

ANNUAL REPORT

2010

UNITED BANCORP INC.

Martins Ferry, OH



DIVIDEND AND STOCK HISTORY

	Cash Dividends Declared ⁽¹⁾	Stock Dividends	Distribution Date of Dividends and Exchanges
1983	\$ 0.05	-	-
1984	\$ 0.06	4 for 1 Exchange ⁽²⁾	January 2, 1984
1985	\$ 0.07	-	-
1986	\$ 0.09	-	-
1987	\$ 0.09	50% Stock Dividend	October 2, 1987
1988	\$ 0.10	-	-
1989	\$ 0.10	-	-
1990	\$ 0.11	-	-
1991	\$ 0.12	-	-
1992	\$ 0.12	100% Stock Dividend	September 10, 1992
1993	\$ 0.12	100% Stock Dividend	November 30, 1993
1994	\$ 0.13	10% Stock Dividend	September 9, 1994
1995	\$ 0.19	-	-
1996	\$ 0.20	10% Stock Dividend	June 20, 1996
1997	\$ 0.23	10% Stock Dividend	September 19, 1997
1998	\$ 0.26	5% Stock Dividend	December 18, 1998
1999	\$ 0.30	5% Stock Dividend	December 20, 1999
2000	\$ 0.31	5% Stock Dividend	December 20, 2000
2001	\$ 0.32	5% Stock Dividend	December 20, 2001
2002	\$ 0.33	5% Stock Dividend	December 20, 2002
2003	\$ 0.35	10% Stock Dividend	December 19, 2003
2004	\$ 0.39	10% Stock Dividend	December 20, 2004
2005	\$ 0.43	10% Stock Dividend	December 20, 2005
2006	\$ 0.48	10% Stock Dividend	December 20, 2006
2007	\$ 0.52	-	-
2008	\$ 0.54	-	-
2009	\$ 0.56	-	-
2010	\$ 0.56	-	-

2011 ANTICIPATED DIVIDEND PAYABLE DATES

First Quarter
March 18, 2011

Second Quarter*
June 20, 2011

Third Quarter*
September 20, 2011

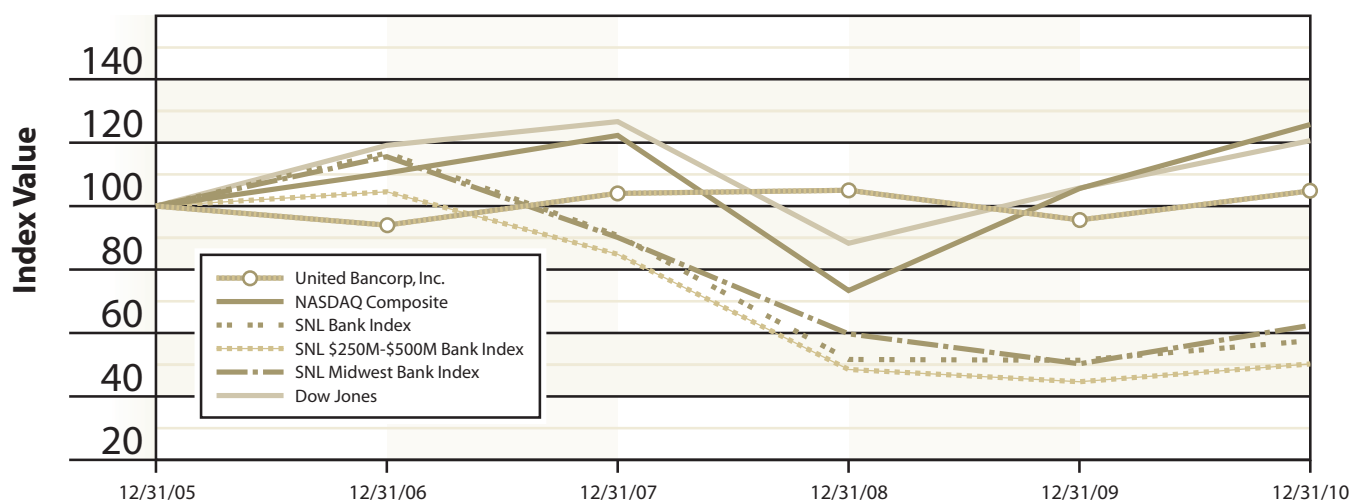
Fourth Quarter*
December 20, 2011

*Subject to action by Board of Directors

(1) Adjusted for stock dividends and exchanges. Does not include dividends from Southern Ohio Community Bancorporation, Inc. prior to the merger.

(2) Formation of United Bancorp, Inc. (UBCP). The Citizens Savings Bank shareholders received 4 shares of UBCP stock in exchange for 1 share of The Citizens Savings Bank.

TOTAL RETURN PERFORMANCE



Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
United Bancorp, Inc.	100.00	94.40	104.27	105.21	96.09	104.93
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL Bank Index	100.00	116.98	90.90	51.87	51.33	57.52
SNL \$250M-\$500M Bank Index	100.00	104.48	84.92	48.50	44.89	50.22
SNL Midwest Bank Index	100.00	115.59	90.09	59.27	50.23	62.37
Dow Jones	100.00	119.04	126.70	86.24	105.80	120.68

Decade of Progress

Unaudited

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Interest and dividend income	\$ 23,734,085	\$ 24,595,769	\$ 22,095,682	\$ 20,720,464	\$ 20,506,914	\$ 22,181,071	\$ 25,279,212	\$ 26,603,043	\$ 25,715,309	\$ 23,354,885	\$ 21,667,356
Interest expense	12,336,669	12,348,548	9,328,867	7,837,463	7,538,572	9,146,249	12,837,256	14,517,591	10,251,384	8,064,768	6,480,008
Net interest income	11,397,416	12,247,221	12,766,815	12,883,001	12,968,342	13,034,822	12,441,956	12,085,452	15,463,925	15,290,117	15,187,348
Provision for loan losses	587,000	780,000	630,000	540,000	618,000	412,000	1,384,261	993,505	1,188,270	1,325,052	1,816,012
Net interest income after provision for loan losses	10,810,416	11,467,221	12,136,815	12,343,001	12,350,342	12,622,822	11,057,695	11,091,947	14,275,655	13,965,065	13,371,336
Noninterest income, including security gains/(losses)	1,368,986	1,606,046	2,059,173	2,611,566	2,199,020	2,341,826	2,297,373	3,079,567	3,066,769	3,295,030	3,317,126
Noninterest expense	8,711,655	9,382,984	9,989,172	10,415,947	10,452,666	10,763,473	11,046,170	11,252,758	12,627,590	13,838,651	13,921,806
Income before income taxes	3,467,747	3,690,283	4,206,816	4,538,620	4,096,696	4,201,175	2,308,898	2,918,755	4,714,834	3,421,444	2,766,656
Income tax expense	880,772	934,696	986,653	899,229	863,799	908,647	240,891	333,926	955,700	516,524	219,289
Net income	\$ 2,586,975	\$ 2,755,587	\$ 3,220,163	\$ 3,639,391	\$ 3,232,897	\$ 3,292,528	\$ 2,068,007	\$ 2,584,829	\$ 3,759,134	\$ 2,904,920	\$ 2,547,367
Total assets	\$ 323,885,801	\$ 341,317,195	\$ 361,711,069	\$ 385,522,969	\$ 397,521,584	\$ 411,932,779	\$ 421,653,341	\$ 451,370,187	\$ 441,804,491	\$ 445,970,296	\$ 423,434,966
Deposits	267,552,875	283,375,923	300,201,533	304,525,997	300,629,543	306,914,758	330,005,480	330,488,711	347,044,549	344,542,900	325,445,596
Shareholders' equity	28,679,087	30,474,195	32,154,862	32,514,459	32,824,111	32,479,697	32,580,485	33,885,779	33,904,759	35,211,133	35,580,582
Loans receivable, net	193,707,099	180,460,538	184,916,798	195,765,090	212,451,448	229,106,682	229,171,793	232,196,753	235,448,307	255,335,658	276,036,674
Allowance for loan losses	2,790,133	2,879,065	2,971,116	2,843,484	2,995,422	2,904,447	2,345,419	2,447,254	2,770,360	2,390,015	2,739,736
Net charge-offs	906,688	691,068	537,949	667,632	466,062	502,833	1,936,046	891,648	865,000	1,705,000	1,466,000
Full time employees (average equivalents)	136	130	130	133	135	132	132	123	142	136	146
Banking locations	Seventeen	Seventeen	Seventeen	Seventeen	Seventeen	Seventeen	Seventeen	Seventeen	Twenty	Twenty	Twenty
Earnings per common share - Basic	\$ 0.51	\$ 0.56	\$ 0.67	\$ 0.76	\$ 0.69	\$ 0.71	\$ 0.45	\$ 0.57	\$ 0.82	\$ 0.62	\$ 0.52
Earnings per common share - Diluted	0.51	0.56	0.67	0.76	0.69	0.71	0.45	0.57	0.82	0.62	0.52
Dividends per share	0.31	0.32	0.33	0.35	0.39	0.43	0.48	0.52	0.54	0.56	0.56
Book value per share	5.72	6.23	6.72	7.67	7.09	7.00	7.73	7.41	7.35	7.53	7.52
Market value range per share	4.63-8.68	5.95-8.93	7.82-9.54	8.96-13.60	9.43-13.56	9.10-12.69	9.36-11.36	9.78-11.39	7.41-10.85	7.00-9.49	7.70-9.90
Cash dividends paid	\$ 1,549,657	\$ 1,590,220	\$ 1,647,670	\$ 1,717,838	\$ 1,878,788	\$ 2,114,723	\$ 2,415,741	\$ 2,435,317	\$ 2,707,438	\$ 2,871,801	\$ 2,959,658
Return on average assets (ROA)	0.83%	0.82%	0.94%	0.97%	0.83%	0.82%	0.50%	0.60%	0.86%	0.63%	0.57%
Return on average equity (ROE)	9.88%	9.13%	10.34%	11.40%	9.91%	10.01%	6.49%	8.12%	11.33%	7.56%	7.05%

our mission

United Bancorp, Inc. is a nationally traded Bank holding company whose mission is to continue earning the respect....

- Of its shareholders, through continued growth in shareholder value by sustaining profitability and acquiring well managed and capitalized businesses in the financial services industry;
- Of its customers, through reaching out with the technology they want and offering the financial products and services they need;
- Of its communities, through support of civic activities that make our communities better places to live and work;
- Of its team members, through training development and career growth opportunities in a comfortable environment with modern equipment;
- Of its affiliates, through providing data processing, item processing, accounting, human resource and management support;

Although it is recognized there is more competition from non-bank businesses for market share, the general mission for United Bancorp, Inc. is to remain independent. We will accomplish this through an aggressive acquisition program, the management of technological change, and the placement of new office construction when deemed economically feasible.

A Letter from the Chairman, President and CEO



James W. Everson | *Chairman, President and CEO*

To the shareholders of United Bancorp, Inc....

The year 2010 was a very challenging one in which to operate as a financial institution. During these uncertain times, we closely and prudently managed growth in loans and deposits to maximize our net interest margin and earnings. Our focus was on keeping a balance between maintaining our “Well Capitalized” status, sufficiently accruing into our Loan Loss Provision while managing our asset quality and making capital expenditures for future growth....plus cover our generous dividend payment policy. Posting a record year of earnings in 2008, while those within our peer group did not, set a level of earnings performance

that we have not been able to beat these past two years. Yet, your Board of Directors and Management Team are pleased to report that we continue to perform in the upper quartile of our peer group during these tough times. We are also proud of the fact that United Bancorp in the June 2010 issue of US Banker Magazine ranked in our country's top 200 Community Banks Financial Performance at number 146.

In order to achieve our annual performance objectives, we posted a positive growth in loans of \$21 million or 8.2% while shrinking deposits by 5.5%. Overall, higher costing certificate of deposit balances declined approximately \$27.3 million while lower costing account balances increased by over \$8.2 million. As a result of these planned actions, our net interest margin increased to 4.02% in 2010 from 3.98% the prior year. Credit quality improvement was also a key focus in 2010. Non Performing Loans declined 16.6% or \$900 thousand and Non Performing Loans as a percentage of Total Loans decreased from 2.11% in 2009 to 1.62%.

On February 8, 2011 our Management Team became aware of a potential impairment and probable loss related to a commercial loan that was current and being paid as agreed at year-end. Upon becoming aware of this matter, a detailed investigation was conducted and it was determined that the loan was indeed impaired and that the events contributing to the impairment and probable loss had occurred during 2010. With this realization, Management concluded that a special provision to increase the Company's allowance for loan and lease losses in the amount of \$400,000 was necessary to account for the anticipated loss associated with this loan. Because the facts giving rise to the impairment existed on December 31, 2010, and the actions taken, our audited financial statements presented within this report reflect this additional provision expense. As a result, our unaudited after-tax net income and diluted earnings per share reported by our press release on January 26, 2011 was revised to \$2,547, 000 and \$0.52 respectively, a reduction of \$280,000 or \$0.06 per share from the amounts previously reported in the release and related Form 8-K filed on January 28, 2011.

A Letter from the Chairman, President and CEO - Continued

We do not anticipate this impairment charge will result in any additional future cash expenditures. As reported to our Shareholders in our first quarter dividend press release on February 11, 2011, this action did not cause a change in making our dividend declaration and "Based upon our 2011 Budget Process, we continue to be excited about our future earnings growth and the continuation of our liberal dividend payment policy."

Information Systems and Technology were a major focus for us in 2010. Our core account and processing systems were migrated to new and enhanced software that will provide our employees more tools to better serve our customers, our Company greater efficiencies for more cost savings opportunities and our customers with better products and services. We now offer real-time transactions at all points of contact. Our Customer can now make a purchase at their favorite store with their Freedom Debit Card and witness the immediate posting of that purchase transaction at an ATM, through their Internet Banking Account or through our Telephone Banking Service. Deposits and Withdrawals made with our Customer Service Representatives also are recorded in real-time. At all twenty of our banking locations, our Customers now receive a printed receipt with their current account balances at the completion of their transactions. Our new technology is certainly powerful which will allow for many potential enhancements to be made in the coming year to many of our bank product offerings. In addition, the efficiencies gained in our operations should lead to additional cost saving opportunities. We are now better able to know and meet the needs of our customers; therefore, enhancing our level of service to them. This is an exciting time and we are only witnessing the beginning of better things to come from the investment in our new systems.

Ground was broken in October 2010 for our new Tiltonsville, Ohio Banking Center which is scheduled to open in the second quarter of this year. This new facility will give us a much more conveniently located retail office that will have a lobby with four teller stations, a new accounts office, a manager's office, a conference room and a new concept of self service customer safekeeping boxes. The lower level will have an employee lounge, equipment room and storage area. Our corner location will provide two drive-through lanes, ATM and Night Drop services along with ample employee and customer parking around and across from the office.

Management succession planning was front and center in 2010. Matthew F. Branstetter was appointed Vice President and Chief Lending Officer at the Company's reorganizational meeting last April succeeding James A. Lodes who retired at mid-year. Having an active succession planning function ensured that this was an extremely smooth and orderly transition. Succession planning was addressed at the Bank-level in the area of Human Resources with the mid-year hiring of Seth R. Abraham as Vice President of Human Resources. He will be replacing Jean E. Huff who will be retiring as our Human Resource Director this midyear. While much of our focus this past year was on our core account and processing systems, major upgrades were also made in the Human Resource area of our operations with the implementation of software to more efficiently and effectively manage the functions of that department. This new software simplifies and improves the processing of payroll, tracking of time and attendance, reporting of COBRA, and the recruiting of new employees. In addition, it provides innumerable and accessible services to both our employees and management.

Also in the area of Human Resources, we have begun to focus on our well-being through the implementation of a Workplace Wellness Program. This exciting new program offers health screenings, various healthcare initiatives and website support which are all geared to encouraging a healthier lifestyle for our employees.

Sometimes I feel that we as Company officers are too critical of ourselves when it comes to watching the performance of our stock in the market. The banking sector over the past five years has suffered terribly in the market place and has been out of favor with investors due, in part, to increasing government regulations, higher federal deposit insurance costs and difficult economic conditions. In preparing this 2010 Annual Report to our shareholders, we were pleasantly surprised to find that our record of Total Return Performance as prepared by SNL Financial, LC outpaced all of the bank indices to which we are compared. Please take a look at this chart on the inside cover fold out of this report. Not only did we do better than many of our competitors within the financial sector, our value at year end 2010 exceeded its value in 2005 by 5% while many others within our industry averaged less than 60% of their starting value.

This past year was primarily dedicated to improving our foundation for better years to come! We achieved this through the implementation of new systems, the construction of a new banking office and by addressing key areas of management succession. More importantly, we achieved all of this while taking care of our every-day business and meeting our customers' needs. Our changes this past year were challenging. Our staff worked very hard and spent many long hours making our major undertakings a success. I commend each of our Team Members and thank them sincerely for their efforts.

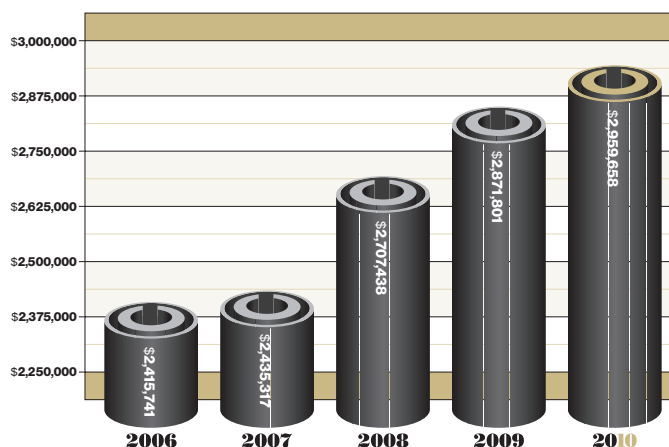
We continue to be excited about your Company's future. Our new technology is certainly a powerful tool that will help our Company become much more efficient and effective in the years to come! Our Employees, Officers and Directors continue to increase their ownership in our Company. We firmly believe that we provide our investors with a good and sound high-yielding investment opportunity.

James W. Everson
Chairman, President and
Chief Executive Officer

ceo@unitedbancorp.com

February 16, 2011

Cash Dividends



Certain statements contained herein are not based on historical facts and are "forward-looking statements" within the meaning of Section 21A of the Securities Exchange Act of 1934. Forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar terms or variations on those terms, or the negative of these terms. Actual results could differ materially from those set forth in forward-looking statements, due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in the financial and securities markets, including changes with respect to the market value of our financial assets, and the availability of and costs associated with sources of liquidity. The Company undertakes no obligation to update or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Directors



Herman E. Borkoski²



James W. Everson^{1,2}



Scott A. Everson^{1,2}



John R. Herzig²



Leon F. Favede, O.D.²



John M. Hoopingarner^{1,2}

1 = United Bancorp, Inc.

2 = The Citizens Savings Bank

Directors



Samuel J. Jones^{1,2}



Terry A. McGhee¹



Andrew F. Phillips²



Richard L. Riesbeck^{1,2}



Robin L. Rhodes, M.D.²



Errol C. Sambuco²



Matthew C. Thomas^{1,2}

1 = United Bancorp, Inc.

2 = The Citizens Savings Bank

Directors and Officers

DIRECTORS OF UNITED BANCORP, INC.

James W. Everson ¹	Chairman, President & Chief Executive Officer, United Bancorp, Inc., Chairman, The Citizens Savings Bank, Martins Ferry, Ohio
Scott A. Everson	Senior Vice President & Chief Operating Officer, United Bancorp, Inc. President & Chief Executive Officer, The Citizens Savings Bank, Martins Ferry, Ohio
John M. Hoopingarner ^{1,3,4}	Executive Director, Muskingum Watershed Conservancy District, New Philadelphia, Ohio
Samuel J. Jones ^{2,4}	Business Owner, Glouster, Ohio
Terry A. McGhee ^{1,3}	President & Chief Executive Officer, Westerman Inc., Bremen, Ohio
Richard L. Riesbeck ^{1,2,4,♦}	President, Riesbeck Food Markets, Inc., St. Clairsville, Ohio
Matthew C. Thomas ^{2,3}	President, M.C. Thomas Insurance Agency, Inc., Bridgeport, Ohio
Michael J. Arciello	Director Emeritus 1992 - 2009
L.E. "Dick" Richardson	Director Emeritus 1998 - 2007

OFFICERS OF UNITED BANCORP, INC.

James W. Everson	Chairman, President & Chief Executive Officer
Scott A. Everson	Senior Vice President & Chief Operating Officer
Randall M. Greenwood	Senior Vice President, Chief Financial Officer & Secretary/Treasurer
Matthew F. Branstetter	Vice President - Chief Lending Officer
Elmer K. Leeper	Vice President - Chief Retail Banking Officer
Michael A. Lloyd	Vice President - Chief Information Officer

DIRECTORS OF THE CITIZENS SAVINGS BANK, MARTINS FERRY, OHIO

Herman E. Borkoski ²	President, Borkoski Funeral Homes, Inc., Tiltonsville, Ohio
James W. Everson ¹	Chairman, President & Chief Executive Officer, United Bancorp, Inc., Chairman, The Citizens Savings Bank, Martins Ferry, Ohio
Scott A. Everson ¹	Senior Vice President & Chief Operating Officer, United Bancorp, Inc. President & Chief Executive Officer, The Citizens Savings Bank, Martins Ferry, Ohio
Leon F. Favede, O.D.	Optometrist, Bridgeport, Ohio
John R. Herzig	President, Toland-Herzig Funeral Homes & Crematory, Strasburg, Ohio
John M. Hoopingarner ¹	Executive Director, Muskingum Watershed Conservancy District, New Philadelphia, Ohio
Samuel J. Jones ²	Business Owner, Glouster, Ohio
Andrew F. Phillips	President & General Manager, Miller Brands of S.E. Ohio, Glouster, Ohio
Robin L. Rhodes, M.D.	Physician, Pediatric Associates of Lancaster, Inc., Lancaster, Ohio
Richard L. Riesbeck ^{1,2,♦}	President, Riesbeck Food Markets, Inc., St. Clairsville, Ohio
Errol C. Sambuco ²	Consultant, Martins Ferry, Ohio
Matthew C. Thomas ¹	President, M.C. Thomas Insurance Agency, Inc., Bridgeport, Ohio

1 = Executive Committee 2 = Audit Committee 3 = Compensation Committee
4 = Nominating and Governance Committee ♦ = Lead Director

Shareholder Information

United Bancorp, Inc.'s (the Company) common stock trades on *The Nasdaq SmallCap Market* tier of The Nasdaq Stock Market under the symbol UBCP, CUSIP #909911109. At year-end 2010, there were 5,370,304 shares issued, held among approximately 2,000 shareholders of record and in street name. The following table sets forth the quarterly high and low closing prices of the Company's common stock from January 1, 2010 to December 31, 2010 compared to the same periods in 2009 as reported by the NASDAQ.

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	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
Market Price Range								
High (\$)	\$ 9.90	8.70	8.99	9.00	9.49	8.90	8.50	8.61
Low (\$)	\$ 8.12	8.00	7.70	7.70	7.00	7.50	7.50	7.10
Cash Dividends								
Quarter (\$)	\$ 0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Cumulative (\$)	\$ 0.14	0.28	0.42	0.56	0.14	0.28	0.42	0.56

Investor Relations:

A copy of the Company's Annual Report on form 10-K as filed with the SEC, will be furnished free of charge upon written or E-mail request to:

Randall M. Greenwood, CFO
United Bancorp, Inc.
201 South 4th Street
PO Box 10
Martins Ferry, OH 43935
or
cfo@unitedbancorp.com

Dividend Reinvestment and Stock Purchase Plan:

Shareholders may elect to reinvest their dividends in additional shares of United Bancorp, Inc.'s common stock through the Company's Dividend Reinvestment Plan. Shareholders may also invest optional cash payments of up to \$5,000 per month in our common stock at market price. To arrange automatic purchase of shares with quarterly dividend proceeds, please contact:

American Stock Transfer
and Trust Company
Attn: Dividend Reinvestment
6201 15th Avenue, 3rd Floor
Brooklyn, NY 11219
1-800-278-4353

Annual Meeting:

The Annual Meeting of Shareholders will be held at 2:00 p.m., April 20, 2011 at the Corporate Offices in Martins Ferry, Ohio.

Internet:

Please look us up at
<http://www.unitedbancorp.com>

Independent Auditors:

BKD LLP
312 Walnut Street, Suite 3000
Cincinnati, Ohio 45202
(513) 621-8300

Corporate Offices:

The Citizens Savings Bank Building
201 South 4th Street
Martins Ferry, Ohio 43935
(740) 633-0445
(740) 633-1448 (FAX)

Transfer Agent and Registrar:

For transfers and general correspondence, please contact:
American Stock Transfer
and Trust Company
6201 15th Avenue, 3rd Floor
Brooklyn, NY 11219
1-800-937-5449

Stock Trading:

Howe Barnes Investments, Inc.
222 South Riverside Plaza
7th Floor
Chicago, Illinois 60606
Lou Coines
800-800-4693

Stifel, Nicolaus & Company Inc.
655 Metro Place South
Dublin, Ohio 43017
Steven Jefferis
877-875-9352

The Citizens Bank Profile

A Division of The Citizens Savings Bank

A CENTURY OF SERVICE AT THE CITIZENS SAVINGS BANK

In the year 1902, a group of home-town businessmen in Martins Ferry felt there was room for another bank in the community in addition to the two already established and proceeded to organize. On the 27th of January, 1902, a charter was granted to The German Savings Bank of Martins Ferry, Ohio with authorized capital of \$50,000. Martins Ferry is nestled among the scenic foothills along the Upper Ohio Valley across the river from the greater metropolitan area of Wheeling, West Virginia, 60 miles southwest of Pittsburgh, Pennsylvania and 125 miles east of Columbus, Ohio. The area has a strong network of transportation including easy access to major interstate highway systems, nearby river and railway transportation and within 45 minutes of the Pittsburgh International Airport.

Organization was completed by electing the original Board of Directors: Attorney Edward E. McCombs, John E. Reynolds, Henry H. Rothermund, William M. Lupton, Dr. Joseph W. Darrah, Chris A. Heil, Fred K. Dixon, Thomas J. Ball and Dr. R.H. Wilson. The first officers were Edward E. McCombs, President; John E. Reynolds, Vice President; William C. Bergundthal, Cashier; and William H. Wood, Assistant Cashier. A room in the old Henderson Building located at the alley on Hanover Street between Fourth and Fifth Streets, currently occupied by a local realtor, was rented. A vault and counters were installed and the new Bank opened for business on Saturday, April 26, 1902. This was the beginning of The Citizens Savings Bank.

Upon Mr. Bergundthal's death in 1918, Harold H. Riethmiller, who began his banking career at the bank in 1911, was rehired by the Bank as Cashier. He had previously worked for the Bank and had been working for 6 months at the Citizens-Peoples Trust Company in



Wheeling. Mr. Riethmiller brought with him an assistant, David W. Thompson, who upon his death in 1966 was Vice President and Cashier.

In 1936 the Bank suffered a loss with the sudden death of Edward E. McCombs, who had served as President and Attorney for the Bank during the 34 years since its beginning. John E. Reynolds was then elected President with Attorney David H. James as Vice President. Mr. Reynolds served as the bank's second President until his death in 1940, at which time Harold H. Riethmiller was elected President. Upon Harold H. Riethmiller's retirement in January of 1973, James W. Everson, who began his banking career as a student intern with the Bank in 1959, was elected as the Bank's fourth President and Chief Executive Officer.

In May 1999, The Citizens Savings Bank and its affiliate, The Citizens-State Bank then of Strasburg, Ohio were merged into one Bank under the leadership of James W. Everson continuing as Chairman and Harold W. Price as the Bank's fifth President and Chief Executive Officer since its founding in 1902. Harold W. Price served as President

and CEO for five months, suffering a fatal heart attack on September 12th, 1999, after which James W. Everson was reappointed Chairman, President and CEO.

Continuing growth and increased business at The German Savings Bank brought the need for larger quarters, and in 1917, the Bank relocated into a new banking building on the corner of Fourth and Walnut streets where they were located until February 21, 1984 when they moved to their current banking center located one block south at the corner of Fourth and Hickory Street in Martins Ferry. The First World War brought the name 'German' into bad repute, making a change in name necessary. On May 1, 1918, the old German Savings Bank became The Citizens Savings Bank of Martins Ferry, Ohio.

In 1957, a total remodeling of the first level was completed at the Fourth and Walnut location enlarging the banking lobby by taking the adjoining room formerly occupied by the Mear Drug Store. In 1963, the Bank opened a Consumer Loan Office at the Fourth and Walnut Street location by expanding into the space occupied by the for-

mer Packer Insurance Agency.

Upon James W. Everson becoming President in January 1973, the Bank began an expanded growth program. The Bank's first branch office was opened on November 18, 1974. A banking center was opened in Colerain, Ohio offering full service banking to that area, including safe deposit boxes and a modern new home for the Colerain, Ohio Post Office. On June 12, 1978, the Bank opened its second full service branch at the Corner of Howard and DeKalb Streets in Bridgeport, Ohio.

Recognizing the continued growth of the Bank, the Board of Directors authorized the purchase in July 1979 of an .8 acre site formerly occupied by the vacated Central School, one block south on the Corner of Fourth and Hickory Streets, for the purpose of future expansion. A Phase I building program was completed on May 12, 1980 with the opening of a limited-service four-station auto teller with a two-station lobby and large off-street parking facility.

In October of 1982, approval was granted by the State Banking Department and the Federal Deposit Insurance Corporation to relocate the Bank's Main Office to the corner of Fourth and Hickory streets in Martins Ferry and ground was immediately broken for a new banking center. As a result of 5 years of strategic planning, The Citizens Savings Bank introduced a new era of banking to the Ohio Valley on February 21, 1984 with the opening of their new 21,500 square foot headquarters office located at the corner of Fourth and Hickory streets. This new banking center offered state-of-the-art security with high-tech scanning and alarm equipment, and the latest in electronic data processing programs for banking. The new Bank building was designed by the architectural firm of Jack H. Tribbie and Associates of Martins Ferry and was constructed by the Byrum Construction Company of Martins Ferry. The new building was of colonial design in keeping with the Bank's Colerain and Bridgeport offices, with the interior of

the Bank tastefully decorated in the Williamsburg period.

On July 3, 1983, the Bank's Board of Directors positioned itself for continued growth by forming United Bancorp, Inc. of Martins Ferry, Ohio, the Citizens Savings Bank holding company. At formation, the shareholders of The Citizens Savings Bank exchanged their stock on a one-for-four basis for shares in United Bancorp, Inc. On December 29, 1986, United Bancorp, Inc. became one of Ohio's then 21 multi-bank holding companies by acquiring the outstanding shares of stock of the \$12.5 million asset based Citizens-State Bank of Strasburg, Ohio. Under the leadership of James W. Everson as Chairman and Charles E. Allensworth as President and CEO, The Citizens-State Bank then grew from its one office in Strasburg by opening a new banking center at 2909 N. Wooster Avenue in Dover, Ohio in February 1990; the purchase of its offices in New Philadelphia and Sherrodsville in April 1992; and the purchase of its Dellroy Office in June 1994. Harold W. Price was appointed President and CEO of The Citizens-State Bank of Strasburg in April 1993. The Citizens Savings Bank of Martins Ferry further expanded into St. Clairsville with an in store location at Riesbeck's Food Market in July 1997 and purchased a full service banking center in Jewett, Ohio in January 1999. United Bancorp entered Northern Athens County in July 1998 when the \$47.8 million asset based Community Bank of Glouster was purchased, expanding United Bancorp, Inc. to a three bank holding company. Today, The Community Bank is headquartered in Lancaster, Ohio with three locations in Lancaster in addition to its two offices in Glouster and offices in Amesville and Nelsonville, Ohio.

As space in the new headquarters became occupied, property across from the new Main Office on the other corner of Fourth and Hickory Streets was acquired in 1993 to support the continued growth. It was renovated into a modern Operations Center now housing the Data and Item Processing

Equipment for the affiliate banks of United Bancorp, Inc. and the offices for United Bancorp, Inc.'s Accounting Group. With the introduction of 24 x 7 x 365 Automated Call Center and Internet Banking in 2001, the Accounting and Operations Center was further expanded through the purchase and renovation of the adjoining property formerly known as the Fullerton Bakery Building. Today, the Accounting and Operations Center Building supports the back room operations for the seventeen banking offices of The Citizens Bank and The Community Bank of Lancaster.

On April 21, 1999 the \$74.1 million asset based Citizens-State Bank of Strasburg was merged into The Citizens Savings Bank. This expanded customer service under the charter of The Citizens Savings Bank to 10 locations in Belmont, Carroll, Harrison and Tuscarawas counties. Harold W. Price, who had served as President and CEO of The Citizens-State Bank of Strasburg was appointed The Citizens Savings Bank's fifth President and CEO with James W. Everson continuing as Chairman, in addition to serving as Chairman of The Community Bank and Chairman, President and CEO of United Bancorp. Everson was reappointed Chairman, President and CEO of The Citizens Savings Bank five months later upon Harold W. Price's sudden death.

In November 2004, the Citizens Bank Board of Directors completed its senior management reorganization plans for the beginning of its second century of service. James W. Everson, will continue as the Bank's Chairman. Furthermore, the Citizens Bank Board of Directors announced the appointment of Scott A. Everson as Director, President and Chief Executive Officer, which became effective on November 1, 2004.

On September 19, 2008, Citizens acquired from the Federal Deposit Insurance Corporation ("FDIC") the deposits of three banking offices of a failed institution in St. Clairsville, Dillonvale and Tiltonsville, Ohio.

The growth and success of The Citizens Savings Bank and the United Bancorp, Inc. have been attributed to the association of many dedicated men and women. Having served on the Board of Directors are Edward E. McCombs, 1902-1936; John E. Reynolds, 1902-1940; Dr. J.W. Darrah, 1902-1937; J.A. Crossley, 1902-1903; William M. Lupton, 1902-1902; F.K. Dixon, 1902-1909; Dr. R.H. Wilson, 1902-1905; C.A. Heil, 1903-1909; David Coss, 1904-1938; L.L. Scheele, 1905-1917; A.T. Selby, 1906-1954; H.H. Rothermund, 1907-1912; Dr. J.G. Parr, 1912-1930; T.E. Pugh, 1920-1953; J.J. Weiskircher, 1925-1942; David H.

James, 1925-1963; Dr. C.B. Messerly, 1931-1957; H.H. Riethmiller, 1936-1980; E.M. Nickles, 1938-1968; L.A. Darrah, 1939-1962; R.L. Heslop, 1941-1983; Joseph E. Weiskircher, 1943-1975; Edward M. Selby, 1953-1976; David W. Thompson, 1954-1966; Dr. Charles D. Messerly, 1957-1987; James M. Blackford, 1962-1968; John H. Morgan, 1967-1976; Emil F. Snyder, 1968-1975; James H. Cook, 1976-1986; Paul Ochsenbein, 1978-1991; David W. Totterdale, 1981-1995; Albert W. Lash, 1975-1996; Premo R. Funari, 1976-1997; Donald A. Davison, 1963-1997; Harold W. Price, 1999-1999; John H. Clark, Jr., 1976-2001; Dwain R. Hicks, 1999-2002; and

Michael A. Ley, 1999-2002, and Michael J. Arciello 1992-2009.

Today, The Citizens Savings Bank is Martins Ferry's only locally owned financial institution. The general objective of The Citizens Savings Bank as outlined in its Mission Statement which was adopted by its Board of Directors on June 8, 1982 and renewed annually is to remain an independent state-chartered commercial bank and expand its asset base and market share through acquisitions and new branch construction where financially feasible.

The Community Bank Profile

A Division of The Citizens Savings Bank

COMMUNITY was established in August 1945 with corporate offices in downtown Glouster, Ohio, in Athens County. Its founder was L.E. Richardson, a local entrepreneur. At that time, Athens County was booming with the industries of gas, oil and coal mining. COMMUNITY was then known as The Glouster Community Bank. The Bank played a vital role in the region as it developed, earning a reputation for friendliness, quality customer service and responsiveness to the individual financial needs of its customers, as well as the community. More than 25 years later, Richardson turned over the day-to-day management of the bank to his son, L.E. Richardson, Jr., in 1971.

With that foundation, COMMUNITY acquired the First National Bank of Amesville, Ohio in 1976. The Bank's prosperity continued, and, in 1978, a three-lane Auto Bank drive-up facility was constructed on the west side of Glouster.

In 1984, the Bank created a holding company, Southern Ohio Community Bancorp, Inc., in anticipation of future growth and diversification of products and services.

In 1987, the service area was



expanded once again. A modular office in Nelsonville served the village and the surrounding communities. A few years later, on December 6, 1993 a ribbon cutting ceremony was held for a newly constructed Nelsonville office. The brick building, which replaced the mobile bank unit, features four drive-up lanes and a drive-up ATM. Night deposit and safe deposit box services were also

introduced to the Nelsonville area.

In 1996, COMMUNITY completed an extensive renovation of its downtown Glouster office, including the addition of a 24-hour access ATM in the vestibule.

In 1998, COMMUNITY became affiliated with United Bancorp, Inc. of

Martins Ferry, Ohio, when United Bancorp purchased The Glouster Community Bank and its holding company, Southern Ohio Community Bancorp, Inc.

That acquisition led to COMMUNITY establishing a Loan Production Office (LPO) in 1998 in Lancaster, Ohio. This LPO provided the opportunity for COMMUNITY to build its franchise along the U.S. Route 33 corridor from Athens County through Fairfield County.

Lancaster, the county seat of Fairfield County, is approximately 30 miles southeast of Columbus, Ohio and is considered a bedroom community to Columbus. According to the city's Economic Development Office, Fairfield County is the fourth fastest growing county in Ohio and is ranked among the top six counties for growth potential.

COMMUNITY opened its first Fairfield County banking office in December 1999. The East Main Street Banking Office in Lancaster offers full service banking with extended evening and Saturday hours. The office features a three-lane drive-up, a drive-up ATM and night depository.

In January 2000, COMMUNITY relocated its Main Office from Glouster to downtown Lancaster. This substantial investment significantly strengthened COMMUNITY'S presence in Fairfield County. Formerly a furniture store, the historic 1919 building was restored to as near the original appearance as possible. The building was further enhanced with a Verdin Company clock. The 435-pound timepiece is attached to the southeast corner of the building. The interior of the building was converted from a furniture store to a modern full service banking office. Of special note is the historical mural of Fairfield County landmarks, painted by local stencil artist Cheryl Fey, which graces the main stairway. The renovation added greatly to the city's business district, as the Main Office complements the downtown revitalization that also was completed in 2000.

COMMUNITY'S Auto Bank, located across the street from the Main Office, also was opened in January 2000. The structure is unique to the market, because of its walk-in lobby. It also features a four-lane drive-thru, night depository and automatic teller machine.

In July 2000, COMMUNITY opened its Community Room, also unique to the area. The Community Room has grown quickly into a convenient and frequently used location for meeting of area civic organizations. It is also a popular gallery for local artists to display their talents.

From the rolling hills of Athens County to the bustling commerce of Fairfield County, COMMUNITY continues to play a vital role in the lives of its customers and the region it serves. The Bank not only has built upon its customer base through the years, but upon its reputation for friendliness, quality customer service and responsiveness to the individual financial needs of its customers and the communities it proudly serves.

On July 1, 2007, the Company received regulatory approval for the merger of its wholly owned subsidiaries, The Glouster Community Bank ("Community"), Lancaster, Ohio, and The Citizens Savings Bank ("Citizens"), Martins Ferry, Ohio, under the charter of the latter. The Boards of both Citizens and Community endorsed this consolidation. The Company continues to capitalize on the established branding in the market places of each institution. Community operates under the trade name "The Community Bank, a Division of The Citizens Savings Bank" and Citizens operates under the trade name "The Citizens Bank, a Division of The Citizens Savings Bank". A key focus of the consolidation involved the centralization of executive authority under Citizens' proven management structure that has been perennially ranked in the upper quartile of all banks in the United States.

Including the Community Board members on the Board of the com-

bined institution was essential for the Company to realize the full potential of the combination. Management was pleased to report on the merger date of July 1st that Samuel J. Jones, Business Owner, Glouster, Ohio; Terry A. McGhee, President and CEO, Westerman, Inc., Bremen, Ohio; Andrew F. Phillips, President and General Manager, Miller Brands of South East Ohio, Glouster, Ohio; Robin L. Rhodes, M.D., Physician, Pediatric Associates of Lancaster, Inc., Lancaster, Ohio; and L.E. "Dick" Richardson, Jr., Retired President, Southern Ohio Community Bancorporation, Inc., Glouster, Ohio accepted the Company's invitation to become members of The Citizens Savings Bank Board of Directors.

On October 31, 2007, the Company completed the "physical consolidation" of its two charters under the management group of The Citizens Savings Bank, resulting in a 22% reduction in staffing at The Community Bank division. Merging all of the Company's bank charters into a single charter and common operating system now allows each banking office to focus on growing the Company's banking franchises by providing the highest level of customer service from a common market basket of products.

Management's Discussion and Analysis

In the following pages, management presents an analysis of United Bancorp, Inc.'s financial condition and results of operations as of and for the year ended December 31, 2010 as compared to prior years. This discussion is designed to provide shareholders with a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the Consolidated Financial Statements and related footnotes and the selected financial data included elsewhere in this report.

When used in this discussion or future filings by the Company with the Securities and Exchange Commission, or other public or shareholder communications, or in oral statements made with approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit risks of lending activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

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 liquidity, capital resources or operations except as discussed herein. The Company is not aware of any current recommendations by regulatory authorities that would have such effect if implemented.

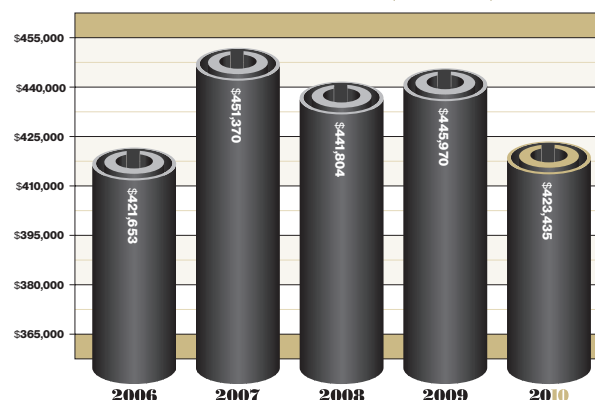
The Company does not undertake, and specifically disclaims, any obligation to publicly release any revisions that may be made to any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Financial Condition

Overview

The Company's net income in 2010 generated an annualized 0.57% return on average assets ("ROA") and a 7.05% return on average equity ("ROE"), compared to 0.63% ROA and 7.56% ROE for 2009. Comparing the year ended December 31, 2010 to 2009, the Company's net interest margin was 4.02% compared to 3.98%, an increase of 4 basis points. Although the net interest margin increased, the Company's net interest income decreased by approximately \$103,000, or less than 1.0%, due to a decrease in the Company's earning assets. For the year ended December 31, 2010 the Company had an average balance in Cash and Cash equivalents of approximately \$51.3 million compared to \$34.6 million for the year ended December 31, 2009. With this high level of available funding, the Company has been aggressive in the management of higher cost deposit funding, mainly allowing certificates of deposit to decrease. While maintaining these larger cash balances resulted in a decrease in the earning assets of the Bank, this strategy increased the net interest margin of the Company, since the interest expense of the foregone certificates of deposit exceeded the rate of return on the cash and cash equivalents. Comparing the same periods, Customer Service Fees on deposits

Total Assets (In Thousands)



increased \$40,000. On the expense side, total noninterest expense increased \$83,000 for the year ended December 31, 2010 as compared to 2009. The increase in total noninterest expense was primarily due to the third quarter 2010 implementation of our new data processing system. The Company incurred approximately \$273,000 in one time direct expenses related to the installation of this new system. In addition, the Company incurred a \$90,000 period over period increase in the provision for losses on foreclosed real estate and a period over period increase of \$491,000 in our Provision for Loan Losses. The increase in the provision for loan losses for the year ended December 31, 2010 was

predicated primarily upon the economic challenges facing the banking industry. As an offset to these increased expenses, the Company's Federal Deposit Insurance Corporation premiums decreased approximately \$352,000 from 2009 to 2010. Also, the Company recognized a tax benefit during 2010 resulting from the resolution of a tax contingency, which reduced federal income taxes by approximately \$120,000.

Earning Assets – Loans

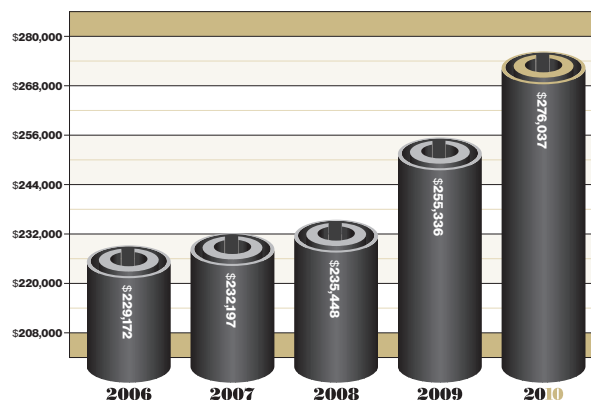
Gross loans totaled \$278.8 million at December 31, 2010, representing an 8.2% increase from \$257.7 million at December 31, 2009. Average loans totaled \$263.5 million for 2010, representing an 8.2% increase compared to average loans of \$243.6 million for 2009.

The increase in gross loans from December 31, 2009 to December 31, 2010 was primarily comprised of commercial and commercial real estate loans, which increased by \$11.2 million, as well as an increase in installment loans of \$2.0 million and an increase in residential real estate loans of \$1.3 million.

The Company's commercial and commercial real estate loan portfolio represents 60.5% of the total portfolio at December 31, 2010, compared to 58.5% at December 31, 2009. During this past year, we found many new customers within our lending areas and our focus continues on our small business customers utilizing all the SBA, Ohio Department of Development and State of Ohio loan programs, as well as local revolving loan funds, to best fit the needs of our customers.

The Company's installment lending portfolio represented 16.8% of the total portfolio at December 31, 2010, compared to 17.4% at December 31, 2009. The targeted installment lending areas encompass the four geographic areas serviced by the Bank, which are diverse, thereby reducing the risk to changes in economic conditions. Competition for installment loans principally comes from the captive finance companies offering low to zero percent financing for extended terms. As interest rates remained at historically low levels during 2010, the Company focused on growing the installment portfolio. Given the relatively short duration of installment loans and the attractive yield, management will continue to focus on this portfolio in 2011.

Loans-Net (In Thousands)

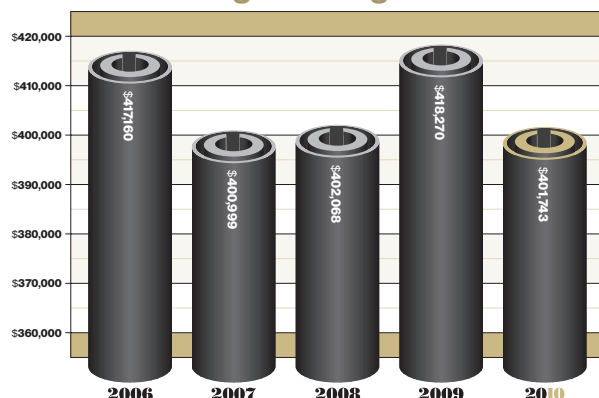


The Company's residential real estate portfolio represents 22.7% of the total portfolio at December 31, 2010, compared to 24.1% at December 31, 2009. Residential real estate loans are comprised of 1, 3 and 5 year adjustable-rate mortgages used to finance 1-4 family units. The Company also offers fixed-rate real estate loans through our Secondary Market Real Estate Mortgage Program. The fixed-rate mortgages and their servicing are now sold immediately into the secondary market. Once these fixed rate loans are originated and immediately sold without recourse in what is referred to as the secondary market, the Company does not assume credit risk or interest rate risk in this portfolio. This arrangement is quite common in banks and saves our customers from looking elsewhere for their home financing needs.

In 2010, the interest rate environment continued to be favorable to the fixed-rate mortgage loan product. This resulted in a higher volume of customers refinancing loans during 2010 as compared to 2009. While the volume of home refinancing did increase in 2010, the secondary market origination volume was impacted by an issue that has developed in the overall industry related to higher risk subprime loans. While the Company did not participate in sub-prime lending, the additional regulations and unstable appraisal market have made it more difficult to obtain a loan that is saleable in the secondary market. With these conditions, the Company did recognize a gain on the sale of secondary market loans of \$184,000 in 2010 and \$129,000 in 2009.

The allowance for loan losses represents the amount which management and the Board of Directors estimates is

Total Average Earning Assets (In Thousands)



adequate to provide for probable incurred losses in the loan portfolio. Accounting for the allowance and the related provision for loan losses is viewed by management as a critical accounting policy. The allowance balance and the annual provision charged to expense are reviewed by management and the Board of Directors on a monthly basis. The allowance calculation is determined by utilizing a risk grading model that considers borrowers' past due experience, coverage ratio to industry averages, economic conditions and various other circumstances that are subject to change over time. In general, the loan loss policy for installment loans requires a charge-off if the loan reaches 120-day delinquent status or if notice of bankruptcy liquidation is received. The Company follows lending policies, with established criteria for determining the repayment capacity of borrowers, requirements for down payments and current market appraisals or other valuations of collateral when loans are originated. Installment lending also utilizes credit scoring to help in the determination of credit quality and pricing.

The Company generally recognizes interest income on the accrual basis, except for certain loans which are placed on non-accrual status, when in the opinion of management; doubt exists as to collection on the loan. The Company's policy is to generally place loans greater than 90 days past due on non-accrual status unless the loan is both well secured and in the process of collection. When a loan is placed on non-accrual status, interest income may be recognized on a cash basis as payment is received.

Management believes the current balance of the allowance for loan losses is sufficient to cover probable incurred losses.

Refer to the Provision for Loan Losses section for further discussion on the Company's credit quality.

Earning Assets – Securities and Federal Funds Sold

The securities portfolio is comprised of U.S. Government and agency obligations, tax-exempt obligations of states and political subdivisions, mortgage-backed securities and certain other investments. The Company does not hold any collateralized mortgage-backed securities, other than those issued by U.S. Government agencies. The Company does not hold any derivative securities. The quality rating of the majority of the Bank's securities issued by political subdivisions within Ohio is generally no less than Aaa, Aa, or A, and the majority of the Bank's out-of-state bonds are rated at AAA. Board policy permits the purchase of certain non-rated or lesser rated bonds of local schools, townships and municipalities, based on known levels of credit risk.

Securities available for sale at December 31, 2010 decreased \$430,000, or 0.4%, from 2009, while securities held to maturity decreased \$7.9 million or 55.7% during the same period.

In 2007, the Company began focusing on increasing the Company's investment in state and municipal obligations with extended call protection to protect the net interest margin of the Company. This investment strategy has proved beneficial in a falling rate environment.

However, the Company's U.S. Government agency portfolio is subject to increased levels of redemptions due to the call features in this type of investment security. Given the extent of the decrease in overall interest rates, the Company did experience a significant amount of called government agency investment securities during 2010. This trend is expected to continue into 2011. While the Company has plans to reinvest a portion of these funds in other available-for-sale securities, there is lag between the time when bonds are called and the right investment opportunity is available to the Company. Also given the historically low interest rate environment, the Company implemented a strategy to invest in short term certificates of deposit ("CD's") in other financial institutions. These CD's are fully insured by the Federal Deposit Insurance Corporation and offer an alternative to investing in longer term U.S.

Government agency-backed securities. At December 31, 2010, the Company held as investment approximately \$2.6 million of CD's. At December 31, 2010, these CD's had a maturity of approximately 75 days. With the continued low interest rate environment, the opportunity to invest in short term CD's in other financial institutions will be limited in 2011.

Sources of Funds – Deposits

The Company's primary source of funds is retail core deposits from individuals and business customers. These core deposits include all categories of interest-bearing deposits, excluding certificates of deposit greater than \$100,000. During 2010, total deposits decreased \$19.1 million, or 5.5%. This decrease was by design. Given the additional liquidity from the September 2008 acquisition of a failed institution, the Company did not aggressively compete with the higher rates that were offered in our markets by other banks that were in need of raising liquidity.

The Company maintains deposit relationships with public agencies, including local school districts, city and township municipalities, public works facilities and others, which may tend to be more seasonal in nature resulting from the receipt and disbursement of state and federal grants. These entities have maintained relatively stable balances with the Company due to various funding and disbursement timeframes.

Higher costing certificate of deposit balances declined approximately \$27.3 million while lower costing transaction account balances increased by over \$8.2 million. As a result of these planned actions, our net interest margin increased to 4.02% in 2010 from 3.98% in 2009. In order to achieve our

annual performance objectives, the Company posted a positive growth in loans as previously mentioned and needed to shrink higher costing deposits. Certificates of deposit greater than \$100,000 are not considered part of core deposits and, as such, are used as a tool to balance funding needs. At December 31, 2010, certificates of deposit greater than \$100,000 decreased \$10.7 million, or 20.7%, from December 31, 2009 totals. The Company does not differentiate pricing for certificates of deposit that are greater than \$100,000.

The attraction of and retention of core deposits continues to be a challenge to the Company and the overall banking industry. Alternative financial products are continuously being introduced by our competition whether through traditional banks or brokerage services companies. As a result of this competition, the Company does offer full service brokerage services through its affiliation with UVEST Financial Services®

Sources of Funds – Securities Sold Under Agreements to Repurchase and Other Borrowed Funds

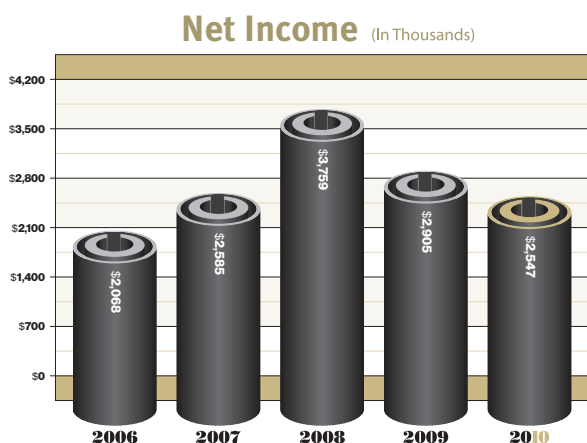
Other interest-bearing liabilities include securities sold under agreements to repurchase, federal funds purchased, Treasury, Tax and Loan, notes payable and Federal Home Loan Bank advances. Securities sold under agreements to repurchase increased approximately \$1.3 million during 2010. The average balance in securities sold under agreements to repurchase increased \$1.7 million, or 15.8%, from 2009 to 2010.

Advances from the Federal Home Loan Bank (FHLB) decreased \$5.7 million, or 11.6%, from December 31, 2009 to December 31, 2010.

Performance Overview 2010 to 2009

Net Income

The Company reported net income of \$2.5 million in 2010 compared with \$2.9 million for 2009, a decrease of \$358,000, or 12.3%. On a per share basis, the Company's basic and diluted earnings per share were \$0.52 for 2010, as compared to \$0.62 for 2009, a decrease of 16.1%. This earnings performance equates to a 0.57% Return on Average Assets ("ROA") and a 7.05% Return on Average Equity ("ROE") for 2010 compared to 0.63% and 7.56%, respectively, for 2009.



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. The net interest margin was 4.02% for 2010 compared to 3.98% in 2009, an increase of 4 basis points. While the Company's yield on earning assets decreased 14 basis points from 2009 to 2010, the cost of funds has decreased 39 basis points for the same period. As the historically low interest rates are expected to continue into 2011, it will become difficult to lower the Company's cost of funds in proportion to the earning assets of the Company.

Average interest-earning assets decreased \$16.5 million in 2010 as compared to 2009 while the associated weighted-average yield on these interest-earning assets decreased from 5.77% in 2009 to 5.63% for 2010. Average interest-bearing liabilities decreased \$4.4 million in 2010 as compared to 2009, while the associated weighted-average costs on these interest-bearing liabilities decreased from 2.08% in 2009 to 1.69% in 2010.

Refer to the sections on Asset and Liability Management and Sensitivity to Market Risks and Average Balances, Net Interest Income and Yields Earned and Rates Paid elsewhere herein for further information.

Provision For Loan Losses

The provision for loan losses is a charge to expense recorded to maintain the related balance sheet allowance for loan losses at an amount considered adequate to cover probable incurred losses in the portfolio. The provision for loan losses was \$1.8 million in 2010 compared to \$1.3 million in 2009, an increase of \$491,000 or 37.1%. As previously discussed, the loan portfolio increased approximately \$21.1 million, or 8.2%, during 2010. The provision for loan losses for the year ended December 31, 2010 was predicated primarily upon an increase in the level of charge-offs, growth in the loan portfolio and the effect of the current economic environment.

As anticipated, the level of net loans charged off to average loans has decreased to 0.55% for the year ended December 31, 2010 from 0.70% for the year ended December 31, 2009. The Company's non-accrual loans decreased by approximately \$900,000 from December 31, 2009 to December 31, 2010. Net loans charged-off for 2010 were approximately \$1.5 million compared to approximately \$1.7 million for 2009.

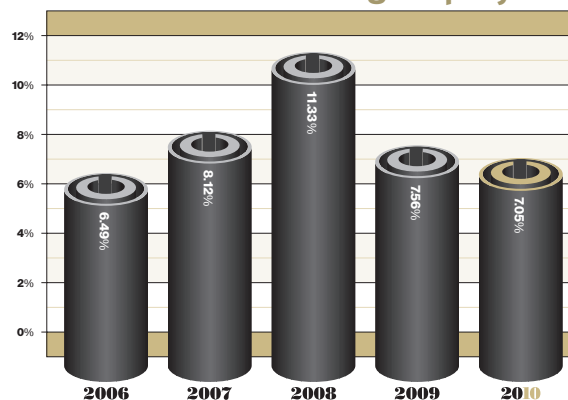
The allowance for loan losses as a percentage of gross loans increased to 0.98% at December 31, 2010 from 0.93% at December 31, 2009. The Company utilizes a consistent methodology in determining its estimate of the allowance for loan losses.

Noninterest Income

Noninterest income is made up of bank-related fees and service charges, as well as other income-producing services. These include ATM/interchange income, internet bank fees, early redemption penalties for certificates of deposit, safe deposit box rental income, net gain or loss on sales of securities available for sale and loans, leased rental property, cash management services and other miscellaneous items. In addition, the Company has invested in Bank Owned Life Insurance (BOLI). The earnings from this BOLI investment are reflected in the Company's noninterest income. Total noninterest income was \$3.3 million in both 2010 and 2009.

Customer service fees on deposit accounts increased \$40,000, or 1.8%, from 2009 to 2010. The increase was mainly the result of an increase in usage and an increase in the number of eligible accounts in the Company's courtesy overdraft program

Return On Average Equity



The Company realized a gain totaling \$47,000 in 2010 related to sales of securities, as compared with a gain totaling \$154,000 in 2009.

Gains related to the sales of real estate and other repossessed assets decreased \$75,000 from \$105,000 in 2009 to \$30,000 in 2010.

Other noninterest income increased from \$311,000 in 2009 to \$404,000 in 2010, an increase of \$93,000, or 29.7%. This was primarily attributable to an increase in secondary market related fee income of approximately \$66,000.

Noninterest Expense

Noninterest expense for 2010 increased \$83,000, or 0.6%, as compared to 2009.

Salaries and employee benefits increased \$144,000, or 2.2%, from 2009 to 2010. The increase was due primarily to the expansion of the Company's management team in preparation for the previously announced management succession plan, plus normal merit increases, and increases in benefit costs and restricted stock award expense.

Occupancy and equipment expense increased \$19,000, or 1.1%, due primarily to an increase in depreciation expense on premises, computer hardware and software and related service maintenance on our new core computer system installed in the third quarter of 2010.

Professional fees increased \$62,000, or 8.1%, for 2010 as compared to 2009. This increase is a result of additional legal expenses related to the collection of past due loans.

During 2010, the provision for losses on foreclosed real estate was \$90,000. The Company incurred a \$90,000 period-over-period increase in losses on foreclosed real estate due to additional write-downs which did not occur in 2009.

In conjunction with the September 2008 branch acquisition, the Company recorded an intangible asset of approximately \$812,000 consisting of a core deposit intangible. This asset was recorded at fair value and is being amortized over seven years using the straight line method. During 2010 and 2009, the Company recorded amortization expense of approximately \$113,000 and \$119,000, respectively, with approximately five years remaining in the amortization schedule of this intangible asset.

The Company incurred \$273,000 in direct expenses related to the core processing conversion, which is non-recurring. These expenses related to the consulting, training and installation of the system during 2010.

As anticipated the Company's FDIC insurance premiums decreased approximately \$352,000 from 2009 to 2010. In the second quarter of September 2009, the FDIC imposed a 5 basis point assessment on all FDIC insured banks. This

(In thousands)		2010	2009
Noninterest income			
Customer service fee	\$	2,229	\$ 2,189
Gain (loss) on sales of securities		47	154
Gains on sales of loans		184	129
Other income		857	823
Total noninterest income	\$	<u>3,317</u>	\$ <u>3,295</u>
Noninterest expense			
Salaries and employee benefits	\$	6,829	\$ 6,685
Occupancy and equipment		1,683	1,664
Provision for losses on foreclosed real estate		90	-
Professional services		824	762
Insurance		384	343
Deposit insurance premiums		514	866
Franchise and other taxes		505	497
Marketing expense		289	322
Printing and office supplies		261	311
Amortization of intangibles		113	119
Core computer conversion expense		273	-
Other expenses		2,157	2,270
Total noninterest expense	\$	<u>13,922</u>	\$ <u>13,839</u>

special assessment was approximately \$225,000 and was expensed in the second quarter of 2009. In addition to the higher FDIC premiums in 2009, the FDIC required banks to prepay their projected FDIC premiums for 2010 through 2012 as of December 31, 2009. The amount of the Banks' initial prepaid premiums was approximately \$1.8 million as of December 31, 2009.

Other expenses decreased \$113,000, or 5.0%. No single item contributed significantly to this decrease.

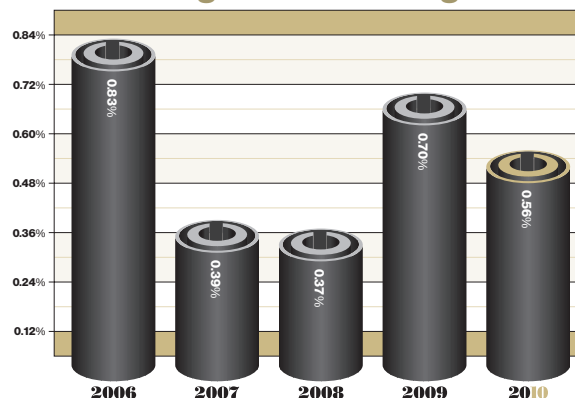
Income tax expense for 2010 was \$219,000 compared to \$516,000 in 2009, a decrease of \$297,000, or 57.6%. The decrease was due primarily to a \$655,000, or 19.1% decrease in pre-tax income. In addition, during 2010, the Company recognized a tax benefit resulting from the resolution of a tax contingency, which reduced federal income taxes by approximately \$120,000. The Company's effective income tax rate was 7.9% in 2010 and 15.1% in 2009. The Company's effective tax rate is less than the 34% statutory rate due primarily to the effects of nontaxable interest income and earnings on bank owned life insurance policies.

Asset/Liability Management and Sensitivity to Market Risks

In the environment of changing business cycles, interest rate fluctuations and growing competition, it has become increasingly more difficult for banks to produce adequate earnings on a consistent basis. Although management can anticipate changes in interest rates, it is not possible to reliably predict the magnitude of interest rate changes. As a result, the Company must establish a sound asset/liability management policy, which will minimize exposure to interest rate risk while maintaining an acceptable interest rate spread and insuring adequate liquidity.

The principal goal of asset/liability management – earnings management – can be accomplished by establishing decision processes and control procedures for all bank assets and liabilities. Thus, the full scope of asset/liability management encompasses the entire balance sheet of the Company. The broader principal components of asset/liability management include, but are not limited to liquidity planning, capital planning, gap management and spread management.

Net Charge-Offs to Average Loans



By definition, liquidity is measured by the Company's ability to raise cash at a reasonable cost or with a minimum amount of loss. Liquidity planning is necessary so the Company will be capable of funding all obligations to its customers at all times, from meeting their immediate cash withdrawal requirements to fulfilling their short-term credit needs.

Capital planning is an essential portion of asset/liability management, as capital is a limited Bank resource, which, due to minimum capital requirements, can place possible restraints on Bank growth. Capital planning refers to maintaining capital standards through effective growth management, dividend policies and asset/liability strategies.

Gap is defined as the dollar difference between rate sensitive assets and rate sensitive liabilities with respect to a specified time frame. A gap has three components – the asset component, the liability component, and the time component. Gap management involves the management of all three components.

Gap management is defined as those actions taken to measure and match rate sensitive assets to rate sensitive liabilities. A rate sensitive asset is any interest-earning asset, which can be repriced to a market rate in a given time frame. Similarly, a rate sensitive liability is any interest-bearing liability, which can have its interest rate changed to a market rate during the specified time period. Caps, collars and prepayment penalties may prevent certain loans and securities from adjusting to the market rate.

A negative gap is created when rate sensitive liabilities exceed rate sensitive assets and conversely a positive gap occurs when rate sensitive assets exceed rate sensitive liabilities. A negative gap position will cause profits to decline in a rising interest rate environment while conversely a positive gap will cause profits to decline in a falling interest rate environment. The Company's goal is to have acceptable profits under any interest rate environment. To avoid volatile profits as a result of interest rate fluctuations, the Company attempts to match interest rate sensitivities, while pricing both the asset and liability components to yield a sufficient interest rate spread so that profits will remain relatively consistent across interest rate cycles.

Management of the income statement is called spread management and is defined as managing investments, loans, and liabilities to achieve an acceptable spread between the Company's return on its earning assets and its cost of funds. Gap management without consideration of interest spread can cause unacceptable low profit margins while assuring that the level of profits is steady. Spread management without consideration of gap positions can cause acceptable profits in some interest rate environments and unacceptable profits in others. A sound asset/liability management program combines gap and spread management into a single cohesive system.

Management measures the Company's interest rate risk by computing estimated changes in net interest income and the Net Portfolio Value ("NPV") of its cash flows from assets, liabilities and off-balance-sheet items in the event of a range of assumed changes in market interest rates. The Bank's senior management and the Executive Committee of the Board of Directors, comprising the Asset/Liability

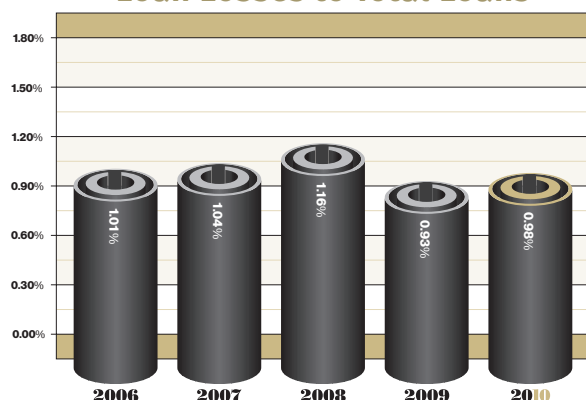
Committee ("ALCO") review the exposure to interest rates monthly. Exposure to interest rate risk is measured with the use of an interest rate sensitivity analysis to determine the change in NPV in the event of hypothetical changes in interest rates, while interest rate sensitivity gap analysis is used to determine the repricing characteristics of the assets and liabilities.

NPV represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance-sheet items.

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates. The NPV calculation is based on the net present value of discounted cash flows utilizing market prepayment assumptions and market rates of interest provided by surveys performed during each quarterly period, with adjustments made to reflect the shift in the Treasury yield curve between the survey date and quarter-end date. Certain shortcomings are inherent in this method of analysis presented in the computation of estimated NPV. Certain assets such as adjustable-rate loans have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In addition, the portion of adjustable-rate loans in the Company's portfolio could decrease in future periods if market interest rates remain at or decrease below current levels due to refinancing activity. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in the table. Finally, the ability of many borrowers to repay their adjustable-rate debt may decrease in the case of an increase in interest rates.

The following tables present an analysis of the potential sensitivity of the Company's net present value of its financial instruments to sudden and sustained changes in the prevailing interest rates.

Total Allowance for Loan Losses to Total Loans



The projected volatility of the Net Present Value at both December 31, 2010 and 2009 fall within the general guidelines established by the Board of Directors. The 2010 NPV table shows that in a falling interest rate environment, in the event of a 100 basis point change, the NPV would decrease 8%, and with a 200 basis point change the NPV would decrease 20%. This decrease is the result of fixed rate certificates of deposit not repricing in lock step with an immediate downward rate adjustment of 100 and 200 basis points. The other component is that once rates decrease 100 or 200 basis points from current levels we tend to reach a floor on how low depository rates can adjust downward.

In an upward change in interest rates, the Company's NPV would increase 1% with a 100 basis point interest rate increase. In a 200 basis point rate increase, the Company's NPV would decrease 2%. This decrease is attributable to a portion of the Company's investment portfolio that has fixed rates with longer maturity dates. As interest rates increase, the market value of these securities decrease rather quickly.

(Dollars in Thousands)

Net Portfolio Value - December 31, 2010			
<u>Change in Rates</u>	<u>\$ Amount</u>	<u>\$ Change</u>	<u>% Change</u>
+200	53,457	(984)	-2%
+100	55,027	586	1%
Base	54,441	-	-
-100	49,843	(4,598)	-8%
-200	43,354	(11,087)	-20%

(Dollars in Thousands)

Net Portfolio Value - December 31, 2009			
<u>Change in Rates</u>	<u>\$ Amount</u>	<u>\$ Change</u>	<u>% Change</u>
+200	47,097	(3,623)	-7%
+100	50,680	(40)	-
Base	50,720	-	-
-100	46,705	(4,015)	-8%
-200	40,570	(10,150)	-20%

The following table is a summary of selected quarterly results of operations for the years ended December 31, 2010 and 2009.

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(In thousands, except per share data)			
2010				
Total interest income	\$ 5,530	\$ 5,513	\$ 5,403	\$ 5,221
Total interest expense	<u>1,804</u>	<u>1,715</u>	<u>1,582</u>	<u>1,379</u>
Net interest income	3,726	3,798	3,821	3,842
Provision for losses on loans	360	370	321	765
Other income	776	859	849	786
Gain on sale of available for-sale securities net	-	-	47	-
General, administrative and other expense	<u>3,371</u>	<u>3,471</u>	<u>3,687</u>	<u>3,393</u>
Income before income taxes	771	816	709	470
Federal income taxes (benefit)	<u>88</u>	<u>115</u>	<u>(1)</u>	<u>17</u>
Net income	<u>\$ 683</u>	<u>\$ 701</u>	<u>\$ 710</u>	<u>\$ 453</u>
Earnings per share				
Basic	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.09</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.09</u>

2009				
Total interest income	\$ 5,913	\$ 5,861	\$ 5,841	\$ 5,740
Total interest expense	<u>2,074</u>	<u>2,027</u>	<u>2,011</u>	<u>1,953</u>
Net interest income	3,839	3,834	3,830	3,787
Provision for losses on loans	324	334	338	329
Other income	789	788	828	736
Gain on sale of available for-sale securities net	-	25	-	129
General, administrative and other expense	<u>3,309</u>	<u>3,567</u>	<u>3,420</u>	<u>3,543</u>
Income before income taxes	995	746	900	780
Federal income taxes	<u>194</u>	<u>74</u>	<u>143</u>	<u>105</u>
Net income	<u>\$ 801</u>	<u>\$ 672</u>	<u>\$ 757</u>	<u>\$ 675</u>
Earnings per share				
Basic	<u>\$ 0.17</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>	<u>\$ 0.14</u>
Diluted	<u>\$ 0.17</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>	<u>\$ 0.14</u>

Average Balances, Net Interest Income and Yields Earned and Rates Paid

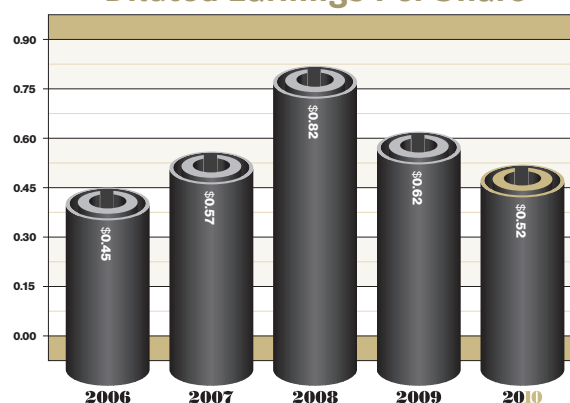
The following table provides average balance sheet information and reflects the taxable equivalent average yield on interest-earning assets and the average cost of interest-bearing liabilities for the years ended December 31, 2010 and 2009. The yields and costs are calculated by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities.

The average balance of available-for-sale securities is computed using the carrying value of securities while the yield for available for sale securities has been computed using the average amortized cost. Average balances are derived from average month-end balances, which include nonaccruing loans in the loan portfolio, net of the allowance for loan losses. Interest income has been adjusted to tax-equivalent basis.

(Dollars in thousands)	2010			2009		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets						
Loans.....	\$ 263,480	\$ 17,763	6.74%	\$ 243,599	\$ 16,746	6.87%
Taxable securities - AFS.....	62,405	2,229	3.57	83,949	4,205	5.01
Tax-exempt securities - AFS.....	21,772	1,262	5.80	27,783	1,603	5.77
Tax-exempt securities - HTM.....	14,887	945	6.35	14,277	901	6.31
Time deposits in other financial institutions.....	7,138	143	2.00	19,560	408	2.08
Federal funds sold.....	27,289	76	0.28	24,288	49	0.20
FHLB stock and other.....	4,772	213	4.46	4,814	241	5.01
Total interest-earning assets.....	401,743	22,631	5.63	418,270	24,153	5.77
Noninterest-earning assets						
Cash and due from banks.....	23,976			10,358		
Premises and equipment (net).....	8,565			8,557		
Other nonearning assets.....	15,885			16,450		
Less: allowance for loan losses.....	(2,637)			(3,062)		
Total noninterest-earning assets.....	45,789			32,303		
Total assets.....	\$ 447,532			\$ 450,573		
Liabilities & stockholders' equity						
Interest-bearing liabilities						
Demand deposits.....	\$ 109,523	\$ 164	0.15%	\$ 112,686	\$ 476	0.42%
Savings deposits.....	49,581	83	0.17	42,844	163	0.38
Time deposits.....	160,445	4,159	2.59	168,972	5,305	3.14
FHLB advances.....	46,933	1,797	3.83	48,109	1,828	3.80
Trust preferred debentures.....	4,000	250	6.25	4,000	250	6.25
Repurchase agreements.....	12,734	27	0.21	10,999	43	0.39
Total interest-bearing liabilities.....	383,216	6,480	1.69	387,610	8,065	2.08
Noninterest-bearing liabilities						
Demand deposits.....	24,530			24,157		
Other liabilities.....	3,638			5,116		
Total noninterest-bearing liabilities.....	28,168			29,273		
Total liabilities.....	411,384			416,883		
Total stockholders' equity.....	36,148			33,690		
Total liabilities & stockholders' equity.....	\$ 447,532			\$ 450,573		
Net interest income.....		\$ 16,151			\$ 16,088	
Net interest spread.....			3.94%			3.69%
Net yield on interest-earning assets.....			4.02%			3.98%

- For purposes of this schedule, nonaccrual loans are included in loans.
- Fees collected on loans are included in interest on loans.

Diluted Earnings Per Share



Note: The rate/volume variance was allocated to volume variance and rate variance in proportion to the relationship of the absolute dollar amount of the change in each. Nonaccrual loans are ignored for purposes of the calculations due to the nominal amount of the loans.

Rate/Volume Analysis

The table below describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected interest income and expense during 2010. For purposes of this table, changes in interest due to volume and rate were determined using the following methods:

- Volume variance results when the change in volume is multiplied by the previous year's rate.
- Rate variance results when the change in rate is multiplied by the previous year's volume.
- Rate/volume variance results when the change in volume is multiplied by the change in rate.

2010 Compared to 2009 Increase/(Decrease)

(In thousands)

	Total Change	Change Due To Volume	Change Due To Rate
Interest and dividend income			
Loans	\$ 1,017	\$ 1,345	\$ (328)
Taxable securities available for sale	(1,976)	(933)	(1,043)
Tax-exempt securities available for sale	(341)	(348)	7
Tax-exempt securities held to maturity	44	39	5
Time deposits in other financial institutes	(265)	(249)	(16)
Federal funds sold	27	7	20
FHLB stock and other	(28)	(2)	(26)
Total interest and dividend income	(1,522)	(141)	(1,381)
Interest expense			
Demand deposits	(312)	(16)	(296)
Savings deposits	(80)	22	(102)
Time deposits	(1,146)	(257)	(889)
FHLB advances	(31)	(45)	14
Trust Preferred debentures	-	-	-
Repurchase agreements	(16)	6	(22)
Total interest expense	(1,585)	(290)	(1,295)
Net interest income	\$ 63	\$ 149	\$ (86)

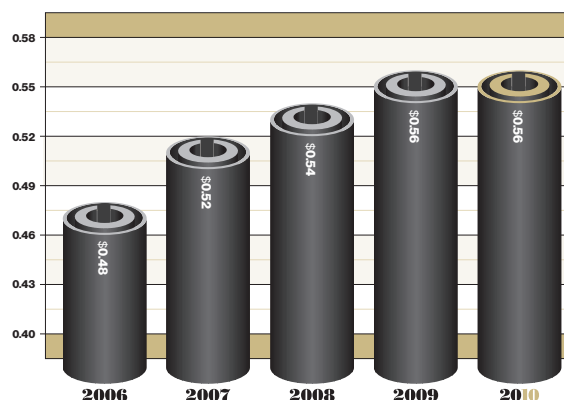
Capital Resources

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Bank. The Company's stockholders' equity was \$35.6 million and \$35.2 million at December 31, 2010 and 2009, respectively. Equity totals for 2010 includes approximately \$707,000 in accumulated other comprehensive loss, which is comprised mainly of a net unrealized loss related to the accumulated benefit obligation in excess of fair value of plan assets in the Company's defined benefit pension plan, net of tax, at year-end 2010, compared to a \$507,000 unrealized loss December 31, 2009. Total stockholders' equity in relation to total assets was 8.4% at December 31, 2010 and 7.9% at December 31, 2009.

The Company has established a Dividend Reinvestment Plan ("The Plan") for stockholders 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 dividend policy or a guarantee of future dividends. Stockholders who do not wish to participate in The Plan continue to receive cash dividends, as declared in the usual and customary manner.

In 2001, the Company's stockholders approved an amendment to the Company's Articles of Incorporation to create a class of preferred shares with 2,000,000 authorized shares. This will enable 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. As of

Dividends Per Share

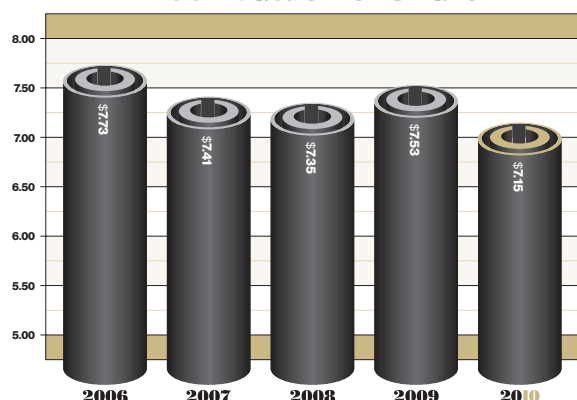


December 31, 2010 the Company has not issued any preferred shares.

In 2005, a Delaware statutory business trust owned by the Company, United Bancorp Statutory Trust I ("Trust I" or the "Trust"), issued \$4.0 million of mandatorily redeemable debt securities. The sale proceeds were utilized to purchase \$4.0 million of the Company's subordinated debentures. The Company's subordinated debentures are the sole asset of Trust I. The Company's investment in Trust I is not consolidated herein as the Company is not deemed the primary beneficiary of the Trust. However, the \$4.0 million of mandatorily redeemable debt securities issued by the Trust are includible for regulatory purposes as a component of the Company's Tier 1 Capital. Interest on the Company's subordinated debentures is fixed at 6.25% and is payable quarterly.

The \$4.0 million of net proceeds received by the Company was primarily utilized to fund a \$3.4 million note receivable from a newly formed Employee Stock Option Plan (ESOP). The ESOP in turn utilized the note proceeds to purchase \$3.4 million of the Company's treasury stock.

Book Value Per Share



Liquidity

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold and securities available-for-sale. These assets are commonly referred to as liquid assets. Liquid assets were \$109.7 million at December 31, 2010, compared to \$145.4 million at December 31, 2009. Management recognizes securities may need to be sold in

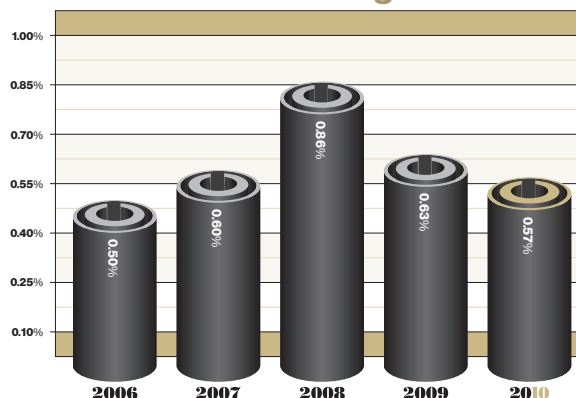
the future to help fund loan demand and, accordingly, as of December 31, 2010, \$96.2 million of the securities portfolio was classified as available for sale. The Company's residential real estate portfolio can and has been readily used to collateralize borrowings as an additional source of liquidity. Management believes its current liquidity level is sufficient to meet cash requirements.

The Cash Flow Statements for the periods presented provide an indication of the Company's sources and uses of cash as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for 2010 and 2009 follows.

The Company experienced a net increase in cash from operating activities in 2010 and 2009. NET CASH PROVIDED BY OPERATING ACTIVITIES totaled \$6.6 million and \$1.9 million for the years ended December 31, 2010 and 2009, respectively. The adjustments to reconcile net income to net cash from operating activities consisted mainly of depreciation and amortization of premises and equipment and intangibles, gain on sales of loans, securities and other assets, the provision for loan losses, Federal Home Loan Bank stock dividends, net amortization of securities and net changes in other assets and liabilities.

NET CASH USED IN INVESTING ACTIVITIES totaled \$1.4 million and \$5.0 million for the years ended December 31, 2010 and 2009, respectively. The changes in net cash from investing activities include loan growth, as well as normal maturities, security calls and reinvestments of securities and premises and equipment expenditures. In 2010, the Company received approximately \$4.5 million from sales of securities. Proceeds from securities, which matured or were called totaled \$107.6 million and \$96.4 million in 2010 and 2009, respectively.

Return On Average Assets



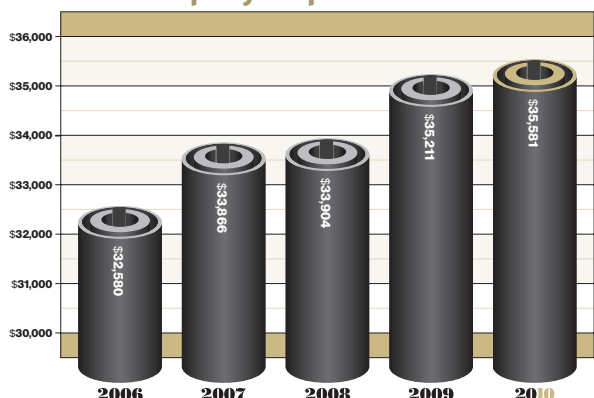
NET CASH USED IN FINANCING ACTIVITIES totaled \$25.6 million for the year ended December 31, 2010. Net cash provided by financing activities totaled \$2.9 million for the year ended December 31, 2009. The net cash used in financing activities in 2010 was primarily attributable to a decrease in borrowings of \$4.1 million and a decrease in deposits of \$19.1 million,

Management feels that it has the capital adequacy, profitability, liquidity and reputation to meet the current and projected financial needs of its customers.

Inflation

The majority of assets and liabilities of the Company are monetary in nature and therefore the Company differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation significantly affects noninterest expense, which tends to rise during periods of general inflation. Management believes the most significant impact on financial results is the Company's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest sensitive assets and liabilities and actively manages the amount of securities available for sale in order to protect against the effects of wide interest rate fluctuations on net income and shareholders' equity.

Equity Capital (In Thousands)



Report of Independent Registered Public Accounting Firm



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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
United Bancorp, Inc.
Martins Ferry, Ohio

We have audited the accompanying consolidated balance sheets of United Bancorp, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2010. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Bancorp, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Cincinnati, Ohio
March 14, 2011

Consolidated Balance Sheets

December 31, 2010 and 2009

(In thousands, except share data)

	2010	2009
Assets		
Cash and due from banks	\$ 5,006	\$ 4,862
Interest-bearing demand deposits	5,929	11,409
Federal funds sold	<u>—</u>	<u>15,000</u>
Cash and cash equivalents	<u>10,935</u>	<u>31,271</u>
Certificates of deposit in other financial institutions	2,564	17,575
Available-for-sale securities	96,155	96,585
Held-to-maturity securities	6,331	14,277
Loans, net of allowance for loan losses of \$2,740 and \$2,390 at December 31, 2010 and 2009, respectively	276,037	255,336
Premises and equipment	9,278	8,689
Federal Home Loan Bank stock	4,810	4,810
Foreclosed assets held for sale, net	1,912	1,378
Intangible assets	543	656
Accrued interest receivable	1,441	2,218
Deferred federal income taxes	801	333
Bank-owned life insurance	10,401	10,018
Other assets	<u>2,227</u>	<u>2,824</u>
Total assets	<u>\$ 423,435</u>	<u>\$ 445,970</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 131,600	\$ 130,363
Savings	52,463	45,497
Time	<u>141,383</u>	<u>168,683</u>
Total deposits	325,446	344,543
Short-term borrowings	11,843	10,277
Federal Home Loan Bank advances	43,450	49,128
Subordinated debentures	4,000	4,000
Interest payable and other liabilities	<u>3,115</u>	<u>2,811</u>
Total liabilities	<u>387,854</u>	<u>410,759</u>
Stockholders' Equity		
Preferred stock, no par value, authorized 2,000,000 shares; no shares issued	<u>—</u>	<u>—</u>
Common stock, \$1 par value; authorized 10,000,000 shares; issued 5,370,304 shares	5,370	5,370
Additional paid-in capital	20,133	22,830
Retained earnings	15,308	12,761
Stock held by deferred compensation plan; 2010 – 176,392 shares, 2009 – 155,198 shares	(1,657)	(1,478)
Unearned ESOP compensation	(2,311)	(2,512)
Accumulated other comprehensive loss	(707)	(507)
Treasury stock, at cost		
2010 – 45,717 shares, 2009 – 113,493 shares	<u>(555)</u>	<u>(1,253)</u>
Total stockholders' equity	<u>35,581</u>	<u>35,211</u>
Total liabilities and stockholders' equity	<u>\$ 423,435</u>	<u>\$ 445,970</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Years Ended December 31, 2010 and 2009

(In thousands, except per share data)

	2010	2009
Interest and Dividend Income		
Loans	\$ 17,513	\$ 16,746
Securities		
Taxable	2,229	4,205
Tax-exempt	1,493	1,706
Certificates of deposit in other financial institutions	143	408
Federal funds sold	76	49
Dividends on Federal Home Loan Bank and other stock	<u>213</u>	<u>241</u>
Total interest and dividend income	<u>21,667</u>	<u>23,355</u>
Interest Expense		
Deposits	4,406	5,941
Borrowings	<u>2,074</u>	<u>2,124</u>
Total interest expense	<u>6,480</u>	<u>8,065</u>
Net Interest Income	15,187	15,290
Provision for Loan Losses	<u>1,816</u>	<u>1,325</u>
Net Interest Income After Provision for Loan Losses	<u>13,371</u>	<u>13,965</u>
Noninterest Income		
Customer service fees	2,229	2,189
Net gains on loan sales	184	129
Gain on sales of securities - net	47	154
Earnings on bank-owned life insurance	423	407
Gain on sale of real estate and other repossessed assets	30	105
Other	<u>404</u>	<u>311</u>
Total noninterest income	<u>3,317</u>	<u>3,295</u>
Noninterest Expense		
Salaries and employee benefits	6,829	6,685
Net occupancy and equipment expense	1,683	1,664
Provision for losses on foreclosed real estate	90	—
Professional fees	824	762
Insurance	384	343
Deposit insurance premiums	514	866
Franchise and other taxes	505	497
Marketing expense	289	322
Printing and office supplies	261	311
Amortization of intangible assets	113	119
Core computer conversion expense	273	—
Other	<u>2,157</u>	<u>2,270</u>
Total noninterest expense	<u>13,922</u>	<u>13,839</u>
Income Before Federal Income Taxes	2,766	3,421
Provision for Federal Income Taxes	<u>219</u>	<u>516</u>
Net Income	<u>\$ 2,547</u>	<u>\$ 2,905</u>
Basic Earnings Per Share	<u>\$ 0.52</u>	<u>\$ 0.62</u>
Diluted Earnings Per Share	<u>\$ 0.52</u>	<u>\$ 0.62</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2010 and 2009

(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock and Deferred Compensation	Shares Acquired By ESOP	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2009	\$ 5,190	\$ 25,656	\$ (2,986)	\$ (2,718)	\$ 9,856	\$ (1,094)	\$ 33,904
Comprehensive income							
Net income	—	—	—	—	2,905	—	2,905
Unrealized gains on securities designated as available for sale, net of related taxes	—	—	—	—	—	296	296
Defined benefit plan	—	—	—	—	—	291	291
Total comprehensive income							3,492
Cash dividends - \$0.56 per share	—	(2,872)	—	—	—	—	(2,872)
Shares purchased for deferred compensation plan	—	240	(69)	—	—	—	171
Shares distributed from deferred compensation plan	—	(59)	59	—	—	—	—
Purchase of treasury stock - at cost	—	—	(86)	—	—	—	(86)
Common stock issuance related to share-based compensation plans	180	(180)	—	—	—	—	—
Expense related to share-based compensation plans	—	79	—	—	—	—	79
Purchase of shares by Dividend Reinvestment Plan	—	(20)	351	—	—	—	331
Amortization of ESOP	—	(14)	—	206	—	—	192
Balance, December 31, 2009	5,370	22,830	(2,731)	(2,512)	12,761	(507)	35,211
Comprehensive income							
Net income	—	—	—	—	2,547	—	2,547
Unrealized losses on securities designated as available for sale, net of related taxes	—	—	—	—	—	(213)	(213)
Defined benefit plan	—	—	—	—	—	13	13
Total comprehensive income							2,347
Cash dividends - \$0.56 per share	—	(2,960)	—	—	—	—	(2,960)
Shares purchased for deferred compensation plan	—	195	(91)	—	—	—	104
Shares distributed from deferred compensation plan	—	(45)	45	—	—	—	—
Expense related to share-based compensation plans	—	220	—	—	—	—	220
Purchase of shares by Dividend Reinvestment Plan	—	(107)	565	—	—	—	458
Amortization of ESOP	—	—	—	201	—	—	201
Balance, December 31, 2010	<u>\$ 5,370</u>	<u>\$ 20,133</u>	<u>\$ (2,212)</u>	<u>\$ (2,311)</u>	<u>\$ 15,308</u>	<u>\$ (707)</u>	<u>\$ 35,581</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

(Dollar amounts in thousands)

	2010	2009
Operating Activities		
Net income	\$ 2,547	\$ 2,905
Items not requiring (providing) cash		
Depreciation and amortization	815	748
Amortization of intangible assets	113	119
Provision for loan losses	1,816	1,325
Provision for losses on foreclosed real estate	90	—
Amortization of premiums and discounts on securities	141	256
Amortization and impairment of mortgage servicing rights	52	134
Deferred income taxes	(365)	(104)
Gain on sales of securities	(47)	(154)
Originations of loans held for sale	(14,096)	(10,687)
Proceeds from sale of loans held for sale	14,280	10,816
Net gains on sales of loans	(184)	(129)
Amortization of ESOP	201	192
Expense related to share-based compensation plans	220	79
Gain on sale of real estate and other repossessed assets	(30)	(105)
Gain on sale of premises and equipment	—	(8)
Increase in value of bank-owned life insurance	(383)	(365)
Changes in		
Accrued interest receivable	777	819
Other assets	440	(1,327)
Interest payable and other liabilities	244	(2,569)
Net cash provided by operating activities	6,631	1,945
Investing Activities		
Purchases of available-for-sale securities	(104,099)	(67,773)
Proceeds from maturities of available-for-sale securities	100,674	94,909
Proceeds from sales of available-for-sale securities	3,489	5,999
Proceeds from maturities of held-to-maturity securities	6,927	1,444
Proceeds from sales of held-to-maturity securities	971	—
Net changes in certificates of deposit in other financial institutions	15,011	(17,575)
Net change in loans	(23,604)	(22,214)
Purchases of premises and equipment	(1,404)	(1,014)
Proceeds from sales of premises and equipment	—	51
Proceeds from sales of foreclosed assets	676	1,137
Net cash used in investing activities	(1,359)	(5,036)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows *Continued*

Years Ended December 31, 2010 and 2009

(Dollar amounts in thousands)

	2010	2009
Financing Activities		
Net decrease in deposits	\$ (19,097)	\$ (2,502)
Net change in Federal Home Loan Bank advances and short term borrowings	(4,113)	7,851
Cash dividends paid	(2,960)	(2,872)
Proceeds from purchase of shares by the dividend reinvestment plan	458	331
Purchase of treasury stock	—	(86)
Shares purchased for deferred compensation plan	<u>104</u>	<u>171</u>
Net cash (used in) provided by financing activities	<u>(25,608)</u>	<u>2,893</u>
Decrease in Cash and Cash Equivalents	(20,336)	(198)
Cash and Cash Equivalents, Beginning of Year	<u>31,271</u>	<u>31,469</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,935</u>	<u>\$ 31,271</u>
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	<u>\$ 6,541</u>	<u>\$ 8,136</u>
Federal income taxes paid	<u>\$ 445</u>	<u>\$ 557</u>
Supplemental Disclosure of Non-Cash Investing Activities		
Transfers from loans to foreclosed assets held for sale	<u>\$ 1,271</u>	<u>\$ 1,002</u>
Unrealized (losses) gains on securities designated as available for sale, net of related tax effects	<u>\$ (213)</u>	<u>\$ 296</u>
Change in unfunded status of defined benefit plan liability	<u>\$ 20</u>	<u>\$ 447</u>
Recognition of mortgage servicing rights	<u>\$ —</u>	<u>\$ 7</u>

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

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 Company operates in two divisions, The Community Bank, a division of The Citizens Savings Bank and the Citizens Bank, a division of The Citizens Savings Bank. All intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses (and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans). In connection with the determination of the allowance for loan losses (and the valuation of foreclosed assets held for sale), management obtains independent appraisals for significant properties.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of due from accounts with the Federal Reserve and other correspondent Banks.

The financial institutions holding the Company's cash accounts are participating in the FDIC Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing accounts beginning December 31, 2010 through December 31, 2012 at all FDIC institutions.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2010, none of the Company's interest-bearing cash accounts exceeded the federally insured limit of \$250,000. At December 31, 2009, the Company's federal funds sold were invested at the Federal Home Loan Bank of Cincinnati.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. At December 31, 2010 and 2009, the Company did not have any loans originated and held for sale.

Loans

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

The accrual of interest on mortgage and commercial loans 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. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is 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.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility 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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. 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 commercial 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.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group'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.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. An accelerated method is used for tax purposes.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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, less costs to sell, 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. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Bank-Owned Life Insurance

The Company and the Bank have purchased life insurance policies on certain key executives. Company and bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Mortgage Servicing Rights

Beginning January 1, 2007, mortgage servicing rights on originated loans that have been sold are initially recorded at fair value. Mortgage servicing rights on originated loans that have been sold prior to 2007 were capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

Intangible Asset

In conjunction with an acquisition, the Company recorded a core deposit intangible asset of approximately \$812,000. This asset was recorded at fair value and is being amortized over a seven year period using the straight line method. The carrying amount and accumulated amortization of the core deposit intangible asset at December 31, 2010 was:

	Gross Carrying Amount	2010 Accumulated Amortization	2009 Accumulated Amortization
		(In thousands)	
Core deposits	\$ <u>812</u>	\$ <u>269</u>	\$ <u>156</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Amortization expense for the years ended December 31, 2010 and 2009, was \$113,000 and \$119,000, respectively. Estimated amortization expense for each of the following four years through 2014 is \$119,000 per year and is \$67,000 in 2015.

Treasury Stock

Common shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the weighted average cost.

Stock Options and Restricted Stock Awards

The Company has a share-based employee compensation plan, which is described more fully in Note 15. In accordance with the United Bancorp, Inc. 2008 Incentive Award Plan that was approved by stockholders, the Company issued restricted common stock to certain officers and directors of the Company during 2009 which is described more fully in Note 15.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if based on the weight of evidence available it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. At December 31, 2010, the Company had no uncertain tax positions.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to the examination by tax authorities for years before 2007.

Deferred Compensation Plan

Directors have the option to defer all or a portion of fees for their services into a deferred stock compensation plan that invests in common shares of the Company. Officers of the Company have the option to defer up to 50% of their annual incentive award into this plan. The plan does not permit diversification and must be settled by the delivery of a fixed number of shares of the Company stock. The stock held in the plan is included in equity as deferred shares and is accounted for in a manner similar to treasury stock. Subsequent changes in the fair value of the Company's stock are not recognized. The deferred compensation obligation is also classified as an equity instrument and changes in the fair value of the amount owed to the participant are not recognized.

Stockholders' Equity and Dividend Restrictions

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period. Dividend payments to the stockholders may be legally paid from additional paid-in capital or retained earnings.

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 and unearned ESOP shares are not deemed outstanding for earnings per share calculations.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities and changes in the funded status of the defined benefit pension plan.

Advertising

Advertising costs are expensed as incurred.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2010 and 2009, was \$6.0 million and \$4.4 million, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Available-for-sale Securities:				
December 31, 2010:				
U.S. government agencies	\$ 61,908	\$ 53	\$ (728)	\$ 61,233
State and political subdivisions	25,008	315	(28)	25,295
Government sponsored entities mortgage-backed securities	9,105	509	—	9,614
Equity securities	<u>4</u>	<u>9</u>	<u>—</u>	<u>13</u>
	<u>\$ 96,025</u>	<u>\$ 886</u>	<u>\$ (756)</u>	<u>\$ 96,155</u>
December 31, 2009:				
U.S. government agencies	\$ 57,664	\$ 35	\$ (495)	\$ 57,204
State and political subdivisions	26,000	421	(77)	26,344
Government sponsored entities mortgage-backed securities	12,466	567	(2)	13,031
Equity securities	<u>4</u>	<u>2</u>	<u>—</u>	<u>6</u>
	<u>\$ 96,134</u>	<u>\$ 1,025</u>	<u>\$ (574)</u>	<u>\$ 96,585</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Held-to-maturity Securities:				
December 31, 2010:				
State and political subdivisions	\$ <u>6,331</u>	\$ <u>179</u>	\$ <u>—</u>	\$ <u>6,510</u>
December 31, 2009:				
State and political subdivisions	\$ <u>14,277</u>	\$ <u>391</u>	\$ <u>(25)</u>	\$ <u>14,643</u>

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2010, 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. Maturities for mortgage-backed securities are presented in the table below based on their projected maturities.

	Available-for-sale Amortized Cost	Fair Value	Held-to-maturity Amortized Cost	Fair Value
	(In thousands)			
Within one year	\$ 170	\$ 171	\$ 710	\$ 715
One to five years	19,449	19,499	2,374	2,479
Five to ten years	29,444	30,013	3,247	3,316
After ten years	<u>46,958</u>	<u>46,459</u>	<u>—</u>	<u>—</u>
	96,021	96,142	6,331	6,510
Equity securities	<u>4</u>	<u>13</u>	<u>—</u>	<u>—</u>
Totals	\$ <u>96,025</u>	\$ <u>96,155</u>	\$ <u>6,331</u>	\$ <u>6,510</u>

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$66.4 million and \$81.5 million at December 31, 2010 and 2009, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Information with respect to sales of securities and resulting gross realized gains and losses was as follows:

	Year ended December 31,	
	2010	2009
	(In thousands)	
Proceeds from sales	\$ 4,460	\$ 5,999
Gross gains	104	154
Gross losses	(57)	—
Tax expense	16	52

During 2010 the Company sold one security for net proceeds of \$971,000 with an amortized cost of \$1.0 million resulting in a realized loss of \$29,000 and is included in table above under gross losses. This one security was classified on the books as held to maturity and was sold due to a credit quality downgrade of the municipality issuer.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2010 and 2009, was \$35.7 million and \$47.8 million, which represented approximately 35% and 43%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio.

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

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 December 31, 2010 and 2009:

Description of Securities	December 31, 2010				Total	
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
US Government agencies	\$ 33,215	\$ (728)	\$ —	\$ —	\$ 33,215	\$ (728)
State and political subdivisions	<u>2,484</u>	<u>(28)</u>	<u>—</u>	<u>—</u>	<u>2,484</u>	<u>(28)</u>
Total temporarily impaired securities	<u>\$ 35,699</u>	<u>\$ (756)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,699</u>	<u>\$ (756)</u>

Description of Securities	December 31, 2009				Total	
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
US Government agencies	\$ 40,699	\$ (495)	\$ —	\$ —	\$ 40,699	\$ (495)
Government sponsored entities mortgage-backed securities	651	(2)	—	—	651	(2)
State and political subdivisions	<u>4,037</u>	<u>(43)</u>	<u>2,450</u>	<u>(59)</u>	<u>6,487</u>	<u>(102)</u>
Total temporarily impaired securities	<u>\$ 45,387</u>	<u>\$ (540)</u>	<u>\$ 2,450</u>	<u>\$ (59)</u>	<u>\$ 47,837</u>	<u>\$ (599)</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The unrealized losses on the Company's investments in U.S. Government agency, mortgage-backed and municipal securities were caused primarily by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2010	2009
	(In thousands)	
Commercial loans	\$ 32,153	\$ 20,966
Commercial real estate	136,369	129,757
Residential real estate	63,378	62,128
Installment loans	<u>46,877</u>	<u>44,875</u>
Total gross loans	278,777	257,726
Less allowance for loan losses	<u>(2,740)</u>	<u>(2,390)</u>
Total loans	<u>\$ 276,037</u>	<u>\$ 255,336</u>

Activity in the allowance for loan losses for the years ended December 31, 2010 and 2009, was as follows:

	2010	2009
	(In thousands)	
Balance, beginning of year	\$ 2,390	\$ 2,770
Provision charged to expense	1,816	1,325
Losses charged off	(1,770)	(1,930)
Recoveries	<u>304</u>	<u>225</u>
Balance, end of year	<u>\$ 2,740</u>	<u>\$ 2,390</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

Impaired loans totaled \$4.7 million at December 31, 2009. An allowance for loan losses of \$984,000 related to impaired loans of \$3.3 million at December 31, 2009. At December 31, 2009, impaired loans of \$1.4 million had no related allowance for loan losses.

Interest income of \$121,000 was recognized on average impaired loans of \$6.7 million for 2009. Interest income was recognized on impaired loans on a cash basis during 2009.

At December 31, 2009, accruing loans delinquent 90 days or more (including impaired loans of \$477,000 at December 31, 2009) totaled \$971,000. Non-accruing loans at December 31, 2009 (including impaired loans of \$4.2 million) were \$5.4 million.

Allowance for Loan Losses and Recorded Investment in Loans For the Year Ended December 31, 2010

	Commercial					Total
	Commercial	Real Estate	Installment	Residential	Unallocated	
	(In thousands)					
Allowance for loan losses:						
Balance, beginning of year	\$ 890	\$ 999	\$ 251	\$ 100	\$ 150	\$ 2,390
Provision charged to expense	(110)	1,339	296	197	94	1,816
Losses charged off	(256)	(775)	(579)	(160)	—	(1,770)
Recoveries	37	3	261	3	—	304
Balance, end of year	<u>\$ 561</u>	<u>\$ 1,566</u>	<u>\$ 229</u>	<u>\$ 140</u>	<u>\$ 244</u>	<u>\$ 2,740</u>
Ending balance: individually evaluated for impairment	<u>\$ 486</u>	<u>\$ 1,226</u>	<u>\$ —</u>	<u>\$ 60</u>	<u>\$ —</u>	<u>\$ 1,772</u>
Ending balance: collectively evaluated for impairment	<u>\$ 75</u>	<u>\$ 340</u>	<u>\$ 229</u>	<u>\$ 80</u>	<u>\$ 244</u>	<u>\$ 968</u>
Loans:						
Ending balance: individually evaluated for impairment	<u>\$ 1,184</u>	<u>\$ 5,852</u>	<u>\$ —</u>	<u>\$ 238</u>	<u>\$ —</u>	<u>\$ 7,274</u>
Ending balance: collectively evaluated for impairment	<u>\$ 30,969</u>	<u>\$ 130,517</u>	<u>\$ 46,877</u>	<u>\$ 63,140</u>	<u>\$ —</u>	<u>\$ 271,503</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The following tables show the portfolio quality indicators as of December 31, 2010:

Loan Class	Commercial Real Estate			
	Commercial	Real Estate	Residential	Installment
	(In thousands)			
Pass Grade	\$ 28,416	\$ 122,795	\$ 62,517	\$ 46,877
Special Mention	134	1,141	623	—
Substandard	3,603	12,198	238	—
Doubtful	—	235	—	—
	<u>\$ 32,153</u>	<u>\$ 136,369</u>	<u>\$ 63,378</u>	<u>\$ 46,877</u>

Loan Portfolio Aging Analysis As of December 31, 2010

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
	(In thousands)						
Commercial	\$ 265	\$ 201	\$ 25	\$ 300	\$ 791	\$ 31,362	\$ 32,153
Commercial real estate	567	525	—	3,163	4,255	132,114	136,369
Installment	421	159	—	240	820	46,057	46,877
Residential	<u>529</u>	<u>279</u>	<u>—</u>	<u>823</u>	<u>1,631</u>	<u>61,747</u>	<u>63,378</u>
Total	<u>\$ 1,782</u>	<u>\$ 1,164</u>	<u>\$ 25</u>	<u>\$ 4,526</u>	<u>\$ 7,497</u>	<u>\$ 271,280</u>	<u>\$ 278,777</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Impaired Loans as of and for the Year Ended December 31, 2010

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In thousands)				
Loans without a specific valuation allowance:					
Commercial	\$ 518	\$ 518	\$ —	\$ 510	\$ 22
Commercial real estate	1,186	1,186	—	1,172	45
Residential	<u>77</u>	<u>77</u>	<u>—</u>	<u>69</u>	<u>4</u>
	1,781	1,781	—	1,751	71
Loans with a specific valuation allowance:					
Commercial	666	666	486	648	38
Commercial real estate	4,666	4,666	1,226	4,688	80
Residential	<u>161</u>	<u>161</u>	<u>60</u>	<u>148</u>	<u>3</u>
	5,493	5,493	1,772	5,484	121
Total:					
Commercial	<u>\$ 1,184</u>	<u>\$ 1,184</u>	<u>\$ 486</u>	<u>\$ 1,158</u>	<u>\$ 60</u>
Commercial Real Estate	<u>\$ 5,852</u>	<u>\$ 5,852</u>	<u>\$ 1,226</u>	<u>\$ 5,860</u>	<u>\$ 125</u>
Residential	<u>\$ 238</u>	<u>\$ 238</u>	<u>\$ 60</u>	<u>\$ 217</u>	<u>\$ 7</u>

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2010, the Company had approximately \$633,000 of commercial real estate loans that were modified in troubled debt restructurings and impaired. In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of approximately \$386,000 of commercial real estate loans.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2010	2009
	(In thousands)	
Land, buildings and improvements	\$ 11,941	\$ 11,746
Leasehold improvements	264	264
Furniture and equipment	9,160	8,389
Computer software	<u>1,822</u>	<u>1,465</u>
	23,187	21,864
Less accumulated depreciation	<u>(13,909)</u>	<u>(13,175)</u>
Net premises and equipment	<u>\$ 9,278</u>	<u>\$ 8,689</u>

Note 6: Loan Servicing

The Company has recognized servicing rights for residential mortgage loans sold with servicing retained.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was \$24.6 million and \$29.5 million at December 31, 2010 and 2009, respectively. Contractually specified servicing fees, late fees and ancillary fees of approximately \$69,000 and \$78,000 are included in loan servicing fees in the income statement at December 31, 2010 and 2009, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$163,000 and \$187,000 at December 31, 2010 and 2009, respectively.

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value of mortgage servicing rights.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Activity in the balance of servicing assets was as follows:

	2010	2009
	(In thousands)	
Carrying amount, beginning of year	\$ 267	\$ 394
Additions		
Servicing obligations that result from transfers of financial assets	—	7
Subtractions		
Impairment of servicing asset	(10)	(86)
Amortization	(42)	(48)
Carrying amount, end of year	\$ <u>215</u>	\$ <u>267</u>

The fair value of servicing rights subsequently measured using the amortization method was as follows:

Fair value, beginning of year	\$ 267	\$ 394
Fair value, end of year	\$ 215	\$ 267

Mortgage servicing rights are included in other assets on the consolidated balance sheets.

Note 7: Interest-bearing Deposits

Interest-bearing deposits in denominations of \$100,000 or more were \$40.9 million at December 31, 2010 and \$51.6 million at December 31, 2009.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

Due during the year ending December 31,	(In thousands)
2011	\$ 58,928
2012	41,557
2013	14,817
2014	5,694
2015	6,336
Thereafter	<u>14,051</u>
	\$ <u>141,383</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 8: Borrowings

At December 31, advances from the Federal Home Loan Bank were as follows:

	2010	2009
	(In thousands)	
Maturities February 2011 through August 2025, primarily at fixed rates ranging from 2.88% to 7.20%, averaging 3.84%	\$ 43,450	\$ —
Maturities October 2010 through August 2025, primarily at fixed rates ranging from 2.88% to 7.20%, averaging 3.83%	<u>—</u>	<u>49,128</u>
	<u>\$ 43,450</u>	<u>\$ 49,128</u>

At December 31, 2010 required annual principal payments on Federal Home Loan Bank advances were as follows:

For the year ending December 31,	(In thousands)
2011	\$ 10,542
2012	402
2013	5,386
2014	247
2015	187
Thereafter	<u>26,686</u>
	<u>\$ 43,450</u>

Additionally, as a member of the Federal Home Loan Bank system the Bank had the ability to obtain up to \$2.5 million in additional borrowings based on securities pledged to the FHLB at both December 31, 2010 and 2009. At December 31, 2010 and 2009, the Bank had approximately \$98.0 million and \$50.6 million, respectively, of one- to four-family residential real estate loans pledged as collateral for borrowings. Also at December 31, 2010, the Company and the Bank have cash management lines of credit with various correspondent banks (excluding FHLB cash management lines of credit) enabling additional borrowings of up to \$15.0 million.

Short-term borrowings include approximately \$11.3 million and \$10.0 million at December 31, 2010 and 2009, respectively, of securities sold under agreements to repurchase. At December 31, 2010 and 2009, approximately \$522,000 and \$265,000, respectively, for treasury tax and loan obligations was included in short term borrowings.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Securities sold under agreements to repurchase are financing arrangements whereby the Company sells securities and agrees to repurchase the identical securities at the maturities of the agreements at specified prices. Physical control is maintained for all securities sold under repurchase agreements. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2010	2009
	(Dollars in thousands)	
Balance outstanding at year end	\$ 11,321	\$ 10,012
Average daily balance during the year	\$ 12,734	\$ 10,999
Average interest rate during the year	0.21%	0.39%
Maximum month-end balance during the year	\$ 14,931	\$ 13,329
Weighted-average interest rate at year end	0.21%	0.39%

Securities with an approximate carrying value of \$13.6 million and \$13.3 million at December 31, 2010 and 2009, respectively, were pledged as collateral for repurchase borrowings.

Note 9: Subordinated Debentures

In 2005, a Delaware statutory business trust owned by the Company, United Bancorp Statutory Trust I ("Trust I" or the "Trust"), issued \$4.0 million of mandatorily redeemable debt securities. The sale proceeds were utilized to purchase \$4.0 million of the Company's subordinated debentures which mature in 2035. The Company's subordinated debentures are the sole asset of Trust I. The Company's investment in Trust I is not consolidated herein as the Company is not deemed the primary beneficiary of the Trust. However, the \$4.0 million of mandatorily redeemable debt securities issued by the Trust are includible for regulatory purposes as a component of the Company's Tier I Capital. Interest on the Company's subordinated debentures is fixed at 6.25% and is payable quarterly.

Note 10: Income Taxes

The provision for income taxes includes these components:

	2010	2009
	(In thousands)	
Taxes currently payable	\$ 584	\$ 620
Deferred income taxes	<u>(365)</u>	<u>(104)</u>
Income tax expense	<u>\$ 219</u>	<u>\$ 516</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2010	2009
	(In thousands)	
Computed at the statutory rate (34%)	\$ 941	\$ 1,163
Decrease resulting from		
Tax exempt interest	(484)	(547)
Earnings on bank-owned life insurance - net	(144)	(113)
Other	<u>(94)</u>	<u>13</u>
Actual tax expense	\$ <u>219</u>	\$ <u>516</u>

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2010	2009
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 488	\$ 390
Stock based compensation	106	31
Allowance for losses on foreclosed real estate	148	115
Deferred compensation	563	503
Employee benefit expense	225	132
Intangible assets	51	32
Non-accrual loan interest	28	5
Alternative minimum taxes	<u>344</u>	<u>345</u>
Total deferred tax assets	<u>1,953</u>	<u>1,553</u>
Deferred tax liabilities		
Depreciation	(143)	(170)
Deferred loan costs, net	(288)	(191)
Accretion	(22)	(34)
FHLB stock dividends	(583)	(583)
Mortgage servicing rights	(73)	(90)
Unrealized gains on securities available for sale	<u>(43)</u>	<u>(152)</u>
Total deferred tax liabilities	<u>(1,152)</u>	<u>(1,220)</u>
Net deferred tax asset	\$ <u>801</u>	\$ <u>333</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 11: Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes were as follows:

	2010	2009
	(In thousands)	
Unrealized gains (losses) on available-for-sale securities	\$ (247)	\$ 602
Reclassification adjustment for realized gains on available-for-sale securities included in income	(76)	(154)
Change in unfunded status of defined benefit plan liability	(66)	320
Amortization of prior service cost included in net periodic pension cost	15	15
Amortization of net loss included in net periodic pension cost	<u>71</u>	<u>106</u>
Components of other comprehensive income (loss), before tax effect	(303)	889
Tax expense (benefit)	<u>(103)</u>	<u>302</u>
Other comprehensive income (loss)	<u>\$ (200)</u>	<u>\$ 587</u>

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

	2010	2009
	(In thousands)	
Net unrealized gain on securities available-for-sale	\$ 130	\$ 451
Net unrealized loss for unfunded status of defined benefit plan liability	<u>(1,200)</u>	<u>(1,220)</u>
	(1,070)	(769)
Tax effect	<u>363</u>	<u>262</u>
Net-of-tax amount	<u>\$ (707)</u>	<u>\$ (507)</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 12: Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2010						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 41,672	13.9%	\$ 24,052	8.0%	\$ N/A	N/A
Citizens	40,049	13.3	24,022	8.0	30,028	10.0%
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 38,932	13.0%	\$ 12,026	4.0%	\$ N/A	N/A
Citizens	37,309	12.4	12,011	4.0	18,017	6.0%
Tier I Capital						
(to Average Assets)						
Consolidated	\$ 38,932	8.7%	\$ 17,891	4.0%	\$ N/A	N/A
Citizens	37,309	8.6	17,392	4.0	21,740	5.0%
As of December 31, 2009						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 41,425	14.4%	\$ 22,938	8.0%	\$ N/A	N/A
Citizens	38,856	13.5	22,954	8.0	28,693	10.0%
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 39,035	13.6%	\$ 11,469	4.0%	\$ N/A	N/A
Citizens	36,465	12.7	11,477	4.0	17,216	6.0%
Tier I Capital						
(to Average Assets)						
Consolidated	\$ 39,035	8.7%	\$ 17,996	4.0%	\$ N/A	N/A
Citizens	36,465	8.1	18,076	4.0	22,595	5.0%

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 13: Related Party Transactions

At December 31, 2010 and 2009, the Bank had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features. Such loans are summarized below.

	<u>2010</u>	<u>2009</u>
	(In thousands)	
Aggregate balance – January 1	\$ 9,450	\$ 10,602
New loans	1,216	399
Repayments	<u>(1,820)</u>	<u>(1,551)</u>
Aggregate balance – December 31	\$ <u>8,846</u>	\$ <u>9,450</u>

Deposits from related parties held by the Bank at December 31, 2010 and 2009, totaled \$1.0 million and \$1.9 million, respectively.

Note 14: Benefit Plans

Pension and Other Postretirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute \$250,000 to the plan in 2011.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

	Pension Benefits	
	2010	2009
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ (3,133)	\$ (2,838)
Service cost	(266)	(249)
Interest cost	(180)	(165)
Actuarial gain (loss)	(182)	5
Benefits paid	<u>449</u>	<u>114</u>
End of year	<u>(3,312)</u>	<u>(3,133)</u>
Change in fair value of plan assets		
Beginning of year	2,669	1,917
Actual return on plan assets	349	466
Employer contribution	400	400
Benefits paid	<u>(449)</u>	<u>(114)</u>
End of year	<u>2,969</u>	<u>2,669</u>
Funded status at end of year	\$ <u>(343)</u>	\$ <u>(464)</u>

Amounts recognized in accumulated other comprehensive loss not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits	
	2010	2009
	(In thousands)	
Unamortized net loss	\$ 1,155	\$ 1,159
Unamortized prior service cost	<u>45</u>	<u>61</u>
	\$ <u>1,200</u>	\$ <u>1,220</u>

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is approximately \$81,000.

The accumulated benefit obligation for the defined benefit pension plan was \$2.4 million and \$2.3 million at December 31, 2010 and 2009, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Information for the pension plan with respect to accumulated benefit obligation and plan assets is as follows:

	December 31,	
	2010	2009
	(In thousands)	
Projected benefit obligation	\$ <u>3,312</u>	\$ <u>3,133</u>
Accumulated benefit obligation	\$ <u>2,366</u>	\$ <u>2,278</u>
Fair value of plan assets	\$ <u>2,969</u>	\$ <u>2,669</u>

	December 31,	
	2010	2009
	(In thousands)	
Components of net periodic benefit cost		
Service cost	\$ 266	\$ 249
Interest cost	180	165
Expected return on plan assets	(234)	(151)
Amortization of prior service cost	15	15
Amortization of net loss	<u>71</u>	<u>106</u>
Net periodic benefit cost	\$ <u>298</u>	\$ <u>384</u>

Significant assumptions include:

	Pension Benefits	
	2010	2009
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	5.54%	5.96%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine benefit cost:		
Discount rate	5.96%	5.87%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	4.50%

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The long-term rate of return did not change from 2009 to 2010.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2010:

	Pension Benefits
	(In thousands)
2011	\$ 390
2012	174
2013	141
2014	162
2015	124
2016-2019	<u>1,914</u>
Total	<u>\$ 2,905</u>

Plan assets are held by an outside trustee which invests the plan assets in accordance with the provisions of the plan agreement. All equity and fixed income investments are held in various mutual funds with quoted market prices. Mutual fund equity securities primarily include investment funds that are comprised of large-cap, mid-cap and international companies. Fixed income mutual funds primarily include investments in corporate bonds, mortgage-backed securities and U.S. Treasuries. Other types of investments include a prime money market fund.

The asset allocation strategy of the plan is designed to allow flexibility in the determination of the appropriate investment allocations between equity and fixed income investments. This strategy is designed to help achieve the actuarial long term rate on plan assets of 8%. The target asset allocation percentages for both 2010 and 2009 are as follows:

Large-Cap stocks	Not to exceed 60%
SMID-Cap stocks	Not to exceed 20%
International equity securities	Not to exceed 15%
Fixed income investments	Not to exceed 40%
Alternative investments	Not to exceed 20%

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

At December 31, 2010 and 2009, the fair value of plan assets as a percentage of the total was invested in the following:

	December 31,	
	2010	2009
Equity securities	74.9%	75.7%
Debt securities	24.0	23.5
Cash and cash equivalents	<u>1.1</u>	<u>0.8</u>
	<u>100.0%</u>	<u>100.0%</u>

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include investments in mutual funds that involve equity, bond and money market investments. All of the Plan's assets are classified as Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2010 and 2009, the Plan did not contain Level 2 or Level 3 investments.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The fair values of Company's pension plan assets at December 31, by asset category are as follows:

		December 31, 2010			
		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)
Asset Category	Total Fair Value				
(In thousands)					
Mutual money market	\$ 32	\$ 32	\$ —	\$ —	
Mutual funds – equities					
International	209	209	—	—	
Real estate	30	30	—	—	
Large Cap	1,157	1,157	—	—	
Small and Mid Cap	799	799	—	—	
Commodities	30	30			
Mutual funds – fixed income					
Core bond	593	593	—	—	
High yield corporate	119	119	—	—	
Total	\$ 2,969	\$ 2,969	\$ —	\$ —	

December 31, 2009					
Asset Category	Total Fair Value	Fair Value Measurements Using			
		Quoted Prices	Significant		Significant
		in Active	Other	Unobservable	
		Markets for	Observable	Inputs	Inputs
		Identical Assets	Inputs		
		(Level 1)	(Level 2)		(Level 3)
(In thousands)					
Mutual money market	\$ 21	\$ 21	\$ —	\$ —	—
Mutual funds – equities					
International	212	212	—	—	—
Real estate	28	28	—	—	—
Large cap	1,045	1,045	—	—	—
Small and Mid Cap	734	734			
Mutual funds – fixed income					
Core bond	545	545	—	—	—
High yield corporate	84	84	—	—	—
Total	\$ 2,669	\$ 2,669	\$ —	\$ —	—

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan ("ESOP") with an integrated 401(k) plan covering substantially all employees of the Company. The ESOP acquired 354,551 shares of Company common stock at \$9.64 per share in 2005 with funds provided by a loan from the Company. Accordingly, \$3.4 million of common stock acquired by the ESOP was shown as a reduction of stockholders' equity. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP. The Company's 401(k) matching percentage was 50% of the employees' first 6% of contributions for 2010 and 2009.

ESOP and 401(k) expense for the years ended December 31, 2010 and 2009 was approximately \$200,000 and \$192,000, respectively.

Share information for the ESOP is as follows at December 31, 2010 and 2009:

	2010	2009
Allocated shares at beginning of the year	87,201	64,750
Shares released for allocation during the year	23,639	23,639
Shares distributed due to retirement/diversification	(869)	(1,188)
Unearned shares	<u>236,357</u>	<u>259,996</u>
Total ESOP shares	<u>346,328</u>	<u>347,197</u>
Fair value of unearned shares at December 31	\$ <u>2,059,000</u>	\$ <u>2,218,000</u>

At December 31, 2010, the fair value of the 109,971 allocated shares held by the ESOP was approximately \$958,000.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 15: Stock Option and Restricted Stock Plans

The Company's Employee Share Option Plan (the "1996 Plan"), which was stockholder approved, permitted the grant of share options to its employees. During 2008, the Company's stockholders authorized the adoption of the United Bancorp, Inc. 2008 Stock Incentive Plan (the "2008 Plan"). No more than 500,000 shares of the Company's common stock may be issued under the 2008 Plan. The shares that may be issued may be authorized but unissued shares or treasury shares. The 2008 Plan permits the grant of incentive awards in the form of options, stock appreciation rights, restricted share and share unit awards, and performance share awards. The 2008 Plan contains annual limits on certain types of awards to individual participants. In any calendar year, no participant may be granted awards covering more than 25,000 shares.

The Company believes that such awards better align the interests of its employees with those of its stockholders. Stock options are generally granted with an exercise price, and restricted stock awards are valued, equal to the market price of the Company's stock at the date of grant; stock option awards generally vest within 9.25 years of continuous service and have a 9.5 year contractual term. Restricted stock awards generally vest over a 9.5 year contractual term, or over the period to retirement, whichever is shorter. Restricted stock awards have no post-vesting restrictions. Stock options and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the Plans).

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model. There were no stock options granted in 2010 and 2009.

A summary of option activity under the Plan as of December 31, 2010, and changes during the year then ended, is presented below:

			2010	
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	53,714	\$ 10.34		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding, end of year	<u>53,714</u>	<u>\$ 10.34</u>	<u>4.2</u>	<u>\$ —</u>
Exercisable, end of year	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

A summary of the status of the Company's nonvested restricted shares as of December 31, 2010, and changes during the year then ended, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	180,000	\$ 8.35
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested, end of year	<u>180,000</u>	<u>\$ 8.35</u>

Total compensation cost recognized in the income statement for share-based payment arrangements during the years ended December 31, 2010 and 2009 was \$220,000 and \$79,000, respectively. The recognized tax benefits related thereto were \$75,000 and \$27,000, for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, there was \$1.2 million and \$1.5 million, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 7.9 years.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 16: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2010		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 2,547		
Dividends on non-vested restricted stock	<u>(101)</u>		
Net income allocated to stockholders	2,446		
Basic earnings per share			
Income available to common stockholders		4,690,458	\$ <u>0.52</u>
Effect of dilutive securities			
Restricted stock awards	<u> </u>	<u>27,192</u>	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$ <u>2,446</u>	\$ <u>4,717,650</u>	\$ <u>0.52</u>

Options to purchase 53,714 shares of common stock at an average exercise price of \$10.34 per share were outstanding at December 31, 2010, 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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

	Year Ended December 31, 2009		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 2,905		
Dividends on non-vested restricted stock	<u>(50)</u>		
Net income allocated to stockholders	2,855		
Basic earnings per share			
Income available to common stockholders		4,631,066	\$ <u>0.62</u>
Effect of dilutive securities			
Restricted stock awards	<u> </u>	<u>68</u>	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$ <u>2,855</u>	\$ <u>4,631,134</u>	\$ <u>0.62</u>

Options to purchase 53,714 shares of common stock at an average exercise price of \$10.34 per share were outstanding at December 31, 2009, 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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 17: Disclosures about Fair Value of Financial Instruments and Other Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include government agency securities, mortgage-backed securities, certain collateralized mortgage and debt obligations and certain municipal securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include other less liquid securities.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The following tables present the fair value measurements of assets recognized in the accompanying 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 December 31, 2010 and 2009:

		December 31, 2010			
		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)	
Fair Value		(In thousands)			
U.S government agencies	\$ 61,233	\$ —	\$ 61,233	\$ —	
State and political subdivisions	25,295	—	25,295	—	
Government sponsored entities mortgage-backed securities	9,614	—	9,614	—	
Equity securities	13	13	—	—	

		December 31, 2009			
		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)	
Fair Value		(In thousands)			
U.S government agencies	\$ 57,204	\$ —	\$ 57,204	\$ —	
State and political subdivisions	26,344	—	26,344	—	
Government sponsored entities mortgage-backed securities	13,031	—	13,031	—	
Equity securities	6	6	—	—	

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

Impaired Loans (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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

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 foreclosed assets held for sale primarily through evaluations of appraisals performed, and current and past offers for the real estate under evaluation.

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

December 31, 2010			
Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)			
Impaired loans	\$ 3,595	\$ —	\$ 3,595
Mortgage servicing rights	215	—	215
Foreclosed assets held for sale	238	—	238

December 31, 2009			
Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)			
Impaired loans	\$ 667	\$ —	\$ 667
Mortgage servicing rights	267	—	267
Foreclosed assets held for sale	1,002	—	1,002

Notes to Consolidated Financial Statements

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The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	\$ 10,935	\$ 10,935	\$ 31,271	\$ 31,271
Certificates of deposit in other financial institutions	2,564	2,564	17,575	17,575
Available-for-sale securities	96,155	96,155	96,585	96,585
Held-to-maturity securities	6,331	6,510	14,277	14,643
Loans, net of allowance for loan losses	276,037	276,699	255,336	248,918
Federal Home Loan Bank stock	4,810	4,810	4,810	4,810
Accrued interest receivable	1,441	1,441	2,218	2,218
Financial liabilities				
Deposits	325,446	308,387	344,543	325,179
Short-term borrowings	11,843	11,829	10,277	10,264
Federal Home Loan Bank advances	43,450	45,316	49,128	49,540
Subordinated debentures	4,000	3,412	4,000	3,093
Interest payable	337	337	398	398

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not previously discussed.

Cash and Cash Equivalents, Federal Home Loan Bank Stock, Accrued Interest Receivable and Certificates of Deposit in Other Financial Institutions

The carrying amount approximates fair value.

Held-to-Maturity Securities

Fair value is based on quoted market prices if available. If a quoted market price is not available fair value is estimated using quoted market prices for similar securities.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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. The carrying amount of accrued interest approximates its fair value.

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.

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

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

Interest Payable

The carrying amount approximates fair value.

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 December 31, 2010 and 2009.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 19: Commitments and Credit Risk

At December 31, 2010 and 2009, total commercial and commercial real estate loans made up 60.5% and 58.5%, respectively, of the loan portfolio. Installment loans account for 16.8% and 17.4%, respectively, of the loan portfolio. Real estate loans comprise 22.7% and 24.1% of the loan portfolio as of December 31, 2010 and 2009, respectively, and primarily include first mortgage loans on residential properties and home equity lines of credit.

Included in cash and due from banks as of December 31, 2010 and 2009, is \$5.1 million and \$4.3 million, respectively, of deposits with the Federal Reserve Bank of Cleveland.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2010 and 2009, the Company had outstanding commitments to originate variable rate loans aggregating approximately \$7.6 million and \$3.0 million, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days, some of which are intended for sale to investors in the secondary market. Total mortgage loans in the process of origination which are intended for sale amounted to approximately \$1.6 million and \$138,000 at December 31, 2010 and 2009, respectively. The Company had commitments to sell loans in the same amounts at December 31, 2010 and 2009.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to \$897,000 and \$676,000, at December 31, 2010 and 2009, respectively, with terms not exceeding nine months. At both December 31, 2010 and 2009, the Company had no deferred revenue under standby letter of credit agreements.

Lines of Credit and Other

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2010, the Company had granted unused lines of credit to borrowers aggregating approximately \$12.9 million and \$29.2 million for commercial lines and open-end consumer lines, respectively. At December 31, 2009, the Company had granted unused lines of credit to borrowers aggregating approximately \$23.5 million and \$31.3 million for commercial lines and open-end consumer lines, respectively.

Notes to Consolidated Financial Statements

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Current Economic Conditions

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

At December 31, 2010, the Company held approximately \$136.4 million in loans secured by commercial real estate and distributed within three distinct geographic areas in which the Company operates. Due to national, state and local economic conditions, values for commercial and development real estate have declined significantly and the market for these properties is depressed.

The accompanying consolidated financial statements have been prepared using values and information currently available to the Company.

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

Note 20: Recent Accounting Pronouncements

FASB ASC 860-10 concerning accounting for transfers of financial assets was issued in June 2009 and changes the derecognition guidance for transferors of financial assets, including entities that sponsor securitizations, to align that guidance with the original intent of previous guidance. FASB ASC 860-10 also eliminates the exemption from consolidation for qualifying special-purpose entities (QSPEs). As a result, all existing QSPEs need to be evaluated to determine whether the QSPE should be consolidated in accordance with FASB ASC 860-10.

FASB ASC 860-10 is effective as of the beginning of a reporting entity's first annual reporting period beginning after November 15, 2009 (January 1, 2010, as to the Company), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The recognition and measurement provisions of FASB ASC 860-10 must be applied to transfers that occur on or after the effective date. Early application is prohibited. FASB ASC 860-10 also requires additional disclosures about transfers of financial assets that occur both before and after the effective date. The Company adopted FASB ASC 860-10 effective January 1, 2010, as required, without material effect on its consolidated financial statements.

Notes to Consolidated Financial Statements

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FASB ASC 860-10 also improves how enterprises account for and disclose their involvement with variable interest entities (VIE's), which are special-purpose entities, and other entities whose equity at risk is insufficient or lack certain characteristics. Among other things, FASB ASC 860-10 changes how an entity determines whether it is the primary beneficiary of a variable interest entity (VIE) and whether that VIE should be consolidated. FASB ASC 860-10 requires an entity to provide significantly more disclosures about its involvement with VIEs. As a result, the Company must comprehensively review its involvements with VIEs and potential VIEs, including entities previously considered to be qualifying special purpose entities, to determine the effect on its consolidated financial statements and related disclosures. FASB ASC 860-10 is effective as of the beginning of a reporting entity's first annual reporting period that begins after November 15, 2009 (January 1, 2010, as to the Company), and for interim periods within the first annual reporting period. Earlier application is prohibited. The Company adopted FASB ASC 860-10 effective January 1, 2010, as required, without significant effect on its consolidated financial statements.

FASB Accounting Standards Update (ASU) 2010-06 on Fair Value Measurements and Disclosures (Topic 820), issued in January 2010, concerns improved disclosures about fair value measurements. The guidance requires the separate reporting of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers. The guidance also requires separate disclosure about purchases, sales, issuances and settlements in the activity in Level 3. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll-forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (January 1, 2011 for the Company), and for interim periods within those fiscal years. The Company adopted the guidance in ASU 2010-06 effective January 1, 2010, as required, without material effect on the Company's financial condition or results of operations.

FASB Accounting Standards Update (ASU) 2010-20 "Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (Topic 310), issued on July 21, 2010, concerns improved disclosures regarding the credit quality in a financial institution's loan portfolio. The guidance requires additional disaggregation of the credit portfolio by portfolio segment and class of receivable, a revised roll forward of the allowance for credit losses, presentation of the credit portfolio by credit quality indicators, an aging schedule of past due receivables, disclosure of troubled debt restructurings and purchases and sales of receivables by portfolio segment. The period-end disclosures are effective for periods ending on or after December 15, 2010 (December 31, 2010 for the Company). The activity disclosures were to be effective for periods beginning on or after December 15, 2010 (January 1, 2011 for the Company). FASB ASU 2011-01 has moved the effective date for disclosures regarding troubled debt restructurings ("TDRs") to periods ending on or after June 15, 2011 (June 30, 2011 for the Company). The Company adopted FASB ASU 2010-20 effective December 31, 2010 and the disclosures required by FASB ASU 2010-20 are included in Note 4. The adoption of FASB ASU 2010-20 as amended by FASB ASU 2011-01 is not expected to have a material effect on the Company's financial condition or results of operations.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 21: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31,	
	2010	2009
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 1,812	\$ 1,426
Investment in the Bank	37,958	37,446
Corporate owned life insurance	272	263
Other assets	<u>1,129</u>	<u>559</u>
Total assets	<u>\$ 41,171</u>	<u>\$ 39,694</u>
Liabilities and Stockholders' Equity		
Subordinated debentures	\$ 4,000	\$ 4,000
Other liabilities	1,590	483
Stockholders' equity	<u>35,581</u>	<u>35,211</u>
Total liabilities and stockholders' equity	<u>\$ 41,171</u>	<u>\$ 39,694</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Condensed Statements of Income

	Years Ended December 31,	
	2010	2009
	(In thousands)	
Operating Income		
Dividends from subsidiary	\$ 3,154	\$ 4,075
Interest and dividend income from securities and federal funds	<u>10</u>	<u>6</u>
Total operating income	3,164	4,081
General, Administrative and Other Expenses	<u>1,907</u>	<u>1,893</u>
Income Before Income Taxes and Equity in Undistributed Income of Subsidiary	1,257	2,188
Income Tax Benefits	<u>563</u>	<u>648</u>
Income Before Equity in Undistributed Income of Subsidiary	1,820	2,836
Equity in Undistributed Income of Subsidiary	<u>727</u>	<u>69</u>
Net Income	<u>\$ 2,547</u>	<u>\$ 2,905</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2010	2009
	(In thousands)	
Operating Activities		
Net income	\$ 2,547	\$ 2,905
Items not requiring (providing) cash		
Depreciation and amortization	12	12
Equity in undistributed income of subsidiary	(727)	(69)
Amortization of ESOP and share-based compensation plans	421	271
Net change in other assets and other liabilities	<u>531</u>	<u>(362)</u>
Net cash provided by operating activities	<u>2,784</u>	<u>2,757</u>
Financing Activities		
Dividends paid to stockholders	(2,960)	(2,872)
Proceeds from purchases of common stock by the dividend reinvestment plan	458	331
Treasury stock purchased	—	(86)
Shares purchased for deferred compensation plan	<u>104</u>	<u>171</u>
Net cash used in financing activities	<u>(2,398)</u>	<u>(2,456)</u>
Net Change in Cash and Cash Equivalents	386	301
Cash and Cash Equivalents at Beginning of Year	<u>1,426</u>	<u>1,125</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,812</u>	<u>\$ 1,426</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 22: Quarterly Financial Data (Unaudited)

The following table summarizes the Company's quarterly results of operations for the years ended December 31, 2010 and 2009.

2010:	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 5,530	\$ 5,513	\$ 5,403	\$ 5,221
Total interest expense	<u>1,804</u>	<u>1,715</u>	<u>1,582</u>	<u>1,379</u>
Net interest income	3,726	3,798	3,821	3,842
Provision for loan losses	360	370	321	765
Other income	776	859	849	786
Gain on sale of securities - net	-	-	47	-
General, administrative and other expense	<u>3,371</u>	<u>3,471</u>	<u>3,687</u>	<u>3,393</u>
Income before income taxes	771	816	709	470
Federal income taxes	<u>88</u>	<u>115</u>	<u>(1)</u>	<u>17</u>
Net income	\$ <u>683</u>	\$ <u>701</u>	\$ <u>710</u>	\$ <u>453</u>
Earnings per share				
Basic	\$ <u>0.14</u>	\$ <u>0.14</u>	\$ <u>0.15</u>	\$ <u>0.09</u>
Diluted	\$ <u>0.14</u>	\$ <u>0.14</u>	\$ <u>0.15</u>	\$ <u>0.09</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

2009:	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 5,913	\$ 5,861	\$ 5,841	\$ 5,740
Total interest expense	<u>2,074</u>	<u>2,027</u>	<u>2,011</u>	<u>1,953</u>
Net interest income	3,839	3,834	3,830	3,787
Provision for loan losses	324	334	338	329
Other income	789	788	828	736
Gain on sale of available-for-sale securities - net	—	25	—	129
General, administrative and other expense	<u>3,309</u>	<u>3,567</u>	<u>3,420</u>	<u>3,543</u>
Income before income taxes	995	746	900	780
Federal income taxes	<u>194</u>	<u>74</u>	<u>143</u>	<u>105</u>
Net income	\$ <u>801</u>	\$ <u>672</u>	\$ <u>757</u>	\$ <u>675</u>
Earnings per share				
Basic	\$ <u>0.17</u>	\$ <u>0.15</u>	\$ <u>0.16</u>	\$ <u>0.14</u>
Diluted	\$ <u>0.17</u>	\$ <u>0.15</u>	\$ <u>0.16</u>	\$ <u>0.14</u>



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