

UNITED BANCORP INC /OH/  
Form 10-Q  
November 14, 2014

**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, 2014

OR

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

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

Commission File Number: 0-16540

**UNITED BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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

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

(740) 633-0445

(Registrant's telephone number, including area code)

N/A

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

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

Yes  No

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

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

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

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

Yes  No

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of November 3, 2014, 5,374,386 shares of the Company's common stock, \$1.00 par value, were issued and outstanding.

PART I - FINANCIAL INFORMATION

<u>Item 1 Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8

<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
---	----

<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	44
--	----

<u>Item 4 Controls and Procedures</u>	45
---------------------------------------	----

PART II - OTHER INFORMATION

<u>Item 1 Legal Proceedings</u>	46
---------------------------------	----

<u>Item 1A Risk Factors</u>	46
-----------------------------	----

<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
---	----

<u>Item 3 Defaults Upon Senior Securities</u>	46
---	----

<u>Item 4 Other Information</u>	47
---------------------------------	----

<u>Item 5 Exhibits</u>	47
------------------------	----

<u>SIGNATURES</u>	48
-------------------	----

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

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	\$ 5,882	\$ 5,328
Interest-bearing demand deposits	31,485	18,146
Cash and cash equivalents	37,367	23,474
Available-for-sale securities	25,018	26,564
Held-to-maturity securities	835	955
Loans, net of allowance for loan losses of \$3,024 and \$2,894 at September 30, 2014 and December 31, 2013, respectively	309,720	306,608
Premises and equipment	10,276	10,723
Federal Home Loan Bank stock	4,210	4,810
Foreclosed assets held for sale, net	1,237	2,202
Intangible assets	96	186
Accrued interest receivable	829	1,022
Deferred income taxes	587	744
Bank-owned life insurance	10,673	10,511
Other assets	1,965	1,243
Total assets	\$ 402,813	\$ 389,042
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 180,404	\$ 164,747
Savings	69,713	67,588
Time	70,363	78,306
Total deposits	320,480	310,641
Short-term borrowings	9,134	5,746
Federal Home Loan Bank advances	26,780	26,991
Subordinated debentures	4,124	4,000
Interest payable and other liabilities	2,153	2,793
Total liabilities	362,671	350,171
Stockholders' Equity		

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Preferred stock, no par value, authorized 2,000,000 shares; no shares issued	—	—
Common stock, \$1 par value; authorized 10,000,000 shares; issued 2014 –5,385,304 shares, 2013 – 5,375,304 shares	5,385	5,375
Additional paid-in capital	17,953	17,750
Retained earnings	20,229	19,600
Stock held by deferred compensation plan; 2014 –224,871 shares, 2013 – 213,805 shares	(1,994)	(1,904)
Unearned ESOP compensation	(1,515)	(1,658)
Accumulated other comprehensive income (loss)	171	(191)
Treasury stock, at cost 2014 –10,918 shares, 2013 – 12,496 shares	(87)	(101)
Total stockholders' equity	40,142	38,871
Total liabilities and stockholders' equity	\$ 402,813	\$ 389,042

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	\$ 3,958	\$ 3,997	\$ 11,775	\$ 11,966
Taxable securities	58	78	198	226
Non-taxable securities	62	75	196	309
Federal funds sold	16	33	50	109
Dividends on Federal Home Loan Bank stock and other	41	50	147	163
Total interest and dividend income	4,135	4,233	12,366	12,773
Interest expense				
Deposits				
Demand	27	25	79	79
Savings	8	8	24	23
Time	256	345	795	1,139
Borrowings	324	372	963	1,134
Total interest expense	615	750	1,861	2,375
Net interest income	3,520	3,483	10,505	10,398
Provision for loan losses	225	354	657	1,013
Net interest income after provision for loan losses	3,295	3,129	9,848	9,385
Noninterest income				
Service charges on deposit accounts	723	627	2,052	1,706
Realized gains on sales of loans	6	5	22	55
BOLI benefit in excess of surrender value	—	935	35	935
Realized gains on sales of available –for-sale securities, net	27	—	27	—
Realized gains (losses) on sales of real estate and other repossessed assets	16	—	10	(15 )
Other income	203	224	620	647
Total noninterest income	975	1,791	2,766	3,328
Noninterest expense				
Salaries and employee benefits	1,643	1,971	4,905	5,386
Net occupancy and equipment expense	487	468	1,505	1,393
Professional services	53	91	481	499
Insurance	73	74	221	211
Deposit insurance premiums	57	75	194	231
Franchise and other taxes	69	126	193	381

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Advertising	102	96	329	321
Stationery and office supplies	46	46	138	136
Amortization of intangible asset	30	29	89	89
Provision for losses on foreclosed real estate	17	220	179	230
Other expenses	679	638	1,802	1,698
Total noninterest expense	3,256	3,834	10,036	10,575
Income before federal income taxes	1,014	1,086	2,578	2,138
Federal income taxes	296	7	660	125
Net income	\$ 718	\$ 1,079	\$ 1,918	\$ 2,013
EARNINGS PER COMMON SHARE				
Basic	\$ 0.14	\$ 0.22	\$ 0.38	\$ 0.41
Diluted	\$ 0.14	\$ 0.22	\$ 0.38	\$ 0.41
DIVIDENDS PER COMMON SHARE				
	\$ 0.08	\$ 0.07	\$ 0.24	\$ 0.21

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,	
	2014	2013	2014	2013
Net income	\$ 718	\$ 1,079	\$ 1,918	\$ 2,013
Other comprehensive income (loss), net of tax:				
Reclassification adjustment for net realized gains on available-for-sale securities included in net income during the period, net of taxes of \$(9), \$ —, \$(9), \$ — for each respective period	(18 )	—	(18 )	—
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$13, \$(55), \$187 and \$(310) for each respective period	26	(106 )	362	(601 )
Comprehensive income	\$ 726	\$ 973	\$ 2,262	\$ 1,412
Accumulated comprehensive income (loss)	\$ 171	\$ (1,687 )	\$ 171	\$ (1,687 )

See Notes to Condensed Consolidated Financial Statements



United Bancorp, Inc.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2014	2013
<b>Operating Activities</b>		
Net income	\$1,918	\$2,013
Items not requiring (providing) cash		
Depreciation and amortization	726	727
Amortization of intangible asset	89	89
Expense related to share based compensation plans	124	151
Provision for loan losses	657	1,013
Provision for losses on foreclosed real estate	179	230
Bank-owned life insurance	(162 )	(1,193 )
Amortization (accretion) of premiums and discounts on securities, net	2	(23 )
Originations of loans held for sale	(1,210)	(2,038 )
Proceeds from sale of loans held for sale	1,232	2,093
Realized gains on sales of loans	(22 )	(55 )
Amortization of ESOP	144	123
Realized (gains) losses on sales of other real estate and repossessed assets	(10 )	15
Realized gains on available-for-sale securities	(27 )	—
Amortization of mortgage servicing rights	13	21
Net change in accrued interest receivable and other assets	(469 )	511
Net change in accrued expenses and other liabilities	(640 )	(258 )
<b>Net cash provided by operating activities</b>	<b>2,544</b>	<b>3,419</b>
<b>Investing Activities</b>		
Securities available for sale:		
Maturities, prepayments and calls	7,612	24,104
Purchases	(6,023)	(18,000)
Securities held to maturity:		
Maturities, prepayments and calls	120	490
Sales of available-for-sale securities	535	—
Net change in loans	(3,512)	(3,158 )
Mandatory redemption of Federal Home Loan Bank Stock	600	—
Purchases of premises and equipment	(285 )	(1,296 )
Proceeds from sale of other real estate and repossessed assets	562	128
<b>Net cash (used) provided by investing activities</b>	<b>(391 )</b>	<b>2,268</b>

See Notes to Condensed Consolidated Financial Statements

6

United Bancorp, Inc.

## Condensed Consolidated Statements of Cash Flows (continued)

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2014	2013
<b>Financing Activities</b>		
Net change in deposits	\$9,839	\$(32,932)
Net change in short-term borrowings	3,388	(152 )
Net change in long-term borrowings	(211 )	(5,293 )
Treasury stock activity	14	(70 )
Cash dividends paid on common stock	(1,290 )	(1,130 )
Net cash provided (used in) by financing activities	11,740	(39,577)
Increase (decrease) in Cash and Cash Equivalents	13,893	(33,890)
Cash and Cash Equivalents, Beginning of Period	23,474	75,108
Cash and Cash Equivalents, End of Period	\$37,367	\$41,218
<b>Supplemental Cash Flows Information</b>		
Interest paid on deposits and borrowings	\$1,874	\$2,421
Federal income taxes paid	\$468	\$583
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Transfers from loans to foreclosed assets held for sale	\$234	\$830
Vesting of restricted stock	\$203	\$—

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, 2014 and 2013

#### 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, 2014, 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, 2013 included in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Consolidated Financial Statements contained in its Annual Report on Form 10-K. The results of operations for the three months and nine months ended, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2013 has been derived from the audited consolidated balance sheet of the Company as of that date.

#### Principles of Consolidation

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

#### Nature of Operations

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

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

#### Use of Estimates

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

#### 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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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

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

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

#### Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior 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.



United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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

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

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

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a

troubled debt restructuring (“TDR”) has occurred, which is when, for economic or legal reasons related to a borrower’s financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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

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

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock awards and are determined using the treasury stock method.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands, except share and per share data)			
Basic				
Net income	\$718	\$1,079	\$1,918	\$2,013
Dividends on non-vested restricted stock	(14)	(12)	(42)	(37)
Net income allocated to stockholders	\$704	\$1,067	\$1,876	\$1,976
Weighted average common shares outstanding	4,857,652	4,804,957	4,841,235	4,805,811

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Basic earnings per common share	\$0.14	\$0.22	\$0.38	\$0.41
Diluted				
Net income allocated to stockholders	\$704	\$1,067	\$1,876	\$1,976
Weighted average common shares outstanding for basic earnings per common share	4,857,652	4,804,957	4,841,235	4,805,811
Add: Dilutive effects of assumed exercise of stock options and restricted stock	75,814	59,664	75,814	59,664
Average shares and dilutive potential common shares	4,933,466	4,864,621	4,917,049	4,865,475
Diluted earnings per common share	\$0.14	\$0.22	\$0.38	\$0.41

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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, 2014 and 2013, 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.

#### 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 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The ASU amends the guidance in the FASB Accounting Standards Codification (FASB ASC) Topic 220, entitled Comprehensive Income. The goal behind development of the ASU 2013-02 amendments is to improve the transparency of reporting reclassification out of accumulated other comprehensive income. For public companies, the ASU 2013-02 amendments are effective in reporting periods beginning after December 15, 2012. Earlier implementation of the guidance is allowed. The Company adopted FASB ASU 2013-02 as required, without a material effect on the Company's financial condition or results of operations.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts

with customers and the significant judgments used in determining that information. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

Note 2: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale Securities:				
September 30, 2014				
U.S. government agencies	\$19,900	\$ —	\$ (250)	) \$ 19,650
State and political subdivisions	5,201	143	—	5,344
Equity securities	4	20	—	24
	\$25,105	\$ 163	\$ (250)	) \$ 25,018

Available-for-sale Securities:				
December 31, 2013:				
U.S. government agencies	\$21,000	\$ —	\$ (849)	) \$ 20,151
State and political subdivisions	6,196	191	—	6,387
Equity securities	4	22	—	26
	\$27,200	\$ 213	\$ (849)	) \$ 26,564

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Held-to-maturity Securities:				
September 30, 2014:				
State and political subdivisions	\$835	\$ 4	\$ —	\$ 839
December 31, 2013:				
State and political subdivisions	\$955	\$ 15	\$ —	\$ 970





United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at September 30, 2014, 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	\$ 155	\$ 158	\$ 505	\$ 508
One to five years	13,339	13,310	330	331
Five to ten years	8,607	8,645	—	—
After ten years	3,000	2,881	—	—
Equity securities	4	24	—	—
Totals	\$25,105	\$25,018	\$ 835	\$ 839

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$25.8 and \$19.6 million at September 30, 2014 and December 31, 2013, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at September 30, 2014 and December 31, 2013, was \$16.7 million and \$20.2 million, which represented approximately 45.1% and 73.2%, 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 and are a result on an general increase in longer term interest rates.

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

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2014 and December 31, 2013:

September 30, 2014

Description of Securities (In thousands)	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	\$ 4,994	\$ (6 )	\$ 11,656	\$ (244 )	\$ 16,650	\$ (250 )

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

December 31, 2013

Description of Securities (In thousands)	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	\$20,151	\$ (849 )	\$ —	\$ —	\$20,151	\$ (849 )

The unrealized losses on the Company's investments in U.S. Government agency were caused primarily by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely the Company will be required or need to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2014 and December 31, 2013.

For the three and nine-month periods ended September 30, 2014, proceeds from the sale of investment securities available-for-sale were \$535,000, with gross realized gains of \$27,000, and gross losses of zero. The gain is included in realized gains on sales of available-for-sale securities, net in the noninterest income section of the statement of income. There were no investment sales for the three and nine-month periods ended September 30, 2013.

Note 3: Loans and Allowance for Loan Losses

Categories of loans include:

	September 30, 2014	December 31, 2013
Commercial loans	\$46,931	\$ 55,136
Commercial real estate	159,201	144,972

(In thousands)

Residential real estate	83,761	82,832
Installment loans	22,851	26,562
Total gross loans	312,744	309,502
Less allowance for loan losses	(3,024 )	(2,894 )
Total loans	\$309,720	\$ 306,608

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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

### 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, 2014 and 2013

**Allowance for Loan Losses and Recorded Investment in Loans****As of and for the three and nine month period ended September 30, 2014**

	Commercial	Commercial Real Estate	Installment	Residential	Unallocated	Total
(In thousands)						
Allowance for loan losses:						
Balance, July 1, 2014	\$ 472	\$ 1,838	\$ 146	\$ 91	\$ 585	\$ 3,132
Provision charged to expense	24	(171 )	93	47	232	225
Losses charged off	—	(205 )	(107 )	(48 )	—	(360 )
Recoveries	1	11	14	1	—	27
Balance, September 30, 2014	\$ 497	\$ 1,473	\$ 146	\$ 91	\$ 817	\$ 3,024
Balance, January 1, 2014	\$ 412	\$ 1,609	\$ 141	\$ 90	\$ 642	\$ 2,894
Provision charged to expense	107	45	214	116	175	657
Losses charged off	(25 )	(205 )	(285 )	(119 )	—	(634 )
Recoveries	3	24	76	4	—	107
Balance, September 30, 2014	\$ 497	\$ 1,473	\$ 146	\$ 91	\$ 817	\$ 3,024
Ending balance: individually evaluated for impairment	\$ 354	\$ 989	\$ —	\$ —	\$ —	\$ 1,343
Ending balance: collectively evaluated for impairment	\$ 143	\$ 484	\$ 146	\$ 91	\$ 817	\$ 1,681
Loans:						
Ending balance: individually evaluated for impairment	\$ 437	\$ 5,441	\$ —	\$ —	\$ —	\$ 5,878
Ending balance: collectively evaluated for impairment	\$ 46,494	\$ 153,760	\$ 22,851	\$ 83,761	\$ —	\$ 306,866

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

**Allowance for Loan Losses and Recorded Investment in Loans****As of and for the three and nine month period ended September 30, 2013**

	Commercial	Commercial Real Estate	Installment	Residential	Unallocated	Total
(In thousands)						
Allowance for loan losses:						
Balance, July 1, 2013	\$ 1,191	\$ 1,213	\$ 181	\$ 120	\$ 563	\$ 3,268
Provision charged to expense	(272 )	560	93	48	(75 )	354
Losses charged off	(520 )	(10 )	(110 )	(44 )	—	(684 )
Recoveries	—	4	21	2	—	27
Balance, September 30, 2013	\$ 399	\$ 1,767	\$ 185	\$ 126	\$ 488	\$ 2,965
Balance, January 1, 2013	\$ 598	\$ 1,347	\$ 200	\$ 116	\$ 447	\$ 2,708
Provision charged to expense	319	456	131	66	41	1,013
Losses charged off	(520 )	(47 )	(271 )	(59 )	—	(897 )
Recoveries	2	11	125	3	—	141
Balance, September 30, 2013	\$ 399	\$ 1,767	\$ 185	\$ 126	\$ 488	\$ 2,965
Ending balance: individually evaluated for impairment	\$ 244	\$ 1,376	\$ —	\$ —	\$ —	\$ 1,620
Ending balance: collectively evaluated for impairment	\$ 155	\$ 391	\$ 185	\$ 126	\$ 488	\$ 1,345
Loans:						
Ending balance: individually evaluated for impairment	\$ 609	\$ 6,103	\$ —	\$ —	\$ —	\$ 6,712
Ending balance: collectively evaluated for impairment	\$ 53,384	\$ 130,122	\$ 27,609	\$ 80,282	\$ —	\$ 291,397

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

**Allowance for Loan Losses and Recorded Investment in Loans****As of December 31, 2013**

	Commercial	Commercial Real Estate	Installment	Residential	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	\$238	\$1,151	\$—	\$—	\$—	\$1,389
Ending balance: collectively evaluated for impairment	\$174	\$458	\$141	\$90	\$642	\$1,505
Loans:						
Ending balance: individually evaluated for impairment	\$655	\$5,675	\$—	\$—	\$—	\$6,330
Ending balance: collectively evaluated for impairment	\$54,481	\$139,297	\$26,562	\$82,832	\$—	\$303,172

The following tables show the portfolio quality indicators.

Loan Class	September 30, 2014				
	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	\$46,183	\$151,657	\$83,761	\$22,851	\$304,452
Special Mention	277	1,545	—	—	1,822
Substandard	471	5,999	—	—	6,470
Doubtful	—	—	—	—	—
	\$46,931	\$159,201	\$83,761	\$22,851	\$312,744

December 31, 2013



Loan Class	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	\$51,739	\$ 135,739	\$ 82,832	\$ 26,562	\$296,872
Special Mention	2,727	2,848	—	—	5,575
Substandard	670	6,385	—	—	7,055
Doubtful	—	—	—	—	—
	\$55,136	\$ 144,972	\$ 82,832	\$ 26,562	\$309,502

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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

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

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

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

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

### **Loan Portfolio Aging Analysis**

As of September 30, 2014

	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	\$10	\$ —	\$ —	\$ 323	\$ 333	\$46,598	\$ 46,931
Commercial real estate	734	—	108	—	842	158,359	159,201
Installment	51	19	—	108	178	20,989	22,851
Residential	678	252	—	932	1,862	83,583	83,761
Total	\$1,473	\$ 271	\$ 108	\$ 1,363	\$ 3,215	\$309,529	\$ 312,744

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

### Loan Portfolio Aging Analysis

As of December 31, 2013

	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	\$38	\$ —	\$ 84	\$ 641	\$ 763	\$54,373	\$ 55,136
Commercial real estate	—	—	105	953	1,058	143,914	144,972
Installment	101	67	—	34	202	26,360	26,562
Residential	233	56	—	1,252	1,541	81,291	82,832
Total	\$372	\$ 123	\$ 189	\$ 2,880	\$ 3,564	\$305,938	\$ 309,502

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

**Impaired Loans**

	As of September 30, 2014			For the three months ended September 30, 2014	For the nine months ended September 30, 2014		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Average Investment in Impaired Loans	Interest Income Recognized	
	(In thousands)						
Loans without a specific valuation allowance:							
Commercial	\$9	\$9	\$—	\$9	\$—	\$12	\$1
Commercial real estate	1,783	1,783	—	1,786	59	1,809	73
Residential	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	1,792	1,792	—	1,795	59	1,821	74
Loans with a specific valuation allowance:							
Commercial	428	428	354	407	19	417	23
Commercial real estate	3,658	3,658	989	3,751	76	3,823	197
Residential	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	4,086	4,086	1,343	4,158	95	4,240	220
Total:							
Commercial	\$437	\$437	\$354	\$416	\$19	\$429	\$24
Commercial real estate	\$5,441	\$5,441	\$989	\$5,537	\$135	\$5,632	\$270
Residential	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Installment	\$—	\$—	\$—	\$—	\$—	\$—	\$—

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

**Impaired Loans**

	As of December 31, 2013			For the three months ended September 30, 2013	For the nine months ended September 30, 2013		
	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	\$ 136	\$ 136	\$ —	\$ 84	\$ —	\$ 84	\$ 1
Commercial real estate	888	888	—	1,076	21	1,155	49
Residential	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	1,024	1,024	—	1,160	21	1,239	50
Loans with a specific valuation allowance:							
Commercial	519	519	238	498	17	510	23
Commercial real estate	4,787	4,787	1,151	5,173	43	5,237	169
Residential	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	5,306	5,306	1,389	5,671	60	5,747	192
Total:							
Commercial	\$ 655	\$ 655	\$ 238	\$ 582	\$ 17	\$ 594	\$ 24
Commercial real estate	\$ 5,675	\$ 5,675	\$ 1,151	\$ 6,249	\$ 64	\$ 6,392	\$ 218
Residential	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Installment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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, 2014 and 2013

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

Three Months ended September 30, 2014

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

Three Months ended September 30, 2014

	Interest Only	Term	Combination	Total Modification
	(In thousands)			
Commercial	\$ —	\$ —	\$ —	\$ —
Commercial real estate	—	—	—	—
Residential	—	—	—	—
Consumer	—	—	—	—

Nine Months ended September 30, 2014

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	—	\$ —	\$ —
Commercial real estate	2	155	68

Residential	—	—	—
Installment	—	—	—

Nine Months Ended September 30, 2014

	Interest Only	Term	Combination	Total Modification
	(In thousands)			
Commercial	\$ —	\$ —	\$ —	\$ —
Commercial real estate	—	68	—	68
Residential	—	—	—	—
Consumer	—	—	—	—





**(In thousands)**

Commercial	\$ —	\$ —	\$ —	\$ —
Commercial real estate	—	3,320	—	3,320
Residential	—	—	—	—
Consumer	—	—	—	—

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

During the nine the months ended September 30, 2014, troubled debt restructurings described above increased the allowance for loan losses by \$90,000. During the nine months ended September 30, 2013, troubled debt restructurings described increased the allowance for loan losses by \$69,000

At September 30, 2014 and 2013 and for three and nine month periods then ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

#### Note 4: Benefit Plans

Pension expense includes the following:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Service cost	\$74	\$90	\$ 222	\$ 270
Interest cost	35	41	105	123
Expected return on assets	(83)	(64)	(249)	(192)
Amortization of prior service cost and net loss	(15)	43	(45)	129
Pension expense	\$11	\$110	\$ 33	\$ 330

#### 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, 2014 and 2013

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, 2014	December 31, 2013
	(In thousands)	
Commercial loans unused lines of credit	\$ 14,427	\$ 11,500
Commitment to originate loans	9,568	7,300
Consumer open end lines of credit	35,771	35,289
Standby letters of credit	220	120

Note 6: Accumulated Other Comprehensive Income (Loss)

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

	September 30, 2014	December 31, 2013
	(In thousands)	
Net unrealized loss on securities available-for-sale	\$(88 )	\$ (636 )
Net unrealized gain for funded status of defined benefit plan liability	346	346
Tax effect	258 (87 )	(290 ) 99
Net-of-tax amount	\$ 171	\$ (191 )

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

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

**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

29

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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

#### Available-for-sale Securities

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

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2014 and December 31, 2013:

	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, 2014				
U.S. government agencies	\$19,650	\$ —	\$ 19,650	\$ —
State and political subdivisions	5,344	—	5,344	—



Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Equity securities	24	24	—	—
December 31, 2013				
U.S. government agencies	\$20,151	\$ —	\$ 20,151	\$ —
State and political subdivisions	6,387	—	6,387	—
Equity securities	26	26	—	—

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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

#### Impaired Loans (Collateral Dependent)

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

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

#### Foreclosed Assets Held for Sale

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

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

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, 2014 and December 31, 2013.

	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, 2014				
Collateral dependent impaired loans	\$2,691	\$ —	\$ —	\$ 2,691
Foreclosed assets held for sale	192	—	—	192
December 31, 2013				
Collateral dependent impaired loans	\$1,096	\$ —	\$ —	\$ 1,096
Foreclosed assets held for sale	695	—	—	695

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 9/30/14	Valuation Technique	Unobservable Inputs	Range

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

(In thousands)

Collateral-dependent impaired loans	\$2,691	Market comparable properties	Marketability discount	10% – 35%
Foreclosed assets held for sale	192	Market comparable properties	Selling costs	10% – 15%

Fair  
Value Valuation  
at Technique  
12/31/13  
(In thousands)

Unobservable Inputs Range

Collateral-dependent impaired loans	\$1,096	Market comparable properties	Marketability discount	10% – 35%
Foreclosed assets held for sale	695	Market comparable properties	Selling costs	10% – 15%

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

There were no significant changes in the valuation techniques used during 2014.

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

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
September 30, 2014				
<b>Financial assets</b>				
Cash and cash equivalents	\$37,367	\$37,367	\$ —	\$ —
Held-to-maturity securities	835	—	839	—
Loans, net of allowance	309,720	—	—	311,270
Federal Home Loan Bank stock	4,210	—	4,210	—
Accrued interest receivable	829	—	829	—
<b>Financial liabilities</b>				
Deposits	320,480	—	305,791	—
Short term borrowings	9,134	—	9,134	—
Federal Home Loan Bank Advances	26,780	—	28,420	—
Subordinated debentures	4,124	—	3,844	—
Interest payable	131	—	131	—



**United Bancorp, Inc.**

## Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

	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, 2013				
<b>Financial assets</b>				
Cash and cash equivalents	\$23,474	\$23,474	\$ —	\$ —
Held-to-maturity securities	955	—	970	—
Loans, net of allowance	306,608	—	—	306,181
Federal Home Loan Bank stock	4,810	—	4,810	—
Accrued interest receivable	1,022	—	1,022	—
<b>Financial liabilities</b>				
Deposits	310,641	—	296,300	—
Short term borrowings	5,746	—	5,746	—
Federal Home Loan Bank Advances	26,991	—	28,998	—
Subordinated debentures	4,000	—	3,729	—
Interest payable	144	—	144	—

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.



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.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2014 and 2013

#### 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, 2014 and December 31, 2013.

## **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, 2014, as compared to December 31, 2013, and the results of operations for the three and nine months ended September 30, 2014, compared to the same period in 2013. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

#### **Introduction**

The Company reported diluted earnings per share for the nine months ended September 30, 2014 of \$0.38 compared to \$0.41 for the same period in 2013. Both net income and diluted earnings per share decreased for the nine months ended September 30, 2014 due to a net decrease of \$900,000 related to a non-core, tax-exempt BOLI benefit. Excluding this net BOLI benefit, core earnings realized for the nine months ended September 30, 2014 increased by \$805,000. On a linked quarter basis, earnings have increased for each of the quarterly periods in the current year and it is anticipated that this positive trend will continue in the coming quarters. The increase in core earnings for the nine months ended September 30, 2014 can be attributed to several key factors including a reduction in the provision for loan losses, a reduction in the provision for losses on impairment on foreclosed real estate, an increase in service charge income and a decrease in the level of overall non-interest expense or overhead. Each of these factors has led to continued core earnings improvement this year as explained below.

From an operating perspective, the Company's net interest margin improved to 3.86% as of September 30, 2014 compared to 3.59% the prior year. The Company was able to improve its margin by originating quality loans and decreasing its levels of higher costing deposits and lower-yielding investment alternatives at the Federal Reserve. On a year-over-year basis, Average loans were up by \$17.8 million, or 6.01%, while higher costing time deposits and short term, lower-yielding investment alternatives, listed as Average cash and due from Federal Reserve Bank, were down by \$12.3 million, or 14.85%, and \$29.9 million, or 46.22%, respectively. The Company continued to keep its excess funds in lower-yielding investment alternatives, which totaled \$34.7 million on an average basis as of September 30, 2014, and resist the temptation of extending the duration of its investment portfolio to achieve higher investment yields which would produce higher levels of revenue in the present term. This conservative posture continued to be maintained to protect the Company's capital and earnings when interest rates increase in future periods to more normalized levels. The Company's investment in marketable securities declined on an average basis by \$7.2 million, or 19.47%, from September 30, 2013 to September 30, 2014 to a level of \$29.8 million. The Company's credit quality improved as non-accrual loans were down \$1.5 million, or 51.58%, to a level of \$1.4 million and net loans charged off were \$528,000, or 0.17% of average loans, which was down by \$229,000, or 30.23%, from the previous year. With the improvement in credit quality, the Company decreased the provision for loan losses which was \$657,000 for the nine months ended September 30, 2014 compared to \$1,013,000 million for the nine months ended September 30,

2013, a decrease of \$356,000. Even with this reduction in the provision for loan losses, the overall total allowance for loan losses to total loans was 0.97% resulting in a total allowance for loan losses to nonperforming loans of 221.92%, compared to 0.99% and 105.34% respectively at September 30, 2013. With this continued trend of improving credit quality and coverage, the Company projects a further reduction of its provision for loan losses which will have a positive impact on future core earnings.

The Company continued to see a positive return on its strategy of attracting additional customers into lower-cost funding accounts while allowing higher-cost funding to run off. From September 30, 2013 to September 30, 2014, its lower-cost funding accounts increased \$15.3 million or 6.5%. This higher level of transaction-type accounts contributed to service charges on deposit accounts increasing by \$346,000, or 20.27%, on a year-over-year basis as of September 30, 2014. As the Company continues with this focus of attracting a higher level of transactional-type accounts, it is projected this trend of increasing service charges on deposit accounts will continue even with the heightened implementation of the Dodd-Frank Act which could have a limiting effect on the level of revenue realized per account. This potential limitation will be offset by the Company's focus on attracting a higher number of transaction accounts that can generate fee based income. Lastly, noninterest expense decreased on a year-over-year basis by \$553,000 or 5.23%. Without the previously disclosed impairment charge of \$152,720 taken in the first quarter of this year relating to a foundational collapse that rendered a bank-owned foreclosed real estate property in a condemned state, non-interest expense would have decreased even further for the nine months ended September 30, 2014. The major components of this decrease in non interest expense are reduced salary and benefits costs, reduced provision for losses on foreclosed real estate and decreased Ohio Franchise taxes due to a change in tax laws. Our goal is controlling our noninterest expense while continuing to build and strengthen our operational foundation which will lead to future growth, higher levels of core earnings and, ultimately, a higher level of performance. In the first nine months of this year, we have successfully met this objective and will continue with this focus in the coming quarters." Greenwood concluded, "With our new retail and training facility which opened toward the end of the second quarter of 2013, the shifting of lower yielding liquid assets into higher yielding quality loans, the continuing growth in service charge income on deposit accounts, the controlling of our overhead and the potential lowering of our loan loss provision, we are projecting continued improvement in our profitability.

United Bancorp, Inc.

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

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

The Company's conservative risk management posture of keeping our liquidity in short term, lower-yielding investments and not leveraging our investment portfolio by stretching for yield has had somewhat of a limiting effect on our earnings over the course of the past few years. Even with this reality, we firmly believe that our present posture is the prudent one to take with the anticipation of interest rates increasing as the Federal Reserve eases out of its current monetary policy which began this past December with the tapering of its level of asset purchases under its quantitative easing policy (QE). This tapering of asset purchases by the Federal Reserve continues and is anticipated to come to a conclusion by year-end. The Fed's planned finalization of QE coupled with the anticipation of the easing out of its zero interest rate policy (ZIRP) could put pressure on interest rates to increase within the next twelve to eighteen months. At present, we continue to aggressively make more asset sensitive, quality loans in our banking communities and resist seeking a higher return by stretching the duration of our investment portfolio until we see rates tied to longer-term investment alternatives, such as the 10 Year U.S. Treasury, reach more normalized historic levels. By investing in longer maturity securities today, we could expose our shareholders to losses in capital and earnings when interest rates normalize upward. As you can see in our financial statements, this conservative investment strategy has helped our Company preserve its book value, which improved on a year-over-year basis from \$7.72 to \$8.30, an increase of 7.51%, and has increased our shareholder's equity by \$3.0 million, or 8.2%, and equity to assets to a level of 9.97% as of September 30, 2014. We continue to be satisfied with our current strategy which has led to higher levels of core earnings and has enabled us to maintain our very generous dividend policy with our cash dividend having a market yield of 3.97% based upon our closing price this past quarter end. Our strategy has also led to our maintaining higher levels of capital and reserves which places our Company in the well-capitalized classification and gives us the ability to quickly grow our earning assets when it is more optimal to do so. We are extremely proud of the fact that our Company was recognized this year by American Banker Magazine as one of the top twenty-five publically traded U.S. banks and thrifts with the highest dividend yield in our country... coming in at number sixteen." We continue to project our present strategy will lead to higher levels of core earnings in the coming quarters as we shift more of our lower-yielding liquid investments into higher-yielding quality loans and attract a higher level of low costing, fee generating accounts to our Company. In addition, we firmly believe that our Company will benefit when interest rates reach more normalized levels and we can comfortably leverage our capital by growing our investment portfolio to levels at which we are more historically accustomed. With our focused commitment to remaining disciplined with our strategy and the improving core earnings of our Company over the course of the past year, we have seen our market value improve by closing on September 30, 2014 at \$8.06, an increase of 20.84% from September 30, 2013. Being a strong and profitable Company in this presently changing regulatory and economic environment and rewarding our owners with solid growth in their shareholder value continues to be our priority and our long term focus.

### **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.

United Bancorp, Inc.

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

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

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

### **Critical Accounting Policies**

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

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

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

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





**United Bancorp, Inc.**

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

**Condition and Results of Operations**

**Analysis of Financial Condition**

*Earning Assets – Loans*

Our focus as a community bank is to meet the credit needs of the markets we serve. At September 30, 2014, gross loans were \$312.7 million, compared to \$309.5 million at December 31, 2013, an increase of \$3.2 million after offsetting repayments for the period. The overall increase in the loan portfolio was comprised of a \$6.0 million increase in commercial and commercial real estate loans a \$929,000 increase in residential loans and a \$3.7 million decrease in installment loans since December 31, 2013.

Commercial and commercial real estate loans comprised 65.9% of total loans at September 30, 2014, compared to 64.7% at December 31, 2013. Commercial and commercial real estate loans have increased \$6.0 million, or 3.0% since December 31, 2013. This segment of the loan portfolio includes originated loans in our market areas and purchased participations in loans from other banks for out-of-area commercial and commercial real estate loans to benefit from consistent economic growth outside the Company's primary market area, but mainly within the state of Ohio.

Installment loans represented 7.3% of total loans at September 30, 2014 and 8.6% at December 31, 2013. Some of the installment loans carry somewhat more risk than real estate lending; however, it also provides for higher yields. Installment loans have decreased \$3.7 million, or 13.9%, since December 31, 2013. The targeted lending areas encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's banking locations.

Residential real estate loans were 26.8% of total loans at September 30, 2014 and 26.8% at December 31, 2013, representing an increase of \$929,000, or 1.1% since December 31, 2013. As of September 30, 2014, the Bank has approximately \$9.2 million in fixed-rate loans that have been sold in the secondary market but still serviced by the Company as compared to \$10.7 million at December 31, 2013. 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, 2014, the Company did not hold any loans for sale.

The allowance for loan losses totaled \$3.0 million at September 30, 2014, which represented 0.97% of total loans, and \$2.9 million at December 31, 2013, or 0.94% 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, 2014 were approximately \$528,000 or 17.5%, of the beginning balance in the allowance for loan losses. Net loans charged off decreased approximately \$229,000 for the nine months ended September 30, 2014 as compared to the same period in 2013.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

*Earning Assets – Securities*

The securities portfolio is comprised of U.S. Government agency-backed securities, tax-exempt obligations of state and political subdivisions and certain other investments. Securities available for sale and held-to-maturity at September 30, 2014 decreased approximately \$1.7 million from December 31, 2013 totals. The opportunities to reinvest these liquid funds have been limited due to the historical low interest rates available on replacement investments.

*Sources of Funds – Deposits*

The Company's primary source of funds is core deposits from retail and business customers. These core deposits include all categories of interest-bearing and noninterest-bearing deposits, excluding certificates of deposit greater than \$100,000. For the period ended September 30, 2014, total core deposits increased approximately \$15.7 million, or 9.5%. The Company's savings accounts increased \$2.1 million or 3.1% from December 31, 2013 totals. The Company's interest-bearing and non-interest bearing demand deposits increased \$15.7 million or 9.5% while certificates of deposit under \$100,000 decreased by \$6.2 million, or 10.5%. The Company considers core deposit to be stable; therefore, the amount of funds anticipated to flow out in the next three to six months is not considered material to the overall liquidity position of the Company.

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

Certificates of deposit greater than \$100,000 are not considered part of core deposits and as such are used to balance rate sensitivity as a tool of funds management. At September 30, 2014, certificates of deposit greater than \$100,000 decreased \$1.7 million or 9.0%, from December 31, 2013 totals.

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

Other interest-bearing liabilities include securities sold under agreements to repurchase and Federal Home Loan Bank (“FHLB”) advances. The majority of the Company’s repurchase agreements are with local school districts and city and county governments. The Company’s short-term borrowings increased approximately \$3,388 from December 31, 2013 totals.

Results of Operations for the Nine Months Ended September 30, 2014 and 2013

***Net Income***

For the nine months ended September 30, 2014 the Company reported net earnings of \$1,918,000, compared to \$2,013,000 for the nine months ended September 30, 2013. On a per share basis, the Company’s diluted earnings were \$0.38 for the nine months ended September 30, 2014, as compared to \$0.41 for the nine months ended September 30, 2013.

**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 increased 1.0%, or \$107,000 for the nine months ended September 30, 2014 compared to the same period in 2013. 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*. With a 25 basis point return, this has impacted our 2014 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.

*Provision for Loan Losses*

The Company's credit quality improved as non-accrual loans were down \$1.5 million, or 52.7%, to a level of \$1.4 million and net loans charged off were \$527,000 or 0.17% of average loans. With the improvement in credit quality, the Company decreased the provision for loan losses which was \$657,000 for the nine months ended September 30, 2014 compared to \$1,013,000 for the nine months ended September 30, 2013, a decrease of \$356,000 or 35.2%.

*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.

A positive effect of attracting a higher level of transaction accounts was the Company's service charges on deposit accounts increased by \$346,000 for the nine months ended September 30, 2014 as compared to the same period in 2013. The Company's continues its focus on attracting more transaction account customers and having a higher overall

level of transaction accounts that can generate fee based income.

### ***Noninterest Expense***

Noninterest expense decreased on a year-over-year basis by \$539,000 or 5.1%. Salaries and employee benefit expense decreased \$481,000, or 8.9%, for the nine month period ended September 30, 2014, compared to the same period in 2013. Provision for losses on foreclosed real estate decreased \$51,000 for the nine months ended September 30, 2014 as compared to the same period in 2013. Net occupancy increased \$112,000, or less than 1.0% for the nine months ended September 30, 2014, compared to the same period in 2013. This increase was primarily due to the opening of the Company's new Retail Banking and Training Center located on the west-side of the highly appealing St. Clairsville, Ohio.

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

The provision for federal income taxes was \$660,000 for the nine months ended September 30, 2014, an increase of \$535,000 compared to the same period in 2013. The effective tax rate was 25.6% and 5.8% for the nine months ended September 30, 2014 and 2013, respectively. The main reason for the increase in the effective tax rate is due to the \$935,000 non taxable BOLI benefit recognized in 2013.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

Results of Operations for the Three Months Ended September 30, 2014 and 2013

***Net Income***

For the three months ended September 30, 2014 the Company reported net earnings of \$718,000, compared to \$1,079,000 for the three months ended September 30, 2013. On a per share basis, the Company's diluted earnings were \$0.14 for the three months ended September 30, 2014, as compared to \$0.22 for the three months ended September 30, 2013.

***Net Interest Income***

Net interest income increased 1.1%, or \$37,000 for the three months ended September 30, 2014 compared to the same period in 2013. 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*. With a 25 basis point return, this has impacted our year to date 2014 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.

***Provision for Loan Losses***

The provision for loan losses was \$225,000 for the three months ended September 30, 2014, compared to \$354,000 for the same period in 2013. As previously discussed, the decrease in the provision for loan losses was primarily due to the overall improvement in the Company's credit quality.

***Noninterest Income***



As previously mentioned attracting a higher level of transaction accounts has a positive impact on noninterest income. The Company's service charges on deposit accounts, a component of non interest income increased by \$96,000 for the three months ended September 30, 2014 as compared to the same period in 2013. It is projected this trend will continue as the Company has focused on attracting more transaction account customers and having a higher overall level of transaction accounts that can generate fee based income.

### ***Noninterest Expense***

Noninterest expense was \$3,256,000 for the three months ended September 30, 2014 a decrease of \$578,000, compared to the three months ended September 30, 2013. Salaries and employee benefit expense decreased \$328,000, or 16.6%, for the three month period ended September 30, 2014, compared to the same period in 2013. Professional fees decreased \$38,000 for the three month ended September 30, 2014, as compared to the same period in 2013. Professional fees have decreased due to a decrease in collection expense of troubled loan relationships. Provision for losses on foreclosed real estate decreased \$203,000 for the three months ended September 30, 2014 as compared to the same period in 2013. Net occupancy increased \$19,000, or 4.1% for the three months ended September 30, 2014, compared to the same period in 2013. This increase was primarily due to the opening of the Company's new Retail Banking and Training Center located on the west-side of the highly appealing St. Clairsville, Ohio.

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

The provision for federal income taxes was \$296,000 for the three months ended September 30, 2014, an increase of \$289,000 compared to the same period in 2013. The effective tax rate was 29.2% and 1.0% for the three months ended September 30, 2014 and 2013, respectively. The main reason for the increase in the effective tax rate is due to the \$935,000 non taxable BOLI benefit recognized in the third quarter of 2013.

**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 \$40.1 million at September 30, 2014 compared to \$38.9 million at December 31, 2013, a \$1.3 million increase. Total average stockholders’ equity in relation to total average assets was 9.78% at September 30, 2014 and 9.99% at December 31, 2013. 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	%

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Adequately capitalized	8.00	%	4.00	%	4.00	%
Undercapitalized	6.00	%	3.00	%	3.00	%

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

The following table illustrates the Company's "well-capitalized" classification at September 30, 2014.

	September 30, 2014 (Dollars in thousands)	
Tier 1 capital	\$ 44,162	
Total risk-based capital	47,195	
Risk-weighted assets	303,046	
Average total assets	405,152	
Total risk-based capital ratio	15.57	%
Tier 1 risk-based capital ratio	14.57	%
Tier 1 capital to average assets	10.90	%

***Liquidity***

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

***Inflation***

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with accounting principles

generally accepted in the United States of America (“U.S. GAAP”). U.S. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, certain impaired loans and certain other real estate and loans that may be measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

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

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

There has been no significant change from disclosures included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

**United Bancorp, Inc.**

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

**Condition and Results of Operations**

**ITEM 4. Controls and Procedures**

The Company, under the supervision, and with the participation, of its management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the requirements of Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2014, 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, 2014 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, 2013, filed on March 21, 2014.

**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)	(d)
			Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans Or Programs	Maximum Number or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 7/1/2014 to 7/31/2014	—	—	—	—
Month #2 8/1/2014 to 8/31/2014	—	—	—	—

Month #3

9/1/2014 to — — — —

9/30/2014

The Company adopted the United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan (the “Plan”), which is an unfunded deferred compensation plan. Amounts deferred pursuant to the Plan remain unrestricted assets of the Company, and the right to participate in the Plan is limited to members of the Board of Directors and Company officers. Under the Plan, directors or other eligible participants may defer fees and up to 50% of their annual incentive award payable to them by the Company, which are used to acquire common shares which are credited to a participant’s respective account. Except in the event of certain emergencies, no distributions are to be made from any account as long as the participant continues to be an employee or member of the Board of Directors. Upon termination of service, the aggregate number of shares credited to the participant’s account are distributed to him or her along with any cash proceeds credited to the account which have not yet been invested in the Company’s stock. On May 8, 2014, the Plan purchased a total of 4,724 common shares for participant accounts. All purchases under this deferred compensation plan are funded with either earned director fees or officer incentive award payments.

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

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.



**United Bancorp, Inc.**

**Part II – Other Information**

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Exhibits**

- |            |  |
|------------|--|
| EX-3.1     | Amended Articles of Incorporation of United Bancorp, Inc. <sup>(1)</sup>   |
| EX-3.2     | Incorporated by reference to Exhibit 3.2 to registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2014 |
| EX-4.0     | Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2)   |
| EX 31.1    | Rule 13a-14(a) Certification – CEO   |
| EX 31.2    | Rule 13a-14(a) Certification – CFO   |
| EX 32.1    | Section 1350 Certification – CEO   |
| EX 32.2    | Section 1350 Certification – CFO   |
| EX 101.INS | XBRL Instance Document   |
| EX 101.SCH | XBRL Taxonomy Extension Schema Document  |
| EX 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| EX 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| EX 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| EX 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

<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.



**SIGNATURES**

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

/s/United Bancorp, Inc.

Date: November 14, 2014 By: /s/Scott A. Everson  
Scott A. Everson  
President and Chief Executive  
Officer

Date: November 14, 2014 By: /s/Randall M. Greenwood  
Randall M. Greenwood  
Senior Vice President, Chief  
Financial Officer and  
Treasurer

**Exhibit Index**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
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.