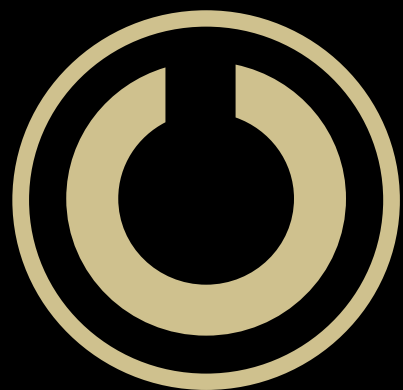




UNITED BANCORP, INC.

www.unitedbancorp.com

UNITED BANCORP INC. 2015 ANNUAL REPORT

ANNUAL REPORT

2015

UNITED BANCORP INC.



DIVIDEND AND STOCK HISTORY

	Cash Dividends Declared ⁽¹⁾	Special Cash Dividends and 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	\$ 0.56	-	-
2012	\$ 0.42	-	-
2013	\$ 0.29	-	-
2014	\$ 0.33	-	-
2015	\$ 0.37	5¢ Per Share Special Dividend	December 29, 2015

2016 ANTICIPATED DIVIDEND PAYABLE DATES

First Quarter
March 18, 2016

Second Quarter*
June 20, 2016

Third Quarter*
September 20, 2016

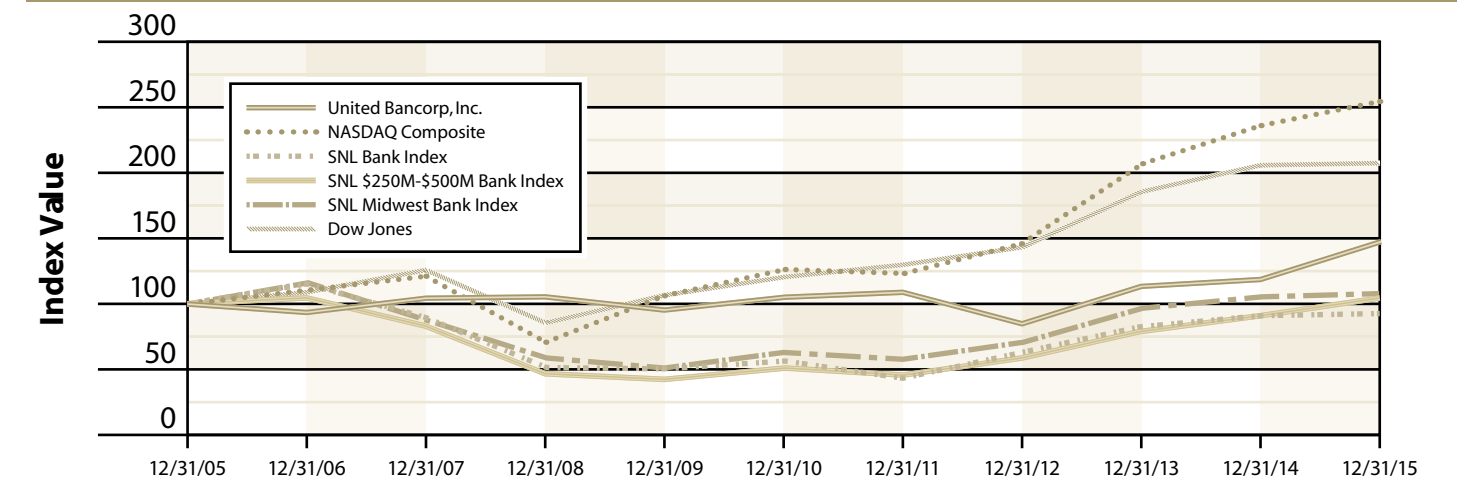
Fourth Quarter*
December 20, 2016

*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	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
United Bancorp, Inc.	100.00	94.40	104.27	105.21	96.09	104.93	108.69	84.59	113.06	118.30	147.53
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91	124.92	147.09	206.18	236.76	253.59
SNL Bank Index	100.00	116.98	90.90	51.87	51.33	57.52	44.54	60.11	82.53	92.26	93.83
SNL Bank \$250M-\$500M	100.00	104.48	84.92	48.50	44.89	50.22	47.18	58.56	79.52	90.74	103.82
SNL Midwest Bank	100.00	115.59	90.09	59.27	50.23	62.37	58.91	70.91	97.08	105.54	107.14
Dow Jones	100.00	119.04	126.71	86.25	105.81	120.69	130.81	144.20	186.95	205.72	206.20

Decade of Progress
Unaudited

	 2005	 2006	 2007	 2008	 2009	 2010	 2011	 2012	 2013	 2014	 2015
Interest and dividend income	\$ 22,181,071	\$ 25,279,212	\$ 26,603,043	\$ 25,715,309	\$ 23,354,885	\$ 21,667,356	\$ 20,211,170	\$ 18,462,265	\$ 17,025,223	\$ 16,377,445	\$ 16,082,746
Interest expense	<u>9,146,249</u>	<u>12,837,256</u>	<u>14,517,591</u>	<u>10,251,384</u>	<u>8,064,768</u>	<u>6,480,008</u>	<u>4,707,077</u>	<u>3,861,046</u>	<u>3,033,178</u>	<u>2,466,512</u>	<u>2,283,468</u>
Net interest income	13,034,822	12,441,956	12,085,452	15,463,925	15,290,117	15,187,348	15,504,093	14,601,219	13,992,045	13,910,933	13,799,278
Provision for loan losses	<u>412,000</u>	<u>1,384,261</u>	<u>993,505</u>	<u>1,188,270</u>	<u>1,325,052</u>	<u>1,816,012</u>	<u>1,968,021</u>	<u>1,127,634</u>	<u>1,240,847</u>	<u>888,000</u>	<u>552,996</u>
Net interest income after provision for loan losses	12,622,822	11,057,695	11,091,947	14,275,655	13,965,065	13,371,336	13,536,072	13,473,585	12,751,198	13,022,933	13,246,282
Noninterest income, including security gains/(losses)	2,341,826	2,297,373	3,079,567	3,066,769	3,295,030	3,317,126	3,512,340	2,937,420	4,212,273	3,697,486	3,802,215
Noninterest expense	<u>10,763,473</u>	<u>11,046,170</u>	<u>11,252,758</u>	<u>12,627,590</u>	<u>13,838,651</u>	<u>13,921,806</u>	<u>13,103,041</u>	<u>13,466,431</u>	<u>13,994,647</u>	<u>13,146,050</u>	<u>12,490,093</u>
Income before income taxes	4,201,175	2,308,898	2,918,755	4,714,834	3,421,444	2,766,656	3,945,371	2,944,574	2,968,824	3,574,369	4,558,407
Income tax expense	<u>908,647</u>	<u>240,891</u>	<u>333,926</u>	<u>955,700</u>	<u>516,524</u>	<u>219,289</u>	<u>854,447</u>	<u>546,399</u>	<u>356,544</u>	<u>923,074</u>	<u>1,334,078</u>
Net income	<u>\$ 3,292,528</u>	<u>\$ 2,068,007</u>	<u>\$ 2,584,829</u>	<u>\$ 3,759,134</u>	<u>\$ 2,904,920</u>	<u>\$ 2,547,367</u>	<u>\$ 3,090,924</u>	<u>\$ 2,398,175</u>	<u>\$ 2,612,280</u>	<u>\$ 2,651,295</u>	<u>\$ 3,224,329</u>
Total assets	\$ 411,932,779	\$ 421,653,341	\$ 451,370,187	\$ 441,804,491	\$ 445,970,296	\$ 423,434,966	\$ 415,566,563	\$ 438,353,660	\$ 389,041,557	\$ 401,811,582	\$ 405,124,408
Deposits	306,914,758	330,005,480	330,488,711	347,044,549	344,542,900	325,445,596	328,540,953	350,416,519	310,640,827	322,681,733	323,622,229
Shareholders' equity	32,479,697	32,580,485	33,885,779	33,904,759	35,211,133	35,580,582	36,181,269	36,625,833	38,870,794	40,389,103	41,496,430
Loans receivable, net	229,106,682	229,171,793	232,196,753	235,448,307	255,335,658	276,036,674	281,526,111	293,774,257	306,608,265	313,354,040	327,225,277
Allowance for loan losses	2,904,447	2,345,419	2,447,254	2,770,360	2,390,015	2,739,736	2,921,067	2,708,045	2,894,944	2,400,427	2,437,757
Net charge-offs	502,833	1,936,046	891,648	865,000	1,705,000	1,466,000	1,785,689	1,340,656	1,053,947	1,382,517	516,146
Full time employees (average equivalents)	132	132	123	142	136	146	133	134	133	132	122
Banking locations	Seventeen	Seventeen	Seventeen	Twenty	Twenty	Twenty	Twenty	Twenty	Twenty	Nineteen	Eighteen
Earnings per common share - Basic	\$ 0.71	\$ 0.45	\$ 0.57	\$ 0.82	\$ 0.62	\$ 0.52	\$ 0.63	\$ 0.49	\$ 0.53	\$ 0.54	\$ 0.65
Earnings per common share - Diluted	0.71	0.45	0.57	0.82	0.62	0.52	0.62	0.48	0.53	0.53	0.64
Dividends per share	0.43	0.48	0.52	0.54	0.56	0.56	0.56	0.42	0.29	0.33	0.37
Book value per share	7.00	7.73	7.41	7.35	7.53	7.52	7.57	7.61	8.03	8.34	8.56
Market value range per share	9.10-12.69	9.36-11.36	9.78-11.39	7.41-10.85	7.00-9.49	7.70-9.90	7.56-9.03	5.89-10.25	6.10-8.60	7.45-8.85	7.81-10.90
Cash dividends paid	\$ 2,114,723	\$ 2,415,741	\$ 2,435,317	\$ 2,707,438	\$ 2,871,801	\$ 2,959,658	\$ 2,988,155	\$ 2,253,410	\$ 1,555,912	\$ 1,773,699	\$ 1,989,431
Special Cash Dividends Paid											269,215
Return on average assets (ROA)	0.82%	0.50%	0.60%	0.86%	0.63%	0.57%	0.73%	0.55%	0.63%	0.66%	0.79%
Return on average equity (ROE)	10.01%	6.49%	8.12%	11.33%	7.56%	7.05%	8.53%	6.74%	7.02%	6.67%	7.79%

Mission Statement
United Bancorp, Inc.



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;

Although it is recognized there is more competition from non-banking businesses for market share, the general mission of United Bancorp, Inc. is to remain independent. We will accomplish this through an aggressive acquisition program, the management of technological change that will allow us to gain efficiencies and expand our boundaries outside of the typical brick and mortar framework and the placement of new office construction or acquisition when deemed economically feasible.

Adopted by The United Bancorp, Inc., Board of Directors April 15, 2015

A Letter from the President and CEO



Scott A. Everson
President and CEO

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

I am extremely happy to report that our company had a very solid performance this past year! In 2015, we produced net income of \$3.224 million, which was \$573,000, or 22% higher than the previous year. This translated into diluted earnings per share of \$0.64 in 2015, which is an improvement of \$0.11, or 21%, over 2014. As highlighted in our company's quarterly earnings reports throughout 2015, the vast majority of our growth in earnings this past year was generated on a core basis. This is of utmost importance since core earnings are recurring in nature and will continue to contribute to the earnings of our company in future periods. With the present earnings momentum that we have, it is projected that our company will continue to produce higher levels of quality earnings.

This should lead to continued growth in the cash dividend that our company pays and the market value appreciation of our company's stock. During 2015, our shareholders were handsomely rewarded by receiving a total regular cash dividend payment of \$0.37, which was a \$0.04, or 12%, increase over the previous year. At year-end, our dividend yield was 4.17% on a forward basis, which is nearly twice that of the average bank in our country. In addition, our company paid a special dividend of \$0.05 to all shareholders on December 29, 2015 in appreciation of their steadfast support of our company. Our loyal shareholders were also rewarded this past year when the market value of our stock increased to \$9.59 per share at year-end, an annualized increase of over 19%. With the anticipated continuation of core earnings growth for our company, it is strongly believed that these positive trends will continue!

Focusing on the performance of United Bancorp, Inc. in 2015, the aforementioned growth in core earnings can be attributed primarily to the following factors:

Stabilizing Net Interest Income: We were able to stabilize the level of net interest income realized during this past year; especially, during the second half of 2015. Although net interest income was marginally down by 0.80% year-over-year, most of this decline occurred during the first half of the year. This was prior to our newfound focus on growing our gross loans at a more acceptable level. At mid-year, management implemented a strategy that focused on driving the revenue-line of the company. This strategy entailed adding quality origination personnel to both the commercial and mortgage lending units of our operation. Over the course of the final two quarters of 2015, this strategy produced very positive results for our company. At the mid-point of 2015, our net interest income was down 3.56% from the previous year. This was primarily due to gross loans declining by \$3.8 million, or 1.3%, to a level of \$311.9 million. With the implementation of our new strategy and a keener focus on growing gross loans, this negative trend was reversed. By the end of 2015, our company was able to rebound and finish with gross loans of \$329.7 million. This higher level of gross loans helped our company produce net interest income in the fourth quarter that was 3.4% higher than the previous year's fourth quarter. In addition, higher loan origination volumes directly led to an increase in loan fees of over 5.6% for the year. Management firmly believes that these positive trends will continue in the coming year.

On the interest expense side of the margin, our company continued to see a positive return on its strategy of attracting additional customers into lower-cost funding accounts, while allowing higher cost funding to run off. Year-over-year, low-cost funding, consisting of demand and savings deposits, increased by \$11.1 million, while higher-cost time deposit balances decreased by \$10.2 million. This shift in the mix of our depository balances helped our company reduce interest expense levels by 7.4% this past year. It is strongly anticipated that our company will be able to control retail interest expense levels in the coming year, while significantly lowering wholesale interest expense levels. As previously mentioned, the company's \$4.1 million subordinated debenture repriced on January 1, 2016 from a fixed rate of 6.25% to a variable rate of 0.62%, based on three-month LIBOR, plus a margin of 1.35%. At this level, the company will save approximately \$177,000 annually beginning in the current year. In addition, over the course of the next 24 months, it is projected that our company's interest expense will be positively impacted by the repricing of \$26 million in fixed-rate advances with the Federal Home Loan Bank (FHLB). In May 2016, a

A Letter from the President and CEO - Continued

\$6.0 million FHLB advance matures at a rate of 3.28%. If this advance is replaced with a short-term borrowing at 50 basis points, the company will save approximately \$167,000 annually in interest expense.

With the trends of increasing interest income and decreasing interest expense, it is strongly anticipated that the company will continue to see expansion in the level of its net interest income, which began during the last two quarters of 2015. This should have a positive impact on the earnings that the company realizes in the coming year.

Continuing to Enhance Noninterest Income: Once again this past year, we were able to produce higher levels of noninterest or fee income. For the year, total noninterest income was \$3.8 million, which is a 2.81% increase over the previous year. A majority of this income was produced from an increase in service charges on deposit accounts. As previously reported, our company has a marketing strategy that is geared towards attracting active transaction accounts. This strategy has led to positive results for several years and this past year was no exception. In 2015, the company realized service charges on deposit accounts of \$2.9 million. Year-over-year, this is an increase of \$126,000 or 4.6%. Even though it is anticipated that further implementation of certain government regulations may have an impact on the level of revenue realized per account, the company's strategy of attracting a higher level of transaction accounts should mitigate any potential loss of fee-based revenue realized in this area.

Diminishing Noninterest Expense: During 2015, our company saw the continuation of a trend seen over the course of the past couple of years, which is the continuing decline of its noninterest expense levels. This continuing trend is a result of having a keen internal focus on driving efficiencies through process improvement. One process improvement initiative undertaken in 2015, which led to greater operational efficiency and cost savings, was the consolidation of the Glouster, Ohio stand-alone auto bank. In the first quarter of last year, we were able to complete a renovation project on our downtown office that added two drive-thru lanes and an ATM lane onto this office. By allowing our company to eliminate 2.5 full-time equivalent job positions, the consolidation of this stand-alone auto bank facility was immediately accretive to the earnings of our company. Being employee centric, we were able to relocate these job positions without a reduction in force for our company. Through natural attrition, we were able to utilize our associates working at the stand-alone auto bank to fill other available positions within the Athens County marketplace.

Another major initiative undertaken in 2015, to control the noninterest expense levels of our company, was the global implementation of Profit Center Accounting. The successful implementation of this new methodology changed how we evaluate the operational efficiency of each of our branches or "profit centers." Under this approach, our branch leaders have been fully educated on how to more profitably operate their own individual profit centers. Our profit center leaders can be rewarded by enhancing the profitability of the business unit(s) over which they have control. This process has created more of an "ownership" attitude and has driven our leaders to have a closer focus on the profitability, or "contribution margin," of each of our individual profit centers. Accordingly, we have experienced an increase in the level of profitability of many of our profit centers. Some of this enhanced profitability has been realized through cost savings achieved by our profit centers. Most of this cost savings relates to the elimination of approximately 7.5 full time job positions. This was accomplished through more proactive management throughout our company, which was a result of this newly initiated Profit Center Accounting concept. Even with these increased efficiencies, we were able to maintain the quality service levels that we demand and our customers expect.

Continuing the containment of noninterest expense levels may be difficult in future periods as we begin to focus on increasing the revenue-line by growing our company. In order to grow our revenue, we will need to assume additional operational overhead, by hiring more support staff and enhancing our facilities, to support the increased level of personnel that is needed to sell our quality products and services. One initiative to set the stage for this planned growth was approved last year and is presently well under way. What this initiative entails is completely renovating our main office located in Martins Ferry, Ohio. This office is our corporate headquarters and is where all of the support functions, that ensure the smooth operation of our profit centers, are located. In order to support the growth of our company envisioned within our strategic plan, we are focused on building the support infrastructure necessary to support a larger sales platform. It is anticipated that this renovation of our main office will be completed by June of this year. This much needed renovation will create the capacity to add both mortgage and commercial loan processors, along with additional loan administration staff, that can support a much larger sales force. Management anticipates that the higher level of noninterest expense created by this undertaking will be more than off-set by the enhanced revenue generated in future periods as we grow our company.

Lowering the Loan Loss Provision: Our company's credit quality improved over the course of this past year. By having improving credit quality metrics (and considering the concept of proportionality), we were able to reduce our provision for loan losses. This budgeted lowering

of the provision for loan losses contributed to our improved earnings. Nonaccrual loans remained relatively stable year-over-year at a level of \$1.0 million, or 0.32% of total loans. Net loans charged off (exclusive of overdraft charge offs) came in at \$380,000, or 0.12% of total loans, in 2015. This was a vast improvement over the \$1.2 million (exclusive of overdraft charge offs), or 0.40% of total loans, charged off in 2014. Our company also saw dramatic improvement in other real estate and repossessions ("OREO") in 2015, as balances decreased by \$783,000, or 68.6%, to the relatively low level of \$357,000. Lastly, total allowance for loan losses to total loans was 0.74%, resulting in a total allowance for loan losses to nonperforming loans of 233.5% at year-end. With very solid credit quality and robust coverage, our company should once again be able to lower its loan loss provision in 2016.

Each of these aforementioned factors was critical in allowing our company to grow core earnings in 2015. By keeping a focus in the current year on these same key functional areas, we firmly believe that we will continue to show core earnings improvement, and further improve the overall profitability of our company.

Many of the earnings improvements that we have seen over the course of the past year have come from the process changes and product enhancements that were implemented in recent years. These changes and enhancements have led to operational efficiencies, which have lowered our noninterest expense levels and increased the noninterest income that our company generates. Going forward, we will continue to focus on building our internal infrastructure--- as we are presently doing with our loan origination and support platforms--- and improve upon the products and services that we offer, such as adding new technology platforms that our customers will demand. In the area of technology, this past year we enhanced our Mobile Banking platform by introducing Remote Deposit Capture. In addition, we focused on electronic payments by setting the ground work to offer Apple Pay™, which was recently rolled out to our customer base. Although initiatives such as these will potentially increase the level of noninterest expense for our company, they will also help us achieve our new primary goal-- driving our company's revenue-line higher! Ultimately, our future success will be determined by the levels of increasing revenue that we realize. Generating higher levels of revenue, on a continual basis, should allow our company to improve our level of performance relative to peer. Our goal is to be one of the most relevant, and highest performing, community banking companies in the entire country. We realize that we need to make further progress in order to achieve this lofty level of performance; but, we firmly believe that we are presently on the proper course to get there!

Our recent internal focus on the operations of our company, to ensure its future growth, reminds me of a story that I heard a couple of years ago about the Chinese Bamboo Tree. This story is an amazing one and is as follows:

"When the seed of the Chinese Bamboo Tree is planted, watered and nurtured, for years it does not outwardly grow as much as an inch. Nothing happens for the first year. There is no sign of growth. Not even a hint. The same thing happens - or does not happen - the second year. And then the third year. The tree is carefully watered and fertilized each year, but nothing shows. No growth. No anything. So it goes as the sun rises and sets for four solid years. The farmer and his wife have nothing tangible to show for this labor or effort. Then, along comes year five. After five years of fertilizing and watering have passed, with nothing to show for it- the bamboo tree suddenly sprouts and grows eighty feet in just six weeks! Did the little tree lie dormant for four years only to grow exponentially in the fifth? Or, was the little tree growing underground, developing a root system strong enough to support its potential for outward growth in the fifth year and beyond? The answer is, of course, obvious. Had the tree not developed a strong unseen foundation, it could not have sustained its life as it grew."

I assimilate cultivating the "seed" of the Chinese Bamboo Tree to the most recent history of our company. Our keen focus on strengthening the operational foundation upon which our company is built, is akin to the farmer diligently watering his seeds with little result for quite some time. Our "Chinese Bamboo Tree," which is United Bancorp, Inc., is starting to sprout. But, we still have a long way to go to reach our full potential. In order to ensure that we reach our full potential, we have developed a vision within our company. This forward-thinking focus arose out of our most recent strategic planning and is known as "Mission 2020." Under **Mission 2020**, our goal is to grow the asset size of United Bancorp, Inc. to a level of \$1.0 billion, or greater, by the end of 2020! To achieve this level of growth, we must not only do so organically; but, also, by acquiring other community banks within a strategic footprint. It is envisioned that this footprint will include the Tri-State area of Ohio, West Virginia and Pennsylvania. We have undertaken many initiatives in recent years, which have watered, fertilized and nurtured the "seeds" of our company. In addition to these foundational improvements which have set the stage for growth opportunity, management has

A Letter from the President and CEO - Continued

also been diligently learning the intricacies of merger and acquisition. In learning the “art of the deal” and developing relationships with the investment entities that will help us achieve the level of growth that we envision, I have great confidence that we have the ability to meet the goals imagined in **Mission 2020**. As the rising tide lifts all boats, each of us, as United Bancorp, Inc. Shareholders, stands to tremendously benefit with the rising market capitalization of a growing and prosperous company!

There are many great things happening for our company, and I believe that our future is extremely promising. Our primary market, the Wheeling Metropolitan Statistical Area (MSA), is one of the fastest growing in our entire nation due to the oil and gas boom that is presently taking place. Even though the price of oil has dropped considerably over the course of the past year, which has caused economic slowdown in other regions of the country dependent on oil production, our local region has remained vibrant. We have confidence that our local region will maintain its present vibrancy, since much of the present focus is developing the infrastructure, such as pipelines and drilling pads, necessary for future production. It is hoped that the price of oil recovers to more sustainable levels in the short to intermediate term, which should be supportive of additional growth in the regions that we primarily serve. There is strong belief within the leadership of our local government, that within the next couple of years, an ethane cracker will be built in Southern Belmont County, Ohio. If this project is developed, it is projected that it will create thousands of local construction jobs lasting several years and hundreds of permanent full-time jobs once completed. But, of utmost significance, this project will spur further economic growth, since many manufacturing entities typically locate within close proximity to such ventures. This could be a real game changer for our region, and our company as we seek to grow!

We would not be experiencing our current success without the strong leadership and support of our corporate directors, who have diligently served United Bancorp, Inc. for many years. I would like to recognize two directors who finished their service with our board of directors this past year, Sam Jones and Matt Thomas. Sam retired on December 30, 2015, after achieving the mandatory retirement age of seventy-five, while Matt resigned his position from the board effective January 4, 2016, after having a change in life status. This event occurred when Matt sold his very successful insurance agency at the beginning of this year. I would like to personally thank both of these great men for providing expert guidance and astute leadership during their tenure on our board of directors. After the separation of each of these individuals from our corporate board, it was the wisdom of the present board of directors to not replace either of their open board positions. By not replacing these open positions, the United Bancorp, Inc. Board of Directors has been downsized to the minimum allowed under our corporate code of regulations, which are five. Having the minimum level of directors serving our company at the present time should be advantageous. At this level, we will have adequate capacity to support our ambitious growth goals. With such capacity, we can effect several acquisitions without growing the number of active directors to a level that could be considered excessive.

Overall, this past year was a very good one for our company as we accomplished many of the objectives established under our strategic plan and produced double-digit earnings growth. Our forward challenge is to grow the assets of our company in a fashion that will continue to produce solid and consistent earnings. Having a young and experienced management team should allow our company to grow for many years to come. There are many exciting initiatives, either presently under way or identified as part of our strategic plan, that should continue to drive the growth of our company. I can assure you that our board of directors and management team are committed to executing at a high level and making these initiatives a reality!

As always, we are extremely blessed to have a positive relationship with our shareholders, directors, officers and employees. In this sense, our company is fortunate, and we are thankful that everyone is supportive. Collectively, we will all greatly benefit from this UNITY!



Scott A. Everson
President and Chief Executive Officer
ceo@unitedbancorp.com
February 19, 2016

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



Jon C. Clark²



Scott A. Everson^{1,2,4}



Gary W. Glessner^{1,2}



John R. Herzig²



John M. Hoopingarner^{1,2}



Terry A. McGhee¹



Richard L. Riesbeck^{1,2,3}

1 = United Bancorp, Inc.

3 = Chairman - United Bancorp Inc.

2 = The Citizens Savings Bank

4 = Chairman - The Citizens Savings Bank

Directors and Officers

DIRECTORS OF UNITED BANCORP, INC.

Scott A. Everson ¹	President & Chief Executive Officer, United Bancorp, Inc. Chairman, President & Chief Executive Officer, The Citizens Savings Bank, Martins Ferry, Ohio
Gary W. Glessner ²	Certified Public Accountant, Managing Member of Glessner & Associates, PLLC; Managing Member of G & W Insurance Group, LLC; Managing Member of Wheeling Coin, LLC; Vice President of Windmill Truckers Center, Inc.; Vice President of Glessner Enterprises, Inc.; Member of Red Stripe & Associates, LLC; Managing Member of GW Rentals, LLC
John M. Hoopingarner ^{1,2,3,4}	Executive Director, Muskingum Watershed Conservancy District, New Philadelphia, Ohio
Terry A. McGhee ^{1,3}	Past President & Chief Executive Officer, Westerman Inc., Bremen, Ohio
Richard L. Riesbeck ^{1,2,3,4}	Chairman, United Bancorp, Inc., President, Riesbeck Food Markets, Inc., St. Clairsville, Ohio
James W. Everson	Chairman Emeritus 1969 - 2014

OFFICERS OF UNITED BANCORP, INC.

Scott A. Everson	President & Chief Executive Officer
Matthew F. Branstetter	Senior Vice President - Chief Operating Officer
Randall M. Greenwood	Senior Vice President, Chief Financial Officer & Treasurer
Elmer K. Leeper	Vice President - Chief Retail Banking Officer
Michael A. Lloyd	Vice President - Chief Information Officer
Chad S. Smith	Vice President - Chief Human Resource Officer
Lisa A. Basinger	Corporate Secretary

DIRECTORS OF THE CITIZENS SAVINGS BANK, MARTINS FERRY, OHIO

Jonathan C. Clark, Esq.	Attorney at Law, Lancaster, Ohio
Scott A. Everson ¹	President & Chief Executive Officer, United Bancorp, Inc. Chairman, President & Chief Executive Officer, The Citizens Savings Bank, Martins Ferry, Ohio
Gary W. Glessner ^{1,2}	Certified Public Accountant, Managing Member of Glessner & Associates, PLLC; Managing Member of G & W Insurance Group, LLC; Managing Member of Wheeling Coin, LLC; Vice President of Windmill Truckers Center, Inc.; Vice President of Glessner Enterprises, Inc.; Member of Red Stripe & Associates, LLC; Managing Member of GW Rentals, LLC
John R. Herzig	President, Toland-Herzig Funeral Homes & Crematory, Strasburg, Ohio
John M. Hoopingarner ^{1,2}	Executive Director, Muskingum Watershed Conservancy District, New Philadelphia, Ohio
Richard L. Riesbeck ^{1,2,♦}	Chairman, United Bancorp, Inc., President, Riesbeck Food Markets, Inc., St. Clairsville, Ohio
James W. Everson	Chairman Emeritus 1969 - 2014

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 Capital Market* tier of The Nasdaq Stock Market under the symbol UBCP, CUSIP #909911109. At year-end 2015, there were 5,385,304 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, 2015 to December 31, 2015 compared to the same periods in 2014 as reported by the NASDAQ.

	2 0 1 5				2 0 1 4			
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
Market Price Range								
High (\$)	\$ 8.23	9.01	10.90	9.59	\$ 8.85	8.22	8.25	8.20
Low (\$)	\$ 7.99	7.81	7.87	8.15	\$ 8.12	7.45	7.91	7.79
Cash Dividends								
Quarter (\$)	\$ 0.09	0.09	0.09	0.10	\$ 0.08	0.08	0.08	0.09
Cumulative (\$)	\$ 0.09	0.18	0.27	0.37	\$ 0.08	0.16	0.24	0.33
Special Cash Dividends \$	-	-	-	0.05				

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

Annual Meeting:

The Annual Meeting of Shareholders will be held at 2:00 p.m., April 20, 2016 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
Lisa A. Basinger
Corporate Secretary
(888) 275-5566 (EXT 6113)
(740) 633-0445 (EXT 6113)
(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:

Raymond James
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

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

The Citizens Bank Profile

A Division of The Citizens Savings Bank

OVER A CENTURY OF SERVICE AT THE CITIZENS SAVINGS BANK

In the year 1902, a group of hometown 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 former 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.

In June 2012, the Company's subsidiary The Citizens Savings Bank purchased a full service banking facility from another financial institution on the West side of St. Clairsville in the same development where the Company has been leasing space for its In Store Banking Facility since 1997.

The purchase agreement contained a one year "black out" period where the location could not be used as a financial institution. In January 2013, the Company began extensive renovations on the building and the plans called for a complete renovation of the lobby and customer service areas of the bank. In addition, the Company constructed a state of the art Training Center for staff that also offers educational seminars for current and future customers of the bank. At the time of opening in June of 2013, the Company closed its In Store Banking Facility and now has two full service banking centers including drive thru service and safe boxes in St. Clairsville, one on West side and one on East side of City.

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, Michael J. Arciello 1992 - 2009, Leon F. Favede, O.D., 1981-2012, Herman E. Borkoski, 1987-2012, James W. Everson, 1969-2014, Robin L. Rhodes, 2007-2015, Andrew C. Phillips 2007-2015, Errol C. Sambuco 1996-2015, Samuel J. Jones 2007-2015 and Matthew C. Thomas 1988-2016. On April 16, 2014, James W. Everson retired from his position as Chairman of the Board with 55 years of service to the Bank and Scott A. Everson was appointed Chairman, President and CEO of The Citizens Savings Bank.

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 combined 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.

In the first quarter of 2015, the Company completed a renovation project on our downtown Glouster, Ohio office that added two drive-thru lanes and an ATM lane onto this office. Being able to close the stand-alone auto bank facility was immediately accretive to earnings by allowing our Company to eliminate 2.5 full-time equivalent job positions.

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, 2015 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.

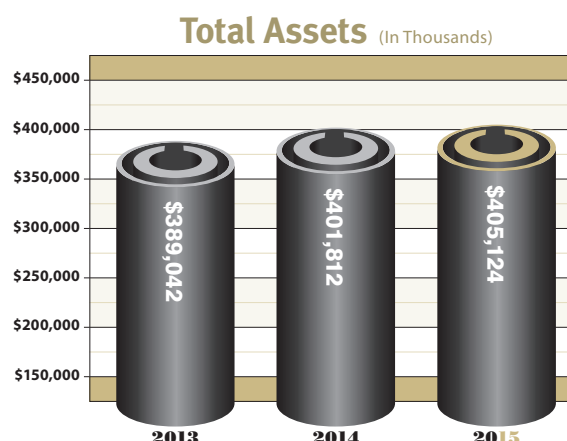
The Company does not undertake, and specifically disclaims, any obligation to publicly release any revisions that may be made to any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Financial Condition

Overview

The Company's net income realized in 2015 generated diluted earnings per share of \$0.64 for the year ended December 31, 2015 compared to \$0.53 for the year ended December 31, 2014, an increase of 21%. This growth in earnings can be attributed to several factors which are explained below in detail. The Company's diluted earnings per share for the three months ended December 31, 2015 increased 13% to \$0.17 from \$0.15 for the three months ended December 31, 2014.

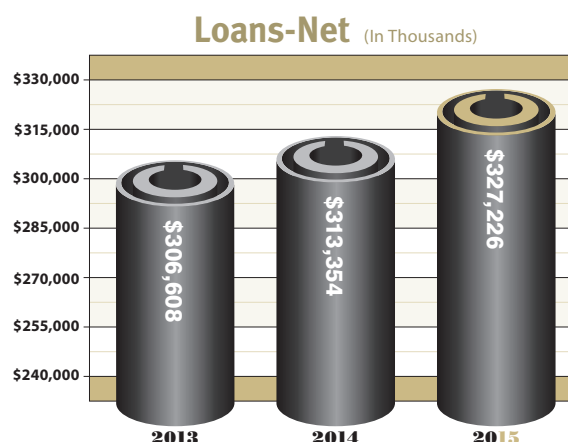
We are very happy to report on the earnings improvement of our Company, both quarterly and for the year ended December 31, 2015. The increase in the Company's earnings is reflective of the growth in loan-related earning assets for the Company, especially over the second half of 2015. The Company's net interest margin decreased slightly for 2015 to a level of 3.64% compared to 3.75% for 2014. This decrease in the net interest margin is attributed to the Company having a higher level of investment securities for 2015 as compared to 2014. Even though the yield on these short-duration securities had somewhat of a dilutive impact on the net interest margin, the increased position in these securities helped keep the Company's level of investment income relatively stable year-over-year. In addition, the net interest margin was impacted by the downward repricing of the loan portfolio in the low rate environment that continued during the course of this past year. While the Federal Open Market Committee did increase the



target for the federal funds rate by 25 basis points in December 2015, this did not impact the Company's revenue stream given that the adjustment was made so late in the year. Period-over-period, the Company's average loans increased \$4.6 million while gross loans increased by \$13.9 million or 4.40%. As previously mentioned, the Company generated strong loan growth during the final two quarters of 2015 which led to an increase in the level of net interest income that the Company realized in each of these final two quarters. It is strongly anticipated that this positive trend will continue in 2016. The Company maintained its funds management policy by keeping the majority of its surplus funding in very liquid, lower-yielding excess reserves at the Federal Reserve, which totaled \$30.4 million on an average basis for 2015, and resisting the

temptation of extending the duration of its investment portfolio to achieve higher investment yields; although, investment in shorter-duration securities accelerated for the year. As a result, the securities and other restricted stock balance increased by \$14.8 million to a level of \$38.8 million at year end. On a year-over-year basis, the Company's credit quality has not changed significantly as nonaccrual loans marginally increased by \$86,000 to a level of \$1.0 million, or 0.32%, of total loans. Net loans charged off (exclusive of overdraft charge offs) for 2015 were \$380,000, or 0.12% of average loans, as compared to \$1.2 million (exclusive of overdraft charge offs), or 0.40%, for 2014. In addition, the Company continued to see a decrease in its other real estate and repossessions ("OREO") as balances decreased by \$783,000, or 68.6%, during the course of this past year to a level of \$357,000. Lastly, the overall total allowance for loan losses to total loans was 0.74% resulting in a total allowance for loan losses to nonperforming loans of 233.46% at December 31, 2015 compared to 0.76% and 250.45% respectively at December 31, 2014. With this continued trend of improving credit quality and strong coverage, the Company projects a further reduction of its provision for loan losses which should have a positive impact on future earnings.

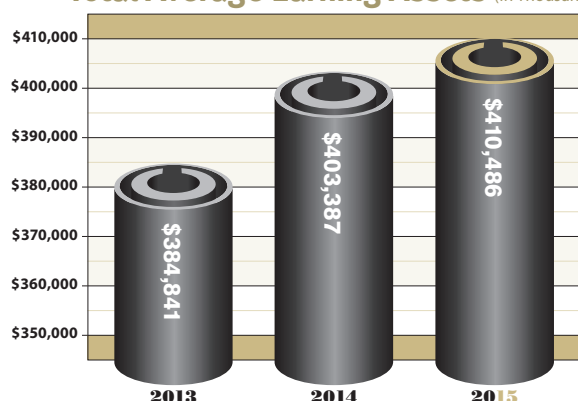
On the liability-side of the balance sheet, the Company continued to see a positive return on its strategy of attracting additional customers into lower-cost funding accounts while allowing higher-cost funding to run off. Year-over-year, low-cost funding, consisting of demand and savings deposits, increased by \$11.1 million while higher-cost time deposit balances decreased by over \$10.2 million, helping to reduce the overall interest expense of the Company. The Company continued to see the positive impact of attracting a higher number of active transaction accounts which resulted in service charges on deposit accounts increasing by \$127,000, or 4.60%, on a year-over-year basis as of December 31, 2015. It is projected that this trend will continue even with the Government mandated regulations relating to the Dodd-Frank Act being more fully implemented. The heightened implementation of this legislation may potentially have a limiting effect on the level of revenue realized per account which should be offset by the Company's focus on attracting a higher number of transaction accounts that can generate fee-based income. Lastly, noninterest expense decreased on a year-over-year basis by \$656,000 or 5.0%. As previously announced, the Company's office consolidation in its Glouster, Ohio marketplace was completed late in the first quarter of 2015 and has lead to additional cost savings which should help to further contain noninterest expense in future periods. Our goal is to control our level of noninterest expense while continuing to build and strengthen our operational foundation which should lead to future growth, higher levels of operating income and, ultimately, a higher level of performance. Over the



next 24 months, it is projected that the Company's interest expense will be positively impacted by the repricing of \$26 million in fixed-rate advances with the Federal Home Loan Bank ("FHLB") that are set to mature. The average cost of these advances is 3.66% and, given the current interest rate environment, should lead to continued savings in interest expense. In May 2016, a \$6.0 million FHLB advance matures at a rate of 3.28%. If this advance is replaced with a short term borrowing at a current rate of 50 basis points, the Company will save approximately \$167,000 annually in interest expense beginning in May 2016. In addition, the Company's \$4.1 million subordinated debenture repriced on January 1, 2016 from a fixed rate of 6.25% to a variable rate of 0.62% based on the three-month LIBOR plus a margin of 1.35%. At this level, the Company will save approximately \$177,000 in interest expense annually beginning this year. With our continued focus of shifting lower-yielding liquid assets into higher-yielding quality loans, growing service charge income on deposit accounts, controlling of our noninterest expense, reducing our interest expense in 2016 and the budgeted lowering of our loan loss provision even further, we are projecting continued improvement in our earnings for 2016.

The results that we are seeing today are reflective of the somewhat conservative posturing that we undertook in recent years in the aftermath of the Great Recession to protect both our capital base and earnings stream. Most of the earnings improvements that we have seen over the course of the past eighteen months have come from process changes and product enhancements implemented in recent years that have led to operational efficiencies which have lowered our non-interest expense levels while driving higher levels of fee-based revenue for our Company. We are currently pleased with the results that we are now seeing and will continue looking for additional opportunities that will help our organization become more operationally efficient, generate higher levels of revenue and produce higher levels of quality earnings. Being a very well capitalized Bank in today's environment will allow us to enhance our focus in the coming quarters on further

Total Average Earning Assets (In Thousands)



implementing the growth strategy that was initiated late in the second quarter of 2015 which exclusively focuses on driving the loan volumes of our company. This strategy, which entails adding additional origination personnel to our commercial and residential lending platforms and enhancing the lending programs that our Company offers, should generate higher levels of interest and fee-based revenue in the coming quarters. Although it is anticipated that such initiatives will lead to higher non interest expense levels for our Company, the projected revenue generated and earnings produced should be far greater. We have begun to see the results of this initiative with our gross loans increasing by \$13.9 million year-over-year. Most of this growth occurred during the last two quarters of this past year. With this recent momentum, we strongly anticipate that this newly initiated revenue enhancement strategy, along with the aforementioned downward pricing of a large portion of our borrowed funds base, should help enhance the overall operating income that our Company generates over the course of the next twenty-four months and drive earnings growth at levels similar to what we have seen in recent quarters. Our Company is beginning to be rewarded by the markets for this level of performance as we have seen the market value of our stock increase from \$8.07 at year-end 2014 to \$9.59 at year-end 2015, an increase of 19%. With our Company's present price-to-earnings multiple and projected direction of earnings, we believe that our stock can continue to trade at higher market valuations in the near term. Our number one focus continues to be protecting and growing our shareholders' investment in our Company through sound and profitable operations and strategic growth. In addition to driving the market value appreciation of our shareholders' ownership, we will continue striving to reward our owners by paying a solid cash dividend. Our Company's dividend payout increased 12.1% year-over-year and is presently yielding 4.17% on a forward basis (not including the recently paid special cash dividend.) At this level, our Company's cash dividend is yielding nearly twice that of the average bank in our country. In addition, on December 29,

2015, the Company paid a special dividend of \$0.05 which provides for a total cash dividend payout of \$0.42 per common share by our Company in 2015. Overall, we are very pleased with the present operating performance of our Company and the direction that we are going. We look forward to carrying the earnings momentum seen this past year into 2016!

Earning Assets – Loans

Gross loans totaled \$315.8 million at December 31, 2014, representing a 4.4% increase to \$329.7 million at December 31, 2015. Average loans totaled \$313.7 million for 2014, representing a 1.4% increase compared to average loans of \$318.3 million for 2015.

The increase in gross loans from December 31, 2014 to December 31, 2015 was primarily an increase in commercial and commercial real estate loans by \$20.1 million which was offset by a decrease of \$3.8 million in installment loans and a decrease of \$2.4 million in residential real estate.

The Company's commercial and commercial real estate loan portfolio represents 70.0% of the total portfolio at December 31, 2015, compared to 66.7% at December 31, 2014. During this past year, we found many new customers within our lending areas and our focus continues on our small business customers that operate in our defined market area. We utilize 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 5.3% of the total portfolio at December 31, 2015, compared to 6.7% at December 31, 2014. 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.

The Company's residential real estate portfolio represents 24.7% of the total portfolio at December 31, 2015, compared to 26.6% at December 31, 2014. Residential real estate loans are comprised of 1, 3, and 5 year adjustable-rate mortgages and 15 fixed rate loans used to finance 1-4 family units. The Company also offers fixed-rate real estate loans through our Secondary Market Real Estate Mortgage Program. 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 2015, the interest rate environment continued to be favorable to the secondary market fixed-rate mortgage loan product. However, the secondary market origination volume was impacted by an issue that has developed in the overall industry related to higher risk sub-prime 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 \$42,000 in 2015 and a gain of \$30,000 in 2014.

The allowance for loan losses represents the amount which management and the Board of Directors estimates is 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 if the loan is well secured. If the loan is not deemed well secured, payments are credited to principal.

Management and the Board of Directors believe 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

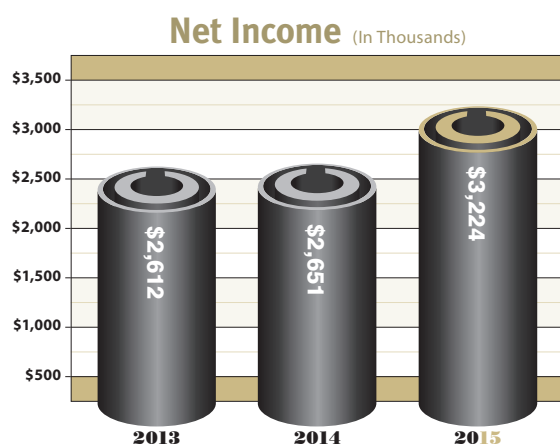
The securities portfolio is comprised of U.S. Government and agency obligations, tax-exempt obligations of states and political subdivisions and certain other investments. The Company does not hold any derivative securities. The quality rating of the majority of the Bank's securities issued by political subdivisions is generally no less than A. 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, 2015 increased \$15.3 million, or 79.0%, from 2014, while the last securities in the held to maturity portfolio were either called or matured in 2015. The Company does not anticipate using the held to maturity designation over the near term. 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 2015 and to extent in 2014. 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. In addition, given the historical low interest rate environment, there is concern on the duration of future purchases in the investment portfolio.

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 time deposits, excluding certificates of deposit greater than \$100,000. During 2012, the Company implemented a new marketing strategy promoting newly redesigned deposit account types. Total deposits decreased \$941,000 or less than 1.0% from \$322.7 million at December 31, 2014 to \$323.6 at December 31, 2015, total deposit shifted from higher costing certificates of deposit to lower costing transactional and savings accounts

The Company has a strong deposit base from 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.

Certificates of deposit greater than \$100,000 are not considered part of core deposits and as such are used to balance rate sensitivity as a tool of funds management. At December 31, 2015, certificates of deposit greater than \$100,000 decreased \$2.5 million, or 14.8%, from December 31, 2014 totals. During 2014, growth in lower costing deposits contributed to a planned reduction in certificates of deposit. The Company does not differentiate pricing for certificates of deposit that are greater than \$100,000.

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 LPL Financial®.

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

Other interest-bearing liabilities include securities sold under agreements to repurchase, and Federal Home Loan Bank (“FHLB”) advances. Securities sold under agreements to repurchase decreased approximately \$593,000 from December 31, 2014 to December 31, 2015.

Advances from the Federal Home Loan Bank (FHLB) decreased \$189,000, or 0.7%, from December 31, 2014 to December 31, 2015.

Performance Overview 2015 to 2014

Net Income

The Company reported net income of \$3.2 million in 2015 compared with \$2.7 million for 2014, an increase of \$573,000, or 21.6%. On a per share basis, the Company’s diluted earnings per share were \$0.64 for 2015, as compared to \$0.53 for 2014. This earnings performance equates to a 0.79% Return on Average Assets (“ROA”) and an 7.73% Return on Average Equity (“ROE”) for 2014 compared to 0.66% and 6.67%, for 2014.

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. Comparing the year ended December 31, 2015 to 2014, the Company’s net interest margin was 3.64% compared to 3.75%, a decrease of 11 basis points

Average interest-earning assets increased \$6.8 million in 2015 as compared to 2014 while the associated weighted-average yield on these interest-earning assets decreased from 4.41% in 2014 to 4.24% for 2015. Average interest-bearing liabilities increased \$3.1 million in 2015 as compared to 2014, while the associated weighted-average costs on these interest-bearing liabilities decreased from 0.84% in 2014 to 0.77% in 2015.

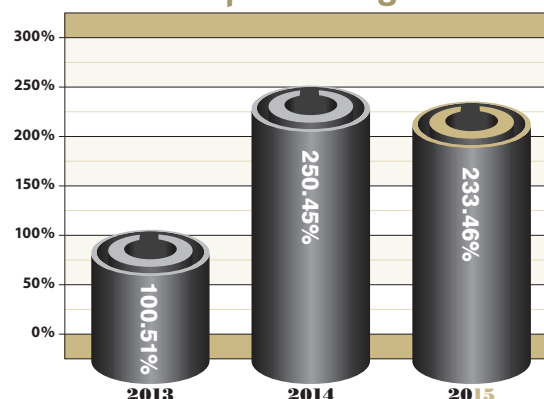
Refer to the sections on Asset and Liability Management and Sensitivity to Market Risks and Average Balances, Net Interest Income and Yields Earned and Rates Paid elsewhere herein for further information.

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 by Management and the Board of Directors to cover probable incurred losses in the portfolio.

Gross loans were up \$13.9 million year-over-year to a level of \$329.7 million as of December 31, 2015. During this same period, the Company’s credit quality remained relatively constant as non-accrual loans were up \$86,000, or 8.95%, to a level of \$1.0 million and net loans charged off were down by \$866,000, or 69.48%, to a level of \$380,000 (exclusive of overdraft charge off). With this overall improvement in credit quality, the Company decreased the provision for loan losses which was \$553,000 for the year ended December 31, 2015 compared to \$888,000 for the year ended December 31, 2014, a decrease of \$335,000 year-over-year, the provision for losses relating to the Company’s Overdraft Privilege Program increased \$27,000 as a result of a customer marketing strategy that has increased active demand deposit accounts now

Total Allowance for Loan Losses to Nonperforming Loans



eligible for this program. Overall, the decreased loan loss provision net of loans charged off resulted in a total allowance for loan losses to total loans of 0.74% and a total allowance for loan losses to nonperforming loans of 233.46%, compared to 0.76% and 250.45% at year end 2014. With this continued trend of improving credit quality and coverage, the Company projects a decrease of its provision for loan losses which will have a positive impact on future core earnings.

Noninterest Income

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

Noninterest income for the year ended December 31, 2015 was \$3.8 million, an increase of \$104,000, or 2.81%, compared to \$3.7 million for the year ended December 31, 2014. A positive effect of attracting a higher number of transaction accounts was the Company's service charges on deposit accounts increased by \$126,000 for 2015 as compared to 2014. It is projected this trend will continue even with the continuing Government mandated regulations relating to the Dodd-Frank Act being more fully implemented, which have had a limiting effect on the level of revenue realized per account. This has been offset by the Company's focus on attracting more transaction account customers and having a higher overall level of transaction accounts that can generate fee based income.

Noninterest Expense

Noninterest expense for 2015 decreased \$656,000, or 5.00%, as compared to 2014.

Salaries and employee benefits decreased \$175,000, or 2.7%, from 2014 to 2015. This decrease was primarily due to the Company controlling benefits and insurance costs by implementing certain cost saving strategies over the past several years.

Occupancy and equipment expense decreased \$53,000, or 2.7%. As previously announced, the Company's office consolidation in its Glouster, Ohio marketplace was completed late in the first quarter of 2015 and has lead to additional cost savings which should help to further contain noninterest expense in future periods.

Professional fees decreased \$70,000, or 9.3%, for 2015 as compared to 2014. This decrease is due to decreased collection efforts as the Company's credit quality has improved.

The provision for losses on foreclosed real estate was \$60,000 for 2015 as compared to \$98,000 for 2014. With the trend of lower other real estate owned it is anticipated the Company will have lower provision for losses on these properties in the upcoming year.

Marketing expense decreased \$117,000, or 28.1%, for 2015 as compared to 2014. During 2012, the Company implemented a new marketing strategy focusing on attracting a larger percentage of low cost funding at each of its banking locations by using direct mail. This marketing strategy was utilized since then and other marketing items were eliminated to keep control overall marketing costs to the Company.

In conjunction with the September 2008 branch acquisition from the Federal Deposit Insurance Corporation, the Company recorded an intangible asset of approximately \$812,000

(In thousands)		2015	2014
Noninterest income			
Customer service fee	\$	2,876	\$ 2,750
Gains on sales of loans		42	30
Other income		884	918
Total noninterest income	\$	<u>3,802</u>	<u>\$ 3,698</u>
Noninterest expense			
Salaries and employee benefits	\$	6,393	\$ 6,568
Occupancy and equipment		1,918	1,971
Provision for losses on foreclosed real estate		60	98
Professional services		679	749
Insurance		253	297
Deposit insurance premiums		236	253
Franchise and other taxes		287	266
Marketing expense		300	417
Printing and office supplies		142	185
Amortization of intangibles		66	119
Other expenses		<u>2,156</u>	<u>2,223</u>
Total noninterest expense	\$	<u>12,490</u>	<u>\$ 13,146</u>

consisting of a core deposit intangible. This asset was recorded at fair value and is being amortized over seven years using a straight line method. During 2015, the Company recorded amortization expense of approximately \$66,000 and \$119,000 during 2014. This asset was fully amortized during 2015.

Other expenses decreased \$79,000, or 3.5%. No single item contributed significantly to this decrease.

Income tax expense for 2015 was \$1.3 million compared to \$923,000 in 2014, an increase of \$441,000. The Company's effective income tax rate was 29.3% in 2015 and 25.8% in 2014. 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, and gap management and spread management.

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. Generally, a negative gap position will cause profits to decline in a rising interest rate environment and cause profits to increase in a falling interest rate environment. Conversely a positive gap will cause profits to decline in a falling interest rate environment and increase in a rising 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.

The projected volatility of the net present value at both December 31, 2015 and 2014 fall within the general guidelines established by the Board of Directors. The 2015 NPV table shows that in a falling interest rate environment, in the event of a 100 basis point change, the NPV would decrease 11%, and with a 200 basis point change the NPV would decrease 32%. This decrease is the result of fixed rate certificates of deposit and Federal Home Loan Bank advances 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 5% with a 100 basis point interest rate increase. In a 200 basis point rate increase, the Company's NPV would increase 7%. This increase is attributable to a portion of the Company's loan and investment portfolios that have variable rates. In addition, the Company has approximately \$12.7 million in cash and cash equivalents and approximately \$246 million, or approximately 74%, in adjustable rate loans at December 31, 2015. As short term rates would rise in a shock analysis, the Company would benefit from an increase in the fed funds rate increase.

(Dollars in Thousands)

Net Portfolio Value - December 31, 2015

Change in Rates	\$ Amount	\$ Change	% Change
+200	56,848	3,718	7%
+100	55,584	2,454	5%
Base	53,130		
-100	47,218	5,912	-11%
-200	40,269	12,861	-24%

(Dollars in Thousands)

Net Portfolio Value - December 31, 2014

Change in Rates	\$ Amount	\$ Change	% Change
+200	55,305	6,017	12%
+100	52,825	3,537	7%
Base	49,288		
-100	42,710	6,578	-13%
-200	36,019	13,269	-27%

The following table is a summary of selected quarterly results of operations for the years ended December 31, 2015 and 2014.

	<u>March 31</u>	<u>Three Months Ended</u> <u>June 30</u> <u>September 30</u> (In thousands, except per share data)		<u>December 31</u>
2015				
Total interest income	\$ 3,859	\$ 4,040	\$ 4,118	\$ 4,065
Total interest expense	<u>581</u>	<u>582</u>	<u>578</u>	<u>542</u>
Net interest income	3,278	3,458	3,540	3,523
Provision for losses on loans	116	145	126	166
Other income	992	935	987	938
General, administrative and other expense	<u>3,184</u>	<u>3,112</u>	<u>3,182</u>	<u>3,062</u>
Income before income taxes	970	1,136	1,219	1,233
Federal income taxes	<u>276</u>	<u>331</u>	<u>360</u>	<u>367</u>
Net income	<u>\$ 694</u>	<u>\$ 805</u>	<u>\$ 859</u>	<u>\$ 866</u>
Earnings per share				
Basic	<u>\$ 0.14</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.18</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>

	<u>March 31</u>	<u>Three Months Ended</u> <u>June 30</u> <u>September 30</u> (In thousands, except per share data)		<u>December 31</u>
2014				
Total interest income	\$ 4,097	\$ 4,134	\$ 4,135	\$ 4,011
Total interest expense	<u>626</u>	<u>620</u>	<u>615</u>	<u>606</u>
Net interest income	3,471	3,514	3,520	3,405
Provision for losses on loans	216	216	225	231
Other income	838	959	975	926
General, administrative and other expense	<u>3,486</u>	<u>3,299</u>	<u>3,256</u>	<u>3,105</u>
Income before income taxes	607	958	1,014	995
Federal income taxes	<u>122</u>	<u>242</u>	<u>296</u>	<u>263</u>
Net income	<u>\$ 485</u>	<u>\$ 716</u>	<u>\$ 718</u>	<u>\$ 732</u>
Earnings per share				
Basic	<u>\$ 0.10</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.16</u>
Diluted	<u>\$ 0.10</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.15</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, 2015 and 2014. 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)	2015			2014		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets						
Loans.....	\$ 318,337	15,346	4.82%	\$ 313,691	15,627	4.93%
Taxable securities - AFS.....	29,427	327	1.11	19,143	259	1.35
Tax-exempt securities - AFS.....	3,733	225	6.03	5,640	333	5.91
Tax-exempt securities - HTM.....	195	14	6.99	758	52	6.80
Federal funds sold.....	25,523	61	0.24	31,080	72	0.23
FHLB stock and other.....	4,211	212	5.03	4,307	189	4.39
Total interest-earning assets.....	381,426	16,185	4.24	374,619	16,532	4.41
Noninterest-earning assets						
Cash and due from banks.....	4,700			4,740		
Premises and equipment (net).....	10,422			10,380		
Other nonearning assets.....	13,437			16,673		
Less: allowance for loan losses.....	(2,634)			(3,025)		
Total noninterest-earning assets.....	25,925			28,768		
Total assets.....	407,351			403,387		
Liabilities & stockholders' equity						
Interest-bearing liabilities						
Demand deposits.....	\$ 118,545	110	0.09%	\$ 111,437	\$ 108	0.10%
Savings deposits.....	73,819	34	0.05	69,285	32	0.05
Time deposits.....	63,149	860	1.36	73,498	1,041	1.42
FHLB advances.....	26,623	1,009	3.79	26,833	1,019	3.80
Trust preferred debentures.....	4,124	258	6.25	4,124	258	6.25
Repurchase agreements.....	9,769	12	0.12	7,797	9	0.12
Total interest-bearing liabilities.....	296,029	2,283	0.77	292,974	2,467	0.84
Noninterest-bearing liabilities						
Demand deposits.....	69,427			67,374		
Other liabilities.....	3,554			3,304		
Total noninterest-bearing liabilities.....	72,981			70,678		
Total liabilities.....	369,010			363,652		
Total stockholders' equity.....	38,341			39,735		
Total liabilities & stockholders' equity.....	\$ 407,351			\$ 403,387		
Net interest income.....		\$ 13,902			\$ 14,065	
Net interest spread.....			3.47%			3.57%
Net yield on interest-earning assets.....			3.64%			3.75%

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

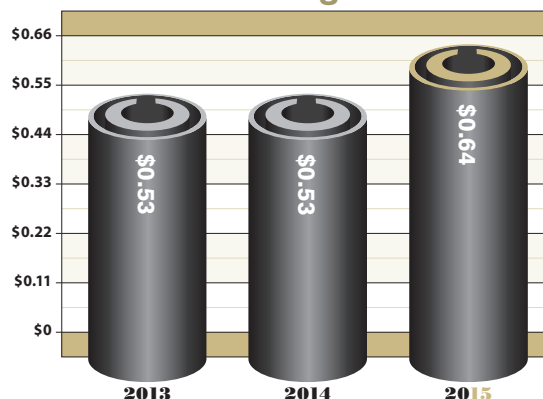
Rate/Volume Analysis

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 2015. 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.

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.

Diluted Earnings Per Share



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 \$41.5 million and \$40.4 million at December 31, 2015 and 2014, respectively. Total stockholders' equity in relation to total assets was 10.2% at December 31, 2015 and 10.1% at December 31, 2014.

2015 Compared to 2014 Increase/(Decrease)

(In thousands)

	Total Change	Change Due To Volume	Change Due To Rate
Interest and dividend income			
Loans	\$ (281)	\$ 229	\$ (510)
Taxable securities available for sale	68	120	(52)
Tax-exempt securities available for sale	(108)	(115)	7
Tax-exempt securities held to maturity	(38)	(39)	1
Federal funds sold	(11)	(13)	2
FHLB stock and other	23	(4)	27
Total interest and dividend income	(347)	178	(525)
Interest expense			
Demand deposits	2	7	(5)
Savings deposits	2	2	-
Time deposits	(181)	(142)	(39)
FHLB advances	(10)	(8)	(3)
Trust Preferred debentures	-	-	-
Repurchase agreements	3	2	1
Total interest expense	(184)	(139)	(45)
Net interest income	<u>\$ (163)</u>	<u>\$ 316</u>	<u>\$ (479)</u>

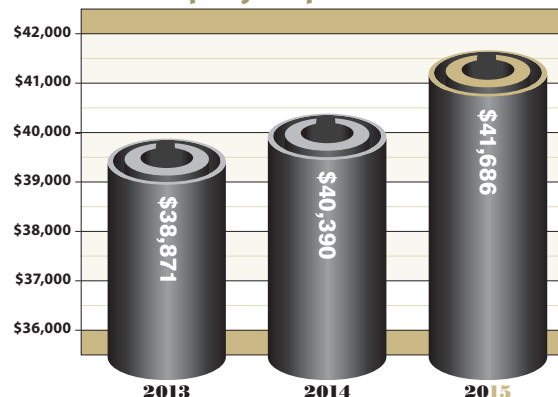
The Company has established a Dividend Reinvestment Plan ("The Plan") for stockholders under which the Company's common stock will be purchased by The Plan for participants with automatically reinvested dividends. The Plan does not represent a change in the dividend policy or a guarantee of future dividends. Stockholders who do not wish to participate in The Plan continue to receive cash dividends, as declared in the usual and customary manner.

The Company's Articles of Incorporation permits the creation of a class of preferred shares with 2,000,000 authorized shares. If, utilized, 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 class of preferred shares provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. As of December 31, 2015 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 \$4.1 million of mandatorily redeemable debt securities. The sale proceeds were utilized to purchase \$4.1 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 \$4.1 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% through 2015. Effective January 2016 the interest rate is a variable rate per annum, reset quarterly, equal to three month LIBOR plus 1.35% and is payable quarterly. Currently the three month LIBOR rate is approximately 0.62%.

The \$4.1 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

Equity Capital (In Thousands)



in turn utilized the note proceeds to purchase \$3.4 million of the Company's treasury stock.

Liquidity

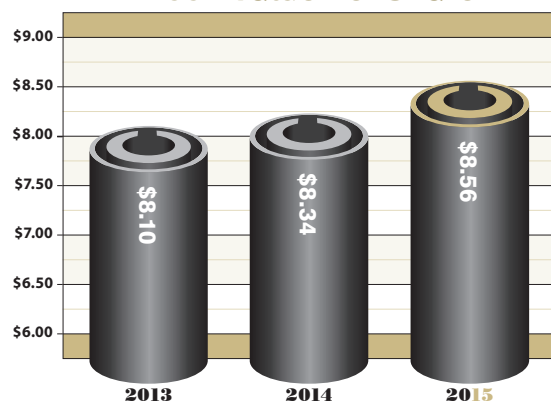
Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold and securities available-for-sale. These assets are commonly referred to as liquid assets. Liquid assets were \$47.3 million at December 31, 2015, compared to \$58.9 million at December 31, 2014. Management recognizes securities may need to be sold in the future to help fund loan demand and, accordingly, as of December 31, 2015, \$34.6 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 2015 and 2014 follows.

The Company experienced a net increase in cash from operating activities in 2015 and 2014. Net cash provided by operating activities totaled \$4.3 million and \$4.2 million for the years ended December 31, 2015 and 2014, 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 \$30.0 million for the year ended December 31, 2015. For year ended December

Book Value Per Share



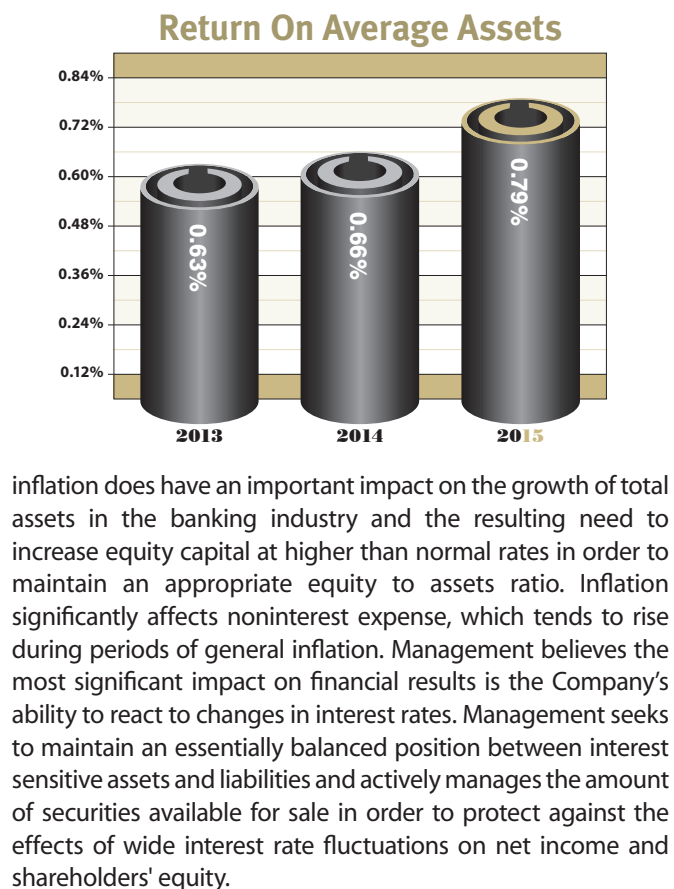
31, 2014 net cash provided by investing activities totaled \$2.1 million. The changes in net cash from investing activities include loan growth, as well as normal maturities, security calls and reinvestments of securities and premises and equipment expenditures. Proceeds from securities, which matured or were called totaled \$41.8 million and \$17.2 million in 2015 and 2014, respectively.

Net cash provided by (used in) financing activities totaled (\$895,000) and \$9.4 million for the years ended December 31, 2015 and 2014, respectively. The net used in financing activities in 2015 was primarily attributable to total deposits not increasing much for the year ended December 31, 2015. The net cash provided by financing activities in 2014 was primarily attributable to an increase in deposits for the year ended December 31, 2014.

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,



Report of Independent Registered Public Accounting Firm



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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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2015. 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, 2015, and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Cincinnati, Ohio
March 16, 2016

Consolidated Balance Sheets

December 31, 2015 and 2014

(In thousands, except share data)

	2015	2014
Assets		
Cash and due from banks	\$ 4,954	\$ 5,170
Interest-bearing demand deposits	7,747	33,994
Cash and cash equivalents	<u>12,701</u>	<u>39,164</u>
Available-for-sale securities	34,623	19,348
Held-to-maturity securities	---	450
Loans, net of allowance for loan losses of \$2,437 and \$2,400 at December 31, 2015 and 2014, respectively	327,226	313,354
Premises and equipment	10,446	10,071
Federal Home Loan Bank stock	4,210	4,210
Foreclosed assets held for sale, net	357	1,140
Intangible assets	---	66
Accrued interest receivable	803	829
Deferred federal income taxes	521	493
Bank-owned life insurance	11,509	10,747
Other assets	<u>2,728</u>	<u>1,940</u>
Total assets	<u>\$ 405,124</u>	<u>\$ 401,812</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 188,328	\$ 183,550
Savings	77,672	71,319
Time	<u>57,622</u>	<u>67,812</u>
Total deposits	323,622	322,681
Short-term borrowings	5,691	5,098
Federal Home Loan Bank advances	26,530	26,719
Subordinated debentures	4,124	4,124
Interest payable and other liabilities	<u>3,661</u>	<u>2,800</u>
Total liabilities	<u>363,628</u>	<u>361,422</u>
Stockholders' Equity		
Preferred stock, no par value, authorized 2,000,000 shares; no shares issued	—	—
Common stock, \$1 par value; authorized 10,000,000 shares; issued 2015 – 5,385,304 shares, 2014 – 5,385,304 shares	5,385	5,385
Additional paid-in capital	18,245	18,044
Retained earnings	21,443	20,478
Stock held by deferred compensation plan; 2015 – 235,923 shares, 2014 – 230,446 shares	(2,079)	(2,044)
Unearned ESOP compensation	(1,271)	(1,467)
Accumulated other comprehensive income (loss)	(181)	57
Treasury stock, at cost 2015 – 5,744 shares, 2014 – 7,850 shares	<u>(46)</u>	<u>(63)</u>
Total stockholders' equity	<u>41,496</u>	<u>40,390</u>
Total liabilities and stockholders' equity	<u>\$ 405,124</u>	<u>\$ 401,812</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014

(In thousands, except per share data)

	2015	2014
Interest and Dividend Income		
Loans	\$ 15,325	\$ 15,603
Securities		
Taxable	327	259
Tax-exempt	157	254
Federal funds sold	61	72
Dividends on Federal Home Loan Bank and other stock	212	189
Total interest and dividend income	<u>16,082</u>	<u>16,377</u>
Interest Expense		
Deposits	1,005	1,181
Borrowings	1,278	1,286
Total interest expense	<u>2,283</u>	<u>2,467</u>
Net Interest Income	13,799	13,910
Provision for Loan Losses	<u>553</u>	<u>888</u>
Net Interest Income After Provision for Loan Losses	<u>13,246</u>	<u>13,022</u>
Noninterest Income		
Customer service fees	2,876	2,750
Net gains on loan sales	42	30
Realized gains on sales of available-for-sale securities	32	27
Earnings on bank-owned life insurance	426	416
BOLI benefit in excess of surrender value	29	35
Realized gains on sales of real estate and other repossessed assets	---	26
Other	397	414
Total noninterest income	<u>3,802</u>	<u>3,698</u>
Noninterest Expense		
Salaries and employee benefits	6,393	6,568
Net occupancy and equipment expense	1,918	1,971
Provision for losses on foreclosed real estate	60	98
Professional fees	679	749
Insurance	253	297
Deposit insurance premiums	236	253
Franchise and other taxes	287	266
Marketing expense	300	417
Printing and office supplies	142	185
Amortization of intangible assets	66	119
Realized losses on sale of real estate and other repossessed assets	12	—
Other	2,144	2,223
Total noninterest expense	<u>12,490</u>	<u>13,146</u>
Income Before Federal Income Taxes	4,558	3,574
Provision for Federal Income Taxes	<u>1,334</u>	<u>923</u>
Net Income	<u>\$ 3,224</u>	<u>\$ 2,651</u>
Basic Earnings Per Share	<u>\$ 0.65</u>	<u>\$ 0.54</u>
Diluted Earnings Per Share	<u>\$ 0.64</u>	<u>\$ 0.53</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014

(In thousands)

	2015	2014
Net income	\$ 3,224	\$ 2,651
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) on available-for-sale securities during the period, net of taxes (benefits) of \$(17) and \$245 for each respective period	(32)	476
Reclassification adjustment for realized gains on available-for-sale securities included in net income, net of tax of \$(11) and \$(9) each respective period	(21)	(17)
Change in funded status of defined benefit plan, net of benefit of \$(83) and taxes of \$(89) for each respective period	(158)	(172)
Amortization of prior service included in net periodic pension expense, net of tax (benefits) of \$(30) and \$(30) for each respective period	(59)	(59)
Amortization of net loss included in net periodic pension cost, net of tax of \$16 and \$10 for each respective period	<u>32</u>	<u>20</u>
Comprehensive income	<u>\$ 2,986</u>	<u>\$ 2,899</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2015 and 2014

(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, 2014	\$ 5,375	\$ 17,750	\$ (2,005)	\$ (1,658)	\$ 19,600	\$ (191)	\$ 38,871
Net income	—	—	—	—	2,651	—	2,651
Other comprehensive income	—	—	—	—	—	248	248
Cash dividends - \$0.33 per share	—	—	—	—	(1,773)	—	(1,773)
Shares purchased for deferred compensation plan	—	141	(141)	—	—	—	—
Expense related to share-based compensation plans	—	163	—	—	—	—	163
Restricted stock activity	10	(10)	—	—	—	—	—
Treasury stock activity	—	—	39	—	—	—	39
Amortization of ESOP	—	—	—	191	—	—	191
Balance, December 31, 2014	5,385	18,044	(2,107)	(1,467)	20,478	57	40,390
Net income	—	—	—	—	3,224	—	3,224
Other comprehensive loss	—	—	—	—	—	(238)	(238)
Cash dividends - \$0.37 per share	—	—	—	—	(2,259)	—	(2,259)
Shares purchased for deferred compensation plan	—	35	(35)	—	—	—	—
Expense related to share-based compensation plans	—	164	—	—	—	—	164
Treasury stock activity	—	2	17	—	—	—	19
Amortization of ESOP	—	—	—	196	—	—	196
Balance, December 31, 2015	<u>\$ 5,385</u>	<u>\$ 18,245</u>	<u>\$ (2,125)</u>	<u>\$ (1,271)</u>	<u>\$ 21,443</u>	<u>\$ (181)</u>	<u>\$ 41,496</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

(In thousands)

	2015	2014
Operating Activities		
Net income	\$ 3,224	\$ 2,651
Items not requiring (providing) cash		
Depreciation and amortization	934	960
Amortization of intangible assets	66	119
Provision for loan losses	553	888
Provision for losses on foreclosed real estate	60	98
Amortization of premiums and discounts on securities-net	1	3
Gain on sale of available-for-sale securities	(32)	(27)
Amortization of mortgage servicing rights	13	15
Deferred income taxes	(175)	120
Originations of loans held for sale	(2,370)	(1,530)
Proceeds from sale of loans held for sale	2,412	1,560
Net gains on sales of loans	(42)	(30)
Amortization of ESOP	196	191
Expense related to share-based compensation plans	164	163
Loss (gain) on sale of real estate and other repossessed assets	12	(26)
Changes in		
Bank-owned life insurance	(763)	(236)
Accrued interest receivable	26	193
Other assets	(864)	(937)
Interest payable and other liabilities	860	7
Net cash provided by operating activities	4,275	4,182
Investing Activities		
Purchases of available-for-sale securities	(56,997)	(9,300)
Proceeds from maturities of available-for-sale securities	41,331	16,677
Proceeds from maturities of held-to-maturity securities	450	505
Proceeds from sale of available-for-sale securities	355	562
Net change in loans	(14,382)	(7,343)
Mandatory redemption of Federal Home Loan Bank stock	---	600
Purchases of premises and equipment	(1,310)	(309)
Proceeds from sales of foreclosed assets	710	730
Net cash (used in) provided by investing activities	(29,843)	2,122

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows *Continued*

Years Ended December 31, 2015 and 2014

(In thousands)

	2015	2014
Financing Activities		
Net increase (decrease) in deposits	\$ 941	\$ 12,040
Repayments of Federal home Loan Bank advances	(189)	(272)
Net change in short term borrowings	593	(648)
Cash dividends paid	(2,259)	(1,773)
Treasury stock -net	<u>19</u>	<u>39</u>
Net cash (used in) provided by financing activities	<u>(895)</u>	<u>9,386</u>
(Decrease) increase in Cash and Cash Equivalents	(26,463)	15,690
Cash and Cash Equivalents, Beginning of Year	<u>39,164</u>	<u>23,474</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,701</u>	<u>\$ 39,164</u>
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	<u>\$ 2,271</u>	<u>\$ 2,476</u>
Federal income taxes paid	<u>\$ 1,180</u>	<u>\$ 1,280</u>
Supplemental Disclosure of Non-Cash Investing Activities		
Transfers from loans to foreclosed assets held for sale	<u>\$ ---</u>	<u>\$ 261</u>
Vesting of restricted stock	<u>\$ 39</u>	<u>\$ 203</u>
Unrealized (losses) gain on securities designated as available for sale, net of related tax effects	<u>\$ (49)</u>	<u>\$ 459</u>

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 Bank 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, Jefferson and Tuscarawas Counties and the surrounding localities in northeastern, east-central and southeastern Ohio and include a wide range of individuals, businesses and other organizations. The Citizens Bank division conducts its business through its main office in Martins Ferry, Ohio and branches in Bridgeport, Colerain, Dellroy, Dillonvale, Dover, Jewett, New Philadelphia, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg and Tiltonsville, Ohio. The Community Bank division conducts its business through its two in Lancaster, Ohio and branches in Amesville, Glouster, 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, 2015 and 2014

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, 2015 and 2014, cash equivalents consisted primarily of due from accounts with the Federal Reserve and other correspondent Banks.

Currently, the FDIC's insurance limits are \$250,000. At December 31, 2015 and 2014, none of the Company's cash accounts exceeded the federally insured limit of \$250,000.

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 amortized cost, 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.

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, 2015 and 2014, the Company did not have any loans held for sale.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Loans

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

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

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

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

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

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

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in

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the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

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

Allowance for Loan Losses

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

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

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Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for non-homogenous type loans such as commercial, non-owner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as bad debt expense.

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

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

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

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

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

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.

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.

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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, 2015 and 2014 was:

	Gross Carrying Amount	2015 Accumulated Amortization	2014 Accumulated Amortization
	(In thousands)		
Core deposits	\$ <u>812</u>	\$ <u>812</u>	\$ <u>746</u>

Amortization expense was \$66,000 and \$119,000 for the years ended December 31, 2015 and 2014. The asset is fully amortized at December 31, 2015.

Treasury Stock

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

Restricted Stock Awards

The Company has a share-based employee compensation plan, which is described more fully in Note 14.

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.

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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, 2015, the Company had no uncertain tax positions.

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 2012.

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.

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

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.

Reclassification

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 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, 2015 and 2014, was \$3.7 million and \$4.0 million, respectively.

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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, 2015:				
U.S. government agencies	\$ 32,000	\$ 11	\$ (50)	\$ 31,961
State and political subdivisions	<u>2,637</u>	<u>25</u>	<u>---</u>	<u>2,662</u>
	<u>\$ 34,637</u>	<u>\$ 36</u>	<u>\$ (50)</u>	<u>\$ 34,623</u>
Available-for-sale Securities:				
December 31, 2014:				
U.S. government agencies	\$ 14,443	\$ 4	\$ (67)	\$ 14,380
State and political subdivisions	4,841	105	—	4,946
Equity securities	<u>4</u>	<u>18</u>	<u>—</u>	<u>22</u>
	<u>\$ 19,288</u>	<u>\$ 127</u>	<u>\$ (67)</u>	<u>\$ 19,348</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Held-to-maturity Securities:				
December 31, 2014:				
State and political subdivisions	<u>\$ 450</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 451</u>

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The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2015, 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
	<u>(In thousands)</u>	
Within one year	\$ 624	\$ 632
One to five years	33,014	32,989
Five to ten years	<u>999</u>	<u>1,002</u>
Totals	<u>\$ 34,637</u>	<u>\$ 34,623</u>

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$22.6 million and \$19.5 million at December 31, 2015 and 2014, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2015 and 2014, was \$24.0 million and \$7.1 million, which represented approximately 69.2% and 35.7%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio.

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

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, 2015 and 2014:

Description of Securities	December 31, 2015				Total	
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>(In thousands)</u>						
US Government agencies	\$ 23,950	\$ (50)	\$ ---	\$ ---	\$ 23,950	\$ (50)
Total temporarily impaired securities	\$ 23,950	\$ (50)	\$ ---	\$ ---	\$ 23,950	\$ (50)

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Description of Securities	December 31, 2014				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	\$ 1,141	\$ (2)	\$ 5,935	\$ (65)	\$ 7,076	\$ (67)
Total temporarily impaired securities	\$ 1,141	\$ (2)	\$ 5,935	\$ (65)	\$ 7,076	\$ (67)

U. S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U. S. Government agencies were caused by interest rate increases. 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, 2015.

For the year ended December 31 2015, proceeds from the sale of investment securities available-for-sale were \$355,000, with gross realized gains of \$32,000, and gross realized losses of zero. The gain is included in realized gains on sales of available-for-sale securities, net in the noninterest income section of the statement of income. For the year ended December 31, 2014, proceeds from the sale of investment securities available-for-sale were \$562,000, with gross realized gains of \$27,000, and gross losses of zero. The gain is included in realized gains on sales of available-for-sale securities, net in the noninterest income section of the statement of income.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2015	2014
	(In thousands)	
Commercial loans	\$ 67,247	\$ 52,286
Commercial real estate	163,459	158,314
Residential real estate	81,498	83,870
Installment loans	17,459	21,284
Total gross loans	329,663	315,754
Less allowance for loan losses	(2,437)	(2,400)
Total loans	\$ 327,226	\$ 313,354

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

Commercial

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

Commercial Real Estate

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

Residential and Consumer

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

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2015 and 2014:

	2015					
	Commercial	Commercial Real Estate	Residential	Installment	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
Balance, beginning of year	\$ 254	\$ 1,116	\$ 92	\$ 147	\$ 791	\$ 2,400
Provision charged to expense	20	(382)	78	255	582	553
Losses charged off	(117)	(152)	(42)	(400)	—	(711)
Recoveries	<u>27</u>	<u>15</u>	<u>42</u>	<u>111</u>	<u>—</u>	<u>195</u>
Balance, end of year	\$ <u>184</u>	\$ <u>597</u>	\$ <u>170</u>	\$ <u>113</u>	\$ <u>1,373</u>	\$ <u>2,437</u>
Ending balance: individually evaluated for impairment	\$ <u>9</u>	\$ <u>172</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>181</u>
Ending balance: collectively evaluated for impairment	\$ <u>175</u>	\$ <u>425</u>	\$ <u>170</u>	\$ <u>113</u>	\$ <u>1,373</u>	\$ <u>2,256</u>
Loans:						
Ending balance: individually evaluated for impairment	\$ <u>57</u>	\$ <u>1,273</u>	\$ <u>—</u>	\$ <u>80</u>	\$ <u>—</u>	\$ <u>1,410</u>
Ending balance: collectively evaluated for impairment	\$ <u>67,190</u>	\$ <u>162,186</u>	\$ <u>81,498</u>	\$ <u>17,379</u>	\$ <u>—</u>	\$ <u>328,253</u>

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	2014					
	Commercial					
	Commercial	Real Estate	Residential	Installment	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
Balance, beginning of year	\$ 412	\$ 1,609	\$ 90	\$ 141	\$ 642	\$ 2,894
Provision charged to expense	175	27	229	308	149	888
Losses charged off	(337)	(555)	(235)	(388)	—	(1,515)
Recoveries	<u>4</u>	<u>35</u>	<u>8</u>	<u>86</u>	<u>—</u>	<u>133</u>
Balance, end of year	<u>\$ 254</u>	<u>\$ 1,116</u>	<u>\$ 92</u>	<u>\$ 147</u>	<u>\$ 791</u>	<u>\$ 2,400</u>
Ending balance: individually evaluated for impairment	<u>\$ 92</u>	<u>\$ 622</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 714</u>
Ending balance: collectively evaluated for impairment	<u>\$ 162</u>	<u>\$ 494</u>	<u>\$ 92</u>	<u>\$ 147</u>	<u>\$ 791</u>	<u>\$ 1,686</u>
Loans:						
Ending balance: individually evaluated for impairment	<u>\$ 112</u>	<u>\$ 1,756</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,868</u>
Ending balance: collectively evaluated for impairment	<u>\$ 52,174</u>	<u>\$ 156,558</u>	<u>\$ 83,870</u>	<u>\$ 21,284</u>	<u>\$ —</u>	<u>\$ 313,886</u>

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

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

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

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

The following table shows the portfolio quality indicators as of December 31, 2015:

Loan Class	Commercial				Total
	Commercial	Real Estate	Residential	Installment	
	(In thousands)				
Pass Grade	\$ 67,150	\$ 158,362	\$ 81,498	\$ 17,363	\$ 324,373
Special Mention	39	996	—	—	1,035
Substandard	58	4,101	—	96	4,255
Doubtful	—	—	—	—	—
	<u>\$ 67,247</u>	<u>\$ 163,459</u>	<u>\$ 81,498</u>	<u>\$ 17,459</u>	<u>\$ 329,663</u>

The following table shows the portfolio quality indicators as of December 31, 2014:

Loan Class	Commercial				Total
	Commercial	Real Estate	Residential	Installment	
(In thousands)					
Pass Grade	\$ 51,895	\$ 151,535	\$ 83,870	\$ 21,284	\$ 308,584
Special Mention	265	1,980	—	—	2,245
Substandard	126	4,799	—	—	4,925
Doubtful	—	—	—	—	—
	<u>\$ 52,286</u>	<u>\$ 158,314</u>	<u>\$ 83,870</u>	<u>\$ 21,284</u>	<u>\$ 315,754</u>

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The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant methodology changes were made during 2015 and 2014.

The following table shows the loan portfolio aging analysis of the recorded investment in loans as of December 31, 2015:

	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	\$ 141	\$ —	\$ —	\$ 63	\$ 204	\$ 67,043	\$ 67,247
Commercial real estate	319	—	132	250	701	162,758	163,459
Residential	737	500	—	599	1,836	79,662	81,498
Installment	<u>220</u>	<u>71</u>	<u>—</u>	<u>132</u>	<u>423</u>	<u>17,036</u>	<u>17,459</u>
Total	<u>\$ 1,417</u>	<u>\$ 571</u>	<u>\$ 132</u>	<u>\$ 1,044</u>	<u>\$ 3,164</u>	<u>\$ 326,499</u>	<u>\$ 329,663</u>

The following table shows the loan portfolio aging analysis of the recorded investment in loans as of December 31, 2014:

	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	\$ —	\$ —	\$ —	\$ 46	\$ 46	\$ 52,240	\$ 52,286
Commercial real estate	394	—	127	247	768	157,546	158,314
Residential	292	17	—	658	967	82,903	83,870
Installment	<u>70</u>	<u>11</u>	<u>—</u>	<u>7</u>	<u>88</u>	<u>21,196</u>	<u>21,284</u>
Total	<u>\$ 756</u>	<u>\$ 28</u>	<u>\$ 127</u>	<u>\$ 958</u>	<u>\$ 1,869</u>	<u>\$ 313,885</u>	<u>\$ 315,754</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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.

The following table presents impaired loans for the year ended December 31, 2015:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
(In thousands)					
Loans without a specific valuation allowance:					
Commercial	\$ 44	\$ 74	\$ —	\$ 74	\$ 4
Commercial real estate	464	464	—	857	35
Installment	<u>80</u>	<u>203</u>	<u>—</u>	<u>213</u>	<u>14</u>
	588	538	—	1,144	53
Loans with a specific valuation allowance:					
Commercial	13	49	9	49	5
Commercial real estate	<u>809</u>	<u>961</u>	<u>172</u>	<u>1,010</u>	<u>36</u>
	822	1,010	181	1,059	41
Total:					
Commercial	<u>\$ 57</u>	<u>\$ 117</u>	<u>\$ 9</u>	<u>\$ 123</u>	<u>\$ 9</u>
Commercial Real Estate	<u>\$ 1,273</u>	<u>\$ 1,425</u>	<u>\$ 172</u>	<u>\$ 1,867</u>	<u>\$ 71</u>
Installment	<u>\$ 80</u>	<u>\$ 203</u>	<u>\$ ---</u>	<u>\$ 213</u>	<u>\$ 14</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following table presents impaired loans for the year ended December 31, 2014:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
(In thousands)					
Loans without a specific valuation allowance:					
Commercial	\$ 7	\$ 7	\$ —	\$ 11	\$ 1
Commercial real estate	<u>794</u>	<u>1,144</u>	<u>—</u>	<u>813</u>	<u>75</u>
	801	1,151	—	824	76
Loans with a specific valuation allowance:					
Commercial	105	105	92	109	8
Commercial real estate	<u>962</u>	<u>962</u>	<u>622</u>	<u>1,477</u>	<u>182</u>
	1,067	1,067	714	1,586	190
Total:					
Commercial	\$ <u>112</u>	\$ <u>112</u>	\$ <u>92</u>	\$ <u>120</u>	\$ <u>9</u>
Commercial Real Estate	\$ <u>1,756</u>	\$ <u>2,106</u>	\$ <u>622</u>	\$ <u>2,290</u>	\$ <u>257</u>

At December 31, 2015 and 2014, the Company had certain loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following tables present information regarding troubled debt restructurings by class and by type of modification for the years ended December 31, 2015 and 2014:

Year Ended December 31, 2015			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)	
Commercial	2	\$ 40	\$ 40
Commercial real estate	1	62	62

Year Ended December 31, 2015			
	Interest Only	Term	Total Modification
	(In thousands)		
Commercial	\$ —	\$ 40	\$ 40
Commercial real estate	—	62	62

Year Ended December 31, 2014			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)	
Commercial real estate	2	\$ 155	\$ 155

Year Ended December 31, 2014			
	Interest Only	Term	Total Modification
	(In thousands)		
Commercial real estate	\$ ---	\$ 155	\$ 155

During the 2015, troubled debt restructurings did not have an impact on the allowance for loan losses. During 2014, troubled debt restructurings described above increased the allowance for loan losses by \$87,000. At December 31, 2015 and 2014 and for the years ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 5: Premises and Equipment

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

	2015	2014
	(In thousands)	
Land, buildings and improvements	\$ 15,650	\$ 15,009
Furniture and equipment	11,361	10,798
Computer software	<u>2,037</u>	<u>1,990</u>
	29,048	27,797
Less accumulated depreciation	<u>(18,602)</u>	<u>(17,726)</u>
Net premises and equipment	<u>\$ 10,446</u>	<u>\$ 10,071</u>

Note 6: Time Deposits

Time deposits in denominations of \$100,000 or more were \$14.2 million at December 31, 2015 and \$16.7 million at December 31, 2014.

At December 31, 2015, the scheduled maturities of time deposits are as follows:

Due during the year ending December 31,	(In thousands)
2016	\$ 31,530
2017	12,101
2018	7,939
2019	2,025
2020	2,195
Thereafter	<u>1,832</u>
	<u>\$ 57,622</u>

Note 7: Borrowings

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

	2015	2014
	(In thousands)	
Maturities May 2016 through August 2025, primarily at fixed rates ranging from 3.08% to 6.65%, averaging 3.80%	\$ 26,530	\$ —
Maturities May 2016 through August 2025, primarily at fixed rates ranging from 3.08% to 6.65%, averaging 3.81%	<u>—</u>	<u>26,719</u>
	<u>\$ 26,530</u>	<u>\$ 26,719</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

At December 31, 2015 required annual principal payments on Federal Home Loan Bank advances were as follows:

For the year ending December 31,	(In thousands)
2016	\$ 6,175
2017	20,122
2018	113
2019	42
2020	19
Thereafter	<u>59</u>
	<u>\$ 26,530</u>

At December 31, 2015 and 2014, as a member of the Federal Home Loan Bank system the Bank had the ability to obtain up to \$60.6 million and \$58.3 million, respectively, in additional borrowings based on securities and certain loans pledged to the FHLB. At December 31, 2015 and 2014, the Bank had approximately \$122.1 million and \$122.8 million, respectively of one- to four-family residential real estate and commercial real estate loans pledged as collateral for borrowings. Also at December 31, 2015 and 2014, 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 \$5.7 million and \$5.1 million at December 31, 2015 and 2014, respectively, of securities sold under agreements to repurchase.

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:

	2015	2014
	(Dollars in thousands)	
Balance outstanding at year end	\$ 5,691	\$ 5,098
Average daily balance during the year	\$ 9,769	\$ 7,797
Average interest rate during the year	0.12%	0.12%
Maximum month-end balance during the year	\$ 12,934	\$ 9,589
Weighted-average interest rate at year end	0.12%	0.12%

All repurchase agreements are subject to term and conditions of repurchase/security agreements between the Company and the customer and are accounted for as secured borrowings. The Company's repurchase agreements reflected in short-term borrowings consist of customer accounts and securities which are pledged on an individual security basis.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

Remaining Contractual Maturity of the Agreement

(In thousands)

December 31, 2015	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	\$ 1,622	\$ —	\$ —	\$ —	\$ 1,622
State and political subdivisions	4,069	—	—	—	4,069
Total	<u>\$ 5,691</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,691</u>

Securities with an approximate carrying value of \$8.5 million at December 31, 2015, respectively, were pledged as collateral for repurchase borrowings.

Note 8: Subordinated Debentures

In 2005, a Delaware statutory business trust owned by the Company, United Bancorp Statutory Trust I ("Trust I" or the "Trust"), issued \$4.1 million of mandatorily redeemable debt securities. The sale proceeds were utilized to purchase \$4.1 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 \$4.1 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 equal to three month LIBOR plus 1.35% and is payable quarterly.

Note 9: Income Taxes

The provision for income taxes includes these components:

	2015	2014
	(In thousands)	
Taxes currently payable	\$ 1,509	\$ 803
Deferred income taxes (benefit)	<u>(175)</u>	<u>120</u>
Income tax expense	<u>\$ 1,334</u>	<u>\$ 923</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

	2015	2014
	(In thousands)	
Computed at the statutory rate (34%)	\$ 1,550	\$ 1,215
(Decrease) increase resulting from		
Tax exempt interest	(66)	(100)
Earnings on bank-owned life insurance - net	(159)	(157)
Other	<u>9</u>	<u>(35)</u>
Actual tax expense	\$ <u>1,334</u>	\$ <u>923</u>

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

	2015	2014
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 372	\$ 305
Stock based compensation	366	373
Allowance for losses on foreclosed real estate	82	104
Deferred compensation	760	748
Intangible assets	143	138
Non-accrual loan interest	47	38
Unrealized losses on securities available for sale	<u>5</u>	<u>—</u>
Total deferred tax assets	<u>1,775</u>	<u>1,706</u>
Deferred tax liabilities		
Depreciation	(109)	(256)
Deferred loan costs, net	(180)	(205)
Accretion	(2)	(2)
FHLB stock dividends	(510)	(510)
Mortgage servicing rights	(20)	(25)
Employee benefit expense	(162)	(195)
Unrealized gains on securities available for sale	<u>—</u>	<u>(20)</u>
Total deferred tax liabilities	<u>(983)</u>	<u>(1,213)</u>
Net deferred tax asset	\$ <u>792</u>	\$ <u>493</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 10: Accumulated Other Comprehensive Income (Loss)

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

	2015	2014
	(In thousands)	
Net unrealized (loss) gain on securities available-for-sale	\$ (14)	\$ 60
Net unrealized (loss) gain for funded status of defined benefit plan liability	(261)	25
	(275)	85
Tax effect	94	(28)
Net-of-tax amount	\$ (181)	\$ 57

Note 11: 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. Furthermore, the Company and the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

In July 2013, the Federal Reserve approved final rules, referred to herein as the Basel III Rules, establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Rules generally implement the Basel Committee on Banking Supervision's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The Basel III Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and Citizens, as compared to the current U.S. general risk-based capital rules. The Basel III Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the computation of regulatory capital ratios. The Basel III rules added another capital ratio component "Tier 1 Common Capital Ratio" which is a measurement of a bank's core equity capital compared with its total risk-weighted assets. The Basel III Rules also prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current categories to a larger more risk-sensitive number of categories, depending on the nature of the assets, generally ranging

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes. The Basel III capital rules became effective for the Company and Citizens on January 1, 2015, subject to phase-in periods for certain components. The Company's management believes that the Company and Citizens will be able to meet targeted capital ratios upon implementation of the revised requirements as finalized.

As of December 31, 2015, the Company exceeded its minimum regulatory capital requirements with a total risk-based capital ratio of 14.7%, common equity tier 1 ratio of 12.6%, Tier 1 risk-based capital ratio of 13.9% and a Tier 1 leverage ratio of 10.9%.

As of December 31, 2015, 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, 2015 and 2014

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, 2015						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 46,854	14.7%	\$ 25,573	8.0%	N/A	N/A
Citizens	41,858	13.2	25,378	8.0	\$ 31,722	10.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 40,417	12.6%	\$ 14,385	4.5%	N/A	N/A
Citizens	39,421	12.4	14,275	4.5	\$ 20,619	6.5%
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 44,417	13.9%	\$ 19,179	6.0%	N/A	N/A
Citizens	39,421	12.4	19,033	6.0	\$ 25,378	8.0%
Tier I Capital						
(to Average Assets)						
Consolidated	\$ 44,417	10.9%	\$ 16,376	4.0%	N/A	N/A
Citizens	39,421	9.7	16,200	4.0	\$ 20,251	5.0%
As of December 31, 2014						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 46,668	15.3%	\$ 24,382	8.0%	N/A	N/A
Citizens	40,940	13.5	24,209	8.0	\$ 30,261	10.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	N/A	N/A	N/A	N/A	N/A	N/A
Citizens	N/A	N/A	N/A	N/A	N/A	N/A
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 44,259	14.5%	\$ 12,191	4.0%	N/A	N/A
Citizens	38,531	12.7	12,104	4.0	\$ 18,157	6.0%
Tier I Capital						
(to Average Assets)						
Consolidated	\$ 44,259	11.0%	\$ 16,133	4.0%	N/A	N/A
Citizens	38,531	9.6	16,071	4.0	\$ 20,088	5.0%

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 12: Related Party Transactions

At December 31, 2015 and 2014, the Bank had loan commitments 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.

	2015	2014
	(In thousands)	
Aggregate balance – January 1	\$ 9,684	\$ 5,260
New loans	1,474	6,668
Repayments	<u>(612)</u>	<u>(2,244)</u>
Aggregate balance – December 31	\$ <u>10,546</u>	\$ <u>9,684</u>

Deposits from related parties held by the Bank at December 31, 2015 and 2014, totaled \$1.2 million and \$893,000, respectively.

Note 13: 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 \$314,000 to the plan in 2016.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The Company uses a December 31st measurement date for the plan. Effective January 1, 2014, the Company amended the plan so that benefits earned under the Final Average Earnings plan design are frozen and all employees will earn future benefits under the Career Average Earnings plan design. Information about the plan's funded status and pension cost follows:

	Pension Benefits	
	2015	2014
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ (3,897)	\$ (3,246)
Service cost	(341)	(294)
Interest cost	(191)	(139)
Actuarial gain (loss)	187	(280)
Benefits paid	<u>274</u>	<u>63</u>
End of year	<u>(3,968)</u>	<u>(3,896)</u>
Change in fair value of plan assets		
Beginning of year	4,485	3,947
Actual return on plan assets	(51)	351
Employer contribution	298	250
Benefits paid	<u>(274)</u>	<u>(63)</u>
End of year	<u>4,458</u>	<u>4,485</u>
Funded status at end of year	\$ <u>490</u>	\$ <u>589</u>

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

	Pension Benefits	
	2015	2014
	(In thousands)	
Unamortized net loss	\$ 1,196	\$ 998
Unamortized prior service	<u>(935)</u>	<u>(1,023)</u>
	\$ <u>261</u>	\$ <u>(25)</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The estimated net loss and prior service credit for the defined benefit pension plan that will be amortized from accumulated other comprehensive income as a credit into net periodic benefit cost over the next fiscal year is approximately \$89,000. The accumulated benefit obligation for the defined benefit pension plan was \$3.8 million and \$3.8 million at December 31, 2015 and 2014, respectively.

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

	December 31,	
	2015	2014
	(In thousands)	
Projected benefit obligation	\$ 3,968	\$ 3,896
Accumulated benefit obligation	\$ 3,804	\$ 3,847
Fair value of plan assets	\$ 4,458	\$ 4,485

	December 31,	
	2015	2014
	(In thousands)	
Components of net periodic benefit cost		
Service cost	\$ 341	\$ 294
Interest cost	191	139
Expected return on plan assets	(377)	(331)
Amortization of prior service (credit) cost	(89)	(89)
Amortization of net loss	43	30
Net periodic benefit cost	\$ 109	\$ 43

Significant assumptions include:

	Pension Benefits	
	2015	2014
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	5.26%	4.98%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine benefit cost:		
Discount rate	5.26%	4.34%
Expected return on plan assets	7.50%	8.00%
Rate of compensation increase	3.00%	3.00%

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 2014 to 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2015:

	Pension Benefits
	(In thousands)
2016	\$ 413
2017	470
2018	372
2019	216
2020	753
2021-2024	<u>1,561</u>
Total	\$ <u>3,785</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 7.5%. The target asset allocation percentages for both 2015 and 2014 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, 2015 and 2014

At December 31, 2015 and 2014, the fair value of plan assets as a percentage of the total was invested in the following:

	December 31,	
	2015	2014
Equity securities	75.3%	77.9%
Debt securities	23.9	22.0
Cash and cash equivalents	<u>0.8</u>	<u>0.1</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, 2015 and 2014, the Plan did not contain Level 2 or Level 3 investments.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

December 31, 2015					
Asset Category	Total Fair Value	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		(In thousands)			
Mutual money market	\$ 37	\$ 37	\$ —	\$ —	
Mutual funds – equities					
International	494	494	—	—	
Large Cap	1,876	1,876	—	—	
Small and Mid Cap	985	985	—	—	
Mutual funds – fixed income					
Core bond	845	845	—	—	
High yield corporate	221	221	—	—	
Total	\$ 4,458	\$ 4,458	\$ —	\$ —	

December 31, 2014					
Asset Category	Total Fair Value	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		(In thousands)			
Mutual money market	\$ 33	\$ 33	\$ —	\$ —	
Mutual funds – equities					
International	464	464	—	—	
Large Cap	1,828	1,828	—	—	
Small and Mid Cap	1,202	1,202	—	—	
Mutual funds – fixed income					
Core bond	712	712	—	—	
High yield corporate	246	246	—	—	
Total	\$ 4,485	\$ 4,485	\$ —	\$ —	

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 2015 and 2014.

ESOP and 401(k) expense for the years ended December 31, 2015 and 2014 was approximately \$196,000 and \$191,000, respectively.

Share information for the ESOP is as follows at December 31, 2015 and 2014:

	2015	2014
Allocated shares at beginning of the year	\$ 199,242	\$ 171,930
Shares released for allocation during the year	23,635	23,635
Net shares acquired on reinvestment of cash or (distributed) due to retirement/diversification	44,681	3,677
Unearned shares	<u>118,176</u>	<u>141,811</u>
Total ESOP shares	<u>385,734</u>	<u>341,053</u>
Fair value of unearned shares at December 31st	\$ <u>1,133,000</u>	\$ <u>1,144,000</u>

At December 31, 2015, the fair value of the 199,242 allocated shares held by the ESOP was approximately \$2,566,000.

Split Dollar Life Insurance Arrangements

The Company has split-dollar life insurance arrangements with its executive officers and certain directors that provide certain death benefits to the executive’s beneficiaries upon his or her death. The agreements provide a pre- and post-retirement death benefit payable to the beneficiaries of the executive in the event of the executive’s death. The Company has purchased life insurance policies on the lives of all participants covered by these agreements in amounts sufficient to provide the sums necessary to pay the beneficiaries, and the Company pays all premiums due on the policies. In the case of an early separation from the Company, the nonvested executive portion of the death benefit is retained by the Company. The accumulated post retirement benefit obligation was \$1.4 million at December 31, 2015 and \$1.4 million at December 31, 2014.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 14: Restricted Stock Plan

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. Restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the Plans).

A summary of the status of the Company's nonvested restricted shares as of December 31, 2015, and changes during the year then ended, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	160,000	\$ 8.44
Granted	15,000	8.17
Vested	(20,000)	8.40
Forfeited	<u>(15,000)</u>	<u>9.09</u>
Nonvested, end of year	<u>140,000</u>	<u>\$ 8.39</u>

Total compensation cost recognized in the income statement for share-based payment arrangements during the years ended December 31, 2015 and 2014 was \$158,000 and \$152,000, respectively. The recognized tax benefits related thereto were \$54,000 and \$52,000, for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, there was \$412,000 and \$654,000, 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 4.3 years.

The Company's Employee Share Option Plan, which was stockholder approved, permitted the grant of share options to its employees. During 2015 the remaining 53,714 that were previously granted expired without being exercised.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2015		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 3,224		
Dividends on non-vested restricted stock	<u>(67)</u>		
Net income allocated to stockholders	3,157		
Basic earnings per share			
Income available to common stockholders	—	4,856,735	\$ <u>0.65</u>
Effect of dilutive securities			
Restricted stock awards	<u>—</u>	<u>76,421</u>	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$ <u>3,157</u>	<u>4,933,156</u>	\$ <u>0.64</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

	Year Ended December 31, 2014		
	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)		
Net income	\$ 2,651		
Dividends on non-vested restricted stock	<u>(55)</u>		
Net income allocated to stockholders	2,596		
Basic earnings per share			
Income available to common stockholders	—	4,846,219	\$ <u>0.54</u>
Effect of dilutive securities			
Restricted stock awards	<u>—</u>	<u>78,026</u>	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$ <u>2,596</u>	<u>4,924,245</u>	\$ <u>0.53</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, 2014, 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, 2015 and 2014

Note 16: 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 quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014:

		December 31, 2015			
		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)					
U.S government agencies	\$ 31,961	\$ —	\$ 31,961	\$ —	
State and political subdivisions	2,662	—	2,662	—	

		December 31, 2014			
		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)					
U.S government agencies	\$ 14,380	\$ —	\$ 14,380	\$ —	
State and political subdivisions	4,946	—	4,946	—	
Equity securities	22	22	—	—	

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)

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

Foreclosed Assets Held for Sale

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

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

The following 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, 2015 and 2014:

				December 31, 2015			
				Fair Value Measurements Using			
				Quoted Prices in	Significant	Significant	
				Active Markets	Other	Unobservable	
				for Identical	Observable	Inputs	
				Assets	Inputs	Inputs	
				(Level 1)	(Level 2)	(Level 3)	
				(In thousands)			
				Fair Value			
Collateral dependent impaired loans	\$	641	\$	—	\$	—	\$ 641
Foreclosed assets held for sale		327		—		—	327

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

	Fair Value	December 31, 2014 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Collateral dependent impaired loans	\$ 301	\$ —	\$ —	\$ 301
Foreclosed assets held for sale	991	—	—	991

Unobservable (Level 3) Inputs

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

	Fair Value at 12/31/15 (In thousands)	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	\$ 641	Market comparable properties	Comparability adjustments	Not available
Foreclosed assets held for sale	327	Market comparable properties	Marketability discount	10% – 35%

	Fair Value at 12/31/14 (In thousands)	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	\$ 301	Market comparable properties	Comparability adjustments	Not available
Foreclosed assets held for sale	991	Market comparable properties	Marketability discount	10% – 35%

There were no significant changes in the valuation techniques used during 2015.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. 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.

		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)			
Carrying Amount								
(In thousands)								
December 31, 2015								
Financial assets								
Cash and cash equivalents	\$	12,701	\$	12,701	\$	—	\$	—
Loans, net of allowance		327,226		—		—		325,354
Federal Home Loan Bank stock		4,210		—		4,210		—
Accrued interest receivable		803		—		803		—
Financial liabilities								
Deposits		323,622		—		307,172		—
Short term borrowings		5,691		—		5,691		—
Federal Home Loan Bank advances		26,530		—		27,347		—
Subordinated debentures		4,124		—		3,238		—
Interest payable		123		—		123		—

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The classification of the assets and liabilities pursuant to the valuation hierarchy as of December 31, 2014 in the following table have not been audited. The fair value has been derived from the December 31, 2014 audited consolidated financial statements.

		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)
	Carrying Amount			
(In thousands)				
December 31, 2014				
Financial assets				
Cash and cash equivalents	\$ 39,164	\$ 39,164	\$ —	\$ —
Held-to-maturity securities	450	—	450	—
Loans, net of allowance	313,354	—	—	312,014
Federal Home Loan Bank stock	4,210	—	4,210	—
Accrued interest receivable	829	—	829	—
Financial liabilities				
Deposits	322,681	—	309,186	—
Short term borrowings	5,098	—	5,098	—
Federal Home Loan Bank advances	26,719	—	26,703	—
Subordinated debentures	4,124	—	3,962	—
Interest payable	135	—	135	—

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

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

The carrying amounts approximate fair value.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Held-to-maturity Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 2 of the hierarchy. The Company has no securities classified as Level 3 of the hierarchy.

Loans

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

Deposits

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

Interest Payable

The carrying amount approximates fair value.

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

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

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

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at December 31, 2015 and 2014.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 17: 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.

Note 18: Commitments and Credit Risk

At December 31, 2015 and 2014, total commercial and commercial real estate loans made up 70.0% and 66.7%, respectively, of the loan portfolio. Installment loans account for 5.3% and 6.7%, respectively, of the loan portfolio. Real estate loans comprise 24.7% and 26.6% of the loan portfolio as of December 31, 2015 and 2014, 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, 2015 and 2014, is \$7.8 million and \$34.4 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, 2015 and 2014, the Company had outstanding commitments to originate variable rate loans aggregating approximately \$11.3 million and \$9.2 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. The Company did not have any mortgage loans in the process of origination which are intended for sale at December 31, 2015 or 2014.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 did not have any total outstanding standby letters of credit at December 31, 2015. The Company had total outstanding standby letters of credit amounting to \$220,000, at December 31, 2014, with terms not exceeding nine months. At both December 31, 2015 and 2014, 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, 2015, the Company had granted unused lines of credit to borrowers aggregating approximately \$18.6 million and \$36.4 million for commercial lines and open-end consumer lines, respectively. At December 31, 2014, the Company had granted unused lines of credit to borrowers aggregating approximately \$13.9 million and \$35.6 million for commercial lines and open-end consumer lines, respectively.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 19: Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. Originally, the amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. In July 2015, the FASB extended the implementation date to December 15, 2017. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

ASU No. 2014-11, Transfer and Servicing (Topic) 860): *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*

ASU No. 2014-11 was issued in June 2014 and requires two accounting changes:

The accounting for repurchase-to-maturity transactions is changed to secured borrowings accounting, and

for repurchase financing arrangements, separate accounting is required for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which results in secured borrowing accounting.

Additional disclosures are required. ASU No. 2014-11 was effective for first interim or annual reporting period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Company adopted ASU 2014-11 as required, without a material impact on the Company's financial position or results of operations.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 20: 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,	
	2015	2014
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 3,455	\$ 2,608
Investment in the Bank	39,412	38,644
Corporate owned life insurance	---	318
Other assets	<u>2,814</u>	<u>3,076</u>
Total assets	<u>\$ 45,681</u>	<u>\$ 44,646</u>
Liabilities and Stockholders' Equity		
Subordinated debentures	\$ 4,124	\$ 4,124
Other liabilities	61	133
Stockholders' equity	<u>41,496</u>	<u>40,389</u>
Total liabilities and stockholders' equity	<u>\$ 45,681</u>	<u>\$ 44,646</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Operating Income		
Dividends from subsidiary	\$ 3,550	\$ 3,842
Interest and dividend income from securities and federal funds	<u>43</u>	<u>11</u>
Total operating income	3,593	3,853
General, Administrative and Other Expenses	<u>1,755</u>	<u>1,946</u>
Income Before Income Taxes and Equity in Undistributed Income of Subsidiary	1,838	1,907
Income Tax Benefits	<u>569</u>	<u>648</u>
Income Before Equity in Undistributed Income of Subsidiary	2,407	2,555
Equity in Undistributed Income of Subsidiary	<u>817</u>	<u>96</u>
Net Income	<u>\$ 3,224</u>	<u>\$ 2,651</u>
Comprehensive Income	<u>\$ 2,986</u>	<u>\$ 2,899</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Operating Activities		
Net income	\$ 3,224	\$ 2,651
Items not requiring (providing) cash		
Depreciation and amortization	13	12
Equity in undistributed income of subsidiary	(817)	(96)
Amortization of ESOP and share-based compensation plans	360	355
Gain on Corporate owned life insurance	29	---
Net change in other assets and other liabilities	(11)	(697)
Net cash provided by operating activities	<u>2,798</u>	<u>2,225</u>
Investing Activities		
Redemption of Corporate owned life insurance	<u>289</u>	<u>---</u>
Net cash provided by financing activities	<u>289</u>	<u>---</u>
Financing Activities		
Dividends paid to stockholders	(2,259)	(1,773)
Treasury stock –net	<u>19</u>	<u>39</u>
Net cash used in financing activities	<u>(2,240)</u>	<u>(1,734)</u>
Net Change in Cash and Cash Equivalents	847	491
Cash and Cash Equivalents at Beginning of Year	<u>2,608</u>	<u>2,117</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,455</u>	<u>\$ 2,608</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 21: Quarterly Financial Data (Unaudited)

The following tables summarize the Company's quarterly results of operations for the years ended December 31, 2015 and 2014.

2015:	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 3,859	\$ 4,040	\$ 4,118	\$ 4,065
Total interest expense	<u>581</u>	<u>582</u>	<u>578</u>	<u>542</u>
Net interest income	3,278	3,458	3,540	3,523
Provision for loan losses	116	145	126	166
Other income	992	935	987	938
General, administrative and other expense	<u>3,184</u>	<u>3,112</u>	<u>3,182</u>	<u>3,062</u>
Income before income taxes	970	1,136	1,219	1,233
Federal income taxes	<u>276</u>	<u>331</u>	<u>360</u>	<u>367</u>
Net income	<u>\$ 694</u>	<u>\$ 805</u>	<u>\$ 859</u>	<u>\$ 866</u>
Earnings per share				
Basic	<u>\$ 0.14</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.18</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

2014:	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 4,097	\$ 4,134	\$ 4,135	\$ 4,011
Total interest expense	<u>626</u>	<u>620</u>	<u>615</u>	<u>606</u>
Net interest income	3,471	3,514	3,520	3,405
Provision for loan losses	216	216	225	231
Other income	838	959	975	926
Gain on sale of securities - net	—	—	—	—
General, administrative and other expense	<u>3,486</u>	<u>3,299</u>	<u>3,256</u>	<u>3,105</u>
Income before income taxes	607	958	1,014	995
Federal income taxes	<u>122</u>	<u>242</u>	<u>296</u>	<u>263</u>
Net income	\$ <u>485</u>	\$ <u>716</u>	\$ <u>718</u>	\$ <u>732</u>
Earnings per share				
Basic	\$ <u>0.10</u>	\$ <u>0.14</u>	\$ <u>0.14</u>	\$ <u>0.16</u>
Diluted	\$ <u>0.10</u>	\$ <u>0.14</u>	\$ <u>0.14</u>	\$ <u>0.15</u>

ANNUAL REPORT

2015

UNITED BANCORP INC.

