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 March 31, 2020

OR

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

For the transition period from _____________ to _____________

Commission File Number: 0-16540

UNITED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-1405357
(State or other jurisdiction of incorporation or organization)	(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 ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller Reporting Company ☒	Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of May 15, 2020, 5,729,113 shares of the Company's common stock, $1.00 par value, were issued and outstanding.

ITEM 1. Financial Statements

United Bancorp, Inc.

Condensed Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and due from banks	$ 12,904	$ 5,697
Interest-bearing demand deposits	15,138	9,288
Cash and cash equivalents	28,042	14,985
Available-for-sale securities	197,401	188,785
Loans, net of allowance for loan losses of $2,708 and $2,231 at March 31, 2020 and December 31, 2019, respectively	445,629	439,317
Premises and equipment	13,150	12,402
Federal Home Loan Bank stock	4,452	4,012
Foreclosed assets held for sale, net	818	819
Core deposit and other intangible assets	1,505	1,542
Accrued interest receivable	2,563	2,697
Bank-owned life insurance	17,331	17,196
Other assets	4,390	3,951
Total assets	$ 715,281	$ 685,706
Liabilitiesand Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 345,448	$ 334,380
Savings	111,066	108,217
Time	99,004	105,472
Total deposits	555,518	548,069
Securities sold under repurchase agreements	14,587	6,915
Federal Home Loan Bank advances	51,000	39,800
Subordinated debentures	23,558	23,543
Deferred federal income tax	––	1,736
Interest payable and other liabilities	7,670	5,721
Total liabilities	652,333	625,784
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 5,969,351 shares at March 31, 2020, and 5,959,351 shares at December 31, 2019; outstanding – 5,729,113 and 5,516,203 shares at March 31, 2020 and December 31, 2019, respectively	5,969	5,959
Additional paid-in capital	22,797	22,871
Retained earnings	28,644	27,905
Stock held by deferred compensation plan; 160,645 and 176,134 shares at March 31, 2020 and December 31, 2019	(1,522)	(1,659)
Unearned ESOP compensation	(149)	(228)
Accumulated other comprehensive income	8,197	5,536
Treasury stock, at cost 79,593 and 42,400 shares at March 31, 2020 and December 31, 2019, respectively	(988)	(462)
Total stockholders' equity	62,948	59,922
Total liabilities and stockholders' equity	$ 715,281	$ 685,706

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Condensed Consolidated Statements of Income
Three Months Ended March 31, 2020 and 2019
(In thousands, except per share data)
(Unaudited)

	2020	2019
Interest and Dividend Income		
Loans, including fees	$ 5,842	$ 5,235
Securities		
Taxable	223	205
Non-taxable	1,197	724
Federal funds sold	29	85
Dividends on Federal Home Loan Bank and other stock	28	66
Total interest and dividend income	7,319	6,315
Interest Expense		
Deposits	1,121	1,126
Borrowings	564	81
Total interest expense	1,685	1,207
Net Interest Income	5,634	5,108
Provision for Loan Losses	563	90
Net Interest Income After Provision for Loan Losses	5,071	5,018
Noninterest Income		
Service charges on deposit accounts	659	713
Realized gains on sales of securities	69	---
Realized gains on sales of loans	6	4
Earnings on bank-owned life insurance	195	130
Other income	115	98
Total noninterest income	1,044	945
Noninterest Expense		
Salaries and employee benefits	2,346	2,183
Occupancy and equipment	606	550
Professional services	277	303
FDIC insurance	44	52
Insurance	118	111
Franchise and other taxes	122	105
Advertising	75	137
Stationery and office supplies	26	42
OREO and repossession losses	---	5
Amortization of intangibles	37	37
Other expenses	759	637
Total noninterest expense	4,410	4,162
Income Before Federal Income Taxes	1,705	1,801
Provision for Federal Income Taxes	126	187
Net Income	$ 1,579	$ 1,614
Basic Earnings Per Share	$ 0.28	$ 0.28
Diluted Earnings Per Share	$ 0.28	$ 0.28
Dividends Per Share	$ 0.1425	$ 0.13

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Condensed Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2020 and 2019
(In thousands, except per share data)
(Unaudited)

	2020		2019	
Net Income	$	1,579	$	1,614
Other comprehensive income (loss), net of tax				
Reclassification adjustment for realized gains on available-for-sale securities included in net income, net of taxes $14		(55)		---
Unrealized holding gains on available-for-sale securities during the period, net of taxes of $707 and $656 for each respective period		2,716		2,470
Comprehensive Income	$	4,240	$	4,084

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2020 and 2019
(In thousands except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Treasury Stock and Deferred Compensation	Shares Acquired By ESOP	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance January 1, 2019	5,927	22,556	(1,747)	(404)	24,321	(10)	50,643
Net income	—	—	—	—	1,614	—	1,614
Other comprehensive income	—	—	—	—	—	2,470	2,470
Cash dividends - $0.1325 per share	—	—	—	—	(782)	—	(782)
Shares sold for deferred compensation plan	—	231	(231)	—	—	—	—
Repurchase of common stock	—	---	(267)	—	—	—	(267)
Expense related to share-based compensation plans	—	39	—	—	—	—	39
Amortization of ESOP	—	---	—	69	—	—	69
Balance, March 31, 2019	$ 5,927	$ 22,826	$ (2,245)	$ (335)	$ 25,153	$ 2,460	$53,786
Balance January 1, 2020	5,959	22,871	(2,121)	(228)	27,905	5,536	59,922
Net income	—	—	—	—	1,579	—	1,579
Other comprehensive income	—	—	—	—	—	2,661	2,661
Cash dividends - $0.1425 per share	—	—	—	—	(840)	—	(840)
Restricted stock activity	10	(10)	—	—	---	—	---
Shares purchased for deferred compensation plan	—	(137)	137	—	—	—	—
Repurchase of common stock	—	---	(526)	—	—	—	(526)
Expense related to share-based compensation plans	—	73	—	—	—	—	73
Amortization of ESOP	—	---	—	79	—	—	79
Balance, March 31, 2020	$ 5,969	$ 22,797	$ (2,510)	$ (149)	$ 28,644	$ 8,197	$62,948

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2020 and 2019
(In thousands)
(Unaudited)

	2020	2019
Operating Activities		
Net income	$ 1,579	$ 1,614
Items not requiring (providing) cash		
Depreciation and amortization	289	250
Amortization of intangible asset	37	37
Premium amortization on securities	326	66
Provision for loan losses	563	90
Gain on sale of loans	(6)	(4)
Expense related to share based compensation programs	74	40
Increase in value of bank-owned life insurance	(135)	167
Gain on sale of available-for-sale securities	(69)	---
Originations of loans held for sale	(226)	(215)
Proceeds from sale of loans held for sale	232	219
Expense related to share-based compensation plans and ESOP	78	69
Amortization of debt instrument costs	15	—
Net change in accrued interest receivable and other assets	(313)	(807)
Net change in accrued expenses and other liabilities	(493)	(683)
Net cash provided by operating activities	1,951	843
Investing Activities		
Purchase of available-for-sale securities	(19,647)	(9,833)
Proceeds from maturity of available-for-sale securities	6,073	3,000
Proceeds from sales of available-for-sale securities	8,070	---
Net change in loans	(6,868)	(4,258)
(Purchase) redemption of FHLB Stock	(440)	231
Purchases of premises and equipment	(1,037)	(330)
Net cash used in investing activities	(13,849)	(11,190)
Financing Activities		
Net change in deposits	$ 7,449	$ 13,488
Net change in securities sold under repurchase agreements	7,672	5,373
Net change in Federal Home Loan Bank advances	11,200	(26)
Repurchase of common stock	(526)	(267)
Cash dividends paid	(840)	(782)
Net cash provided by financing activities	24,955	17,786
Increase in Cash and Cash Equivalents	13,057	7,439
Cash and Cash Equivalents, Beginning of Period	14,985	25,253
Cash and Cash Equivalents, End of Period	$ 28,042	$ 32,692
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	$ 1,706	$ 1,218
Purchases of available-for-sale securities not settled	$ ---	$ 5,465

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 March 31, 2020, 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, 2019 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 ended March 31, 2020, 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, 2019 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. 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.

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.

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.

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.

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.

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

Earnings per share (EPS) were computed as follows:

	Three Months Ended March 31, 2020		
	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)		
Net income	$ 1,579		
Less allocated earnings on non-vested restricted stock	(32)		
Less allocated dividends on non-vested restricted stock	(35)		
Net income allocated to common stockholders	1,512		
		5,463,739	
Basic and diluted earnings per share			$ 0.28

	Three Months Ended March 31, 2019		
	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)		
Net income	$ 1,614		
Less allocated earnings on non-vested restricted stock	(27)		
Less allocated dividends on non-vested restricted stock	(23)		
Net income allocated to common stockholders	1,564		
		5,515,418	
Basic and diluted earnings per share			$ 0.28

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 2016.

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.

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 review segmentation to ensure it is fully compliant with the amendments at adoption date. Additional work will be needed once additional guidance or clarification in the standard is given during the delay. For additional information on the allowance for loan losses, see Note 3.

Reclassifications

Certain reclassifications have been made to the March 31, 2019 condensed consolidated income statement to conform to the March 31, 2020 condensed consolidated income statement presentation. These reclassifications had no effect on net income.

Note 2: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Available-for-sale Securities:				
March 31, 2020:				
U.S. government agencies	$ 32,000	$ 203	$ ---	$ 32,203
Subordinated notes	4,500	45	(15)	4,530
State and municipal obligations	149,144	$ 11,610	(86)	160,668
Total debt securities	$ 185,644	$ 11,858	$ (101)	$ 197,401

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Available-for-sale Securities:				
December 31, 2019:				
U.S. government agencies	$ 40,000	$ —	$ (472)	$ 39,528
Subordinated notes	4,500	36	(4)	4,532
State and municipal obligations	135,897	$ 8,993	(165)	144,725
Total debt securities	$ 180,397	$ 9,029	$ (641)	$ 188,785

The amortized cost and fair value of available-for-sale securities at March 31, 2020, 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.

	Amortized Cost	Fair Value
	(In thousands)	
Under 1 year	$ ---	$ ---
One to five years	---	---
Five to ten years	36,500	36,733
Over ten years	149,144	160,668
Totals	$ 185,644	$ 197,401

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $44.8 million and $46.8 million at March 31, 2020 and December 31, 2019, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at March 31, 2020 was $8.0 million, which represented approximately 4% of the Company's available-for-sale investment portfolio. The total fair value of these investments at December 31, 2019 was $50.3 million, which represented approximately 27% of the Company's available-for-sale.

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 of an 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 March 31, 2020:

	March 31, 2020					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government agencies	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---
State and municipal obligations	7,049	(86)	---	---	7,049	(86)
Corporate securities	985	(15)	---	---	985	(15)
Total temporarily impaired securities	$ 8,034	$ (101)	$ ---	$ ---	$ 8,034	$ (101)

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
US government agencies	$ 39,528	$ (472)	$ ---	$ ---	$ 39,528	$ (472)
Subordinated notes	996	$ (4)	$ ---	$ ---	$ 996	$ (4)
State and municipal obligations	$ 9,831	$ (165)	$ —	$ —	$ 9,831	$ (165)
Total temporarily impaired securities	$ 50,355	$ (641)	$ ---	$ ---	$ 50,355	$ (641)

The unrealized losses on the Company's investments in available for sale securities 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 March 31, 2020.

During the quarter ended March 31, 2020 the Company sold $8.0 million of US Government Agency bonds for a total gain of approximately $69,000. There were no sales of investment securities for the three months ended March 31, 2019.

Note 3: Loans and Allowance for Loan Losses

Categories of loans include:

	March 31, 2020	December 31, 2019
	(In thousands)	
Commercial loans	$ 106,476	$ 99,995
Commercial real estate	252,351	254,651
Residential real estate	80,151	77,205
Installment loans	9,359	9,697
Total gross loans	448,337	441,548
Less allowance for loan losses	(2,708)	(2,231)
Total loans	$ 445,629	$ 439,317

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.

Residential Real Estate and Consumer

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

Allowance for Loan Losses and Recorded Investment in Loans
As of and for the three month period ended March 31, 2020

	Commercial	Commercial Real Estate (In thousands)	Residential	Installment	Total
Allowance for loan losses:					
Balance, beginning of period	$ 568	$ 792	$ 572	$ 299	$ 2,231
Provision charged to expense	529	19	1	14	563
Losses charged off	(42)	(30)	(6)	(31)	(109)
Recoveries	---	---	---	23	23
Balance, end of period	$ 1,055	$ 781	$ 567	$ 305	$ 2,708
Ending balance: individually evaluated for impairment	$ 16	$ ---	$ ---	$ ---	$ 16
Ending balance: collectively evaluated for impairment	$ 1,039	$ 781	$ 567	$ 305	$ 2,692
Loans:					
Ending balance: individually evaluated for impairment	$ 138	$ 758	$ 505	$ ---	$ 1,401
Ending balance: collectively evaluated for impairment	$ 106,338	$ 251,593	$ 79,646	$ 9,359	$ 446,936

Allowance for Loan Losses and Recorded Investment in Loans
As of and for the three month period ended March 31, 2019

	Commercial	Commercial Real Estate	Residential	Installment	Total
		(In thousands)			
Allowance for loan losses:					
Balance, beginning of period	$ 389	$ 672	$ 519	$ 463	$ 2,043
Provision charged to expense	21	(50)	207	(88)	90
Losses charged off	(18)	---	---	(41)	(59)
Recoveries	1	---	1	7	9
Balance, end of period	$ 393	$ 622	$ 727	$ 341	$ 2,083
Ending balance: individually evaluated for impairment	$ ---	$ 77	$ ---	$ 68	$ 145
Ending balance: collectively evaluated for impairment	$ 393	$ 545	$ 727	$ 273	$ 1,938
Loans:					
Ending balance: individually evaluated for impairment	$ 88	$ 778	$ ---	$ 435	$ 1,301
Ending balance: collectively evaluated for impairment	$ 94,308	$ 230,738	$ 76,883	$ 10,666	$ 412,595

Allowance for Loan Losses and Recorded Investment in Loans
As of December 31, 2019

	Commercial	Commercial Real Estate	Residential	Installment	Total
			(In thousands)		
Allowance for loan losses:					
Ending balance: individually evaluated for impairment	$ ---	$ ---	$ ––	$ ––	$ ---
Ending balance: collectively evaluated for impairment	$ 568	$ 792	$ 572	$ 299	$ 2,231
Loans:					
Ending balance: individually evaluated for impairment	$ 71	$ 371	$ 594	$ ---	$ 1,036
Ending balance: collectively evaluated for impairment	$ 99,924	$ 254,280	$ 76,611	$ 9,697	$ 440,512

The following tables show the portfolio quality indicators.

Loan Class	March 31, 2020 Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	$ 106,332	$ 247,536	$ 79,559	$ 9,359	$ 442,786
Special Mention	---	3,750	---	---	3,750
Substandard	144	1,065	592	---	1,801
Doubtful	---	---	---	---	---
	$ 106,476	$ 252,351	$ 80,151	$ 9,359	$ 448,337

Loan Class	December 31, 2019 Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	$ 99,924	$ 249,563	$ 76,611	$ 9,697	$ 435,795
Special Mention	—	4,016	—	—	4,016
Substandard	71	1,072	594	---	1,737
Doubtful	—	—	—	—	—
	$ 99,995	$ 254,651	$ 77,205	$ 9,697	$ 441,548

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

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

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

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

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

Loan Portfolio Aging Analysis
As of March 31, 2020

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
				(In thousands)			
Commercial	$ 118	$ 25	$ ---	$ 78	$ 221	$ 106,255	$ 106,476
Commercial real estate	33	86	---	758	877	251,474	252,351
Residential	338	147	---	1,006	1,491	78,660	80,151
Installment	18	---	---	8	26	9,333	9,359
Total	$ 507	$ 258	$ ---	$ 1,850	$ 2,615	$ 445,722	$ 448,337

Loan Portfolio Aging Analysis
As of December 31, 2019

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
				(In thousands)			
Commercial	$ 129	$ 132	$ —	$ 30	$ 291	$ 99,704	$ 99,995
Commercial real estate	—	214	197	348	759	253,892	254,651
Residential	448	---	29	1,074	1,551	75,654	77,205
Installment	58	1	—	---	59	9,638	9,697
Total	$ 635	$ 347	$ 226	$ 1,452	$ 2,660	$ 438,888	$ 441,548

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.

Impaired Loans

	As of March 31, 2020			Three Months Ended March 31, 2020	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In thousands)		
Loans without a specific valuation allowance:					
Commercial	$ 94	$ 94	$ ---	$ 101	$ 7
Commercial real estate	758	758	---	761	---
Residential	505	512	---	590	2
	1,357	1,364	---	1,452	9
Loans with a specific valuation allowance:					
Commercial	44	44	16	42	1
Commercial real estate	---	---	---	---	---
Residential	---	---	---	---	---
	44	44	16	42	1
Total:					
Commercial	$ 138	$ 138	$ 16	$ 143	$ 8
Commercial real estate	$ 758	$ 758	$ ---	$ 761	$ ---
Residential	$ 505	$ 512	$ ---	$ 590	$ 2

Impaired Loans

	As of December 31, 2019			Three Months Ended March 31, 2019	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In thousands)		
Loans without a specific valuation allowance:					
Commercial	$ 71	$ 71	$ —	$ 89	$ —
Commercial real estate	371	371	—	376	1
Residential	594	594	—	250	4
	1,036	1,036	—	715	5
Loans with a specific valuation allowance:					
Commercial	—	—	—	—	—
Commercial real estate	—	—	—	408	—
Residential	—	—	—	191	—
	—	—	—	599	—
Total:					
Commercial	$ 71	$ 71	$ —	$ 89	$ —
Commercial real estate	$ 371	$ 371	$ —	$ 784	$ 1
Residential	$ 594	$ 594	$ —	$ 441	$ 4

Interest income recognized on a cash basis was not materiality 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 March 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)	
Commercial	2	$ 83	$ 83
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

	Three Months ended March 31, 2020			
	Interest Only	Term	Combination	Total Modification
		(In thousands)		
Commercial	$ —	$ 83	$ —	$ 83
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

	Three Months ended March 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)	
Commercial	—	$ —	$ —
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

	Three Months ended March 31, 2019			
	Interest Only	Term	Combination	Total Modification
		(In thousands)		
Commercial	$ —	$ —	$ —	$ —
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

During the three months ended March 31, 2020 and 2019 and for three month periods then ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

Note 4: Benefit Plans

Pension expense includes the following:

	Three months ended March 31, 2020	Three months ended March 31, 2019
	(In thousands)	
Service cost	$ 98	$ 75
Interest cost	59	55
Expected return on assets	(117)	(102)
Amortization of prior service cost and net loss	13	1
Pension expense	$ 53	$ 29

All components of pension expense are reflected within the salaries and employee benefits line of the income statement.

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.

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

	March 31, 2020	December 31, 2019
	(In thousands)	
Commercial loans unused lines of credit	$ 48,485	$ 40,538
Commitment to originate loans	46,846	38,722
Consumer open end lines of credit	38,295	38,575
Standby lines of credit	46	46

Note 6: Accumulated Other Comprehensive Income

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

	March 31, 2020	December 31, 2019
	(In thousands)	
Net unrealized gain (loss) on securities available-for-sale	$ 11,757	$ 8,389
Net unrealized loss for unfunded status of defined benefit plan liability	(1,381)	(1,381)
	10,376	7,008
Less: Tax effect	2,179	1,472
Net-of-tax amount	$ 8,197	$ 5,536

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

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

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2020 and December 31, 2019:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
March 31, 2020				
U.S. government agencies	$ 32,203	$ —	$ 32,203	$ —
Subordinated Notes	$ 4,530	—	$ 4,530	—
State and municipal obligations	$ 160,668	—	$ 160,668	—
December 31, 2019				
U.S. government agencies	$ 39,528	$ —	$ 39,528	$ —
Subordinated Notes	$ 4,532	—	$ 4,532	—
State and municipal obligations	$ 144,725	$ —	$ 144,725	$ —

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

Impaired Loans (Collateral Dependent)

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

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

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value (based on current appraised value) at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Management has determined fair value measurements on other real estate owned primarily through evaluations of appraisals performed, and current and past offers for the other real estate under evaluation. Due to the nature of the valuation inputs, foreclosed assets held for sale are classified within Level 3 of the hierarchy.

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

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 March 31, 2020 and December 31, 2019.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
March 31, 2020				
Collateral dependent impaired loans	$ 28	$ —	$ —	$ 28
Foreclosed assets held for sale	—	—	—	—
December 31, 2019				
Collateral dependent impaired loans	$ —	$ —	$ —	$ —
Foreclosed assets held for sale	—	—	—	—

Unobservable (Level 3) Inputs

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

	Fair Value at 3/31/20	Valuation Technique	Unobservable Inputs	Range
		(In thousands)		
Collateral-dependent impaired loans	$ 28	Market comparable properties	Comparability adjustments	Not available
Foreclosed assets held for sale	—	Market comparable properties	Marketability discount	10% – 35%

	Fair Value at 12/31/19	Valuation Technique	Unobservable Inputs	Range
		(In thousands)		
Collateral-dependent impaired loans	$ —	Market comparable properties	Comparability adjustments	Not available
Foreclosed assets held for sale	—	Market comparable properties	Marketability discount	10% – 35%

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

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.

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
March 31, 2020:				
Financial assets				
Cash and cash equivalents	$ 28,042	$ 28,042	$ —	$ —
Loans, net of allowance	445,629	—	—	444,229
Federal Home Loan Bank stock	4,452	—	4,452	—
Accrued interest receivable	2,563	—	2,563	—
Financial liabilities				
Deposits	555,518	—	554,096	—
Short term borrowings	14,587	—	14,587	—
Federal Home Loan Bank Advances	51,000	—	51,033	—
Subordinated debentures	23,558	—	25,513	—
Interest payable	704	—	704	—

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
December 31, 2019:				
Financial assets				
Cash and cash equivalents	$ 14,985	$ 14,985	$ —	$ —
Loans, net of allowance	439,317	—	—	437,688
Federal Home Loan Bank stock	4,012	—	4,012	—
Accrued interest receivable	2,697	—	2,697	—
Financial liabilities				
Deposits	548,069	—	548,130	—
Short term borrowings	6,915	—	6,915	—
Federal Home Loan Bank Advances	39,800	—	39,800	—
Subordinated debentures	23,543	—	22,857	—
Interest payable	213	—	213	—

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.

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 March 31, 2020 and December 31, 2019.

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.

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

Remaining Contractual Maturity of the Agreement

(In thousands)

March 31, 2020	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	$ 14,587	––	––	––	$ 14,587
Total	$ 14,587	$ ––	$ ––	$ ––	$ 14,587

(In thousands)

December 31, 2019	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	$ 6,915	$ ––	$ ––	$ ––	$ 6,915
Total	$ 6,915	$ ––	$ ––	$ ––	$ 6,915

These borrowings were collateralized with U.S. government and agency securities with a carrying value of $17.4 million at March 31, 2020 and $9.4 million at December 31, 2019. Declines in the fair value would require the Company to pledge additional securities.

Note 9: Core Deposits and Other Intangible Assets

The following table shows the changes in the carrying amount of goodwill for March 31, 2020 and December 31, 2019 (in thousands):

	March 31 , 2020	December 31, 2019
Balance beginning of year	$ 682	$ 682
Additions from acquisition	––	––
Balance, end of period	$ 682	$ 682

Intangible assets in the consolidated balance sheets at March 31, 2020 and December 31, 2019 were as follows (in thousands):

	Three Months Ended March 31, 2020			Year Ended December 31, 2019		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	$ 1,041	219	822	1,041	181	860

The estimated aggregate future amortization expense for each of the next five years for intangible assets remaining as of March 31, 2020 is as follows (in thousands):

2020	$	136
2021		181
2022		181
2023		181
2024		136

At each reporting date between annual goodwill impairment tests, the Company considers potential indicators of impairment. Given the current economic uncertainty and volatility surrounding COVID-19, the Company assessed whether the events and circumstances resulted in it being more likely than not that the fair value of any reporting unit was less than its carrying value. Impairment indicators considered comprised the condition of the economy and banking industry; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of the Company's stock and other relevant events. The Company further considered the amount by which fair value exceeded book value in the most recent quantitative analysis and sensitivities performed. At the conclusion of the assessment, the Company determined that as of March 31, 2020 it was more likely than not that the fair value exceeded its carrying values. The Company will continue to monitor developments regarding the COVID-19 pandemic and measures implemented in response to the pandemic, market capitalization, overall economic conditions and any other triggering events or circumstances that may indicate an impairment of goodwill in the future.

The following discusses the financial condition of the Company as of March 31, 2020, as compared to December 31, 2019, and the results of operations for the three months ended March 31, 2020, compared to the same period in 2019. 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 $0.28 and net income of $1,579,000 for the three months ended March 31, 2020, as compared to $0.28 and $1,614,000, respectively, for the corresponding three-month period in 2019. Even though the Company achieved the same level of earnings on a year-over-year basis, first quarter earnings were negatively impacted by a higher provision for loan losses in recognition of the unprecedented economic environment in which it is presently operating due to the global COVID-19 pandemic.

The Company achieved diluted earnings per share of $0.28 in the first quarter of 2020 ---which was the same level as the previous year--- even though the Company booked an additional $473,000 of loan loss provision to give proper recognition to the risks posed to the Company by the COVID-19 pandemic. Significantly contributing to the Company's achievement of a sound level of earnings this past quarter was the solid growth that the Company experienced in its earning assets on a year-over-year basis. Year-over-year, gross loans increased by $34.4 million, or 8.3%, and securities and other restricted stock increased by $57.5 million or 39.8%. This strong growth in earning assets, along with robust loan fee generation during the first quarter of this year, led to an increase in total interest income of $1.0 million, or 15.9%, over the previous year. As formerly disclosed, United Bancorp started to position its balance sheet to be more liability sensitive over the course of the past year in response to the FOMC's sudden change in the direction of monetary policy, which helped to control overall interest expense levels. Even with this change, interest expense did increase by $478,000 over last year's level. But, with our focus on both growing assets and aggressively managing our sensitivity, our Company saw a year-over-year increase in its net interest income of $525,000 or 10.3%. As of March 31, 2020, our Company's net interest margin was 3.76%, which compares very favorably to our peer and is relatively stable compared to the previous year.

Even though the present pandemic situation has the potential to change our qualitative metrics relating to credit, United Bancorp has successfully maintained overall strength and stability within our loan portfolio as of March 31, 2020. Year-over-year, the Company 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 $2.6 million, or 0.58 percent of total loans at quarter end versus $3.5 million and .85%, respectively, the previous year. Further, net loans charged off, excluding overdrafts, was $63,000, or .06% annualized. With the additional provision for loan losses this past quarter, the Company's total allowance for loan losses increased ten basis points on a year-over-year basis to a level of 0.60% and our total allowance for loan losses to nonperforming loans was 146.4%, which was up over the previous year by 14.2%. The Company is committed under the present situation with which it is confronted to closely work with its valued loan customers to keep their loans current by adopting payment relief practices fully supported by both regulatory and accounting guidance, which has evolved over the course of recent weeks. The Company is hopeful that these positive actions will allow its customers to weather this present storm and the Company to maintain overall sound credit quality. Obviously, time will ultimately bear this out. United Bancorp, Inc. continues to have very sound levels of capital.

As previously announced in the second quarter of last year, the Company enhanced its capital levels by issuing $20.0 million in subordinated debt at very favorable terms. Even though this capital is only measured at the bank-level, it has provided some very welcome cushion during these very challenging times. Overall, the Company saw shareholders' equity grow by $9.1 million, or 17.0%, year-over-year, and its book value increase (on a percentage basis) by the same amount to a level of $10.75.

The COVID-19 pandemic has had a tremendous and negative impact on all of us. Our valued employees and customers have adapted to the modified operating structure that we adopted during the latter half of the first quarter. The Company's number one priority at this time is to protect the health and welfare of our team members and customer base while delivering the highest quality of service possible under the circumstances. UBCP is blessed to have both systems and personnel capable of enacting quick change in its delivery, which has led to results that are similar to those when we are fully functional as a community bank. Being observant of both the stay-at-home orders and best practices guidance being provided by governmental authorities, many of the Company's team members are currently working from home. In addition, delivery of its services is primarily being conducted at our drive-ups or through electronic/ digital channels. Despite all of the challenges with which it is presently confronted, the Company produced very solid earnings results in the first quarter of 2020… even with the additional loan loss provision expense of $473,000, which was over six times the level that was allocated the previous year. Prior to the stay-at-home order and pandemic spread, the Company's loan production team had an excellent quarter of loan generation as evidenced by the $322,000 increase in loan fees quarter-over-quarter. United Bancorp, Inc. has always had a long-term view, predicated on sound underwriting practices, superior customer service and prudent liquidity and capital management, which has served us well through various operating environments. The Company is confident that this operating philosophy will, once again, prove to be sound as it supports its customers and work through this present crisis; therefore, protecting shareholder value.

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 affect the Company's financial performance and cause actual results to differ materially from historical earnings and those presently anticipated or projected with respect to future periods. These risks and uncertainties should be considered in evaluating forward looking statements, and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

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

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. 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.

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policies to be those which are related to the allowance for loan losses. 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 subjective 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.

This discussion of the Company's critical accounting policies should be read in conjunction with the Company's consolidated financial statements and the accompanying notes presented elsewhere herein, as well as other relevant portions of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Analysis of Financial Condition

Earning Assets – Loans

The Company's focus as a community bank is to meet the credit needs of the markets it serves. At March 31, 2020, gross loans were $448.3 million, compared to $441.5 million at December 31, 2019, an increase of $6.8 million after offsetting repayments for the period. The overall increase in the loan portfolio was comprised of a $4.2 million increase in commercial and commercial real estate loans and a $2.9 million increase in real estate lending and a $337,000 decrease in installment loans since December 31, 2019.

Commercial and commercial real estate loans comprised 80.0% of total loans at March 31, 2020, compared to 80.3% at December 31, 2019. Commercial and commercial real estate loans have increased $4.1 million, or 1.2% since December 31, 2019. This segment of the loan portfolio includes originated loans in its market areas and purchased participations in loans from other banks for out-of-area commercial and commercial real estate loans to benefit from consistent economic growth outside the Company's primary market area.

Installment loans represented 2.2% of total loans at March 31, 2020 and 2.1% at December 31, 2019. Some of the installment loans carry somewhat more risk than real estate lending; however, it also provides for higher yields. Installment loans have decreased $337,000, or 3.5%, since December 31, 2019. 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 17.8% of total loans at March 31, 2020 and 17.6% at December 31, 2019, representing an increase of $2.9 million, or 3.8% since December 31, 2019. At March 31, 2020, the Company did not hold any loans for sale.

The allowance for loan losses totaled $2.7 million at March 31, 2020, which represented 0.60% of total loans, and $2.2 million at December 31, 2019, or 0.51% of total loans. The allowance represents the amount which management and the Board of Directors estimates is adequate to provide for probable losses inherent in the loan portfolio. The allowance balance and the provision charged to expense are reviewed by management and the Board of Directors monthly using a risk evaluation model that considers borrowers' past due experience, economic conditions and various other circumstances that are subject to change over time. Management believes the current balance of the allowance for loan losses is adequate to absorb probable incurred credit losses associated with the loan portfolio. Net loan charge-offs (exclusive of overdrafts) for the three months ended March 31, 2020 were approximately $63,000. Net loans charged off increased approximately $45,000 for the three months ended March 31, 2020 as compared to the same period in 2019.

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 March 31, 2020 increased approximately $8.6 million from December 31, 2019 totals.

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 March 31, 2020, total core deposits (interest and non interest bearing accounts and savings) increased approximately $9.2 million, or 1.7% from December 31, 2019 totals. The Company's savings accounts increased $2.8 million or 2.6% from December 31, 2019 totals. The Company's interest-bearing and non-interest bearing demand deposits increased $11.1 million while certificates of deposit under $250,000 increased by $4.7 million.

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 March 31, 2019, certificates of deposit greater than $250,000 decreased $1.7 million or 12.2%, from December 31, 2019 totals.

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

Other interest-bearing liabilities include securities sold under agreements to repurchase and Federal Home Loan Bank ("FHLB") advances. The majority of the Company's repurchase agreements are with local school districts and city and county governments. The Company's repurchase agreements increased approximately $7.7 million from December 31, 2019 totals.

Results of Operations for the Three Months Ended March 31, 2020 and 2019

Net Income

The reported diluted earnings per share was $0.28 for the quarter ended March 31, 2020 compared to $0.28 for the quarter ended March 31, 2019.

Net Interest Income

Net interest income increased $526,000 or 10.3% for the three months ended March 31, 2020 compared to the same period in 2019. As previously mentioned, the growth of loans and investment securities was the driver for the increase in net interest income.

Provision for Loan Losses

The provision for loan losses was $563,000 for the three months ended March 31, 2020, compared to $90,000 for the same period in 2019. With the overall concerns with the COVID-19 pandemic and the negative impact on the economy, additional provisions is prudent.

Noninterest Income

Noninterest income of the Company was up by $99,000 year-over-year. This increase was mainly driven by the $69,000 gain on sale of available-for-sale securities.

Noninterest Expense

The Company saw its noninterest expense increase by $248,000 or 6.0% year-over-year. Most of the increase in our noninterest expense levels was related to personnel-related expenses on the production-side. We also enhanced its Marketing Function by hiring an executive who truly understands how to help us better build its brand identity. The Company also focused on furthering enhancing our customer experience by developing the Unified Care Center. This care center offers our customer with extended service in the evenings and weekends.

Federal Income Taxes

The provision for federal income taxes was $126,000 for the three months ended March 31, 2020, a decrease of $61,000 compared to the same period in 2019. The effective tax rate was approximately 7.4% and 10.4% for the three months ended March 31, 2020 and 2019, respectively.

COVID-19: Update on Company Action and Ongoing Risks

In December 2019, a novel coronavirus (COVID-19) was reported in China, and, in March 2020, the World Health Organization declared it a pandemic. On March 12, 2020, the President of the United States declared the COVID-19 outbreak in the United States a national emergency. The COVID-19 pandemic has caused significant economic dislocation in the United States as many state and local governments have ordered non-essential businesses to close and residents to shelter in place at home. This has resulted in an unprecedented slow-down in economic activity and a related increase in unemployment. In response to the COVID-19 outbreak, the Federal Reserve Board has reduced the benchmark fed funds rate to a target range of 0% to 0.25%, and the yields on 10 and 30-year treasury notes have declined to historic lows. The federal banking agencies have encouraged financial institutions to prudently work with affected borrowers and recently passed legislation to provide relief from reporting loan classifications due to modifications related to the COVID-19 outbreak.

What follows is a general overview of the Company's response to the COVID-19 pandemic, as well as a brief description of the potential ongoing risks associated therewith, which, given the unprecedented nature of the COVID-19 pandemic, may not be inclusive.

Communities

With the health of our employees and customers being our top concern, as of March 19, 2020, the Bank temporarily suspended branch lobby hours to the public for walk-in transactions. Appointments can be made at branches to complete all needed paperwork and transactions. Drive-thru services remain open as well as all ATM's to complete needed transactions.

Lending Assistance

With regard to COVID-19-related loan deferral processing, we have had requests for payment deferrals from 161 total customers having 630 total loans with balances totaling approximately $167 million or 35.3% of the loan portfolio on the commercial side plus an additional 56 consumer loan deferral requests. The majority of the requests were for 90-day deferrals and we are hopeful that this will be sufficient to get our customers through this difficult time without additional assistance needed.

Employees

The Company continues to promote social distancing by encouraging employees who can work remotely to do so and in other cases, departments have been dispersed to keep the team separated. As of April 1st, the Bank is following The Families First Coronavirus Response Act (FFCRA) which requires employers to provide their employees with paid sick leave and extended family and medical leave for specified reasons related to COVID-19. These provisions are in effect until December 31, 2020. Qualifying reasons for leave related to COVID-19 include the employee: (1) being subject to a quarantine order, (2) being advised by a healthcare provider to self-quarantine, (3) experiencing COVID-19 systems and is seeking a medical diagnosis, (4) caring for an individual subject to a quarantine order, (5) caring for his or her child who school or place of care is closed or (6) experiencing any other substantially-similar condition specified by the U.S. Department of Health and Human Services. All time off related to the above reasons is being separately documented within our time and attendance system. The Bank will be able to reduce its employer tax for the up to two weeks (80 hours, or a part-time employee’s two-week equivalent).

Financial Exposures

Given the timing of the outbreak in the United States of the COVID-19 pandemic, management does not believe that the Company’s first quarter performance was significantly impacted. The COVID-19 pandemic represents an unprecedented challenge to the global economy in general and the financial services sector in particular. However, there is still significant uncertainty regarding the overall length of the pandemic and the aggregate impact that it will have on global and regional economies, including uncertainties regarding the potential positive effects of governmental actions taken in response to the pandemic during the latter portion of the first quarter of 2020 and into April. With so much uncertainty, it is impossible for the Company to accurately predict the impact that the pandemic will have on the Company’s primary markets and the overall extent to which it will affect the Company’s financial condition and results of operations during the remainder of the current fiscal year. The extent of the financial impact is unknown at this point related the actions taken by the Company to assist its customers experiencing challenges from the pandemic, such as through the Bank’s payment deferral program.

Our credit administration is closely monitoring and analyzing the higher risk segments within the loan portfolio, tracking loan payment deferrals, customer liquidity and providing timely reports to senior management and the board of directors. Based on the Company’s capital levels, prudent underwriting policies, loan concentration diversification and our geographic footprint, we currently expect to be able to manage the economic risks and uncertainties associated with the pandemic and remain adequately capitalized. However, the Company may need to make additional loan loss provisions as warranted by the COVID-19 situation.

Ongoing COVID-19 Risk

Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the CARES Act, but there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion. The extent of such impact from the COVID-19 outbreak and related mitigation efforts will depend on future developments, which are highly uncertain, including but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. As the result, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- demand for our products and services may decline;
- if high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- a decrease in net income could result in a decrease in the rate of our quarterly cash dividend;
- we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us; and
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs.

Any one or a combination of the factors identified above could negatively impact our business, financial condition and results of operations and prospects. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus’s global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

Capital Resources

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Stockholders' equity totaled $62.9 million at March 31, 2020 compared to $59.9 million at December 31, 2019, a $3.0 million increase. Total average stockholders' equity in relation to total assets was 8.79% at March 31, 2020 and 8.74% at December 31, 2019. The Company's Articles of Incorporation allows for a class of preferred shares with 2,000,000 authorized shares. This enables the Company, at the option of the Board of Directors, to issue series of preferred shares in a manner calculated to take advantage of financing techniques which may provide a lower effective cost of capital to the Company. The amendment also provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. Although this preferred stock is a financial tool, it has not been utilized to date.

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

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

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

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

The Company continues to be well-capitalized in accordance with Federal regulatory capital requirements as the capital ratios below show:

Common equity tier 1 capital ratio	11.48%
Tier 1 capital ratio	12.27%
Total capital ratio	16.81%
Leverage ratio	8.93%

Liquidity

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

Inflation

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

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

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change from disclosures included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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 March 31, 2020, 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 March 31, 2020 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, 2019, filed on March 20, 2020.

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 1/1/20 to 1/31/2020	—	—	—	—
Month #2 2/1/2020 to 2/28/2020	3,200	$ 14.65	—	—
Month #3 3/1/2020 to 3/31/2020	---	---	—	—

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 a participant's account is distributed 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. On March 7, 2019 3,200 shares at price of $14.65 were purchased

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Exhibits

EX-3.1	Amended Articles of Incorporation of United Bancorp, Inc. (1)
EX-3.2	Amended and Restated Code of Regulations of United Bancorp, Inc. (2)
EX-4.0	Description of Registrant's Common Stock (3)
EX 31.1	Rule 13a-14(a) Certification – CEO
EX 31.2	Rule 13a-14(a) Certification – CFO
EX 32.1	Section 1350 Certification – CEO
EX 32.2	Section 1350 Certification – CFO
EX 101.INS	XBRL Instance Document
EX 101.SCH	XBRL Taxonomy Extension Schema Document
EX 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

(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 August 22, 2014.

(3) Incorporated by reference to Exhibit 4 to the registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 20, 2020.

SIGNATURES

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

/s/ United Bancorp, Inc.

Date: May 15, 2020

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

Date: May 15, 2020

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

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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.

Date: May 15, 2020

/s/ Scott A. Everson
Scott A. Everson, President and CEO

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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: May 15, 2020

/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 March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott A. Everson, 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

May 15, 2020

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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 March 31, 2020 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

May 15, 2020

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