

UNITED BANCORP INC /OH/  
Form 10-Q  
November 13, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

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)

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

201 South Fourth Street, Martins Ferry, Ohio 43935-0010  
(Address of principal executive offices)

(740) 633-0445  
(Registrant's telephone number, including area code)

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

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

Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

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

Yes  No

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of November 9, 2012, 5,372,147 shares of the Company's common stock, \$1.00 par value, were issued and outstanding.



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

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	\$ 4,933	\$ 4,764
Interest-bearing demand deposits	97,303	10,917
Cash and cash equivalents	102,236	15,681
Available-for-sale securities	38,600	81,998
Held-to-maturity securities	3,511	4,450
Loans, net of allowance for loan losses of \$2,773 and \$2,921 at September 30, 2012 and December 31, 2011, respectively	283,549	281,526
Premises and equipment	10,453	9,804
Federal Home Loan Bank stock	4,810	4,810
Foreclosed assets held for sale, net	1,958	2,046
Intangible assets	334	424
Accrued interest receivable	1,191	1,410
Deferred income taxes	958	909
Bank-owned life insurance	10,954	10,672
Other assets	1,762	1,836
Total assets	\$ 460,316	\$ 415,566
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 195,402	\$ 142,021
Savings	66,551	57,907
Time	108,031	128,612
Total deposits	369,984	328,540
Short-term borrowings	13,706	9,968
Federal Home Loan Bank advances	32,625	32,951
Subordinated debentures	4,000	4,000
Interest payable and other liabilities	3,480	3,925

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Total liabilities	423,795	379,384
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 2012 –5,375,304 shares, 2011 – 5,360,304 shares	5,375	5,360
Additional paid-in capital	17,573	17,391
Retained earnings	18,464	18,399
Stock held by deferred compensation plan; 2012 – 201,663 shares, 2011 – 197,111 shares	(1,913 )	(1,856 )
Unearned ESOP compensation	(1,925 )	(2,081 )
Accumulated other comprehensive loss	(1,015 )	(920 )
Treasury stock, at cost 2012 –3,157 shares, 2011 – 9,150 shares	(38 )	(111 )
Total stockholders' equity	36,521	36,182
Total liabilities and stockholders' equity	\$ 460,316	\$ 415,566

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2012	2011	September 30, 2012	2011
Interest and dividend income				
Loans, including fees	\$4,158	\$4,415	\$12,537	\$13,194
Taxable securities	151	356	605	1,113
Non-taxable securities	146	247	501	831
Federal funds sold	23	4	51	15
Dividends on Federal Home Loan Bank stock and other	70	49	175	168
Total interest and dividend income	4,548	5,071	13,869	15,321
Interest expense				
Deposits				
Demand	28	27	89	92
Savings	18	15	53	49
Time	512	698	1,660	2,143
Borrowings	394	401	1,176	1,333
Total interest expense	952	1,141	2,978	3,617
Net interest income	3,596	3,930	10,891	11,704
Provision for loan losses	268	401	769	1,543
Net interest income after provision for loan losses	3,328	3,529	10,122	10,161
Noninterest income				
Service charges on deposit accounts	500	559	1,516	1,582
Realized gains on sales of securities	—	—	—	370
Realized gains on sales of loans	5	33	14	76
Realized losses on sales of other real estate and repossessed assets	—	(5 )	(6 )	(10 )
BOLI benefit in excess of surrender value	—	—	—	100
Other income	218	245	616	673
Total noninterest income	723	832	2,140	2,791
Noninterest expense				
Salaries and employee benefits	1,713	1,632	5,035	5,103
Occupancy and equipment	477	458	1,372	1,341
Professional services	197	262	545	690
Insurance	69	73	193	200
FDIC insurance	73	33	215	240
Franchise and other taxes	123	129	377	373
Advertising	160	61	316	184

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Stationery and office supplies	61	75	173	175
Amortization of intangibles	29	29	89	89
Provision for losses on foreclosed real estate	26	—	78	49
Other expenses	554	548	1,503	1,623
Total noninterest expense	3,482	3,300	9,896	10,067
Income before federal income taxes	569	1,061	2,366	2,885
Federal income taxes	118	260	423	594
Net income	\$451	\$801	\$1,943	\$2,291
EARNINGS PER COMMON SHARE				
Basic	\$0.09	\$0.16	\$0.39	\$0.47
Diluted	\$0.09	\$0.16	\$0.39	\$0.46
DIVIDENDS PER COMMON SHARE				
	\$0.07	\$0.14	\$0.37	\$0.42

*See Notes to Condensed Consolidated Financial Statements*



United Bancorp, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	\$ 451	\$ 801	\$ 1,943	\$ 2,291
Other comprehensive income (loss), net of tax:				
Unrealized holding (losses) gains on securities during the period, net of taxes of (\$21), \$45, (\$49) and \$335 for each respective period	(40 )	87	(95 )	651
Reclassification adjustment for realized gains included in income, net of taxes of \$126 for the nine month period ended September 30, 2011		—	—	(244 )
Comprehensive income	\$ 411	\$ 888	\$ 1,848	\$ 2,698
Accumulated comprehensive loss	\$ (1,015 )	\$ (300 )	\$ <u>(1,015 )</u>	\$ (300 )

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
<b>Operating Activities</b>		
Net income	\$1,943	\$2,291
Items not requiring (providing) cash		
Depreciation and amortization	705	725
Amortization of intangible asset	89	89
Expense related to share based compensation plans	159	160
Provision for loan losses	769	1,543
Provision for losses on foreclosed real estate	78	49
Increase in value of bank-owned life insurance	(282 )	(182 )
Realized gains on sales of securities	—	(370 )
Amortization of premiums (discounts) on securities, net	(50 )	(71 )
Originations of loans held for sale	(771 )	(4,805 )
Proceeds from sale of loans held for sale	785	4,881
Realized gains on sales of loans	(14 )	(76 )
Amortization of ESOP	157	132
Realized losses on sales of other real estate and repossessed assets	6	10
Amortization of mortgage servicing rights	43	23
Net change in accrued interest receivable and other assets	219	(68 )
Net change in accrued expenses and other liabilities	(431 )	(336 )
<b>Net cash provided by operating activities</b>	<b>3,405</b>	<b>3,995</b>
<b>Investing Activities</b>		
Securities available for sale:		
Maturities, prepayments and calls	92,246	70,587
Purchases	(48,957)	(64,644)
Securities held to maturity:		
Maturities, prepayments and calls	955	1,495
Proceeds from sale of held-to-maturity securities	—	302
Proceeds from sale of available for sale securities	—	8,886
Net change in loans	(3,239 )	(1,832 )
Net change in certificates of deposit in other financial institutions	—	2,564
Purchases of premises and equipment	(1,355 )	(1,421 )
Proceeds from disposal of premises and equipment	—	35
Proceeds from sale of other real estate and repossessed assets	467	183

Net cash provided by investing activities	40,117	16,155
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*See Notes to Condensed Consolidated Financial Statements*

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United Bancorp, Inc.

## Condensed Consolidated Statements of Cash Flows (continued)

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
<b>Financing Activities</b>		
Net change in deposits	\$41,444	\$(1,767 )
Net change in short-term borrowings	3,738	2,092
Net change in long-term borrowings	(325 )	(10,396)
Shares purchased for deferred compensation plan	53	72
Proceeds from purchase of shares by Dividend Reinvestment Plan	—	236
Cash dividends paid on common stock	(1,877 )	(2,238 )
Net cash provided by (used in) financing activities	43,033	(12,001)
Increase in Cash and Cash Equivalents	86,555	8,149
Cash and Cash Equivalents, Beginning of Period	15,681	10,935
Cash and Cash Equivalents, End of Period	\$102,236	\$19,084
<b>Supplemental Cash Flows Information</b>		
Interest paid on deposits and borrowings	\$3,015	\$3,722
Federal income taxes paid	\$485	\$765
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Transfers from loans to foreclosed assets held for sale	\$462	\$545

*See Notes to Condensed Consolidated Financial Statements*

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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

These interim financial statements are prepared without audit and reflect all adjustments which, in the opinion of management, are necessary to present fairly the financial position of United Bancorp, Inc. (“Company”) at September 30, 2012, 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, 2011 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 and nine months ended September 30, 2012, 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, 2011 has been derived from the audited consolidated balance sheet of the Company as of that date.

#### Principles of Consolidation

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

#### Nature of Operations

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

through its main office in Martins Ferry, Ohio and twelve branches in Bridgeport, Colerain, Dellroy, Dillonvale, Dover, Jewett, New Philadelphia, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg, and Tiltonsville, Ohio. The Community Bank division conducts its business through its main office in Lancaster, Ohio and seven offices in Amesville, Glouster, Lancaster, and Nelsonville, Ohio. The Company's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate and are not considered "sub prime" type loans. The targeted lending areas of our Bank operations encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's 20 branch locations.

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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

#### 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.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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 uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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 three years. Management believes the three year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

### Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period, less shares in the ESOP which are unallocated and not committed to be released and non-vested restricted stock. At September 30, 2012 and 2011, the ESOP held 194,988 and 218,627 unallocated shares, respectively, which were not included in weighted-average common shares outstanding. In addition at September 30, 2012 and 2011, the Company has 175,000 and 170,000 shares, respectively, of non vested restricted stock, which were not included in weighted-average common shares outstanding. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under the Company's stock compensation plans.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>Basic</b>				
Net income (In thousands)	\$451	\$801	\$1,943	\$2,291
Dividends on non-vested restricted stock (In thousands)	(12 )	(24 )	(62 )	(71 )
Net earnings allocated to stockholders (In thousands)	\$439	\$777	\$1,881	\$2,220
Weighted average common shares outstanding	4,784,815	4,775,728	4,778,577	4,760,297
Basic earnings per common share	\$0.09	\$0.16	\$0.39	\$0.47
<b>Diluted</b>				
Net income allocated to stockholders (In thousands)	\$439	\$777	\$1,881	\$2,220
Weighted average common shares outstanding for basic earnings per common share	4,784,815	4,775,728	4,778,577	4,760,297
Add: Dilutive effects of assumed exercise of stock options and restricted stock	69,826	46,432	70,602	40,253
Average shares and dilutive potential common shares	4,854,641	4,822,160	4,849,179	4,800,550
Diluted earnings per common share	\$0.09	\$0.16	\$0.39	\$0.46

Options to purchase 53,714 shares of common stock at a weighted-average exercise price of \$10.34 per share were outstanding at both September 30, 2012 and 2011, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

## 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 2010.

## Recent Accounting Pronouncements

FASB ASU 2011-03, *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements*, issued in April 2011, improves the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The updated guidance is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively. The Company adopted FASB ASU 2011-03 as required, without a material effect on the Company's financial condition or results of operations.

FASB ASU 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements*, issued in May 2011, provides guidance in common fair value measurement and disclosure requirements. The amendment changes the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company adopted FASB ASU 2011-04 as required, without a material effect on the Company's financial condition or results of operations.

FASB ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income*, issued in June 2011, is designed to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in comprehensive income. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company adopted FASB ASU 2011-05 as required, without a material effect on the Company's financial condition or results of operations.

FASB ASU 2011-08, *Intangibles (Topic 350), Testing Goodwill for Impairment*, issued in September 2011, is designed to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test in Topic 350. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company adopted FASB ASU 2011-08 as required, without a material effect on the Company's financial condition or results of operations.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

FASB ASU 2011-12, *Comprehensive Income (Topic 220), Deferral of the effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-12*, issued in December 2011 is a deferral of only those changes in update 2011-05 that relates to the presentation of reclassification adjustments out of accumulated other comprehensive income. All other requirements in Update 2011-05 are not affected by this update, including the requirements to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted FASB ASU 2011-12 as required, without a material effect on the Company's financial condition or results of operations.

Note 2: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Available-for-sale Securities:				
September 30, 2012				
U.S. government agencies	\$26,976	\$ 94	\$ (7	) \$ 27,063
State and political subdivisions	11,020	497		11,517
Equity securities	4	16	—	20
	\$38,000	\$ 607	\$ (7	) \$ 38,600
Available-for-sale Securities:				
December 31, 2011:				
U.S. government agencies	\$64,077	\$ 98	\$ (7	) \$ 64,168
State and political subdivisions	17,173	652	(8	) 17,817
Equity securities	4	9	—	13
	\$81,254	\$ 759	\$ (15	) \$ 81,998



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Held-to-maturity Securities:				
September 30, 2012:				
State and political subdivisions	\$3,511	\$ 76	\$ —	\$ 3,587
December 31, 2011:				
State and political subdivisions	\$4,450	\$ 147	\$ —	\$ 4,597

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at September 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within one year	\$675	\$679	\$749	\$755
One to five years	2,419	2,522	1,785	1,848
Five to ten years	10,925	11,318	977	984
After ten years	23,977	24,061	—	—
	37,996	38,580	3,511	3,587
Equity securities	4	20	—	—
Totals	\$38,000	\$38,600	\$3,511	\$3,587

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$30.5 million and \$58.2 million at September 30, 2012 and December 31, 2011, respectively.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Information with respect to sales of securities and resulting gross realized gains and losses was as follows:

	Nine months ended September 30 2012	2011
	(In thousands)	
Proceeds from sale	\$—	\$9,188
Gross gains	—	370
Gross losses	—	—

During the nine months ended September 30, 2011 the Company sold one security with an amortized cost of \$295,000 resulting in a realized gain of approximately \$7,000 and is included in the table above under gross gains. This security was classified on the books as “held to maturity” and was sold due to a credit quality down grade of the municipality issuer.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at September 30, 2012 and December 31, 2011, was \$2.9 million and \$6.3 million, which represented approximately 7% and 7%, respectively, of the Company’s available-for-sale and held-to-maturity investment portfolio.

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

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

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2012 and December 31, 2011:

September 30, 2012

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$2,993	\$ (7 )	\$ —	\$ —	\$2,993	\$ (7 )

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

December 31, 2011

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government agencies	\$5,992	\$ (7 )	\$ —	\$ —	\$5,992	\$ (7 )
State and political subdivisions	332	(8 )	—	—	332	(8 )
Total temporarily impaired securities	\$6,324	\$ (15 )	\$ —	\$ —	\$6,324	\$ (15 )

The unrealized losses on the Company's investments in U.S. Government agency and municipal 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 September 30, 2012 and December 31, 2011.

Note 3: Loans and Allowance for Loan Losses

Categories of loans include:

	September 30, 2012	December 31, 2011
	(In thousands)	
Commercial loans	\$39,206	\$ 35,387
Commercial real estate	142,781	148,052
Residential real estate	70,834	61,765

Installment loans	33,501	39,243
Total gross loans	286,322	284,447
Less allowance for loan losses	(2,773 )	(2,921 )
Total loans	\$283,549	\$ 281,526

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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 and Consumer



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

United Bancorp, Inc.  
Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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

**As of and for the three and nine month periods ended September 30, 2012**

	Commercial	Commercial Real Estate	Installment	Residential	Unallocated	Total
	(In thousands)					
<b>Allowance for loan losses:</b>						
Balance, July 1, 2012	\$418	\$ 1,622	\$ 226	\$ 99	\$ 284	\$2,649
Provision charged to expense	46	168	43	67	(56 )	268
Losses charged off	(67 )	(49 )	(86 )	(55 )	—	(257 )
Recoveries	83	7	22	1	—	113
Balance, September 30, 2012	\$480	\$ 1,748	\$ 205	\$ 112	\$ 228	\$2,773
Balance, January 1, 2012	\$183	\$ 2,321	\$ 235	\$ 95	\$ 87	\$2,921
Provision charged to expense	275	222	33	98	141	769
Losses charged off	(67 )	(804 )	(206 )	(84 )	—	(1,161 )
Recoveries	89	9	143	3	—	244
Balance, September 30, 2012	\$480	\$ 1,784	\$ 205	\$ 112	\$ 228	\$2,773
Allowance:						
Ending balance: individually evaluated for impairment	\$409	\$ 1,193	\$ —	\$ —	\$ —	\$1,602
Ending balance: collectively evaluated for impairment	\$71	\$ 555	\$ 205	\$ 112	\$ 228	\$1,171
Loans:						
Ending balance: individually evaluated for impairment	\$1,068	\$ 7,057	\$ —	\$ —	\$ —	\$8,125
Ending balance: collectively evaluated for impairment	\$38,138	\$ 135,724	\$ 33,501	\$ 70,834	\$ —	\$278,197



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

**Allowance for Loan Losses**

**for the three and nine month periods ended September 30, 2011**

	Commercial Real Estate	Commercial Real Estate	Installment	Residential	Unallocated	Total
	(In thousands)					
<b>Allowance for loan losses:</b>						
Balance, July 1, 2011	\$159	\$ 1,967	\$ 227	\$ 77	\$ 353	\$2,783
Provision charged to expense	264	(136 )	65	32	176	401
Losses charged off	(1 )	(23 )	(96 )	(54 )	—	(174 )
Recoveries	17	7	22	5	—	51
Balance, September 30, 2011	\$439	\$ 1,815	\$ 218	\$ 60	\$ 529	\$3,061
Balance, January 1, 2011	\$561	\$ 1,566	\$ 229	\$ 140	\$ 244	\$2,740
Provision charged to expense	300	676	200	82	285	1,543
Losses charged off	(444)	(450 )	(393 )	(169 )	—	(1,456)
Recoveries	22	23	182	7	—	234
Balance, September 30, 2011	\$439	\$ 1,815	\$ 218	\$ 60	\$ 529	\$3,061

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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

As of December 31, 2011

	Commercial	Commercial Real Estate	Installment	Residential	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	\$59	\$ 1,799	\$ —	\$ —	\$ —	\$1,858
Ending balance: collectively evaluated for impairment	\$124	\$ 522	\$ 235	\$ 95	\$ 87	\$1,063
Loans:						
Ending balance: individually evaluated for impairment	\$637	\$ 8,254	\$ —	\$ —	\$ —	\$8,891
Ending balance: collectively evaluated for impairment	\$34,750	\$ 139,798	\$ 39,243	\$ 61,765	\$ —	\$275,556

The following tables show the portfolio quality indicators.

Loan Class	September 30, 2012				
	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	\$35,360	\$ 130,792	\$ 70,834	\$ 33,423	\$270,409
Special Mention	2,725	3,603	—	3	6,331
Substandard	1,121	8,009	—	75	9,205
Doubtful	—	377	—	—	377

\$39,206 \$ 142,781 \$ 70,834 \$ 33,501 \$286,322

Loan Class	December 31, 2011				Total
	Commercial Real Estate	Commercial Real Estate	Residential	Installment	
	(In thousands)				
Pass Grade	\$31,320	\$ 133,949	\$ 61,590	\$ 39,161	\$266,020
Special Mention	2,930	3,500	175	5	6,610
Substandard	882	6,924	—	77	7,883
Doubtful	255	3,679	—	—	3,934
	\$35,387	\$ 148,052	\$ 61,765	\$ 39,243	\$284,447

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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.

### Loan Portfolio Aging Analysis

As of September 30, 2012

30-59 Days Past Due	60-89 Days Past Due	Greater Than 90	Non Accrual	Total Past Due and	Current	Total Loans Receivable
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	and Accruing (In thousands)	and Accruing	Days and Accruing		Non Accrual		
Commercial	\$22	\$ —	\$ 81	\$ 613	\$ 716	\$38,490	\$ 39,206
Commercial real estate	103	—	377	1,434	1,914	140,867	142,781
Installment	117	88	—	94	299	70,535	70,834
Residential	748	396	—	1,419	2,563	30,938	33,501
Total	\$990	\$ 484	\$ 458	\$ 3,560	\$ 5,492	\$280,830	\$ 286,322



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

### Loan Portfolio Aging Analysis

As of December 31, 2011

	30-59 Days Past Due and Accruing (In thousands)	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
Commercial	\$661	\$ 21	\$ 80	\$ 240	\$ 1,002	\$34,385	\$ 35,387
Commercial real estate	485	—	—	2,677	3,162	144,890	148,052
Installment	405	53	5	71	534	38,709	39,243
Residential	1,038	81	—	1,867	2,986	58,779	61,765
Total	\$2,589	\$ 155	\$ 85	\$ 4,855	\$ 7,684	\$276,763	\$ 284,447

### Impaired Loans

	As of September 30, 2012			For the three months ended September 30, 2012		For the nine months ended September 30, 2012	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In thousands)						
Loans without a specific valuation allowance:							
Commercial	\$364	\$ 364	\$ —	\$ 393	\$ 5	\$ 445	\$ 23
Commercial real estate	3,312	4,067	—	2,160	78	2,404	164
Residential	—	—	—	19	—	19	—
	3,676	4,431	—	2,572	83	2,868	187
Loans with a specific valuation allowance:							
Commercial	704	704	409	664	—	545	11
Commercial real estate	3,745	3,745	1,193	4,362	8	4,651	107
Residential	—	—	—	40	—	40	—
	4,450	4,449	1,602	5,066	8	5,236	118

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Total:

Commercial	\$1,068	\$ 1,068	\$ 409	\$ 1,057	\$ 5	\$ 990	\$ 34
Commercial real estate	\$7,057	\$ 7,812	\$ 1,193	\$ 6,522	\$ 86	\$ 7,055	\$ 271
Residential	\$—	\$—	\$—	\$ 59	\$—	\$ 59	\$—

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

**Impaired Loans**

	As of December 31, 2011			Three Months Ended September 30, 2011 Average		Nine Months Ended September 30, 2011 Average	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Investment in Impaired Loans	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
	(In thousands)						
Loans without a specific valuation allowance:							
Commercial	\$ 532	\$ 532	\$ —	\$ 404	\$ —	\$ 427	\$ 2
Commercial real estate	1,805	1,805	—	1,211	13	1,212	38
Residential	—	—	—	41	—	41	—
	2,337	2,337	—	1,656	13	1,680	40
Loans with a specific valuation allowance:							
Commercial	105	105	59	361	3	316	9
Commercial real estate	6,449	6,449	1,799	4,240	9	4,017	65
Residential	—	—	—	111	—	74	—
Residential	—	—	—	10	2	31	—
	6,554	6,554	1,858	4,722	14	4,438	76
Total:							
Commercial	\$ 637	\$ 637	\$ 59	\$ 765	\$ 3	\$ 743	\$ 11
Commercial real estate	\$ 8,254	\$ 8,254	\$ 1,799	\$ 5,451	\$ 22	\$ 5,229	\$ 103
Residential	\$ —	\$ —	\$ —	\$ 152	\$ —	\$ 115	\$ —
Installment	\$ —	\$ —	\$ —	\$ 10	\$ 2	\$ 31	\$ 2

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

During the three and nine month periods ended September 30, 2012 and 2011, for the TDRs noted in the table 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 table are considered impaired and specific loss calculations are performed on the individual loans. In conjunction with the restructuring there were no amounts charged-off.

	Three Months ended September 30, 2012		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	3	\$ 152	\$ 66
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

  

	Three Months ended September 30, 2011		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	—	—	—
Commercial real estate	—	—	—
Residential	—	—	—
Installment	—	—	—

  

	Nine Months ended September 30, 2012		
	Number of Contracts	Pre- Modification Outstanding Recorded	Post-Modification Outstanding Recorded

	Investment		Investment	
	(In thousands)			
Commercial	3	\$ 152	\$	66
Commercial real estate	2	74		16
Residential	—	—		—
Installment	—	—		—

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

	Nine Months ended September 30, 2011		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	6	\$ 108	\$ 107
Commercial real estate	6	536	536
Residential	—	—	—
Installment	—	—	—

At September 30, 2012 and 2011 and for the nine and three months periods 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		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
Service cost	\$89	\$76	\$ 267	\$ 228
Interest cost	45	43	135	129
Expected return on assets	(57 )	(60 )	(171 )	(180 )
Amortization of prior service cost and net loss	43	20	129	60
Pension expense	\$120	\$79	\$ 360	\$ 237

Note 5: Off-balance-sheet Activities

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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

	September 30, 2012	December 31, 2011
	(In thousands)	
Commitments to extend credit	\$33,699	\$ 30,028
Commitment to originate loans	14,837	11,000
Overdraft program and ready reserve lines	13,562	11,115
Standby letters of credit	666	962

Note 6: Accumulated Other Comprehensive Loss

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

	September 30, 2012	December 31, 2011
	(In thousands)	
Net unrealized gain on securities available-for-sale	\$600	\$ 744
Net unrealized loss for unfunded status of defined benefit plan liability	(2,139)	(2,137 )
	(1,539)	(1,393 )
Tax effect	524	473
Net-of-tax amount	\$(1,015)	\$ (920 )

Note 7: Fair Value Measurements



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

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

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

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

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

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. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company has no securities classified as Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2012 and December 31, 2011:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
September 30, 2012				
U.S. government agencies	\$27,063	\$ —	\$ 27,063	\$ —
State and political subdivisions	11,517	—	11,517	—
Equity securities	20	20	—	—

December 31, 2011

U.S. government agencies	\$64,168	\$ —	\$ 64,168	\$ —
State and political subdivisions	17,817	—	17,817	—
Equity securities	13	13	—	—

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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

#### 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 Senior Vice President Chief Lending's Office. Appraisals are reviewed for accuracy and consistency by the Senior Vice President Chief Lending's Office. 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 Senior Vice President Chief Lending's Office 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 Senior Vice President Chief Lending's Office. Appraisals are reviewed for accuracy and consistency by the Senior Vice President, Chief Lending's Officer and are selected from the list of approved appraisers maintained by management.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2012 and December 31, 2011.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
	(In thousands)			
September 30, 2012				
Impaired loans	\$2,743	\$ —	\$ —	\$ 2,743
Foreclosed assets held for sale	736	—	—	736
December 31, 2011				
Impaired loans	\$1,756	\$ —	\$ —	\$ 1,746
Foreclosed assets held for sale	415	—	—	415

#### 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 9/30/12 (In thousands)	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Foreclosed assets held for sale	\$ 736	Market comparable properties	Comparability adjustments	Not available

Collateral-dependent impaired loans	2,743	Market comparable properties	Marketability discount	10% – 35%
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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. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
September 30, 2012				
Financial assets				
Cash and cash equivalents	\$102,236	\$102,236	\$ —	\$ —
Held-to-maturity securities	3,511	—	3,587	—
Loan, net of allowance	283,549	—	—	282,488
Federal Home Loan Bank stock	4,810	—	4,810	—
Accrued interest receivable	1,191	—	1,191	—
Financial liabilities				
Deposits	369,984	—	350,465	—
Short term borrowings	13,706	—	13,706	—
Federal Home Loan Bank Advances	32,625	—	36,066	—
Subordinated debentures	4,000	—	3,691	—
Interest payable	197	—	197	—

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**United Bancorp, Inc.**

## Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

The classification of the assets and liabilities pursuant to the valuation hierarchy as of December 31, 2011 in the following table have not been audited. The fair value has been derived from the December 31, 2011 audited consolidated financial statements.

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
December 31, 2011:				
Financial assets				
Cash and cash equivalents	\$15,681	\$15,681	\$ —	\$ —
Held-to-maturity securities	4,450	—	4,597	—
Loans, net of allowance	281,526	—	—	283,055
Federal Home Loan Bank stock	4,810	—	4,810	—
Accrued interest receivable	1,410	—	1,410	—
Financial liabilities				
Deposits	328,540	—	313,817	—
Short term borrowings	9,968	—	9,995	—
Federal Home Loan Bank Advances	32,951	—	35,617	—
Subordinated debentures	4,000	—	3,632	—
Interest payable	234	—	234	—

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

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

The carrying amounts approximate fair value.

**United Bancorp, Inc.**

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

**Held-to-maturity Securities**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated 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. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 2 of the hierarchy. The Company has no securities classified as Level 3 of the hierarchy.

Loans

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

Deposits

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

Interest Payable

The carrying amount approximates fair value.

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

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

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

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at September 30, 2012 and December 31, 2011.

## **United Bancorp, Inc.**

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

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

The following discusses the financial condition of the Company as of September 30, 2012, as compared to December 31, 2011, and the results of operations for the three and nine months ended September 30, 2012, compared to the same periods in 2011. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

#### **Introduction**

The Company's earnings for the nine months ended September 30, 2012 generated an annualized 0.61% return on average assets ("ROA") and a 7.10% return on average equity ("ROE") compared to 0.72% ROA and 8.39% ROE for the nine months ended September 30, 2011. Comparing the nine months ended September 30, 2012 to 2011, the Company's net interest margin was 3.90% compared to 4.25%, a decrease of 35 basis points. This decrease in the margin resulted in an \$815,000 drop in net interest income. Implementation of the government mandated regulations from the Dodd-Frank Act regarding our *Courtesy Overdraft Program* caused a reduction in customer service fees of approximately \$169,000. This was offset by an increase in other service fees which resulted in a net reduction of \$66,000 in service fee income for the nine months ended September 30, 2012. During this same period, the Company did not have the substantial gains that it had the previous year resulting from receiving a \$100,000 BOLI benefit in excess of its surrender value and by recognizing a gain on sale of securities of \$370,000 through liquidating its government sponsored mortgage-backed securities portfolio to take advantage of the favorable rate environment on these short term investments. The Company's 2012 earnings were positively impacted by a period over period decrease of \$775,000 in its provision for loan losses. This decrease in the provision for loan losses is directly attributed to the overall improvement in the credit quality of the loan portfolio. Net loans of \$916,000 were charged off during the nine months ended September 30, 2012, a decrease of \$305,000 from the prior year period. A single out of area loan relationship accounted for \$755,000 of the net loan amount charged off. Excluding this individual loan loss, net loans charged off for the current nine month period were \$161,000. Other real estate owned decreased \$256,000 from September 30, 2011 to September 30, 2012 and nonaccrual loans to total loans decreased by 29 basis points or \$702,000, going from 1.53% in 2011 to 1.24%. These improving trends relating to credit quality are very positive considering that the present level of nonaccrual loans to total loans is nearly half of that of our peer group. Another area trending in a positive direction is core funding. Total deposits increased \$46.3 million from December 31, 2011 to September 30, 2012 with most of this growth occurring in low cost funding. As a result of the booming activity of the oil and gas industry within our market areas, the Company has experienced a higher than normal influx of funds. Some of these funds may be temporary in nature and it is projected that a portion of these funds will flow back out of the Company within the next three to six months. These deposit fluctuations are closely monitored and are incorporated into our monthly asset/liability and funds management strategy. Also, in order to capitalize on its opportunities, the Company has implemented a marketing strategy within the past three months focusing on attracting a larger percentage of low cost funding at each of its banking locations, while continuing to allow higher cost term funding to flow out. This will help lower the cost of funding in future periods. The Company has a significant present

liquid position in cash-type investments which can be invested in future periods in higher yielding investments. Each of these opportunities has the potential to lead to higher levels of profitability.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

What we are seeing at present is the culmination of the monetary and regulatory burdens that have been placed upon the Company over the course of the last few years. Our weak economic recovery, the continuation of a zero rate monetary policy and the cumulative impact of the regulatory policies reducing our fee income opportunities and increasing our compliance expense collectively have led to our earnings performance being significantly impacted within these past nine months. The Federal Reserve's explicit extension of its quest to keep interest rates at exceedingly low levels for the next three years may further erode our interest margin as higher yielding securities are called or mature and are replaced with lower yielding investment opportunities in this lackluster economy. Not wanting to take undue interest rate risk, we are keeping our liquidity in short term low yielding funds as *Cash and due from Bank* which has increased during the past nine months 552% to \$102 million. With a 25 basis point return, this has impacted our third quarter earnings. Until we have a clearer vision of our government's direction, we are being careful at this point in time not to take a lot of interest rate risk by stretching maturities for higher yields. Our original budget forecast did not anticipate the continuation of this zero-based monetary policy. On this basis, we continued to reward our shareholders with a high yielding dividend payment until this past quarter when we reduced our cash dividend payment by 50%. This action was taken with much consideration after it became apparent there would not be a normalization of interest rates as originally anticipated due to continuing changes in the policy of the Federal Reserve. At this moment the Company is not taking market risk by extending investment maturities for return until we gain a better understanding of our economy's direction. For now we continue to aggressively and selectively make loans in the markets that we serve and consider this to be our only prudent and viable opportunity to generate an acceptable yield on our funds. We are pleased to report that gross loans are up \$1.9 million, or 0.67%, during the past nine months with continued improvement in the credit quality of our loan portfolio

**Forward-Looking Statements**

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

The Company is not aware of any trends, events or uncertainties that will have or are reasonably likely to have a material effect on its financial condition, results of operations, liquidity or capital resources except as discussed

herein. The Company is not aware of any current recommendation by regulatory authorities that would have such effect if implemented except as discussed herein.

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

### **Current Economic Conditions**

The current protracted economic decline continues to present financial institutions with circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.



## **United Bancorp, Inc.**

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

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

#### **Critical Accounting Policies**

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

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

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

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

#### **Analysis of Financial Condition**

*Earning Assets – Loans*

Our focus as a community bank is to meet the credit needs of the markets we serve. At September 30, 2012, gross loans were \$286.3 million, compared to \$284.4 million at December 31, 2011, an increase of \$1.9 million. The overall increase in the loan portfolio was comprised of a \$9.1 million increase in residential real estate loans, which were partially offset by a \$5.7 million decrease in installment lending and a \$1.5 million decrease in commercial and commercial real estate loans since December 31, 2011.

Commercial and commercial real estate loans comprised 63.4% of total loans at September 30, 2012, compared to 64.5% at December 31, 2011. Commercial and commercial real estate loans have decreased \$1.5 million, or less than 1% since December 31, 2011. This segment of the loan portfolio includes originated loans in our market areas and purchased participations in loans from other banks for out-of-area commercial and commercial real estate loans to benefit from consistent economic growth outside the Company's primary market area, but all within the state of Ohio.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

Installment loans represented 11.7% of total loans at September 30, 2012 and 13.8% at December 31, 2011. Some of the installment loans are an indirect lending type of financing that carries somewhat more risk than real estate lending; however, it also provides for higher yields. Installment loans have decreased \$5.7 million, or 14.6%, since December 31, 2011. The targeted lending areas encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's 20 banking locations. Indirect installment loans are approximately 71.9% and 74.8% of the installment loan portfolio as of September 30, 2012 and December 31, 2011, respectively.

Residential real estate loans were 24.7% of total loans at September 30, 2012 and 21.7% at December 31, 2011, representing an increase of \$9.1 million since December 31, 2011. As of September 30, 2012, the Bank has approximately \$15.4 million in fixed-rate loans that have been sold in the secondary market but still serviced by the Company as compared to \$20.8 million at December 31, 2011. The level of fixed rate mortgages serviced by the Company will continue to decline as the Company will not retain servicing rights on new sales going forward for these types of products. The Company will continue to service these loans for a fee that is typically 25 basis points. At September 30, 2012, the Company did not hold any loans for sale.

The allowance for loan losses totaled \$2.8 million at September 30, 2012, which represented 0.97% of total loans, and \$2.9 million at December 31, 2011, or 1.03% of total loans. The allowance represents the amount which management and the Board of Directors estimates is adequate to provide for probable losses inherent in the loan portfolio. The allowance balance and the provision charged to expense are reviewed by management and the Board of Directors monthly using a risk evaluation model that considers borrowers' past due experience, economic conditions and various other circumstances that are subject to change over time. Management believes the current balance of the allowance for loan losses is adequate to absorb probable incurred credit losses associated with the loan portfolio. Net charge-offs for the nine months ended September 30, 2012 were approximately \$917,000 or 31.4%, of the beginning balance in the allowance for loan losses. Net loans charged off did decrease for the nine months ended September 30, 2012 as compared to the same period in 2011. The decrease in the provision for loan losses was primarily due to overall improvement in the credit quality of the loan portfolio. Net loans charged off decreased approximately \$305,000 for the nine months ended September 30, 2012 as compared to the same period in 2011. One out of area loan relationship accounted for \$755,000 of the net loans charged off during the nine months ended September 30, 2012. Other real estate owned decreased \$88,000 from December 31, 2011 to September 30, 2012. Nonaccrual loans to total loans decreased by 29 basis points, going from 1.52% in 2011 to 1.24% for the same period in 2012.

***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 and held-to-maturity at September 30, 2012 decreased approximately \$44.3 million from December 31, 2011 totals. With the overall low interest rate environment, the Company has experienced a high level of called bond activity during the first nine months of 2012. The opportunities to reinvest these funds have been limited due to the historical low interest rates available on replacement investments.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

***Sources of Funds – Deposits***

The Company's primary source of funds is core deposits from retail and business customers. These core deposits include all categories of interest-bearing and noninterest-bearing deposits, excluding certificates of deposit greater than \$100,000. For the period ended September 30, 2012, total core deposits increased approximately \$50.1 million, or 17.3%. The Company's savings accounts increased \$8.6 million, or 14.9%, from December 31, 2011 totals. The Company's interest-bearing and non-interest bearing demand deposits increased \$53.4 million, while certificates of deposit under \$100,000 decreased by \$12.0 million, or 13.4%. As a result of the booming activity of the oil and gas industry within our market areas, the Company has experienced a higher than normal influx of funds. Some of these funds may be temporary in nature and it is projected that a portion of these funds will flow back out of the Company within the next three to six months.

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

Certificates of deposit greater than \$100,000 are not considered part of core deposits and as such are used to balance rate sensitivity as a tool of funds management. At September 30, 2012, certificates of deposit greater than \$100,000 decreased \$8.6 million or 21.8%, from December 31, 2011 totals.

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

Other interest-bearing liabilities include securities sold under agreements to repurchase, sweep accounts, Treasury, Tax and Loan notes payable and Federal Home Loan Bank ("FHLB") advances. The majority of the Company's repurchase agreements are with local school districts and city and county governments. The Company's short-term borrowings increased approximately \$3.7 million from December 31, 2011 totals.

Results of Operations for the Nine Months Ended September 30, 2012 and 2011

***Net Income***

The net earnings of Company were \$1,943,000 for the nine months ended September 30, 2012, compared to \$2,291,000 for the nine months ended September 30, 2011. On a per share basis, the Company's diluted earnings were \$0.39 for the nine months ended September 30, 2012, as compared to \$0.46 for the nine months ended September 30, 2011.

***Net Interest Income***

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the composition or mix of interest-earning assets in relation to interest-bearing liabilities. Net interest income decreased 6.9%, or \$813,000, for the nine months ended September 30, 2012 compared to the same period in 2011.

***Provision for Loan Losses***

The provision for loan losses was \$769,000 for the nine months ended September 30, 2012, compared to \$1.5 million for the same period in 2011. As previously discussed, the decrease in the provision for loan losses was primarily due to overall improvement in the credit quality of the loan portfolio.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

*Noninterest Income*

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

Noninterest income for the nine months ended September 30, 2012 was \$2,140,000 a decrease of \$651,000 or 23.3%, compared to \$2,791,000 for the nine-month period ended September 30, 2011. A component of customer service fees are charges related to the Company's courtesy overdraft program. As the Company has implemented government mandated regulations from the Dodd-Frank Act regarding its courtesy overdraft program, the Company has seen a reduction in customer service fees of approximately \$159,000 for the nine months ended September 30, 2012 as compared to the same period in 2011. During the nine months ended September 30, 2012 the Company did not sell any securities. In 2011, the Company sold its government sponsored mortgage-backed securities portfolio to take advantage of the favorable rate environment on these short term investments and provide liquidity to restructure the Company's balance sheet. As a result<sup>1</sup>, the Company recognized a gain on sale of securities of \$370,000 for the nine months ended September 30, 2011 and the Company received a \$100,000 BOLI benefit in excess of surrender value.

*Noninterest Expense*

Noninterest expense was \$9.9 million for the nine months ended September 30, 2012 a decrease of \$171,000, or 1.7%, compared to the nine months ended September 30, 2011. Salaries and employee benefit expense decreased \$68,000, or 1.3%, for the period ended September 30, 2012 compared to the same period in 2011. Professional fees decreased \$145,000 for the nine month ended September 30, 2012, as compared to the same period in 2011 as a result of the decreased levels of foreclosed assets. Advertising expense increased \$132,000 for the nine months ended September 30, 2012 compared to the same period in 2011. Beginning in 2012 the Company now utilizes a direct marketing firm as a part of a customer acquisition strategy over traditional methods of advertising. Deposit insurance premiums decreased \$25,000 for the nine months ended September 30, 2012, as compared to the same period in 2011. During the nine months ended September 30, 2012, the Company also recorded a \$78,000 impairment on the value of certain repossessed properties.

***Federal Income Taxes***

The provision for federal income taxes was \$423,000 for the nine months ended September 30, 2012, a decrease of \$171,000 compared to the same period in 2011. The effective tax rate was 17.9% and 20.6% for the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012, the Company recognized a tax benefit resulting from the resolution of a tax contingency, which reduced federal income taxes by approximately \$110,000.

Results of Operations for the Three Months Ended September 30, 2012 and 2011

***Net Income***

For the three months ended September 30, 2012 the Company reported net earnings of \$451,000, compared to \$801,000 for the three months ended September 30, 2011. On a per share basis, the Company's diluted earnings were \$0.09 for the three months ended September 30, 2012, as compared to \$0.16 for the three months ended September 30, 2011.



**United Bancorp, Inc.**

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

**Condition and Results of Operations**

***Net Interest Income***

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the composition or mix of interest-earning assets in relation to interest-bearing liabilities. Net interest income decreased 8.5%, or \$334,000 for the three months ended September 30, 2012 compared to the same period in 2011. Not wanting to take undue interest rate risk, we are keeping our liquidity in short term low yielding funds as *Cash and due from Bank* which has increased during the past nine months 552% to \$102 million. With a 25 basis point return, this has impacted our third quarter earnings. Until we have a clearer vision of our government's direction, we are being careful at this point in time not to take a lot of interest rate risk by stretching maturities for higher yields. Our original budget forecast did not anticipate the continuation of this zero-based monetary policy.

***Provision for Loan Losses***

The provision for loan losses was \$268,000 for the three months ended September 30, 2012, compared to \$401,000 for the same period in 2011. As previously discussed, the decrease in the provision for loan losses was primarily due to overall improvement in the credit quality of the loan portfolio.

***Noninterest Income***

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

Noninterest income for the three months ended September 30, 2012 was \$723,000, a decrease of \$109,000, or 13.1%, compared to \$832,000 for the three-month period ended September 30, 2011. A component of customer service fees

are charges related to the Company's courtesy overdraft program. As the Company has implemented government mandated regulations from the Dodd-Frank Act regarding its courtesy overdraft program, the Company has seen a reduction in customer service fees of approximately \$54,000 for the three months ended September 30, 2012 as compared to the same period in 2011.

### ***Noninterest Expense***

Noninterest expense was \$3.5 million for the three months ended September 30, 2012 an increase of \$182,000, compared to the three months ended September 30, 2011. Salaries and employee benefit expense increased \$81,000, or 5.0%, for the three month period ended September 30, 2012, compared to the same period in 2011. This increase was primarily due to the Company's increase in health care costs which renews July 1<sup>st</sup> of each year. Professional fees decreased \$65,000 for the three month ended September 30, 2012, as compared to the same period in 2011 as a result of the decreased levels of foreclosed assets. Deposit insurance premiums decreased \$40,000 for the three months ended September 30, 2012, as compared to the same period in 2011. The Company also recorded a \$26,000 impairment on the value of certain repossessed properties.

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

The provision for federal income taxes was \$118,000 for the three months ended September 30, 2012, a decrease of \$142,000 compared to the same period in 2011. The effective tax rate was 20.7% and 24.5% for the three months ended September 30, 2012 and 2011, respectively.

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

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Stockholders' equity totaled \$36.5 million at September 30, 2012 compared to \$36.2 million at December 31, 2011, a \$339,000 increase. Total average stockholders' equity in relation to total average assets was 8.59% at September 30, 2012 and 8.52% at December 31, 2011. In 2001, our shareholders approved an amendment to the Company's Articles of Incorporation to create a class of preferred shares with 2,000,000 authorized shares. This enables the Company, at the option of the Board of Directors, to issue series of preferred shares in a manner calculated to take advantage of financing techniques which may provide a lower effective cost of capital to the Company. The amendment also provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. Although this preferred stock is a financial tool, it has not been utilized to date.

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

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

The minimums related to such capital requirements are:

	Total Capital To Risk-Weighted Assets		Tier 1 Capital To Risk-Weighted Assets		Tier 1 Capital To Average Assets	
Well capitalized	10.00	%	6.00	%	5.00	%
Adequately capitalized	8.00	%	4.00	%	4.00	%
Undercapitalized	6.00	%	3.00	%	3.00	%

The following table illustrates the Company's "well-capitalized" classification at September 30, 2012.

	September 30, 2012 (Dollars in thousands)	
Tier 1 capital	\$ 39,777	
Total risk-based capital	42,557	
Risk-weighted assets	290,848	
Average total assets	426,617	
Total risk-based capital ratio	14.63	%
Tier 1 risk-based capital ratio	13.68	%
Tier 1 capital to average assets	9.32	%

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

*Liquidity*

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

*Inflation*

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

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

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

**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, 2011.

**ITEM 4. Controls and Procedures**

The Company, under the supervision, and with the participation, of its management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the requirements of Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012, in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's periodic SEC filings.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2012 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, 2011, filed on March 23, 2012.

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

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans Or Programs	(d) Maximum Number or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 7/1/2012 to 7/31/2012	—	—	—	—
Month #2 8/1/2012 to 8/31/2012	—	—	—	—
Month #3 9/1/2012 to 9/30/2012	—	—	—	—

The Company adopted the United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan (the "Plan"), which is an unfunded deferred compensation plan. Amounts deferred pursuant to the Plan remain

unrestricted assets of the Company, and the right to participate in the Plan is limited to members of the Board of Directors and Company officers. Under the Plan, directors or other eligible participants may defer fees and up to 50% of their annual incentive award payable to them by the Company, which are used to acquire common shares which are credited to a participant's respective account. Except in the event of certain emergencies, no distributions are to be made from any account as long as the participant continues to be an employee or member of the Board of Directors. Upon termination of service, the aggregate number of shares credited to the participant's account are distributed to him or her along with any cash proceeds credited to the account which have not yet been invested in the Company's stock. On March 16, 2012, the Plan purchased a total of 5,993 common shares for participant accounts. All purchases under this deferred compensation plan are funded with either earned director fees or officer incentive award payments which amounted to approximately \$52,798. No underwriting fees, discounts, or commissions are paid in connection with the Plan. The shares allocated to participant accounts have not been registered under the Securities Act of 1933 in reliance upon the exemption provided by Section 4(2) thereof.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.



**United Bancorp, Inc.**

**Part II – Other Information**

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Exhibits**

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

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

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

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

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

EX  
32.1 Section 1350 Certification – CEO

EX  
32.2 Section 1350 Certification – CFO

The following material from United Bancorp's Form 10-Q Report for the quarterly period ended September 30, 2012, formatted in XBRL: (1) Unaudited Condensed Consolidated Balance Sheets, (2) Unaudited  
EX 101 Condensed Consolidated Statements of Income, (3) Unaudited Condensed Consolidated Statements of  
\*\* Comprehensive Income (4) Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity, (5) Unaudited Condensed Consolidated Statements of Cash Flows, and (6) the Notes to Unaudited Condensed Consolidated Financial Statements.

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

<sup>(2)</sup> Incorporated by reference to Appendix C to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.

Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed  
\*\* not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of  
1933 or Section 18 of the Securities Exchange Act of 1934, and are otherwise not subject to liability under these  
sections..

**United Bancorp, Inc.**

**Part II – Other Information**

**SIGNATURES**

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

/s/United Bancorp, Inc.

Date: November 13, 2012 By: /s/James W. Everson  
James W. Everson  
Chairman, President and Chief Executive Officer

Date: November 13, 2012 By: /s/Randall M. Greenwood  
Randall M. Greenwood  
Senior Vice President, Chief Financial Officer and Treasurer

**United Bancorp, Inc.**

**Part II – Other Information**

**Exhibit Index**

Exhibit No.	Description
3.1	Amended Articles of Incorporation of United Bancorp, Inc. incorporated by reference to Appendix B to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.
3.2	Amended Code of Regulations of United Bancorp, Inc. incorporated by reference to Appendix C to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.
4.0	Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2)
31.1	Rule 13a-14(a) Certification – Principal Executive Officer
31.2	Rule 13a-14(a) Certification – Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.