combination	Total Modification
	(In thousands)			
Commercial	\$ 2	\$ 82	\$ —	\$ 82
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months ended September 30, 2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	—	\$ —	\$ —
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

	Three Months Ended September 30, 2018			
	Interest Only	Term	Combination	Total Modification
	(In thousands)			
Commercial	\$ —	\$ —	\$ —	\$ —
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

	Nine Months ended September 30, 2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	—	\$ —	\$ —
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

	Nine Months Ended September 30, 2018			
	Interest Only	Term	Combination	Total Modification
	(In thousands)			
Commercial	\$ —	\$ —	\$ —	\$ —
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

During the nine months ended September 30, 2018 and 2019 troubled debt restructurings did not have an impact on the allowance for loan losses. At September 30, 2019 and 2018 and for three and nine month periods then ended, there were no 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 months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Service cost	\$ 75	\$ 76	\$ 225	\$ 228
Interest cost	55	55	165	165
Expected return on assets	(102)	(111)	(306)	(333)
Amortization of prior service cost and net loss	1	(10)	3	(30)
Pension expense	\$ 29	\$ 10	\$ 87	\$ 30

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

	September 30, 2019	December 31, 2018
	(In thousands)	
Commercial loans unused lines of credit	\$ 36,326	\$ 34,148
Commitment to originate loans	26,562	21,319
Consumer open end lines of credit	40,738	37,726
Standby lines of credit	46	—

Note 6: Accumulated Other Comprehensive Income (Loss)

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

	September 30, 2019	December 31, 2018
	(In thousands)	
Net unrealized gain on securities available-for-sale	\$ 9,226	\$ 658
Net unrealized loss for unfunded status of defined benefit plan liability	(671)	(671)
	8,555	(13)
Tax effect	(1,795)	3
Net-of-tax amount	<u>\$ 6,760</u>	<u>\$ (10)</u>

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 that the entity can access at the measurement date
- 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

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
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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

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. 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, 2019 and December 31, 2018:

	Fair Value	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)
September 30, 2019				
U.S. government agencies	\$ 60,906	\$ —	\$ 60,906	\$ —
State and municipal obligations	137,456	—	137,456	—
Subordinated Debentures	2,513	—	2,513	—
December 31, 2018				
U.S. government agencies	\$ 44,750	\$ —	\$ 44,750	\$ —
State and municipal obligations	\$ 79,241	\$ —	\$ 79,241	\$ —

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
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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. Due to the nature of the valuation inputs, foreclosed assets held for sale are classified within Level 3 of the hierarchy.

Appraisals of foreclosed assets held for sale 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.
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(Unaudited)

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, 2019 and December 31, 2018.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(In thousands)				
September 30, 2019				
Collateral dependent impaired loans	\$ 303	\$ ---	\$ ---	\$ 303
Foreclosed assets held for sale	30	---	---	30
December 31, 2018				
Collateral dependent impaired loans	\$ 314	\$ ---	\$ ---	\$ 314
Foreclosed assets held for sale	91	---	---	91

Unobservable (Level 3) Inputs

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

	<u>Fair Value at 9/30/19</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
(In thousands)				
Collateral-dependent impaired loans	\$ 303	Market comparable properties	Marketability discount	10% - 25%
Foreclosed assets held for sale	\$ 30	Market comparable properties	Marketability discount	10% - 35%
	<u>Fair Value at 12/31/18</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
(In thousands)				
Collateral-dependent impaired loans	\$ 314	Market comparable properties	Marketability discount	10% - 25%
Foreclosed assets held for sale	\$ 91	Market comparable properties	Marketability discount	10% - 35%

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

There were no significant changes in the valuation techniques used during 2019 and 2018.

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.

	<u>Carrying Amount</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(In thousands)				
September 30, 2019				
Financial assets				
Cash and cash equivalents	\$ 13,347	\$ 13,347	\$ —	\$ —
Loans, net of allowance	419,144	—	—	416,663
Federal Home Loan Bank stock	4,012	—	4,012	—
Accrued interest receivable	2,232	—	2,232	—
Financial liabilities				
Deposits	549,996	—	549,714	—
Short term borrowings	9,902	—	9,902	—
Federal Home Loan Bank Advances	20,800	—	20,800	—
Subordinated debentures	23,528	—	23,378	—
Interest payable	205	—	205	—

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	<u>Carrying Amount</u>	Fair Value Measurements Using		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(In thousands)				
December 31, 2018:				
Financial assets				
Cash and cash equivalents	\$ 25,253	\$ 25,253	\$ —	\$ —
Loans, net of allowance	407,640	—	—	405,033
Federal Home Loan Bank stock	4,243	—	4,243	—
Accrued interest receivable	1,798	—	1,798	—
Financial liabilities				
Deposits	525,443	—	524,020	—
Short term borrowings	8,068	—	8,068	—
Federal Home Loan Bank Advances	106	—	101	—
Subordinated debentures	4,124	—	3,647	—
Interest payable	188	—	188	—

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.

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Notes to Condensed Consolidated Financial Statements
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Loans

Fair values of loans and leases are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

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, 2019 and December 31, 2018.

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, 2019 and December 31, 2018, repurchase agreement borrowings totaled \$9,902,000 and \$8,068,000, 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.

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

Remaining Contractual Maturity of the Agreement
(In thousands)

September 30, 2019	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	\$ 9,902	\$ —	\$ —	\$ —	\$ 9,902
Total	<u>\$ 9,902</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,902</u>
December 31, 2018	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	\$ 8,068	\$ —	\$ —	\$ —	\$ 8,068
Total	<u>\$ 8,068</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,068</u>

These borrowings were collateralized with U.S. government and agency securities with a carrying value of \$11.0 million at September 30, 2019 and \$18.3 million at December 31, 2018. Declines in the fair value would require the Company to pledge additional securities.

Note 9: Acquisition

On June 14, 2018, the Company and Powhatan Point Community Bancshares, Inc. ("Powhatan Point") entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Powhatan Point merged with and into the Company on October 15, 2018. The First National Bank of Powhatan, wholly-owned subsidiary of Powhatan Point, operated from one full-service office located in Powhatan Point, Ohio. That office became a branch of Unified Bank after the merger.

Under the terms of the Merger Agreement, the shareholders of Powhatan Point received 6.9233 shares of common stock of United Bancorp and \$28.52 in cash per outstanding share of Powhatan Point stock.

The merger with Powhatan Point was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the merger date. The following table summarizes the allocation purchase prices for Powhatan Point.

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(in thousands)

ASSETS		LIABILITIES	
Cash and cash equivalents	\$ 24,986	Deposits	
Deposits in other banks	3,461	Non interest bearing	\$ 19,287
FHLB stock	78	Savings	30,533
Investments	23,865	Certificates of Deposit	<u>5,772</u>
Commercial	3,019	Total Deposits	55,592
Residential	2,403		
Installment	<u>1,357</u>		
Total loans	6,779		
Premise and equipment, net	548	Interest payable and other liabilities	496
Core deposit intangible	1,028		
Goodwill	682		
Bank owned life insurance	612		
Accrued interest receivable	145		
Deferred federal income taxes	20		
Other assets	124		
Total assets purchased	<u>\$ 62,328</u>	Total liabilities assumed	
Common shares issued	\$ 4,711		<u>\$ 56,088</u>
Cash paid	1,529		
Estimated purchase price	<u>\$ 6,240</u>		

Of the total purchase price of \$6.2 million, \$1.0 has been allocated to core deposit intangible. Additionally, \$682,000 has been allocated to goodwill. The core deposit will be amortized over 7 years on a straight line basis. Direct costs related to the acquisition were expensed as incurred and reflected in other noninterest expense in the consolidated statement of income for the year ended December 31, 2018. The amount of goodwill reflects the Company's expansion in the Powhatan Point market and related synergies that are expected to result from the acquisition and represent the excess purchase price over the estimated fair value of the net assets acquired. The goodwill will not be amortizable in the Company's financial statements and will not be deductible for tax purposes. Goodwill will be subject to an annual test for impairment and the amount impaired, if any, will be charged to expense at the time of impairment.

The Company acquired various loans in the acquisition for which none had evidence of deterioration of credit quality since origination. The fair value of assets acquired includes loans with a fair value of \$6,779,000. The gross principal and contractual interest due under the contracts is \$6,875,000, of which \$86,000 is expected to be uncollectible.

Note 10: Subordinated Debentures

On May 14, 2019 the Company issued \$20,000,000 of junior subordinated debentures in denominations of not less than \$250,000. The debentures bear interest at a fixed rate of 6.0% until May 2024, which then becomes a floating interest rate equal to the three-month LIBOR (or an equivalent index) plus 3.625%, resetting quarterly. Interest on the subordinated notes will be payable semiannually through May 2024 and quarterly thereafter through the maturity date of May 2029. Principal is due upon maturity. The debentures are unsecured and payable to various investors. For purposes of computing regulatory capital, the debentures are included in Tier 2 Capital. The subordinated notes may not be repaid in whole or in part prior to the fifth anniversary of the issue date (May 2019).

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In 2005, a Delaware statutory business trust owned by the Company, United Bancorp Statutory Trust I (“Trust I” or the “Trust”), issued \$4.1 million of mandatorily redeemable debt securities. The sale proceeds were utilized to purchase \$4.1 million of the Company’s subordinated debentures which mature in 2035. The Company’s subordinated debentures are the sole asset of Trust I. The Company’s investment in Trust I is not consolidated herein as the Company is not deemed the primary beneficiary of the Trust. However, the \$4.1 million of mandatorily redeemable debt securities issued by the Trust are includible for regulatory purposes as a component of the Company’s Tier I Capital. Interest on the Company’s subordinated debentures is equal to three month LIBOR plus 1.35% and is payable quarterly.

United Bancorp, Inc.

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

The following discusses the financial condition of the Company as of June 30, 2019, as compared to December 31, 2018, and the results of operations for the three and six months ended June 30, 2019, compared to the same period in 2018. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

Introduction

United Bancorp, Inc. reported diluted earnings per share of \$0.88 and net income of \$5,041,000 for the nine months ended September 30, 2019, as compared to \$0.71 and \$3,691,000, respectively, for the corresponding nine-month period in 2018. The Company's diluted earnings per share for the three months ended September 30, 2019 was \$0.31 as compared to \$0.25 to the same period in the previous year. These year-over-year improvements in UBCP's earnings are directly related to the Company executing its strategic vision of achieving profitable growth by both growing organically and acquiring other like-minded community banking organizations.

For the most recently ended quarter, United Bancorp had an increase in net income of \$450,000, or 34%, on a year-over-year basis. For the nine-month period ending September 30, 2019, UBCP saw its net income increase by \$1,350,000, or 37%, to a level of \$5,041,000, which is a new earnings record for the Company for the corresponding period. This increase in earnings is highly correlated to the strong organic and acquisition-related growth that our Company experienced during the past twelve months. Even with the issuance of common shares to facilitate its most recent acquisition completed in the fourth quarter of 2018, diluted earnings per share was \$0.31 versus \$0.25 the prior year, an increase of 24%. The combination of the acquisition-related and strong organic growth that was achieved this past year facilitated the increase in the level of UBCP's higher-yielding earning assets, which grew by \$142.3 million, or 29%, on a year-over-year basis. This growth in earning assets was divided between steady growth in the Company's loan portfolio, which increased by \$28.1 million, or 7.1%, and solid growth in our investment portfolio, with securities and other restricted stock increasing by \$114.3 million or 126.1%. With this increased level of higher-yielding earning assets, United Bancorp saw a year-over-year increase in the level of interest income that it generated for the nine months of 2019 of \$4.6 million or 30%.

In order to fund this strong growth in earning assets while improving overall levels of profitability, the Company needed to attract a substantial level of cost effective funding. We achieved this by successfully growing lower-cost, retail balances (consisting of noninterest bearing and interest bearing demand deposits and savings deposits) by \$88.5 million, or 25%, year-over-year. With lower-cost retail balances totaling \$437.8 million as of September 30, 2019, they comprise 80% of total deposits for the Company. The remaining growth in deposits came in the area of time deposits (consisting of certificates of deposit or term funding), which increased by \$27.1 million, or 32%, since September 2018. By funding its above-peer growth in earning assets primarily with lower-costing retail funding this past year, United Bancorp was able to maintain a very solid net interest margin which was 3.67% as of the most recent quarter end.

From a qualitative perspective, we have successfully maintained overall strength and stability within our loan portfolio. Year-over-year, UBCP continues to have very solid credit quality-related metrics supported by a relatively low level of nonaccrual loans and loans past due 30 plus days, which were \$3.2 million, or 0.75 percent of total loans, at September 30, 2019. Further, net loans charged off, excluding overdrafts, was \$164,000 for the nine months ended September 30, 2019, which is lower than the \$238,000 charged off for the same nine-month period the previous year. Net charge offs to average loans for the first nine months of 2019 was 0.06% versus 0.08% for the same period in 2018. At these levels, we are very satisfied with the continued stable performance of our loan portfolio from a credit quality perspective.

United Bancorp, Inc.

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

Considering that we anticipate our earning assets to continue growing at very acceptable levels and our overall credit quality to remain very solid, we firmly expect that the double-digit earnings growth that we experienced in the first nine months of the year to continue for the remainder of the current year and into future periods.

United Bancorp, Inc. greatly benefited from the positive execution of its strategic plan, which calls for growth through acquiring other like-minded community banking organizations, building new banking centers in key and complimentary markets and capitalizing on prudent, yet profitable, organic opportunities. Over the course of the past twelve months, United Bancorp had success in these key areas on which we keenly focus. With the double-digit growth that we have experienced during this timeframe, our Company has produced record earnings. In addition, we are well on our way to achieving our strategic vision of growing our assets to a level of \$1.0 billion, or greater, which should also help our Company gain even greater efficiencies and higher levels of performance than we have already seen in recent quarters. As previously announced, on May 14, 2019, United Bancorp, Inc. issued \$20.0 million in subordinated debt at very favorable terms. Although this does not contribute to our Tier I Capital at the corporate-level, it does add to our Tier I Capital at our bank-level. Having this new leverageable (or growth) capital at our affiliate bank-level will greatly aid in helping us attain our lofty goal for growth and driving our earnings in a positive fashion in future periods.

By continuing to utilize the “playbook” that we did last year and into the current year to achieve profitable growth, we are very optimistic about our future prospects. In addition, we will continue focusing on building our infrastructure (or, foundation) to support further growth while achieving greater efficiencies. As we have previously stated, we are strongly committed to remaining relevant within our industry by investing in our technology and origination/service platforms. Ultimately, our vision is to become an omnichannel bank by having complete channel integration and offering mobility to our customers; thereby, serving them on their terms and through their preferred channels. We have started this initiative and believe that, for a community-minded bank, we will have a complete digital solution that will be highly appealing to our target clientele within the next year or so. Coupling this investment in technology with continued investment in growing our Company through acquisition and new branch construction in key complimentary markets, we firmly believe that we can continue to grow at acceptable levels while remaining very profitable. As previously announced on June 18, 2019, United Bancorp purchased land in Moundsville, West Virginia and plans to construct a new banking center in this very vibrant community in the heart of the proposed ethane cracker region. This will be the Company's first full service office in the State of West Virginia and this new location will further enhance our developing footprint in the Upper Ohio Valley Region (which is our traditional market), and nicely compliment our recent market expansion in Powhatan Point, Ohio, which is across the Ohio River from this new and exciting market. We anticipate that our new Moundsville Banking Center will be open for business toward the end of the first quarter of 2020. Even with the high level of growth that we experienced over the course of the past twelve months, we continued to maintain our overall profitability. With our year-to-date record earnings in 2019, United Bancorp had a return on equity (ROE) of 11.2% and a return on assets (ROA) of 1.05% for the nine months ended September 30, 2019. For many quarters, we have stated that our goal is to grow our Company in a highly profitable fashion. We are extremely delighted that we have done so and that we continue to accomplish this goal into the most recently ended quarter.

United Bancorp, Inc.

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

United Bancorp's primary focus continues to be rewarding its shareholders by paying a very solid cash dividend and increasing their shareholder value in our Company. During the course of the current year, we have increased our cash dividend payout by \$0.0025 per quarter and are currently paying \$0.1375, which on a forward basis produces a dividend yield of 4.93% based on the closing price as of the most recent quarter end. Regarding our present market valuation, on a forward basis we are currently trading at a price to earnings multiple of 9 times. With our market sector trading more in the range of 12 to 13 times at present, we are highly optimistic that we will see a higher market valuation in future periods...assuming that we continue to drive our earnings at the levels we have seen and currently project. Overall, we are extremely pleased with the direction that we are going and the results that we are producing. We continue to be highly optimistic about our future potential and look forward to realizing this upside potential in future periods!

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.

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.

United Bancorp, Inc.

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

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.

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.

United Bancorp, Inc.

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

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, 2019, gross loans were \$421.3 million, compared to \$409.7 million at December 31, 2018, an increase of \$11.6 million after offsetting repayments for the period. The overall increase in the loan portfolio was comprised of a \$19.5 million increase in commercial and commercial real estate loans, a \$4.2 million decrease in residential loans and a \$3.7 million decrease in installment loans since December 31, 2018.

Commercial and commercial real estate loans comprised 80.0% of total loans at September 30, 2019, compared to 77.4% at December 31, 2018. Commercial and commercial real estate loans have increased \$19.5 million, or 6.15%, since December 31, 2018. This segment of the loan portfolio includes originated loans in our market areas and purchased participations in loans from other banks.

Installment loans represented 2.4% of total loans at September 30, 2019 and 3.4% at December 31, 2018. Some of the installment loans carry somewhat more risk than real estate lending; however, it also provides for higher yields. Installment loans have decreased \$3.7 million, or 26.7%, since December 31, 2018. 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.

Residential real estate loans were 17.7% of total loans at September 30, 2019 and 19.2% at December 31, 2018, representing a decrease of \$4.2 million, or 5.4% since December 31, 2018. At September 30, 2019, the Company did not hold any loans for sale.

The allowance for loan losses totaled \$2.1 million at September 30, 2019, which represented 0.50% of total loans, and \$2.0 million at December 31, 2018, or 0.50% 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. The Company had net charge-offs of \$252,000 for the nine months ended September 30, 2019 compared to \$319,000 for the nine months ended September 30, 2018.

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, 2019 increased approximately \$76.9 million from December 31, 2018 totals. We continue to see value in state and political subdivision investments.

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 \$250,000. For the period ended September 30, 2019, total core deposits increased approximately \$24.6 million or 4.7%. The Company's savings accounts decreased \$2.2 million, or 2.0%, from December 31, 2018 totals. The Company's interest-bearing and non-interest bearing demand deposits increased \$19.2 million, or 6.2%, while certificates of deposit under \$250,000 increased by \$7.8 million, or 8.8%. 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 \$250,000 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, 2019, certificates of deposit greater than \$250,000 decreased \$247,000 or 1.5%, from December 31, 2018 totals.

Sources of Funds – Long Term Debt

During the second quarter of 2019 the Company announced a private placement of \$20 million in fixed-to-floating rate subordinated notes due 2029 (the "Notes"). The Notes have been structured to qualify as Tier 2 capital under bank regulatory guidelines, and the proceeds from the sale of the Notes are being utilized to support regulatory capital ratios and for general corporate purposes, including growth initiatives at Unified Bank.

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 \$20.7 million from December 31, 2018 totals.

Results of Operations for the Nine Months Ended September 30, 2019 and 2018

Net Income

For the nine months ended September 30, 2019 the Company reported net earnings of \$5,041,000, compared to \$3,691,000 for the nine months ended September 30, 2018. On a per share basis, the Company's diluted earnings were \$0.88 for the nine months ended September 30, 2019, as compared to \$0.71 for the nine months ended September 30, 2018 an increase of 23.9%.

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 after provision for loan losses increased 17.2%, or \$2.4 million for the nine months ended September 30, 2019 compared to the same period in 2018. As previously mentioned, the strong growth of loans and securities was the driver for the increase in net interest income.

Provision for Loan Losses

As compared to December 31, 2018, the Company maintained very solid credit quality-related metrics by having nonaccrual loans and loans past due 30+ days experience a decrease from a level of \$3.63 million to \$3.15 million, a decrease of \$480,000. Net loans charged-off, excluding overdrafts, was \$164,000 through September 30, 2019, which is a decrease over net loans charged-off of \$238,000 from the previous year. At this present level, total past due and nonaccrual loans to gross loans is a very solid 0.75% at September 30, 2019 versus 0.89% at December 31, 2018. Net charge offs to average loans was 0.06% for the nine months ended September 30, 2019 as compared to 0.08% for the nine months ended September 30, 2018. Overall, with the solid loan growth and not much movement in the Company's credit quality, the Company modestly increased the provision for loan losses which was \$201,000 for the nine months ended September 30, 2018 to \$330,000 for the nine months ended September 30, 2019, an increase of \$129,000.

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 increased by \$190,000 for the Nine months ended September 30, 2019 as compared to the same period in 2018.

Noninterest Expense

In anticipation of building its infrastructure for future growth, the Company saw its noninterest expense increase by \$1.3 million or 11.7% year-over-year. Most of the increase in our noninterest expense levels was related to personnel-related expenses on the production-side, which should lead to the Company realizing higher levels of revenue in the coming quarters. Non interest expense also increased due to inclusion of the non interest expense related to the acquisition of Powhatan Point Community Bancshares in the first quarter of 2019.

Federal Income Taxes

The provision for federal income taxes was \$510,000 for the nine months ended September 30, 2019, a decrease of \$207,000 compared to the same period in 2018. The effective tax rate was 9.2% and 16.3% for the nine months ended September 30, 2019 and 2018, respectively. The effective tax rate is lower in 2019 due to the increase in tax exempt state and political subdivision investments.

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, 2019 and 2018

Net Income

For the three months ended September 30, 2019 the Company reported net earnings of \$1,781,000, compared to \$1,331,000 for the three months ended September 30, 2018. On a per share basis, the Company's diluted earnings were \$0.31 for the three months ended September 30, 2019, as compared to \$0.25 for the three months ended September 30, 2018.

Net Interest Income

Net interest income increased 12.1%, or \$565,000 for the three months ended September 30, 2019 compared to the same period in 2018. This increase was mainly driven by an increase in loan interest income of \$625,000 or 12.8% and interest of securities of \$742,000 or 134.9% for the three months ended September 30, 2019 over the same period in 2018.

Provision for Loan Losses

The provision for loan losses was \$120,000 for the three months ended September 30, 2019, compared to \$72,000 for the same period in 2018. As previously discussed, the increase in the provision for loan losses was primarily due to the solid loan growth.

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 increased by \$64,000 for the three months ended September 30, 2019 as compared to the same period in 2018.

Noninterest Expense

Noninterest expense was \$4.2 million for the three months ended September 30, 2019, an increase of \$307,000, compared to the three months ended September 30, 2018. Most of the increase in our noninterest expense levels was related to personnel-related expenses on the production-side, which should lead to the Company realizing higher levels of revenue in the coming quarters. Non interest expense also increased due to inclusion of the non interest expense related to the acquisition of Powhatan Point Community Bancshares in the first quarter of 2019.

Federal Income Taxes

The provision for federal income taxes was \$135,000 for the three months ended September 30, 2019, a decrease of \$134,000 compared to the same period in 2018. The effective tax rate was 7.0% and 16.8% for the three months ended September 30, 2019 and 2018, respectively. The effective tax rate is lower in 2019 due to the increase in tax exempt state and political subdivision investments.

United Bancorp, Inc.

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Capital Resources

Stockholders' equity totaled \$60.1 million at September 30, 2019 compared to \$50.6 million at December 31, 2018, a \$9.4 million increase. Total stockholders' equity in relation to total assets was 8.90% at September 30, 2019 and 8.54% at December 31, 2018. On May 14, 2019 the Company issued \$20,000,000 of junior subordinated debentures in denominations of not less than \$250,000. To increase the capital level of Unified Bank, \$16 million of the proceeds were paid as a dividend during the second quarter of 2019. This increased level of capital at Unified Bank will provide the capital for future growth. The Company retained \$4 million of the proceeds for general corporate purposes and also funding for future growth.

The Company's Articles of Incorporation provides flexibility 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 ability to issue preferred shares 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.

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 requires a minimum ratio of tier 1 capital to risk-weighted assets of 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations.

The Company's and Bank's actual capital amounts and ratios are presented in the following table.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of September 30, 2019						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 76,557	17.0%	\$ 36,111	8.0%	N/A	N/A
Unified	68,658	14.0	39,202	8.0	\$ 49,002	10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 50,436	11.2%	\$ 20,312	4.5%	N/A	N/A
Unified	66,537	13.6	22,051	4.5	\$ 31,851	6.5%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	\$ 54,436	12.1%	\$ 27,083	6.0%	N/A	N/A
Unified	66,537	13.6	29,401	6.0	\$ 39,202	8.0%
Tier I Capital (to Average Assets)						
Consolidated	\$ 54,436	8.5%	\$ 25,510	4.0%	N/A	N/A
Unified	66,537	10.3	25,799	4.0	\$ 32,248	5.0%
As of December 31, 2018						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 53,461	12.0%	\$ 35,720	8.0%	N/A	N/A
Unified	50,690	11.4	35,643	8.0	\$ 44,554	10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 47,418	10.6%	\$ 20,092	4.5%	N/A	N/A
Unified	48,647	10.9	20,049	4.5	\$ 28,960	6.5%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	\$ 51,418	11.5%	\$ 26,790	6.0%	N/A	N/A
Unified	48,647	10.9	26,733	6.0	\$ 35,643	8.0%
Tier I Capital (to Average Assets)						
Consolidated	\$ 51,418	8.8%	\$ 23,275	4.0%	N/A	N/A
Unified	48,647	8.4	23,189	4.0	\$ 28,986	5.0%

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 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, 2018.

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, 2019, 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, 2019 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, 2018, filed on March 20, 2019.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans Or Programs	(d) Maximum Number or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 7/1/2019 to 7/31/2019	—	—	—	—
Month #2 8/1/2019 to 8/31/2019	—	—	—	—
Month #3 9/1/2019 to 9/30/2019	—	—	—	—

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. 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. Other Information.

None.

ITEM 6. Exhibits

[EX 9.1](#) Incorporated by reference to Appendix B to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.

[EX 3.2](#) [Amended and Restated Code of Regulations of United Bancorp, Inc.](#) ⁽²⁾
⁽²⁾ 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 November 18, 2016.

EX 4.1 Instruments Defining the Rights of Security Holders (See Exhibits [3.1](#) and [3.2](#))

⁽³⁾ Incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 14, 2019.
[EX 4.2](#) [Commission 00% Floating Rate Subordinated Note due May 15, 2029](#) ⁽³⁾

[EX 4.0](#) Incorporated by reference to Exhibit 4.0 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 14, 2019.

[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](#)

SIGNATURES

[EX 32.2](#) [Section 1350 Certification – CFO](#)

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.

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

/s/United Bancorp, Inc.

Date: November 12, 2019

By: /s/Scott A. Everson
Scott A. Everson
President and Chief Executive Officer

Date: November 12, 2019

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

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<u>Exhibit No.</u>	<u>Description</u>
31.1	Rule 13a-14(a) Certification – Principal Executive Officer
31.2	Rule 13a-14(a) Certification – Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATIONS

I, Scott A. Everson, President and Chief Executive Officer of United Bancorp, Inc., certify that:

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

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATIONS

I, Randall M. Greenwood, Chief Financial Officer of United Bancorp, Inc., certify that:

(b) I have reviewed this Form 10-Q of United Bancorp, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2019

/s/Randall M. Greenwood
Randall M. Greenwood, CFO

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

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

In connection with the Quarterly Report of United Bancorp, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott A. Everson, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/Scott A. Everson

Scott A. Everson,
President and Chief Executive Officer

November 12, 2019

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

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

In connection with the Quarterly Report of United Bancorp, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randall M. Greenwood, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/Randall M. Greenwood

Randall M. Greenwood,
Chief Financial Officer

November 12, 2019

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