

UNITED BANCORP INC /OH/
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Markd One)

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

For the quarterly period ended September 30, 2018

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.

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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.

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

Emerging Growth Company

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

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

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of November 9, 2018, 5,743,018 shares of the Company's common stock, \$1.00 par value, were issued and outstanding.

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

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	\$4,868	\$ 4,662
Interest-bearing demand deposits	8,042	9,653
Cash and cash equivalents	12,910	14,315
Available-for-sale securities	86,466	44,959
Loans, net of allowance for loan losses of \$2,004 and \$2,122 at September 30, 2018 and December 31, 2017, respectively	391,178	366,467
Premises and equipment	11,645	11,740
Federal Home Loan Bank stock	4,164	4,164
Foreclosed assets held for sale, net	387	397
Accrued interest receivable	1,567	993
Deferred income taxes	851	349
Bank-owned life insurance	12,334	12,114
Other assets	3,777	3,834
Total assets	\$525,279	\$ 459,332
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$268,604	\$ 237,980
Savings	80,649	82,169
Time	85,078	65,817
Total deposits	434,331	385,966
Securities sold under repurchase agreements	15,399	11,085
Federal Home Loan Bank advances	22,139	10,022
Subordinated debentures	4,124	4,124
Interest payable and other liabilities	4,174	4,240
Total liabilities	480,167	415,437
Stockholders' Equity	—	—

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Preferred stock, no par value, authorized 2,000,000 shares; no shares issued				
Common stock, \$1 par value; authorized 10,000,000 shares; issued 2018 –5,560,304 shares, 2017 – 5,435,304 shares; outstanding 2018 – 5,376,471, 2017 -5,560 5,244,105			5,435	
Additional paid-in capital	18,052		18,020	
Retained earnings	24,795		23,260	
Stock held by deferred compensation plan; 2018 –178,089 shares, 2017 – 185,355 shares	(1,622)	(1,671)
Unearned ESOP compensation	(474)	(683)
Accumulated other comprehensive loss	(1,153)	(420)
Treasury stock, at cost 2018 –5,744 shares, 2017 – 5,744 shares	(46)	(46)
Total stockholders' equity	45,112		43,895	
Total liabilities and stockholders' equity	\$ 525,279		\$ 459,332	

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,	
	2018	2017	2018	2017
Interest and dividend income				
Loans, including fees	\$4,883	\$4,345	\$13,776	\$12,457
Taxable securities	189	118	544	330
Non-taxable securities	361	—	674	7
Federal funds sold	27	68	78	115
Dividends on Federal Home Loan Bank stock and other	63	55	183	151
Total interest and dividend income	5,523	4,586	15,255	13,060
Interest expense				
Deposits				
Demand	378	144	922	331
Savings	10	9	29	28
Time	253	182	680	500
Borrowings	252	114	492	466
Total interest expense	893	449	2,123	1,325
Net interest income	4,630	4,137	13,132	11,735
Provision for loan losses	72	25	201	75
Net interest income after provision for loan losses	4,558	4,112	12,931	11,660
Noninterest income				
Service charges on deposit accounts	667	633	1,948	1,862
Realized gains on sales of loans	17	44	54	88
Other income	213	215	663	643
Total noninterest income	897	892	2,665	2,593
Noninterest expense				
Salaries and employee benefits	1,970	1,799	5,678	5,391
Net occupancy and equipment expense	515	529	1,602	1,562
Professional services	331	145	820	573
Insurance	108	91	316	230
Deposit insurance premiums	48	53	123	141
Franchise and other taxes	102	97	300	277
Advertising	138	108	400	317

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Stationery and office supplies	30	24	104	93
Net realized (gain) loss on sale of other real estate and repossessions	(12)	16	6	12
Other expenses	625	594	1,839	1,571
Total noninterest expense	3,855	3,456	11,188	10,167
Income before federal income taxes	1,600	1,548	4,408	4,086
Federal income taxes	269	548	717	1,320
Net income	\$1,331	\$ 1,000	\$ 3,691	\$ 2,766
EARNINGS PER COMMON SHARE				
Basic	\$0.26	\$0.20	\$0.72	\$0.56
Diluted	\$0.25	\$0.20	\$0.69	\$0.55
DIVIDENDS PER COMMON SHARE				
	\$0.13	\$0.12	\$0.39	\$0.34

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,	
	2018	2017	2018	2017
Net income	\$ 1,331	\$ 1,000	\$ 3,691	\$ 2,766
Unrealized holding gains (losses) on securities during the period, net of tax (benefits) of \$(171), (\$4), (\$195) and \$123 for each respective period	(642)	(8)	(732)	240
Comprehensive income	\$ 689	\$ 992	\$ 2,959	\$ 3,006

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2018	2017
Operating Activities		
Net income	\$3,691	\$2,766
Items not requiring (providing) cash		
Accretion of premiums and discounts on securities, net	80	—
Depreciation and amortization	712	683
Expense related to share based compensation plans	205	104
Expense related to ESOP	210	210
Provision for loan losses	201	75
Increase in value of bank-owned life insurance	(220)	(227)
Gain on sale of loans	(54)	(88)
Proceeds from sale of loans held for sale	2,621	3,860
Originations of loans held for sale	(2,567)	(3,772)
(Gain) Loss on sale or write down of foreclosed assets	(15)	12
Amortization of mortgage servicing rights	28	5
Net change in accrued interest receivable and other assets	(886)	(1,660)
Net change in accrued expenses and other liabilities	(67)	773
Net cash provided by operating activities	3,939	2,741
Investing Activities		
Securities available for sale:		
Maturities, prepayments and calls	—	7,249
Purchases	(42,514)	(6,248)
Net change in loans	(25,138)	(3,909)
Purchases of premises and equipment	(617)	(674)
Proceeds from sale of foreclosed assets	285	9
Net cash used in investing activities	(67,984)	(3,573)

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.

Condensed Consolidated Statements of Cash Flows (continued)

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2018	2017
Financing Activities		
Net change in deposits	\$48,365	\$42,048
Net change in securities sold under repurchase agreements	4,314	6,795
Net change in FHLB overnight borrowings	12,200	(19,500)
Repayments of long-term borrowings	(83)	(15,098)
Cash dividends paid on common stock	(2,156)	(1,846)
 Net cash provided by financing activities	 62,640	 12,399
 (Decrease) Increase in Cash and Cash Equivalents	 (1,405)	 11,567
Cash and Cash Equivalents, Beginning of Period	14,315	11,541
 Cash and Cash Equivalents, End of Period	 \$12,910	 \$23,108
 Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	\$2,046	\$1,370
 Federal income taxes paid	 \$665	 \$448
 Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Transfers from loans to foreclosed assets held for sale	\$280	\$—

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, 2018 and 2017

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, 2018, 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, 2017 included in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Consolidated Financial Statements contained in its Annual Report on Form 10-K. The results of operations for the three months and nine months ended September 30, 2018, 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, 2017 has been derived from the audited consolidated balance sheet of the Company as of that date.

Principles of Consolidation

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

Nature of Operations

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

Downtown, Lancaster East, Nelsonville, New Philadelphia, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg and Tiltonsville, Ohio. The Bank also operates a Loan Production Office in Wheeling, West Virginia.

The Company's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate and are not considered "sub prime" type loans. The targeted lending areas of our Bank operations encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's branch locations.

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

Revenue Recognition

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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

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

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

Use of Estimates

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

Loans

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

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

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

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

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

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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

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

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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

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

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

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order

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

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017
	(In thousands, except share and per share data)			
Basic				
Net income	\$1,331	\$1,000	\$3,691	\$2,766
Dividends on non-vested restricted stock	(26)	(9)	(79)	(26)
Net income allocated to stockholders	\$1,305	\$991	\$3,612	\$2,740
Weighted average common shares outstanding	5,004,280	4,882,238	4,990,110	4,855,305
Basic earnings per common share	\$0.26	\$0.20	\$0.72	\$0.56
Diluted				
Net income allocated to stockholders	\$1,305	\$991	\$3,612	\$2,740
	5,004,280	4,882,238	4,990,110	4,855,305

Weighted average common shares outstanding for basic earnings per common share				
Add: Dilutive effects of assumed exercise of stock options and restricted stock	172,975	127,093	225,449	128,093
Average shares and dilutive potential common shares	5,177,255	5,009,331	5,215,559	4,983,395
Diluted earnings per common share	\$0.25	\$0.20	\$0.69	\$0.55

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 2014.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Recently Adopted Accounting Pronouncements

ASU No. 2018-02 was issued in February 2018 to provide guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve usefulness of information reported to financial statement users. The amendments in this ASU will also require certain disclosures about stranded tax effects and is effective for fiscal years beginning after December 31, 2018. The Company early adopted ASU 2018-02 effective January 1, 2018 and reclassified approximately \$48,000 in stranded tax effects in the adoption using the specific identification method.

ASU No. 2017-09 was issued in May 2017 and provides guidance about which changes to the terms or condition of a share-based payment award require and entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has adopted ASU 2017-09 on January 1, 2018 and it did not have a significant impact on its accounting and disclosures.

ASU No. 2017-07 was issued in March 2017 and applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. The amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, as defined, are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in ASU No. 2017-07 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this update are to be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement. The Company has adopted ASU 2017-07 on January 1, 2018 and it did not have a significant impact on its accounting and disclosures.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15 "*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.*" ASU 2016-15 provides cash flow statement classification guidance for certain transactions including how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company has adopted ASU 2016-15 on January 1, 2018 and it did not have a significant impact on its accounting and disclosures.

ASU No. 2016-01 was issued in January 2016 and applies to all entities that hold financial assets or owe financial liabilities. ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income; requiring public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instruments specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity instruments that exist as of the date of adoption. The Company has adopted ASU 2016-01 on January 1, 2018 and it did not have a material effect on its fair value disclosures and other disclosure requirements. These amendments did have an impact on certain items that were disclosed at fair value that did not utilize the exit price notion when measuring fair value. For additional information on fair value of assets and liabilities, see Note 7.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

In May 2014, the FASB issued ASU No. 2014-09 “*Revenue from Contracts with Customers (Topic 606)*” (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. Originally, the amendments in ASU 2014-09 were effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. In July 2015, the FASB extended the implementation date to annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 31, 2016, including interim periods within that reporting period. The Company’s revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non interest income. The Company has adopted ASU 2014-09 on January 1, 2018 and it did not identify any changes in the timing of revenue recognition when considering the amended accounting guidance. The Company included additional disclosures beginning in the first quarter of 2018 as required by the guidance.

Recent Accounting Pronouncements

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

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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

ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of these amendments to the Company's financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. The Allowance for Loan Losses (ALL) estimate is material to the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the ALL at adoption date. The Company is anticipating a significant change in the processes and procedures to calculate the ALL, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for the other-than-temporary impairment on available-for-sale securities will be replaced with an allowance approach. The Company continues to work with an outside vendor on data collection and reviewing segmentation to ensure it is fully compliant with the amendments at adoption date. For additional information on the allowance for loan losses, see Note 4.

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

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

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

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

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

For public companies, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Thus, for a calendar year company, it would be effective January 1, 2019. The impact is not expected to have a material effect on the Company's financial position or results of operations since the Company does not have a material amount of lease agreements.

Acquisition

On October 15, 2018, United Bancorp, Inc. (“United Bancorp”) completed its previously announced acquisition (the “Merger”) of Powhatan Point Community Bancshares, Inc. (“Powhatan Point”), the holding company of The First National Bank of Powhatan Point (“First National”). The definitive agreement and plan of merger executed by the parties on June 14, 2018 provided that United Bancorp shall take all appropriate action so that, as of the effective time of the Merger, one current director of Powhatan Point shall be appointed as a director of United Bancorp. Effective upon completion of the Merger, the Board of Directors of United Bancorp (the “Board”) increased the size of the Board by one member and appointed Dr. Carl A. Novak, DDS to the newly created vacancy on the Board to serve as a director of United Bancorp. In addition, Dr. Novak was appointed to the Board of Directors of Unified. The main office of First National will become a full-service branch of Unified Bank. Powhatan operates one full-service office in Belmont County, Ohio and has approximately \$56.4 million in assets, \$7.9 million in loans, and \$51.4 million of deposits as of September 30, 2018. Under the terms of the Merger Agreement, shareholders of Powhatan Point received 6.9233 shares of United Bancorp common stock and \$28.52 in cash for each outstanding share of Powhatan Point common stock. The cash consideration was adjusted to \$28.52 after factoring in cash consideration adjustments set forth in the merger agreement.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Powhatan Point shares outstanding at the closing to be exchanged were 52,955, and the shares of United Bancorp common stock issued to Powhatan Point shareholders totaled 366,623. Based on the October 15, 2018 closing price of \$12.90 per share of United Bancorp common stock immediately prior to the effectiveness of the merger, the transaction has an implied valuation of approximately \$6.2 million.

The acquisition will be accounted for in accordance with applicable accounting guidance. Accordingly, the assets and liabilities of Powhatan will be recorded at their estimated fair values at the acquisition date. The excess of the estimated fair value of the Company's common shares issued and cash paid over the net fair values of the assets acquired, including identifiable intangible assets and liabilities assumed, will be recorded as goodwill. The results of operations will be included in the consolidated income statement from the date of the acquisition. Goodwill will be subject to an annual test for impairment and the amount impaired, if any, will be charged to expense at the time of impairment. The estimated fair values of the assets and liabilities have not yet been determined.

Note 2: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale Securities:				
September 30, 2018:				
U.S. government agencies	\$45,250	\$ —	\$ (820)) \$ 44,430
State and political subdivisions	42,433	10	(407)) 42,036
	\$87,683	\$ 10	\$ (1,227)) \$ 86,466

Available-for-sale Securities:
December 31, 2017:

U.S. government agencies	\$45,249	\$ —	(290)	\$ 44,959
	\$45,249	\$ —	\$ (290)	\$ 44,959

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

The amortized cost and fair value of available-for-sale securities at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale Amortized Fair Cost Value (In thousands)	
Within one year	\$—	\$—
One to five years	45,250	44,430
Five to ten year	—	—
Due after ten years	42,433	42,036
Totals	\$87,683	\$86,466

The carrying value of securities pledged to secure public deposits and for other purpose, was \$43.3 million and \$41.5 million at September 30, 2018 and December 31, 2017, respectively.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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, 2018 and December 31, 2017, was \$84.4 million and \$44.9 million, which represented approximately 97.6% and 100.0%, respectively, of the Company's available-for-sale investment portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary and are a result on 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, 2018 and December 31, 2017:

September 30, 2018

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	\$ 8,830	\$ (171)	\$ 35,601	\$ (649)	\$ 44,431	\$ (820)
State and Political Subdivisions	39,938	(407)	—	—	39,938	(407)
Total	\$ 48,768	\$ (578)	\$ 35,601	\$ (649)	\$ 84,369	\$ (1,227)

December 31, 2017

Less than 12 Months	12 Months or More	Total
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Description of Securities (In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 12,190	\$ (59)	\$ 32,769	\$ (231)	\$ 44,959	\$ (290)

The unrealized losses on the Company's investments in U.S. Government agencies were caused primarily by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2018 and December 31, 2017.

There were no investment sales for the nine months ended September 30, 2018 and 2017.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Note 3: Loans and Allowance for Loan Losses

Categories of loans include:

	September 30, 2018	December 31, 2017
	(In thousands)	
Commercial loans	\$89,844	\$ 81,327
Commercial real estate	215,793	198,936
Residential real estate	76,668	75,853
Installment loans	10,877	12,473
 Total gross loans	 393,182	 368,589
 Less allowance for loan losses	 (2,004)	 (2,122)
 Total loans	 \$391,178	 \$ 366,467

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

Commercial

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

customers.

Commercial Real Estate

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Residential Real Estate and Installment

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

Allowance for Loan Losses and Recorded Investment in Loans

As of and for the three and nine month period ended September 30, 2018

	Commercial	Commercial Real	Residential Real	Residential Real	Installment	Unallocated	Total
	Estate	Estate	Estate	Estate			
(In thousands)							
Allowance for loan losses:							
Balance, July 1, 2018	\$ 545	\$ 654	\$ 505	\$ 376	\$ —	\$ 2,080	
Provision charged to expense	(130)	28	109	65	—	72	
Losses charged off	—	—	(98)	(74)	—	(172)	
Recoveries	1	1	1	21	—	24	
Balance, September 30, 2018	\$ 416	\$ 683	\$ 517	\$ 388	\$ —	\$ 2,004	
Balance, January 1, 2018	\$ 537	\$ 843	\$ 436	\$ 218	\$ 88	\$ 2,122	
Provision charged to expense	(124)	(162)	255	320	(88)	201	

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Losses charged off	—	—	(177)	(198)	—	(375)
Recoveries	3	2	3	48	—	56

Balance, September 30, 2018	\$ 416	\$ 683	\$ 517	\$ 388	\$ —	\$2,004
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Allocation:

Ending balance: individually evaluated for impairment	\$ 19	\$ 85	\$ —	\$ —	\$ —	\$104
Ending balance: collectively evaluated for impairment	\$ 397	\$ 598	\$ 517	\$ 388	\$ —	\$1,900

Loans:

Ending balance: individually evaluated for impairment	\$ 78	\$ 811	\$ —	\$ 95	\$ —	\$984
Ending balance: collectively evaluated for impairment	\$ 89,766	\$ 214,982	\$ 76,668	\$ 10,782	\$ —	\$392,198

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Allowance for Loan Losses and Recorded Investment in Loans**As of and for the three and nine month period ended September 30, 2017**

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Unallocated	Total
(In thousands)						
Allowance for loan losses:						
Balance, July 1, 2017	\$ 532	\$ 845	\$ 447	\$ 291	\$ 177	\$2,292
Provision charged to expense	(26)	13	1	43	(6)	25
Losses charged off	(30)	(59)	(6)	(40)	—	(135)
Recoveries	—	1	1	11	—	13
Balance, September 30, 2017	\$ 476	\$ 800	\$ 443	\$ 305	\$ 171	\$2,195
Balance, January 1, 2017	\$ 495	\$ 804	\$ 591	\$ 107	\$ 344	\$2,341
Provision charged to expense	10	57	(149)	330	(173)	75
Losses charged off	(30)	(64)	(6)	(167)	—	(267)
Recoveries	1	3	7	35	—	46
Balance, September 30, 2017	\$ 476	\$ 800	\$ 443	\$ 305	\$ 171	\$2,195
Allocation:						
Ending balance: individually evaluated for impairment	\$ 3	\$ 120	\$ —	\$ —	\$ —	\$123
Ending balance: collectively evaluated for impairment	\$ 473	\$ 680	\$ 443	\$ 305	\$ 171	\$2,072
Loans:						
Ending balance: individually evaluated for impairment	\$ 95	\$ 661	\$ —	\$ 305	\$ —	\$1,061
	\$ 75,193	\$ 195,066	\$ 76,501	\$ 12,568	\$ —	\$359,328

Ending balance: collectively evaluated for
impairment

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Allowance for Loan Losses and Recorded Investment in Loans

As of December 31, 2017

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	\$—	\$ 73	\$ —	\$ —	\$ —	\$ 73
Ending balance: collectively evaluated for impairment	\$ 537	\$ 770	\$ 436	\$ 218	\$ 88	\$ 2,049
Loans:						
Ending balance: individually evaluated for impairment	\$ 83	\$ 619	\$ —	\$ 306	\$ —	\$ 1,008
Ending balance: collectively evaluated for impairment	\$ 81,244	\$ 198,317	\$ 75,853	\$ 12,167	\$ —	\$ 367,581

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

The following tables show the portfolio quality indicators.

Loan Class	September 30, 2018				
	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Total
	(In thousands)				
Pass Grade	\$89,754	\$ 214,254	\$ 76,668	\$ 10,782	\$391,458
Special Mention	—	464	—	—	464
Substandard	90	1,075	—	95	1,260
Doubtful	—	—	—	—	—
	\$89,984	\$ 215,793	\$ 76,668	\$ 10,877	\$393,182

Loan Class	December 31, 2017				
	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Total
	(In thousands)				
Pass Grade	\$78,652	\$ 195,063	\$ 75,853	\$ 12,167	\$361,735
Special Mention	20	3,066	—	—	3,086
Substandard	2,655	807	—	306	3,768
Doubtful	—	—	—	—	—
	\$81,327	\$ 198,936	\$ 75,853	\$ 12,473	\$368,589

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

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

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

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

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Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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, 2018**

	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	\$—	\$ —	\$ —	\$ 19	\$ 19	\$89,825	\$ 89,844
Commercial real estate	—	—	53	744	797	214,996	215,793
Residential real estate	372	275	—	513	1,160	75,508	76,668
Installment	15	—	6	19	40	10,837	10,877
Total	\$387	\$ 275	\$ 59	\$ 1,295	\$ 2,016	\$391,166	\$ 393,182

**Loan Portfolio Aging Analysis
As of December 31, 2017**

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
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(In thousands)

Commercial	\$56	\$ —	\$ —	\$ 83	\$ 139	\$81,188	\$ 81,327
Commercial real estate	262	—	—	500	762	198,174	198,936
Residential real estate	559	306	—	760	1,625	74,228	75,853
Installment	61	40	—	52	153	12,320	12,473
Total	\$938	\$ 346	\$ —	\$ 1,395	\$ 2,679	\$365,910	\$ 368,589

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, 2018 and 2017

Impaired Loans

	As of September 30, 2018			For the three months ended September 30, 2018 Average	For the nine months ended September 30, 2018 Average		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Investment in Impaired Loans	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
(In thousands)							
Loans without a specific valuation allowance:							
Commercial	\$58	\$ 58	\$ —	\$ 59	\$ —	\$ 60	\$ 2
Commercial real estate	412	412	—	438	9	446	14
Residential real estate	—	—	—	—	—	—	—
Installment	96	96	—	97	1	99	3
	566	566	—	594	10	605	19
Loans with a specific valuation allowance:							
Commercial	19	19	19	19	1	20	1
Commercial real estate	399	399	85	408	1	407	2
Residential real estate	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	418	418	104	427	2	427	3
Total:							
Commercial	\$77	\$ 77	\$ 19	\$ 78	\$ 1	\$ 80	\$ 3
Commercial real estate	\$811	\$ 811	\$ 85	\$ 846	\$ 10	\$ 853	\$ 16
Residential real estate	\$—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Installment	\$96	\$ 96	\$ —	\$ 97	\$ 1	\$ 99	\$ 3

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Impaired Loans

	As of December 31, 2017			For the three months ended September 30, 2017	For the nine months ended September 30, 2017		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
	(In thousands)						
Loans without a specific valuation allowance:							
Commercial	\$83	\$ 83	\$ —	\$ 65	\$ —	\$ 62	\$ 2
Commercial real estate	209	317	—	592	3	607	8
Residential	—	—	—	—	—	—	—
Installment	306	306	—	306	—	313	3
	598	706	—	963	—	982	13
Loans with a specific valuation allowance:							
Commercial	—	—	—	30	4	97	7
Commercial real estate	410	410	73	535	2	496	14
Residential real estate	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	410	410	73	565	6	593	21
Total:							
Commercial	\$83	\$ 83	\$ 73	\$ 95	\$ 4	\$ 159	\$ 9
Commercial real estate	\$619	\$ 727	\$ —	\$ 1,127	\$ 5	\$ 1,103	\$ 22
Residential real estate	\$—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Installment	\$306	\$ 306	\$ —	\$ 306	\$ —	\$ 313	\$ 3

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

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Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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, 2018

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

Three Months Ended September 30, 2018

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

Nine Months ended September 30, 2018

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

Commercial real estate	—	—	—
Residential real estate	—	—	—
Installment	—	—	—

Nine Months Ended September 30, 2018

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

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

Three Months ended September 30, 2017

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

Three Months ended September 30, 2017

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

Nine Months ended September 30, 2017

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	2	\$ 40	\$ 40
Commercial real estate	3	189	165
Residential estate	—	—	—
Installment	—	—	—

Nine Months Ended September 30, 2017

Term Combination

	Interest Only (In thousands)		Total Modification
Commercial	\$ — \$ 40	\$	— \$ 40
Commercial real estate	— 165		— 165
Residential estate	— —		— —
Consumer	— —		— —

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

During the nine months ended September 30, 2017 troubled debt restructurings described above increased the allowance for loan losses by 20,000. At September 30, 2018 and 2017 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,	
	2018	2017	2018	2017
	(In thousands)			
Service cost	\$76	\$68	\$ 228	\$ 204
Interest cost	55	50	165	150
Expected return on assets	(111)	(90)	(333)	(270)
Amortization of prior service cost and net loss	(10)	(6)	(30)	(18)
Pension expense	\$10	\$22	\$ 30	\$ 66

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.

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Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

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, 2018	December 31, 2017
	(In thousands)	
Commercial loans unused lines of credit	\$32,755	\$ 25,814
Commitment to originate loans	19,125	15,350
Consumer open end lines of credit	36,164	36,938
Standby lines of credit	46	46

Note 6: Accumulated Other Comprehensive Loss

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

	September 30, 2018	December 31, 2017
	(In thousands)	
Net unrealized loss on securities available-for-sale	\$	