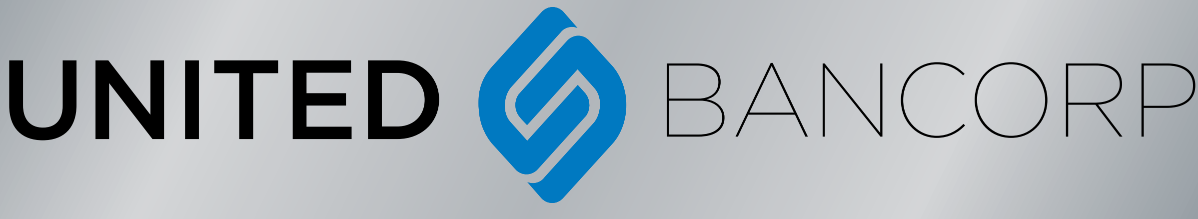
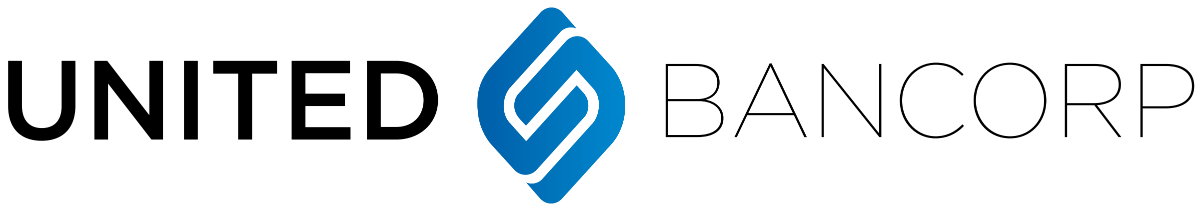



We Are **UNITED**...To Better Serve You!

ANNUAL REPORT

2017

NASDAQ CONGRATULATES
UNITED BANCORP
ON THEIR 25 YEAR
LISTING ANNIVERSARY
NOVEMBER, 2017
UNITED BANCORP
UBCP NasdaqListed
Nasdaq




We Are **UNITED**...To Better Serve You!

ANNUAL REPORT

2017

**Scott A. Everson**
*President and CEO*

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

I am extremely pleased to report about the record level of earnings that our company achieved in 2017 on an operating basis (exclusive of the deferred tax asset revaluation that took place in the fourth quarter). This past year, United Bancorp, Inc. (UBCP) reported diluted earnings per share of $0.71 and net income of $3.546 million. In the fourth quarter and for the year ended December 31, 2017, UBCP recorded a $216 thousand, or $0.04 per share, one-time write down or revaluation of its net deferred tax asset as a result of the Tax Cuts and Jobs Act of 2017 ("tax act") enacted on December 22, 2017. Without this charge relating to the implementation of the tax act, our company's diluted earnings per share would have been $0.75 versus $0.71 for the prior year end, an increase of 5.6%, and our net income would have been $3.762 million, which represents record earnings for our company. Our company's previous best year in net income performance was 2008, which was prior to our industry being negatively impacted by the effects of the Great Recession.

This past year, we continued to focus on growing our company and saw growth in the three primary balance sheet areas on which we keenly focus: assets, loans and deposits. We seek to have growth in these key areas of the balance sheet if we can do so in a profitable fashion in order to support our growth strategy. In addition, we continued to build and solidify the infrastructure, or base, that will firmly support our envisioned growth in the coming years. Building our infrastructure during the course of 2017 had the impact of driving our non-interest expense levels up to some degree; but, we firmly anticipate a nice payback on this investment in future periods.

As always--- and of utmost importance to our company--- this past year we continued to focus on rewarding our valued shareholders by increasing our dividend payout, while maintaining our market value position. For the year, we paid total cash dividends of $0.51 (including a special cash dividend of $0.05 paid, once again, in the fourth quarter). This is an increase of $0.04, or 8.5%, over the cash dividend paid in the previous year and puts our cash dividend yield at a level that is nearly twice that currently seen within our industry! The market value of our company's stock at year-end was $13.25, which is in-line with where it finished at the previous year-end. At this market valuation, our company's stock is trading above eighteen times (18x's) earnings, which is very respectable in the current market. With the present confidence that we have in improving our earnings further in the coming year, we are very optimistic that the market will further reward us with an increase in our market valuation in 2018. Overall, we are extremely pleased with the performance of our company in 2017 and the direction that we are going!

The following is a more detailed picture of how we achieved the record performance at United Bancorp, Inc. in 2017:

***Continuing to Increase Net Interest Income:*** Once again this past year, we were able to achieve positive growth in our primary revenue area--- net interest income. We achieved this by growing our balance sheet while maintaining our margins. In 2017, we saw our total assets grow to $459.3 million at year-end, which is an increase of $21.3 million or 4.9% over the previous year. Contributing to this growth in total assets this past year was the growth that we experienced in our loan portfolio. At year-end, gross loans totaled $368.6 million, which was an increase of $11.9 million, or 3.3%, over 2016 totals. Also contributing to the increase in total assets in 2017 was the growth seen in our securities portfolio. This past year, securities and other restricted stock was at a level of $49.1 million at year-end, which was an increase over the previous year of $5.2 million, or 11.8%. With an increasing target for the Federal Funds Rate (FFR) this past year and an increasing level of earning-assets, our company was able to realize an increase in the total interest income that it produced. In 2017, we generated $17.7 million in total interest income, which is an increase of $1.02 million, or 6.1%, year-over-year.

The other component of net interest income is interest expense. Once again, as we have experienced in recent years, our company was able to lower its total interest expense. This is quite remarkable considering that we grew our total deposits by $47.2 million, or 14.0%, during the course of this past year! Overall, total interest expense for 2017 was $1.76 million, a decrease of 1.1% from the previous year. As mentioned, we were able to contain total interest expense even while growing total deposits. This was accomplished through our strategy of building relationships with our depositors and, thereby, attracting lower-cost retail funding. Overall, we saw lower-cost retail funding (consisting of non interest and interest bearing demand and savings deposits) comprise $34.6 million of this growth in core funding. Time deposits grew by $12.6 million or 23.6%. This lower-cost and time retail funding that we were able to attract this past year was utilized to replace higher-cost wholesale funding alternatives. Our company had $20.0 million in fixed rate advances from the Federal Home Loan Bank (FHLB) mature over the course of 2017. By exchanging this higher-cost wholesale funding with lower-cost retail funding, we experienced a decline in our overall interest expense to average assets, which decreased on a year-over-year basis from 0.43% to 0.39%. This occurrence fully explains our company's ability to fund its growth while lowering overall funding costs in 2017!

By increasing the level of interest income that we realized this past year through positive asset-related growth and controlling the level of interest expense, we saw our net interest margin improve by two basis points to a level of 3.85% at year-end. In 2017, this led to our company realizing net interest income of $15.9 million, an increase of $1.04 million or 7.0%.

**Increasing Noninterest Expense to Support Future Growth while Maintaining Noninterest Income Levels:** Focusing on the growth of our company, this past year we continued building the base upon which we will grow in future periods. In addition, we absorbed expenses related to several initiatives that were implemented the previous year, which led to our company realizing this cost for the entire year in 2017. With our focus on the future, we saw our non-interest expense levels increase this past year (after seeing decline or relative containment thereof in recent years). For the year, noninterest expense increased by $578 thousand or 4.4%. Most of the increase in noninterest expense was related to either infrastructure or personnel enhancement in the following areas: hiring additional loan origination personnel to drive the revenue of our company; completing the renovation of our Main Office to support an enhanced loan origination and product/ service delivery platform; reorganizing and enhancing our Information Technology function to better manage risk and serve our valued customers; opening a new Loan Production Office in the Wheeling, West Virginia market to increase overall loan production and to introduce our brand to a new, highly appealing market; marketing expense related to supporting our strategy of attracting low-cost retail funding; and, lastly, legal and other expenses associated with the renaming of our company's single bank charter. Considering that most of the aforementioned noninterest expenses are fixed or nonrecurring, we firmly believe that we should be able to drive higher levels of revenue without significantly adding to our overall noninterest expense levels in the short-term; thereby, enhancing our earnings and returns in the near term!

Looking at the income-side of the net noninterest margin, the noninterest income realized by our company in 2017 was down $229 thousand year-over-year. The majority of this decrease related to a $162 thousand non-recurring gain that we realized when we sold our Bankers Bancshares, Inc. stock in 2016. Netting out the effect of this one-time event, the noninterest income realized by our company this past year remained relatively stable and was driven primarily by service charges on deposit accounts. Going forward, we seek to focus on payments and other services that will enhance the level of income generated by deposit or cash management-based services.

**Protecting the Bottom-Line by Maintaining Solid Credit Quality Metrics**--- Even while growing our loan portfolio, we were able to preserve and improve our overall stability relating to credit quality. Year-over-year, we continued to have very solid credit quality-related metrics supported by nonaccrual loans and loans past due thirty (30) plus days decreasing from a level of $3.1 million to $2.7 million, a decline of $392 thousand or 12.6%. Further--- net loans charged off, excluding overdrafts, was $235 thousand for 2017, which is a decrease of $46 thousand, or 16.4%, from the previous year. As of year-end, total past dues and nonaccrual loans to gross loans was a very solid 0.73%, versus 0.86% the prior year. In addition, net charge offs to average loans was a very respectable 0.07% for 2017. With these improving credit quality metrics, it is anticipated that our Company will be able to keep contributions to its loan loss reserve at relatively low levels in the coming year, which should help preserve and contribute to the enhancement of bottom-line earnings.

Each of these aforementioned items led to the positive improvement in the earnings of our company in 2017. By keeping a steady focus on and maintaining or improving our performance in these key operational areas, we strongly believe that our company will continue to produce increasing levels of earnings and profitability in future periods!

There were several events that occurred and enhancements made over the course of this past year that will either help us achieve the level of growth that we envision or lead to higher levels of performance for our company. These events and/or enhancements are:

- ***Renaming our bank charter to more effectively build our brand and gain recognition.*** Effective on October 10, 2017, The Citizens Savings Bank and its two divisions--- The Citizens Bank and The Community Bank--- were renamed Unified Bank. Renaming our bank-level charter, Unified Bank, will allow us to establish a more effective brand and better support our envisioned growth objective. Considering that there are roughly 5,700 bank charters in the United States and that ten (10) percent have a charter with the name of either "Citizens" or "Community," it was extremely difficult to differentiate our banks in the markets that we serve and leverage those names as we seek to grow. Our Unified Bank name (and, charter) is the only one for a commercial banking entity in our country at this time. We have registered this name in the three primary states in which we presently seek to operate and grow--- Ohio, West Virginia and Pennsylvania--- and believe that we now truly have a brand that can be effectively promoted and leveraged. In addition, operating as a "single" brand allows our company to reduce costs and gain efficiencies! No longer do we have to maintain multiple platforms to effectively promote two brand names. This should lead to lower operating costs on a going forward basis. Lastly, our team members are proud to be on and have a "common" platform and name. At Unified, we now truly have one bank and one vision… together, we will accomplish more!

- ***Restructuring our Information Technology Platform to more effectively manage the risks with which we are confronted as a financial services organization, while delivering our services on an evolutionary platform that is progressive for a community-banking organization.*** At mid-year in 2017, our company implemented a plan that it developed in conjunction with a leading technology consulting partner to ensure that we are effectively managing the risks with which banking organizations are more routinely confronted in this "Age of Technology!" By developing more effective risk management practices, we will mitigate potential risks to our customers and be able to more effectively (and, confidently) expand our digital delivery services. Over the course of the next three years, our company seeks to develop a true "Hybrid or Omni-Channel" structure that will allow us to adapt and compete more effectively in today's virtual banking environment. But, with that said, we will never forget our community-banking roots! Quite simply, we want to maximize our potential by serving our present and future customers on "their" terms. Our hope and goal is to ensure our overall relevance within our industry by having both a stellar "brick-and-mortar" delivery system to consult with our valued customers "in-person" or "virtually" interacting with them by offering a digital delivery solution; whereby, they will never have to set foot in one of our physical locations to conduct any of their business!

- ***Benefitting from the projected positive impact of the Tax Cuts and Jobs Act of 2017 (Tax Reform).*** Although our earnings were negatively impacted in the fourth quarter of 2017 with the implementation of this act in the amount of $216 thousand, or $0.04 per share, it is anticipated that we will benefit in the coming year with the reduction of our marginal tax rate from 35% to 21%. From the information that we are gathering, financial industry observers and insiders believe that this could lead to improved earnings for financial services organizations in the coming year in the range of 16% to 20%. On the basis of our internal projections, we believe that we will also be within this range. With this enhanced level of earnings, we have rewarded our employees with higher merit-level increases in salaries in the current year (which is a recurring benefit). In addition, we have recently announced our intention to reward our valued shareholders with a higher cash dividend payout in 2018! With ambitious goals for growth, we will also reinvest some of this anticipated windfall within our company to produce the higher-level results that we all anticipate and demand for our company!

# A Letter from the President and CEO - *Continued*

As you can see, our company had a very solid year of performance and, we firmly believe, has outstanding future potential. Throughout a large portion of our geographic footprint, we stand to benefit from the “oil and gas” play that has been underway for several years and is becoming more developed. As a company, we are cautiously optimistic that positive news will be announced by mid-year 2018 in our Eastern Region regarding the much anticipated ethane cracker plant that is being considered for construction in Dilles Bottom, Ohio. As we are told, such a venture will create thousands of construction-related jobs over the course of several years and hundreds of high-paying jobs thereafter. Quite frankly, the announcement of the building of this ethane cracker will be a game changer for our Valley! It will reverse decades of economic decline and lead to economic recovery for our long stagnant area. With such a facility located within our Valley, it is anticipated that there will be a tremendous “multiplier effect” with many other entities within the polymer industry building plants and creating jobs. What a blessing this will be for our local populace and communities and, also, a great opportunity for our company!

As always, we are truly blessed to have a “United and Unified” team, management, board of directors and shareholder group. Ultimately, our utmost goal is to continue increasing the value of your ownership in our company through market value appreciation and increasing dividends. Being supportive of one another… we firmly believe that we will accomplish this and greater things!

Scott A. Everson
President and Chief Executive Officer
ceo@unitedbancorp.com
February 19, 2017

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.

# DIVIDEND AND STOCK HISTORY

| Year | 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 | $ 0.42 | 5¢ Per Share Special Dividend | December 29, 2016 |
| 2017 | $ 0.46 | 5¢ Per Share Special Dividend | December 29, 2017 |

## 2018 ANTICIPATED DIVIDEND PAYABLE DATES

**First Quarter**
March 20, 2018

**Second Quarter***
June 20, 2018

**Third Quarter***
September 20, 2018

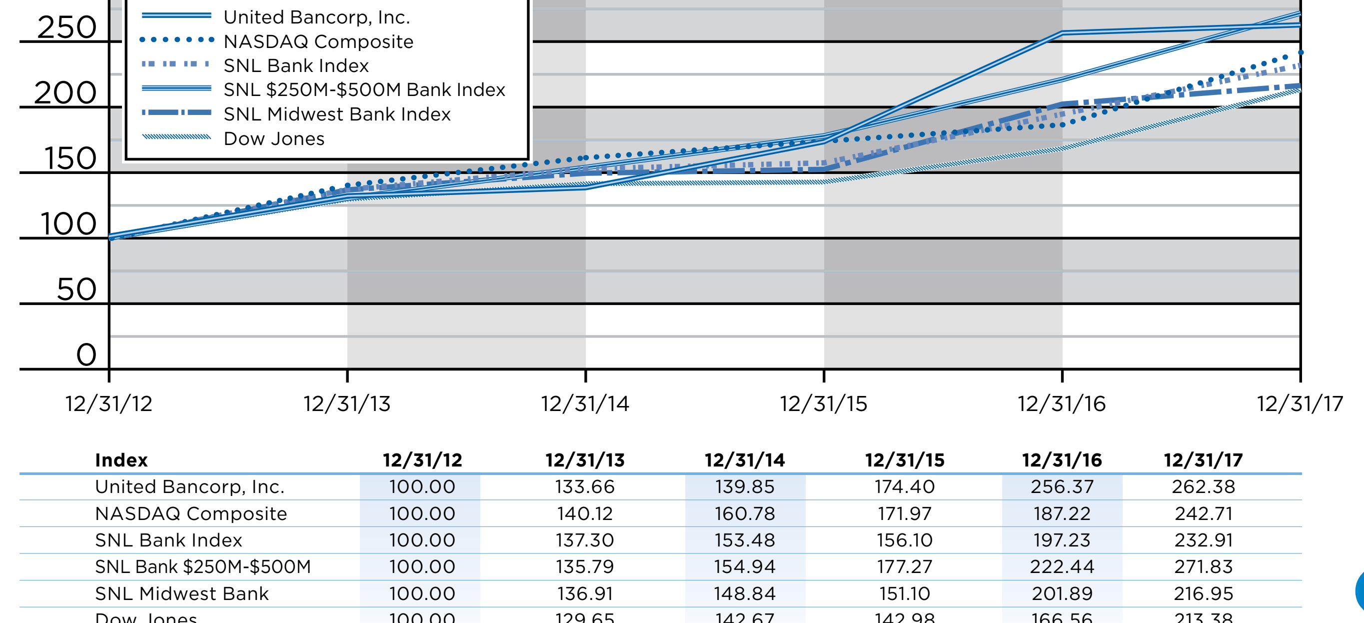
**Fourth Quarter***
December 20, 2018

*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). Unified Bank (formerly The Citizen's Saving Bank) shareholders received 4 shares of UBCP stock in exchange for 1 share of bank stock.

# TOTAL RETURN PERFORMANCE




| Index | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 | 12/31/17 |
|---|---|---|---|---|---|---|
| United Bancorp, Inc. | 100.00 | 133.66 | 139.85 | 174.40 | 256.37 | 262.38 |
| NASDAQ Composite | 100.00 | 140.12 | 160.78 | 171.97 | 187.22 | 242.71 |
| SNL Bank Index | 100.00 | 137.30 | 153.48 | 156.10 | 197.23 | 232.91 |
| SNL Bank $250M-$500M | 100.00 | 135.79 | 154.94 | 177.27 | 222.44 | 271.83 |
| SNL Midwest Bank | 100.00 | 136.91 | 148.84 | 151.10 | 201.89 | 216.95 |
| Dow Jones | 100.00 | 129.65 | 142.67 | 142.98 | 166.56 | 213.38 |

# Directors

Jonathan C. Clark[2]

Scott A. Everson[1,2,4]

Gary W. Glessner[1,2]

John R. Herzig[2]

John M. Hoopingarner[1,2]

Richard L. Riesbeck[1,2,3]

1 = United Bancorp, Inc.
2 = Unified Bank
3 = Chairman - United Bancorp Inc.
4 = Chairman - Unified Bank

## DIRECTORS OF UNITED BANCORP, INC.

Scott A. Everson[1] ........ President & Chief Executive Officer, United Bancorp, Inc.
Chairman, President & Chief Executive Officer, Unified Bank, Martins Ferry, Ohio

Gary W. Glessner[2] ........ Certified Public Accountant, Managing Member of Glessner & Associates, PLLC; Managing Member of Glessner Wharton & Andrews Insurance Group, LLC; Managing Member of Wheeling Coin, LLC; Vice President of Windmill Truckers Center, Inc.; Vice President of Glessner Enterprises, Inc.; Managing Member of GW Rentals, LLC

John M. Hoopingarner[1,2,3,4] ..... Executive Director & Secretary, Muskingum Watershed Conservancy District, New Philadelphia, 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

Lisa A. Basinger ........ Corporate Secretary

## DIRECTORS OF UNIFIED BANK

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, Unified Bank, Martins Ferry, Ohio

Gary W. Glessner[1,2] ........ Certified Public Accountant, Managing Member of Glessner & Associates, PLLC; Managing Member of Glessner Wharton & Andrews Insurance Group, LLC; Managing Member of Wheeling Coin, LLC; Vice President of Windmill Truckers Center, Inc.; Vice President of Glessner Enterprises, Inc.; Managing Member of GW Rentals, LLC

John R. Herzig ........ President, Toland-Herzig Funeral Homes & Crematory, Strasburg, Ohio

John M. Hoopingarner[1,2] ...... Executive Director & Secretary, 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

The journey to becoming the institution we are today began in Martins Ferry, Ohio in 1902. Originally founded as The German Savings Bank and renamed to The Citizens Savings Bank in 1918, the last 115 years have seen growth and change that would have been unimaginable at its' founding. The bank has grown through sound management, the addition of new offices and the acquisition of others. With the most recent name change from The Citizens Savings Bank to Unified Bank in 2017, it has and will continue to move forward.

The growth and success of the bank has been attributed to the association of many dedicated individuals.

## PAST PRESIDENTS

**Edward E. McCombs**, 1902-1936
**John E. Reynolds**, 1936 – 1940
**Harold H. Riethmiller**, 1940 – 1973
**James W. Everson**, 1973 – 2002

## Past Board of Directors

Edward E. McCombs, 1902-1936*
John E. Reynolds, 1902-1940
Dr. Joseph 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
Chris 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
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
Matthew C. Thomas, 1988-2016
Terry A. McGhee, 2001-2017

* Past Chairman

# 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 2017, there were 5,435,304 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, 2017 to December 31, 2017 compared to the same periods in 2016 as reported by the NASDAQ.

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31-Mar | 30-Jun | 30-Sep | 31-Dec | 31-Mar | 30-Jun | 30-Sep | 31-Dec |
| Market Price Range | | | | | | | | |
| High ($) | $ 13.44 | 12.25 | 12.20 | 13.60 | $ 9.55 | 10.00 | 11.30 | 13.50 |
| Low ($) | $ 11.74 | 11.35 | 11.55 | 12.00 | $ 8.80 | 9.02 | 9.77 | 10.45 |
| Cash Dividends | | | | | | | | |
| Quarter ($) | $ 0.11 | 0.11 | 0.12 | 0.12 | $ 0.10 | 0.10 | 0.11 | 0.11 |
| Cumulative ($) | $ 0.11 | 0.22 | 0.34 | 0.46 | $ 0.10 | 0.20 | 0.31 | 0.42 |
| Special Cash Dividends | $ - | - | - | 0.05 | $ - | - | - | 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*

## Dividend Reinvestment and Stock Purchase Plan:

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

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

## Annual Meeting:

The Annual Meeting of Shareholders will be held at 2:00 p.m., April 18, 2018 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:

*Unified 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*
*Anthony LanFranco*
*800-800-4693*

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

*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, 2017 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.*

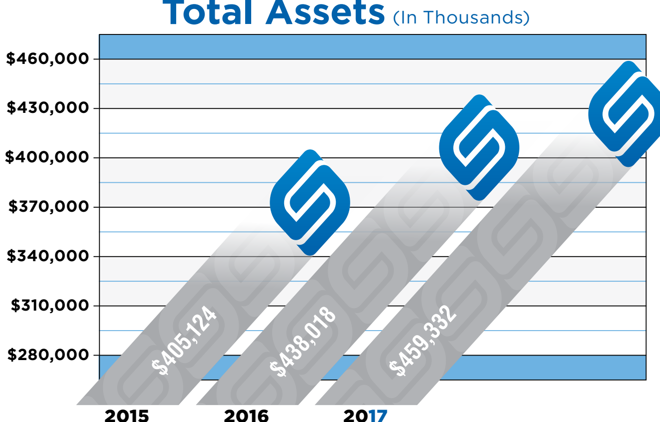
## Financial Condition

### Overview

The Company reported diluted earnings per share of $0.71 and net income of $3,546,000 for the year ended December 31, 2017. In the fourth quarter and for the year ended December 31, 2017, the Company recorded a $216,000, or $0.04 per share, one-time write down or revaluation of its net deferred tax asset as a result of the Tax Cuts and Jobs Act ("Tax Act") enacted on December 22, 2017. The tax act lowers the base corporate tax rate from 35% to 21%. Without this charge, the Company's diluted earnings per share would be $0.75 compared to $0.71 for the year ended December 31, 2016, an increase of 5.63%, and $0.20 versus $0.18 in the fourth quarter, an increase of 11.1%. Lastly, exclusive of the net deferred tax asset revaluation taken in 2017, the Company had net income of $3,762,000, which represents record earnings for the Company.

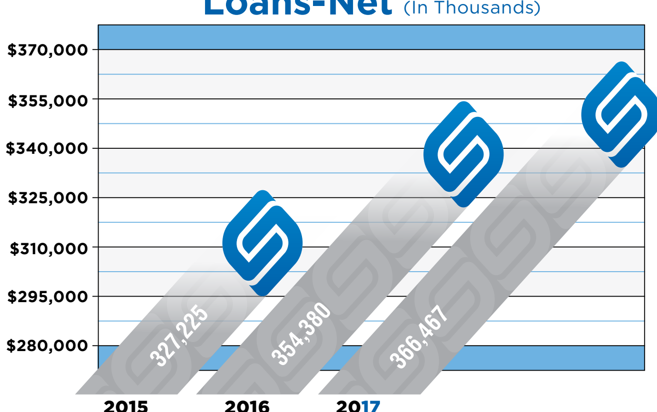
We are happy to report that our Company had another solid year of performance this past year. While the tax act negatively impacted net income for 2017, the long term benefit of lower corporate tax rates outweighs this one-time write off. The Company had a solid increase in net income before taxes for the year ended December 31, 2017. During this period, the Company's net income before taxes increased by $429,000, or 8.3%, from the previous year. The primary driver of this increase of the Company's net income before taxes was the increase in interest income on loans, which was up by $785,000, or 4.9%, year-over-year. For the year, the Company had an increase in its average loans of $13.0 million or 3.8%. While growing its loan portfolio, the Company was able to maintain its overall stability in credit quality. Year-over-year, the Company continued to have very solid credit quality-related metrics supported by nonaccrual loans and loans past due 30+ days decreasing from a level of $3.1 million to $2.7 million, a decline of $392,000 or 12.6%. Further--- net loans charged off, excluding overdrafts, was $235,000 for 2017, which is a decrease of $46,000, or 16.4%, from the previous year. At this present level, total past due and nonaccrual loans to gross loans is a very solid 0.73%, versus 0.86% the prior year.

**Total Assets** (In Thousands)



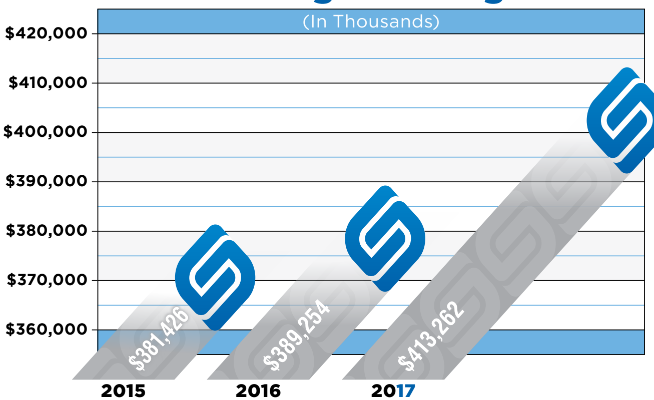
In addition, net charge offs to average loans was a very respectable 0.07% for 2017. The net interest income for our Company increased year-over-year by $1.04 million, or 7.0%, even as we focused on growing retail core deposits to fund our growth. Total deposits increased by $47.2 million, or 13.9%, to a level of $386.0 million as of December 31, 2017. The Company was able to control its overall interest expense levels by attracting lower-cost retail funding to replace higher-cost wholesale funding advances that matured throughout this past year. Overall, the Company saw low-cost retail funding (consisting of non-interest and interest bearing demand and savings deposits) comprise $34.6 million of its growth in retail deposits year-over-year. In addition, the Company's time deposits, which consist of certificate of deposit or term funding, increased by $12.6 million, or 23.6%, for the same period. Even with the above-peer growth in retail core deposit funding, the Company experienced a decline in its overall interest expense to average assets, which decreased on a year-over-year basis from 0.43% to 0.39%. This decrease in the overall cost of funding is directly attributed to the repricing of $20.0 million of the Company's fixed rate advances from the Federal Home Loan Bank (FHLB) during the course of this past year. Not having these higher-costing wholesale advances on its balance sheet should continue to provide benefit to the company in 2018.

The noninterest income of the Company was down by $229,000 year-over-year. The majority of this decrease in noninterest income is related to a $162,000 non-recurring gain that the Company realized on the sale of Bankers Bancshares, Inc. stock during 2016. On the noninterest expense-side of the net noninterest margin (and, as budgeted), the Company saw an increase in its overall noninterest expense levels after several years of decline. The Company saw its noninterest expense increase by $579,000 or 4.4%. Most of the increase in noninterest expense was related to infrastructure enhancement and personnel-related expenses as we prepare for the future growth that we envision and expenses related to our expansion into the Wheeling, West Virginia market with our new Loan Production Office, which should lead to our Company realizing higher levels of revenue as we saw this past year. Also adding to noninterest expense was the renaming of our single bank charter, The Citizens Savings Bank and its two divisions--- The Citizens Bank and The Community Bank--- to Unified Bank, which became effective on October 10, 2017. While we will not have the rebranding-related expenses in 2018, the Company will most likely dedicate to marketing-related expense a comparable amount of funding to better establish our new Unified Bank brand identity. Considering that most of the aforementioned expenses are "fixed," we firmly believe that we should be




able to drive higher levels of revenue without significantly adding to our overall noninterest expense levels in the short-term; therefore, enhancing our Company's earnings and returns.

We are pleased to report the record level on net income realized by our Company in 2017 (exclusive of the deferred tax write off), which came in at $3,762,000. Our previous best year was 2008, which was prior to our industry being negatively impacted by the effects of the Great Recession. In addition, we are also pleased to report that we are executing upon our growth strategy, Mission 2020, which calls for our Company to grow its assets (in a profitable fashion) to a level of $1.0 billion or greater by the end of 2020. This past year, a lot of our focus was on solidifying the base that will firmly support our envisioned growth in the coming years. Even though we realize that we have an extremely long way to go in order to achieve our ambitious growth goal, it is gratifying to see the progress that we made toward supporting this goal and the organic growth that we achieved year-over-year. Although we will need to have a compounded annual growth rate of approximately thirty percent from the beginning of 2018 to achieve the level of growth envisioned under Mission 2020, we firmly believe that it is achievable with the infrastructure that we continue to build and the present vision that we have (which includes both organic and acquisition-related growth). From an organic perspective this past year, our Company grew its assets $21.3 million, or 4.9%, to an overall level of $459.3 million as of December 31, 2017. Most of this growth in assets occurred in our Company's higher-yielding loan portfolio, which enhanced the overall interest income that we realized. In addition, the overall level of net interest income realized by our Company increased year-over-year. Our Company was able to achieve this increase in net interest income by growing both its loans outstanding and lower-cost core deposit funding. We saw marginal growth in the net income that our Company produced in the first two quarters of this year and are extremely pleased to see




that our earnings growth level is back to double digits on a percentage basis in the third and fourth quarters of 2017 (exclusive of the deferred tax write off in the fourth quarter of 2017). After several years of containment, our Company saw its overall noninterest expense levels increase this past year as we continue to build for the future and support our overall mission for growth. Most of the increase in our noninterest expense levels occurred in the following areas: hiring additional loan origination personnel to drive the revenue of our Company; completing the renovation of our Main Office to support an enhanced loan origination platform; reorganizing and enhancing our Information Technology function to better manage risk and serve our valued customers; opening a new Loan Production Office in the Wheeling, West Virginia market to increase overall loan production and to introduce our Company to a new, highly desirable market; marketing expense relating to the prime retail deposit pricing that we have been successfully promoting; and, lastly, legal and other expenses related to the renaming of our Company's single bank charter. Renaming our bank-level charter, Unified Bank, will allow us to establish a more effective brand and better support our envisioned growth objective. We firmly believe with our positioning over the course of the past year, our Company has high operating leverage which should allow us to enhance our revenue, while controlling our noninterest expense levels--- thus, leading to higher earnings and returns over the course of the next twelve to eighteen months. We continue to have extremely sound credit quality metrics, which should have a positive impact on our earnings for the foreseeable future. In addition, we continue to have a robust capital level, as evidenced by our overall equity to asset ratio of 9.56%, which will support our vision for growth in the intermediate term. Our Company continues to pay a generous cash dividend, which totals $0.51 on a trailing twelve month (TTM) basis (including the $0.05 special dividend paid this past December), which produces at TTM Yield of 3.9% as of year-end. At this level, our Company's cash dividend yield is significantly higher than that of the average bank in our country. With our recent focus of increasing the operating leverage and revenue of our Company, we firmly believe that we will continue to generate higher levels of net income and reward our shareholders by paying higher dividends and having further appreciation in our market value. Our number one focus continues to be growing our shareholders' investment in our Company through 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. Overall, we are pleased with the performance that our Company had in 2017 and the direction that we are going. We are extremely optimistic about our future potential and look forward to realizing this upside potential in future periods!

**Earning Assets – Loans**

The Company's gross loans totaled $368.6 million at December 31, 2017, representing a 3.3% increase over the $356.7 million at December 31, 2016. Average loans totaled $343.2 million for 2016, representing a 3.8% increase compared to average loans of $356.2 million for 2017.

The increase in gross loans from December 31, 2016 to December 31, 2017 was primarily an increase in commercial and commercial real estate loans by $14.1 million which was offset by a decrease of $1.9 million in installment loans and a decrease of $301,000 in residential real estate.

The Company's commercial and commercial real estate loan portfolio represents 76.0% of the total portfolio at December 31, 2017, compared to 74.6% at December 31, 2016. 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.

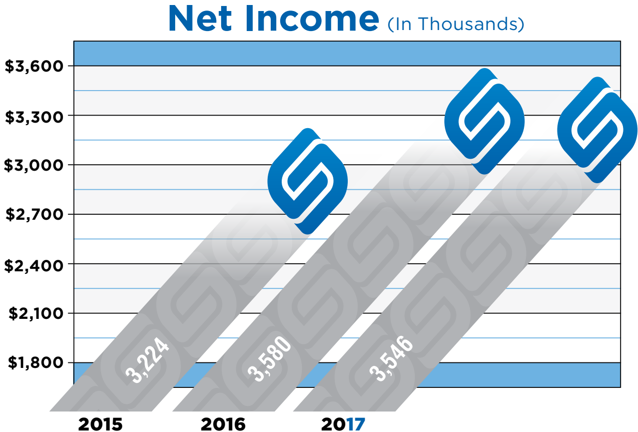
The Company's installment lending portfolio represented 3.4% of the total portfolio at December 31, 2017, compared to 4.0% at December 31, 2016. Competition for installment loans principally comes from the captive finance companies offering low to zero percent financing for extended terms.

The Company's residential real estate portfolio represents 20.6% of the total portfolio at December 31, 2017, compared to 21.4% at December 31, 2016. Residential real estate loans

are comprised of 1, 3, and 5 year adjustable-rate mortgages and 15 year fixed rated 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 2017, 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 $98,000 in 2017 and a gain of $97,000 in 2016.

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. The Company does not hold any derivative securities.

Securities available for sale at December 31, 2017 increased $5.2 million, or 13.1%, from 2016. 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. However, given the recent increases in overall interest rates the extent of bonds called in 2018 should be minimal. Overall, the effective duration of the bond portfolio is less than two years from December 31, 2017.

**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 $250,000. Total deposits increased $47.2 million or 13.9% from $338.8 million at December 31, 2016 to $386.0 million at December 31, 2017. Overall total deposit growth was mainly focused on interest bearing money market accounts and certificate of deposit 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 $250,000 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, 2017, certificates of deposit greater than $250,000 increased $4.0 million, from December 31, 2016 totals.

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 increased approximately $1.7 million from December 31, 2016 to December 31, 2017.

Advances from the Federal Home Loan Bank (FHLB) decreased $29.8 million from December 31, 2016 to December 31, 2017. During 2017, the Company repaid $20.0 million of fixed rate advances from the Federal Home Bank.

## Performance Overview 2017 to 2016

**Net Income**

The Company reported diluted earnings per share of $0.71 and net income of $3,546,000 for the year ended December 31, 2017. In the fourth quarter and for the year ended December 31, 2017, the Company recorded a $216,000, or $0.04 per share, one-time write down or revaluation of its net deferred tax asset as a result of the Tax Cuts and Jobs Act ("tax act") enacted on December 22, 2017. The tax act lowers the base corporate tax rate from 35% to 21%. Without this charge, the Company's diluted earnings per share would be $0.75 compared to $0.71 for the year ended December 31, 2016, an increase of 5.63%, and $0.20 versus $0.18 in the fourth quarter, an increase of 11.1%. Lastly, exclusive of the net deferred tax asset revaluation taken in 2017, the Company had net income of $3,762,000, which represents record earnings for the Company.

**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, 2017 to 2016, the Company's net interest margin was 3.85% compared to 3.83%, an increase of 2 basis points.

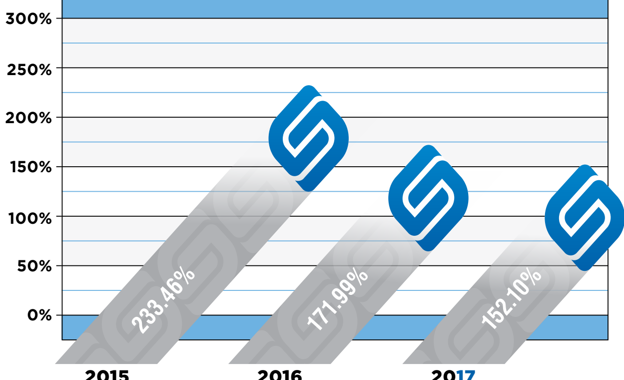
Average interest-earning assets increased $24.0 million in 2017 as compared to 2016 while the associated weighted-average yield on these interest-earning assets decreased from 4.29% in 2016 to 4.28% for 2017. Average interest-bearing liabilities increased $28.3 million in 2017 as compared to 2016, while the associated weighted-average costs on these interest-bearing liabilities decreased from 0.59% in 2016 to 0.53% in 2017.

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 $11.9 million year-over-year to a level of $368.6 million as of December 31, 2017. During this same period, the Company's credit quality remained relatively constant as non-accrual loans were up $34,000, or 2.5%, to a level of $1.4 million and net loans charged off were down by $46,000, or 16.3%, to a level of $235,000 (exclusive of overdraft charge off). With this overall improvement in



credit quality, the Company decreased the provision for loan losses which was $100,000 for the year ended December 31, 2017 compared to $301,000 for the year ended December 31, 2016, a decrease of $201,000 year-over-year. Overall, the decreased loan loss provision net of loans charged off resulted in a total allowance for loan losses to total loans of 0.58% and a total allowance for loan losses to nonperforming loans of 152.10% at year end 2017, compared to 0.66% and 171.99% at year end 2016.

**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, 2017 was $3.5 million, a decrease of $229,000, or 6.2%, compared to $3.7 million for the year ended December 31, 2016. The majority of this decrease in noninterest income is related to a $162,000 non-recurring gain that the Company realized on the sale of Bankers Bancshares, Inc. stock during 2016. The Company's service charges on deposit accounts decreased by $92,000 for 2017 as compared to 2016.

**Noninterest Expense**

After several years of containment, our Company saw its overall noninterest expense levels increase this past year as we continue to build for the future and support our overall mission for growth. Most of the increase in our noninterest expense levels occurred in the following areas: hiring additional loan origination personnel to drive the revenue of our Company; completing the renovation of our Main Office to support an enhanced loan origination platform; reorganizing and enhancing our Information Technology function to better manage risk and serve our valued customers; opening a new Loan Production Office in the Wheeling, West Virginia market to increase overall loan production and to introduce our Company to a new, highly desirable market; marketing expense relating to the prime retail deposit pricing that we have been successfully promoting; and, lastly, legal and other expenses related to the renaming of our Company's single bank charter. Renaming our bank-level charter, Unified Bank, will allow us to establish a more effective brand and better support our envisioned growth objective. Overall noninterest expense for 2017 increased $579,000, or 4.4%, as compared to 2016. Specific areas of increase include the following.

Salaries and employee benefits increased $189,000, or 2.7%, from 2016 to 2017. As described above additional loan origination personnel were hired in 2017.

Occupancy and equipment expense increased $174,000, or 9.2%. The market expansion into Wheeling, West Virginia is the main driver for the increase.

Professional fees increased $105,000, or 14.6%, for 2017 as compared to 2016. This increase is due to increased regulatory costs and legal expenses to open the Loan Production Office ("LPO") in Wheeling West Virginia.

Marketing expense increased $102,000, or 31.5%, for 2017 as compared to 2016. The renaming process in 2017 to Unified Bank was the primarily reason for this increase

| (In thousands) | 2017 | 2016 |
|---|---|---|
| Noninterest income | | |
| Customer service fee | $ 2,502 | $ 2,594 |
| Gains on sales of loans | 98 | 97 |
| Other income | 852 | 990 |
| Total noninterest income | $ 3,452 | $ 3,681 |
| Noninterest expense | | |
| Salaries and employee benefits | $ 7,210 | $ 7,021 |
| Occupancy and equipment | 2,071 | 1,897 |
| Provision for losses on foreclosed real estate | 20 | 6 |
| Professional services | 825 | 720 |
| Insurance | 346 | 225 |
| Deposit insurance premiums | 185 | 198 |
| Franchise and other taxes | 347 | 325 |
| Marketing expense | 426 | 324 |
| Printing and office supplies | 112 | 117 |
| Other expenses | 2,107 | 2,238 |
| Total noninterest expense | $ 13,649 | $ 13,071 |

Other expenses decreased $131,000, or 5.9%. As reported in 2016, the Company incurred fraud losses and card-related reissuance costs of approximately $208,000 ($138,000 after tax or approximately $0.025 per share dilution) were realized during the second quarter of 2016. During the three-months ended September 30, 2016, the Company received an insurance refund on this fraud of $50,000. Under consumer regulation, the Company bears the financial loss relating to debit card fraud and its customers are made whole on the loss. During the third quarter of 2016, the Company implemented newer fraud prevention technology relating to its debit cards that included a chip-enabled debit card and a smart phone app, "My Mobile Money," that allows our customers to monitor and control their debit card usage by sending transaction alerts.

Income tax expense for 2017 was $2.0 million compared to $1.6 million in 2016, an increase of $464,000. The Company's effective income tax rate was 36.6% in 2017 and 30.6% in 2016. In 2016, 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. For 2017, the Company recorded a $216,000, or $0.04 per share, one-time write down or revaluation of its net deferred tax asset as a result of the Tax Act enacted on December 22, 2017. Without this write-down the Company's effective tax rate would have been 32.7%.

**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 is 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, 2017 and 2016 fall within the general guidelines established by the Board of Directors. The 2017 NPV table shows that in a falling interest rate environment, in the event of a 100 basis point change, the NPV would

(Dollars in Thousands)

Net Portfolio Value - December 31, 2017

| Change in Rates | $ Amount | $ Change | % Change |
|---|---|---|---|
| +200 | 71,517 | 456 | 1% |
| +100 | 71,915 | 854 | 1% |
| Base | 71,061 | | |
| -100 | 64,069 | (6,992) | -10% |
| -200 | 53,477 | (17,584) | -24% |

(Dollars in Thousands)

Net Portfolio Value - December 31, 2016

| Change in Rates | $ Amount | $ Change | % Change |
|---|---|---|---|
| +200 | 70,162 | 3,255 | 5% |
| +100 | 69,310 | 2,403 | 4% |
| Base | 66,907 | | |
| -100 | 59,081 | (7,826) | -12% |
| -200 | 48,596 | (18,311) | -27% |

decrease 10%, and with a 200 basis point change the NPV would decrease 24%. 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 1% with a 100 basis point interest rate increase. In a 200 basis point rate increase, the Company's NPV would increase 1%. This increase is attributable to a portion of the Company's loan portfolios that have variable rates but is somewhat offset by deposit pricing based on short term interest rates.

The following table is a summary of selected quarterly results of operations for the years ended December 31, 2017 and 2016.

| 2017 (In thousands, except per share data) | March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| Total interest income | $ 4,184 | 4,290 | 4,586 | 4,591 |
| Total interest expense | 438 | 438 | 449 | 439 |
| Net interest income | 3,746 | 3,852 | 4,137 | 4,152 |
| Provision for losses on loans | 25 | 25 | 25 | 25 |
| Other income | 832 | 869 | 892 | 859 |
| General, administrative and other expense | 3,334 | 3,365 | 3,456 | 3,494 |
| Income before income taxes | 1,219 | 1,331 | 1,548 | 1,492 |
| Federal income taxes | 369 | 415 | 548 | 712 |
| Net income | 850 | 916 | 1,000 | 780 |
| Earnings per share | | | | |
| Basic | 0.17 | 0.18 | 0.20 | 0.17 |
| Diluted | 0.17 | 0.18 | 0.20 | 0.16 |

| 2016 (In thousands, except per share data) | March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| Total interest income | $ 4,038 | $ 4,187 | $ 4,166 | $ 4,244 |
| Total interest expense | 475 | 437 | 432 | 440 |
| Net interest income | 3,563 | 3,750 | 3,734 | 3,804 |
| Provision for losses on loans | 71 | 105 | 131 | (6) |
| Other income | 867 | 902 | 1,056 | 856 |
| General, administrative and other expense | 3,141 | 3,251 | 3,345 | 3,333 |
| Income before income taxes | 1,218 | 1,296 | 1,314 | 1,333 |
| Federal income taxes | 373 | 389 | 386 | 432 |
| Net income | $ 845 | $ 907 | $ 928 | $ 901 |
| Earnings per share | | | | |
| Basic | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 |
| Diluted | $ 0.17 | $ 0.18 | $ 0.18 | $ 0.18 |

**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, 2017 and 2016. 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) | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| **Assets** | | | | | | |
| Interest-earning assets | | | | | | |
| Loans | $ 356,224 | 16,827 | 4.72% | $ 343,243 | 16,041 | 4.67% |
| Taxable securities - AFS | 39,586 | 481 | 1.22 | 31,292 | 325 | 1.04 |
| Tax-exempt securities - AFS | 178 | 11 | 6.18 | 2,003 | 123 | 6.13 |
| Federal funds sold | 13,109 | 151 | 1.15 | 8,547 | 36 | 0.42 |
| FHLB stock and other | 4,165 | 209 | 5.02 | 4,169 | 175 | 4.20 |
| Total interest-earning assets | 413,262 | 17,679 | 4.28 | 389,254 | 16,700 | 4.29 |
| Noninterest-earning assets | | | | | | |
| Cash and due from banks | 6,880 | | | 4,972 | | |
| Premises and equipment (net) | 11,849 | | | 11,340 | | |
| Other nonearning assets | 18,688 | | | 13,955 | | |
| Less: allowance for loan losses | (2,282) | | | (752) | | |
| Total noninterest-earning assets | 35,135 | | | 29,515 | | |
| Total assets | 448,397 | | | 418,769 | | |
| **Liabilities & stockholders' equity** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Demand deposits | $ 154,661 | 495 | 0.32% | $ 123,051 | 136 | 0.11% |
| Savings deposits | 81,874 | 38 | 0.05 | 78,811 | 36 | 0.05 |
| Time deposits | 62,744 | 686 | 1.09 | 54,954 | 593 | 1.08 |
| FHLB advances | 9,911 | 364 | 3.67 | 30,885 | 924 | 2.99 |
| Federal funds purchased | 4,296 | 37 | 0.86 | - | - | - |
| Trust preferred debentures | 4,124 | 104 | 2.52 | 4,124 | 82 | 1.99 |
| Repurchase agreements | 13,578 | 40 | 0.29 | 11,094 | 13 | 0.12 |
| Total interest-bearing liabilities | 331,218 | 1,764 | 0.53 | 302,919 | 1,784 | 0.59 |
| **Noninterest-bearing liabilities** | | | | | | |
| Demand deposits | 70,272 | | | 70,723 | | |
| Other liabilities | 2,446 | | | 2,493 | | |
| Total noninterest-bearing liabilities | 72,718 | | | 73,216 | | |
| Total liabilities | | | | 376,135 | | |
| Total stockholders' equity | 44,461 | | | 42,634 | | |
| Total liabilities & stockholders' equity | 448,397 | | | $ 418,769 | | |
| Net interest income | | $ 15,915 | | | $ 14,916 | |
| Net interest spread | | | 3.75% | | | 3.70% |
| Net yield on interest-earning assets | | | 3.85% | | | 3.83% |

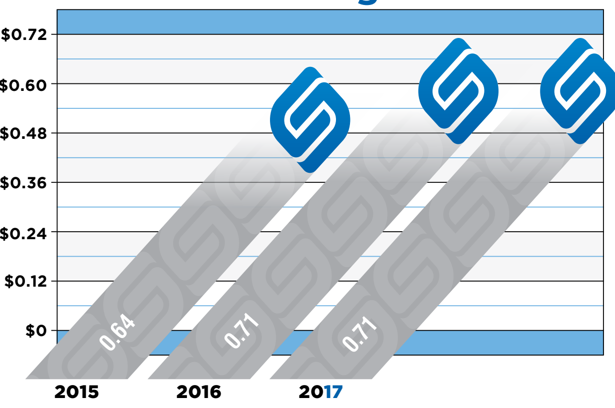
• For purposes of this schedule, nonaccrual loans are included in loans.
• Fees collected on loans are included in interest on loans.

**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 2017. 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.




**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 $43.9 million and $42.6 million at December 31, 2017 and 2016, respectively. Total stockholders' equity in relation to total assets was 9.56% at December 31, 2017 and 9.74% at December 31, 2016.

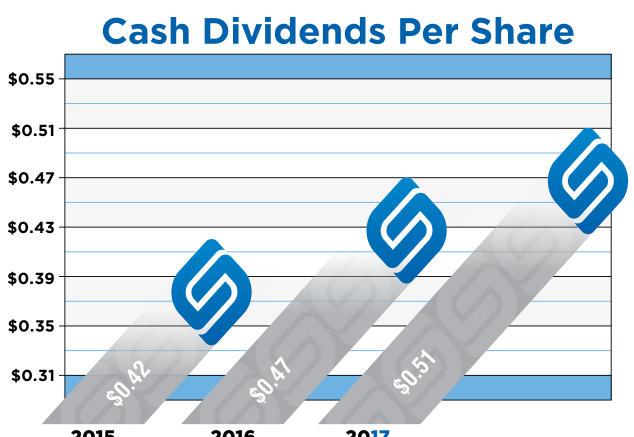
| (In thousands) | 2017 Compared to 2016 Increase/(Decrease) | | |
|---|---|---|---|
| | Total Change | Change Due To Volume | Change Due To Rate |
| Interest and dividend income | | | |
| Loans | $ 786 | 612 | 174 |
| Taxable securities available for sale | 156 | 95 | 61 |
| Tax-exempt securities available for sale | ( 112 ) | ( 113 ) | 1 |
| Federal funds sold | 115 | 27 | 88 |
| FHLB stock and other | 34 | – | 34 |
| Total interest and dividend income | 979 | 621 | 358 |
| Interest expense | | | |
| Demand deposits | 359 | 48 | 311 |
| Savings deposits | 2 | 1 | 1 |
| Time deposits | 93 | 64 | 29 |
| FHLB advances | ( 513 ) | ( 467 ) | ( 46 ) |
| Federal funds purchased | ( 10 ) | ( 28 ) | 18 |
| Trust Preferred debentures | 22 | – | 22 |
| Repurchase agreements | 27 | 3 | 24 |
| Total interest expense | ( 20 ) | ( 379 ) | 359 |
| Net interest income | $ 999 | 1,000 | ( 1 ) |

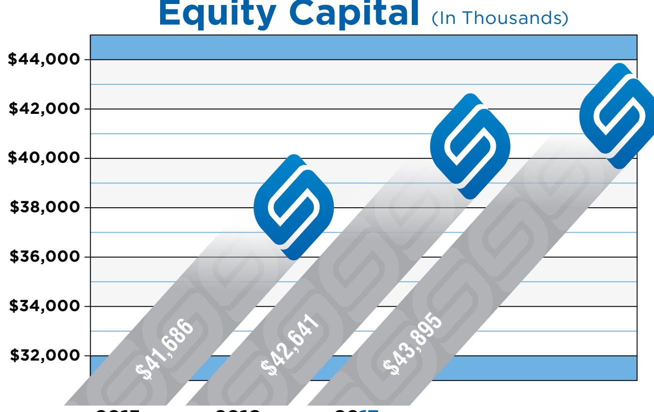
The Company has established a Dividend Reinvestment Plan ("The Plan") for stockholders under which the Company's common stock will be purchased by The Plan for participants with automatically reinvested dividends. The Plan does not represent a change in the dividend policy or a guarantee of future dividends. 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, 2017 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. The interest rate is a variable rate per annum, reset quarterly, equal to three month LIBOR plus 1.35% and is payable quarterly.

The $4.1 million of net proceeds received by the Company was primarily utilized to fund a $3.4 million note receivable from an Employee Stock Option Plan (ESOP). The ESOP 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 $59.3 million at December 31, 2017, compared to $51.3 million at December 31, 2016. Management recognizes securities may need to be sold in the future to help fund loan demand and, accordingly, as of December 31, 2017, $45.0 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 2017 and 2016 follows.

Net cash provided by operating activities totaled $4.6 million and $4.2 million for the years ended December 31, 2017 and 2016, 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 $18.0 million for the year ended December 31, 2017. For year ended

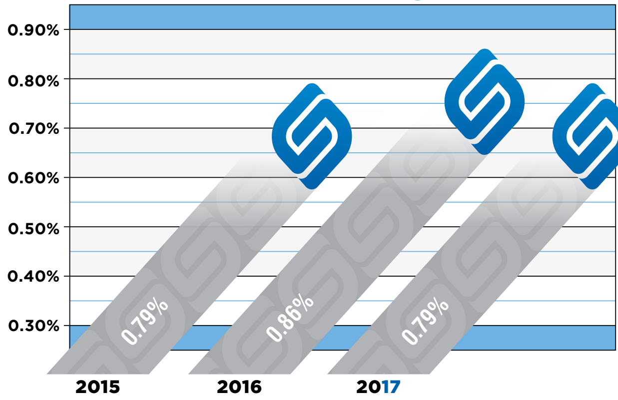
December 31, 2016 net cash used by investing activities totaled $35.0 million. The changes in net cash from investing activities include loan growth, as well as normal maturities, security calls and reinvestments of securities and premises and equipment expenditures. Proceeds from securities, which matured or were called totaled $7.2 million and $36.4 million in 2017 and 2016, respectively.

Net cash provided by financing activities totaled $16.3 million and $29.7 for the years ended December 31, 2017 and 2016, respectively. The net cash provided by financing activities in 2017 was primarily attributable to an increase in deposits net of repayments in borrowings from the Federal Home Loan Bank. The net cash provided by financing activities in 2016 was primarily attributable to an increase in total deposits and FHLB advances.

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

**Inflation**

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



## Report of Independent Registered Public Accounting Firm

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To the Shareholders, Board of Directors and Audit Committee
United Bancorp, Inc.
Martins Ferry, Ohio

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of United Bancorp, Inc. (the "Company") as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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 included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2007.

Cincinnati, Ohio
March 20, 2018

BKD, LLP

# Consolidated Balance Sheets

## December 31, 2017 and 2016
(In thousands, except share data)

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 4,662 | $ 4,233 |
| Interest-bearing demand deposits | 9,653 | 7,308 |
| Cash and cash equivalents | 14,315 | 11,541 |
| Available-for-sale securities | 44,959 | 39,766 |
| Loans, net of allowance for loan losses of $2,122 and $2,341 at December 31, 2017 and 2016, respectively | 366,467 | 354,380 |
| Premises and equipment | 11,740 | 11,884 |
| Federal Home Loan Bank stock | 4,164 | 4,164 |
| Foreclosed assets held for sale, net | 397 | 335 |
| Accrued interest receivable | 993 | 840 |
| Deferred federal income taxes | 349 | 850 |
| Bank-owned life insurance | 12,114 | 11,822 |
| Other assets | 3,834 | 2,436 |
| Total assets | $ 459,332 | $ 438,018 |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Deposits | | |
| Demand | $ 237,980 | $ 203,745 |
| Savings | 82,169 | 81,825 |
| Time | 65,817 | 53,233 |
| Total deposits | 385,966 | 338,803 |
| Securities sold under repurchase agreements | 11,085 | 9,393 |
| Federal Home Loan Bank advances | 10,022 | 39,855 |
| Subordinated debentures | 4,124 | 4,124 |
| Interest payable and other liabilities | 4,240 | 3,202 |
| Total liabilities | 415,437 | 395,377 |
| **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 2017 – 5,435,304 shares, 2016 - 5,425,304 shares; outstanding 2017 – 5,244,105, 2016 – 5,208,015 | 5,435 | 5,425 |
| Additional paid-in capital | 18,020 | 18,024 |
| Retained earnings | 23,260 | 22,483 |
| Stock held by deferred compensation plan; 2017 – 185,355 shares, 2016 – 211,509 shares | (1,671) | (1,880) |
| Unearned ESOP compensation | (683) | (911) |
| Accumulated other comprehensive income loss | (420) | (454) |
| Treasury stock, at cost 2017 – 5,744 shares, 2016 – 5,744 shares | (46) | (46) |
| Total stockholders' equity | 43,895 | 42,641 |
| Total liabilities and stockholders' equity | $ 459,332 | $ 438,018 |

*See Notes to Consolidated Financial Statements*

# Consolidated Statements of Income

## Years Ended December 31, 2017 and 2016

(In thousands, except per share data)

| | 2017 | 2016 |
|---|---|---|
| **Interest and Dividend Income** | | |
| Loans | $ 16,803 | $ 16,018 |
| Securities | | |
| Taxable | 481 | 325 |
| Tax-exempt | 7 | 81 |
| Federal funds sold | 151 | 36 |
| Dividends on Federal Home Loan Bank and other stock | 209 | 175 |
| Total interest and dividend income | 17,651 | 16,635 |
| **Interest Expense** | | |
| Deposits | 1,219 | 765 |
| Borrowings | 545 | 1,019 |
| Total interest expense | 1,764 | 1,784 |
| **Net Interest Income** | 15,887 | 14,851 |
| **Provision for Loan Losses** | 100 | 301 |
| **Net Interest Income After Provision for Loan Losses** | 15,787 | 14,550 |
| **Noninterest Income** | | |
| Customer service fees | 2,502 | 2,594 |
| Net gains on loan sales | 98 | 97 |
| Earnings on bank-owned life insurance | 471 | 463 |
| Other | 381 | 527 |
| Total noninterest income | 3,452 | 3,681 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 7,210 | 7,021 |
| Net occupancy and equipment expense | 2,071 | 1,897 |
| Provision for losses on foreclosed real estate | 20 | 6 |
| Professional fees | 825 | 720 |
| Insurance | 346 | 225 |
| Deposit insurance premiums | 185 | 198 |
| Franchise and other taxes | 347 | 325 |
| Marketing expense | 426 | 324 |
| Printing and office supplies | 112 | 117 |
| Other | 2,107 | 2,238 |
| Total noninterest expense | 13,649 | 13,071 |
| **Income Before Federal Income Taxes** | 5,590 | 5,160 |
| **Provision for Federal Income Taxes** | 2,044 | 1,580 |
| **Net Income** | $ 3,546 | $ 3,580 |
| **Basic Earnings Per Share** | $ 0.72 | $ 0.72 |
| **Diluted Earnings Per Share** | $ 0.71 | $ 0.71 |

*See Notes to Consolidated Financial Statements*

# Consolidated Statements of Comprehensive Income

## Years Ended December 31, 2017 and 2016

(In thousands)

| | 2017 | 2016 |
|---|---|---|
| Net income | $ 3,546 | $ 3,580 |
| Other comprehensive income (loss), net of tax | | |
| Unrealized holding gains (losses) on available-for-sale securities during the period, net of taxes (benefits) of $24 and $(159) for each respective period | 89 | (310) |
| Change in funded status of defined benefit plan, net of (benefits) $(20) and taxes of $22 for each respective period | (40) | 42 |
| Amortization of prior service included in net periodic pension expense, (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 $21 and $27 for each respective period | 44 | 54 |
| Comprehensive income | $ 3,580 | $ 3,307 |

*See Notes to Consolidated Financial Statements*

## Years Ended December 31, 2017 and 2016

(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, 2016** | $ 5,385 | $ 18,245 | $ (2,125) | $ (1,271) | $ 21,443 | $ (181) | $ 41,496 |
| Net income | — | — | — | — | 3,580 | — | 3,580 |
| Other comprehensive loss | — | — | — | — | — | (273) | (273) |
| Cash dividends - $0.47 per share | — | — | — | — | (2,540) | — | (2,540) |
| Shares purchased for deferred compensation plan | — | (199) | 199 | — | — | — | — |
| Expense related to share-based compensation plans | — | 147 | — | — | — | — | 147 |
| Restricted stock activity | 40 | (40) | --- | — | — | — | --- |
| Amortization of ESOP | — | (129) | — | 360 | — | — | 231 |
| **Balance, December 31, 2016** | 5,425 | 18,024 | (1,926) | (911) | 22,483 | (454) | 42,641 |
| Net income | — | — | — | — | 3,546 | — | 3,546 |
| Other comprehensive income | — | — | — | — | — | 34 | 34 |
| Cash dividends - $0.51 per share | — | — | — | — | (2,769) | — | (2,769) |
| Shares purchased for deferred compensation plan | — | (209) | 209 | — | — | — | — |
| Expense related to share-based compensation plans | — | 163 | — | — | — | — | 163 |
| Restricted stock activity | 10 | (10) | — | — | — | — | — |
| Amortization of ESOP | — | 52 | — | 228 | — | — | 280 |
| **Balance, December 31, 2017** | $ 5,435 | $ 18,020 | $ (1,717) | $ (683) | $ 23,260 | $ (420) | $ 43,895 |

*See Notes to Consolidated Financial Statements*

# Consolidated Statements of Cash Flows

## Years Ended December 31, 2017 and 2016

(In thousands)

| | 2017 | 2016 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 3,546 | $ 3,580 |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 918 | 819 |
| Provision for loan losses | 100 | 301 |
| Provision for losses on foreclosed real estate | 20 | 6 |
| Amortization of premiums and discounts on securities-net | (1) | (1) |
| Realized gains on sale of Great Lake Bankers Bank stock | --- | (162) |
| Amortization of mortgage servicing rights | 6 | 12 |
| Deferred income taxes | 545 | 82 |
| Originations of loans held for sale | (4,424) | (4,451) |
| Proceeds from sale of loans held for sale | 4,522 | 4,548 |
| Net gains on sales of loans | (98) | (97) |
| Amortization of ESOP | 280 | 231 |
| Expense related to share-based compensation plans | 163 | 147 |
| Loss on sale of real estate and other repossessed assets | 24 | 4 |
| Increase in cash surrender value of bank-owned life insurance | (292) | (313) |
| Changes in | | |
| Accrued interest receivable | (153) | (37) |
| Other assets | (1,627) | (34) |
| Interest payable and other liabilities | 1,038 | (458) |
| Net cash provided by operating activities | 4,567 | 4,177 |
| **Investing Activities** | | |
| Purchases of available-for-sale securities | (12,248) | (42,000) |
| Proceeds from maturities of available-for-sale securities | 7,249 | 36,389 |
| Net change in loans | (12,336) | (27,468) |
| Proceeds from sale of Great Lake Bankers Bank stock | --- | 208 |
| Purchases of premises and equipment | (782) | (2,257) |
| Proceeds from sales of foreclosed assets | 71 | 124 |
| Net cash used in investing activities | (18,046) | (35,004) |

*See Notes to Consolidated Financial Statements*

## Years Ended December 31, 2017 and 2016

(In thousands)

| | 2017 | 2016 |
|---|---|---|
| **Financing Activities** | | |
| Net increase in deposits | $ 47,163 | $ 15,181 |
| Proceeds of Federal Home Loan Bank advances | 11,000 | 19,500 |
| Repayments of Federal Home Loan Bank advances | (40,833) | (6,175) |
| Net change in securities sold under repurchase agreements | 1,692 | 3,701 |
| Cash dividends paid | (2,769) | (2,540) |
| Net cash provided by (used in) financing activities | 16,253 | 29,667 |
| **Increase (decrease) in Cash and Cash Equivalents** | 2,774 | (1,160) |
| **Cash and Cash Equivalents, Beginning of Year** | 11,541 | 12,701 |
| **Cash and Cash Equivalents, End of Year** | $ 14,315 | $ 11,541 |
| **Supplemental Cash Flows Information** | | |
| Interest paid on deposits and borrowings | $ 1,807 | $ 1,796 |
| Federal income taxes paid | $ 1,575 | $ 1,133 |
| **Supplemental Disclosure of Non-Cash Investing Activities** | | |
| Transfers from loans to foreclosed assets held for sale | $ 149 | $ 111 |

*See Notes to Consolidated Financial Statements*

**December 31, 2017 and 2016**

## 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, Unified Bank of Martins Ferry, Ohio ("the Bank" or "Unified"). All intercompany transactions and balances have been eliminated in consolidation.

### *Nature of Operations*

The Company's revenues, operating income and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Athens, Belmont, Carroll, Fairfield, Harrison, Jefferson and Tuscarawas Counties and the surrounding localities in northeastern, east-central and southeastern Ohio and include a wide range of individuals, businesses and other organizations. Unified Bank conducts its business through its main office in Martins Ferry, Ohio and branches in Amesville, Bridgeport, Colerain, Dellroy, Dillonvale, Dover, Glouster, Jewett, Lancaster Downtown, Lancaster East, Nelsonville, New Philadelphia, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg and Tiltonsville, Ohio. The Bank also operates a Loan Production Office in Wheeling, West Virginia.

The Company's primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. 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.

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the Company did not have any loans held for sale.

**December 31, 2017 and 2016**

***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

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 five years. Management believes the five year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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.

**December 31, 2017 and 2016**

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.

**December 31, 2017 and 2016**

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.

### *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.

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, 2017, the Company had no uncertain tax positions. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Company's impact of this Tax Act resulted in a charge against net income of approximately $216,000. This is primarily due to the write down of its deferred tax assets as a result of the Tax Act's reduction in the base corporate tax rate from 35% to 21%.

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 2014.

### *Deferred Compensation Plan*

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

Company's stock are not recognized. The deferred compensation obligation is also classified as an equity instrument and changes in the fair value of the amount owed to the participant are not recognized.

### *Stockholders' Equity and Dividend Restrictions*

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

### *Earnings Per Share*

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

Treasury stock shares, 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.

## 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, 2017 and 2016, was $3.5 million and $2.8 million, respectively.

**December 31, 2017 and 2016**

## 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, 2017: | | | | |
| U.S. government agencies | $ 45,249 | $ --- | $ (290) | $ 44,959 |
| | $ 45,249 | $ --- | $ (290) | $ 44,959 |
| **Available-for-sale Securities:** | | | | |
| December 31, 2016: | | | | |
| U.S. government agencies | $ 39,000 | $ --- | $ (486) | $ 38,514 |
| State and political subdivisions | 1,249 | 3 | --- | 1,252 |
| | $ 40,249 | $ 3 | $ (486) | $ 39,766 |

The amortized cost and fair value of available-for-sale securities at December 31, 2017, 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 |
| | (In thousands) | |
| One to five years | $ 45,249 | $ 44,959 |
| Totals | $ 45,249 | $ 44,959 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $41.5 million and $27.9 million at December 31, 2017 and 2016, 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, 2017 and 2016, was $44.9 million and $38.5 million, which represented approximately 100% and 96.8%, respectively, of the Company's available-for-sale investment portfolio.

**December 31, 2017 and 2016**

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, 2017 and 2016:

| December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| US Government agencies | $ 12,190 | $ (59) | $ 32,769 | $ (231) | $ 44,959 | $ (290) |
| Total temporarily impaired securities | $ 12,190 | $ (59) | $ 32,769 | $ (231) | $ 44,959 | $ (290) |

| December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| US Government agencies | $ 38,514 | $ (486) | $ --- | $ --- | $ 38,514 | $ (486) |
| Total temporarily impaired securities | $ 38,514 | $ (486) | $ --- | $ --- | $ 38,514 | $ (486) |

### *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, 2017.

**December 31, 2017 and 2016**

## Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Commercial loans | $ 81,327 | $ 74,514 |
| Commercial real estate | 198,936 | 191,686 |
| Residential real estate | 75,853 | 76,154 |
| Installment loans | 12,473 | 14,367 |
| Total gross loans | 368,589 | 356,721 |
| Less allowance for loan losses | (2,122) | (2,341) |
| Total loans | $ 366,467 | $ 354,380 |

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.

**December 31, 2017 and 2016**

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.

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, 2017 and 2016:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Residential | Installment | Unallocated | Total |
| | (In thousands) | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Balance, beginning of year | $ 495 | $ 804 | $ 591 | $ 107 | $ 344 | $ 2,341 |
| Provision charged to expense | 39 | 118 | (97) | 296 | (256) | 100 |
| Losses charged off | (49) | (81) | (78) | (230) | — | (438) |
| Recoveries | 52 | 2 | 20 | 45 | — | 119 |
| Balance, end of year | $ 537 | $ 843 | $ 436 | $ 218 | $ 88 | $ 2,122 |
| Ending balance: individually evaluated for impairment | $ --- | $ 73 | $ — | $ — | $ — | $ 73 |
| Ending balance: collectively evaluated for impairment | $ 537 | $ 770 | $ 436 | $ 218 | $ 88 | $ 2,049 |
| **Loans:** | | | | | | |
| Ending balance: individually evaluated for impairment | $ 83 | $ 619 | $ — | $ 306 | $ — | $ 1,008 |
| Ending balance: collectively evaluated for impairment | $ 75,205 | $ 195,108 | $ 76,501 | $ 12,567 | $ — | $ 359,381 |

**December 31, 2017 and 2016**

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Residential | Installment | Unallocated | Total |
| | (In thousands) | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Balance, beginning of year | $ 184 | $ 597 | $ 170 | $ 113 | $ 1,373 | $ 2,437 |
| Provision charged to expense | 235 | 213 | 542 | 340 | (1,029) | 301 |
| Losses charged off | (2) | (108) | (143) | (417) | — | (670) |
| Recoveries | 78 | 102 | 22 | 71 | — | 273 |
| Balance, end of year | $ 495 | $ 804 | $ 591 | $ 107 | $ 344 | $ 2,341 |
| Ending balance: individually evaluated for impairment | $ 11 | $ 108 | $ — | $ — | $ — | $ 119 |
| Ending balance: collectively evaluated for impairment | $ 484 | $ 696 | $ 591 | $ 107 | $ 344 | $ 2,222 |
| **Loans:** | | | | | | |
| Ending balance: individually evaluated for impairment | $ 3,148 | $ 1,178 | $ — | $ 326 | $ — | $ 4,652 |
| Ending balance: collectively evaluated for impairment | $ 71,366 | $ 190,508 | $ 76,154 | $ 14,041 | $ — | $ 352,069 |

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 allowance for loan loss estimate, 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.

**December 31, 2017 and 2016**

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, 2017:

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

The following table shows the portfolio quality indicators as of December 31, 2016:

| Loan Class | Commercial | Commercial Real Estate | Residential | Installment | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Pass Grade | $ 71,302 | $ 187,255 | $ 76,154 | $ 14,041 | $ 348,752 |
| Special Mention | 64 | 3,253 | — | — | 3,317 |
| Substandard | 3,148 | 1,178 | — | 326 | 4,652 |
| Doubtful | — | — | — | — | — |
| | $ 74,514 | $ 191,686 | $ 76,154 | $ 14,367 | $ 356,721 |

**December 31, 2017 and 2016**

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 2017 and 2016.

The following table shows the loan portfolio aging analysis of the recorded investment in loans as of December 31, 2017:

| | 30-59 Days Past Due and Accruing | 60-89 Days Past Due and Accruing | Greater Than 90 Days and Accruing | Non Accrual | Total Past Due and Non Accrual | Current | Total Loans Receivable |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| Commercial | $ 56 | $ --- | $ --- | $ 83 | $ 139 | $ 81,188 | $ 81,327 |
| Commercial real estate | 262 | --- | — | 500 | 762 | 198,174 | 198,936 |
| Residential | 559 | 306 | --- | 760 | 1,625 | 74,228 | 75,853 |
| Installment | 61 | 40 | — | 52 | 153 | 12,320 | 12,473 |
| Total | $ 938 | $ 346 | $ --- | $ 1,395 | $ 2,679 | $ 365,910 | $ 368,589 |

The following table shows the loan portfolio aging analysis of the recorded investment in loans as of December 31, 2016:

| | 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 | $ 153 | $ 105 | $ 75 | $ 49 | $ 382 | $ 74,132 | $ 74,514 |
| Commercial real estate | --- | 55 | — | 335 | 390 | 191,296 | 191,686 |
| Residential | 805 | 135 | 161 | 922 | 2,023 | 74,131 | 76,154 |
| Installment | 213 | 8 | — | 55 | 276 | 14,091 | 14,367 |
| Total | $ 1,171 | $ 303 | $ 236 | $ 1,361 | $ 3,071 | $ 353,650 | $ 356,721 |

**December 31, 2017 and 2016**

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, 2017:

| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Loans without a specific valuation allowance: | | | | | |
| Commercial | $ 83 | $ 83 | $ — | $ 90 | $ 5 |
| Commercial real estate | 209 | 317 | — | 635 | 13 |
| Installment | 306 | 306 | — | 312 | 3 |
| | 598 | 598 | — | 1,037 | 21 |
| Loans with a specific valuation allowance: | | | | | |
| Commercial | $ --- | $ --- | $ --- | $ --- | $ 7 |
| Commercial real estate | 410 | 410 | 73 | 392 | 14 |
| Installment | --- | --- | --- | --- | --- |
| | 410 | 410 | 73 | 392 | 21 |
| Total: | | | | | |
| Commercial | $ 83 | $ 83 | $ --- | $ 90 | $ 12 |
| Commercial Real Estate | $ 619 | $ 619 | $ 73 | $ 1,027 | $ 27 |
| Installment | $ 306 | $ 306 | $ --- | $ 312 | $ 3 |

**December 31, 2017 and 2016**

The following table presents impaired loans for the year ended December 31, 2016:

| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Loans without a specific valuation allowance: | | | | | |
| Commercial | $ 2,975 | $ 2,975 | $ — | $ 2,930 | $ 142 |
| Commercial real estate | 658 | 766 | — | 1,176 | 43 |
| Installment | 326 | 326 | — | 328 | 13 |
| | 3,959 | 4,067 | — | 4,434 | 198 |
| Loans with a specific valuation allowance: | | | | | |
| Commercial | 173 | 173 | 11 | 188 | 8 |
| Commercial real estate | 520 | 520 | 108 | 586 | 26 |
| Installment | — | — | — | — | 2 |
| | 693 | 693 | 119 | 774 | 36 |
| Total: | | | | | |
| Commercial | $ 3,148 | $ 3,148 | $ 11 | $ 3,118 | $ 150 |
| Commercial Real Estate | $ 1,178 | $ 1,286 | $ 108 | $ 1,762 | $ 69 |
| Installment | $ 326 | $ 326 | $ --- | $ 328 | $ 15 |

At December 31, 2017 and 2016, 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.

**December 31, 2017 and 2016**

The following tables present information regarding troubled debt restructurings by class and by type of modification for the years ended December 31, 2017 and 2016:

| | Year Ended December 31, 2017 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | | (In thousands) | |
| Commercial | 2 | $ 40 | $ 40 |
| Commercial real estate | 3 | 208 | 188 |

| | Year Ended December 31, 2017 | | | |
|---|---|---|---|---|
| | Interest Only | Term | Combination | Total Modification |
| | | (In thousands) | | |
| Commercial | $ — | $ 40 | $ — | $ 40 |
| Commercial real estate | — | 188 | — | 188 |

| | Year Ended December 31, 2016 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | | (In thousands) | |
| Commercial | 1 | $ 17 | $ 17 |
| Commercial real estate | 3 | 116 | 116 |

| | Year Ended December 31, 2016 | | | |
|---|---|---|---|---|
| | Interest Only | Term | Combination | Total Modification |
| | | (In thousands) | | |
| Commercial | $ — | $ 17 | $ — | $ 17 |
| Commercial real estate | — | 116 | — | 116 |

During the 2017 and 2016, troubled debt restructurings did not have an impact on the allowance for loan losses. At December 31, 2017 and 2016 and for the years then ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

**December 31, 2017 and 2016**

## Note 5: Premises and Equipment

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

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Land, buildings and improvements | $ 17,282 | $ 17,025 |
| Furniture and equipment | 12,637 | 12,164 |
| Computer software | 2,143 | 2,116 |
| | 32,062 | 31,305 |
| Less accumulated depreciation | (20,322) | (19,421) |
| Net premises and equipment | $ 11,740 | $ 11,884 |

## Note 6: Time Deposits

Time deposits in denominations of $250,000 or more were $5.1 million at December 31, 2017 and $1.4 million at December 31, 2016. At December 31, 2017, the scheduled maturities of time deposits are as follows:

| Due during the year ending December 31, | (In thousands) |
|---|---|
| 2018 | $ 33,954 |
| 2019 | 14,364 |
| 2020 | 12,473 |
| 2021 | 2,176 |
| 2022 | 758 |
| Thereafter | 2,092 |
| | $ 65,817 |

## Note 7: Borrowings

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

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Maturities March 2018 through August 2025, primarily at fixed rates ranging from 3.15% to 6.65%, averaging 5.15% | $ 200 | $ — |
| Cash Management advances maturities in March 2018 at floating rates averaging 1.52% | 9,822 | — |
| Cash Management advances maturities January 2017 through March 2017 at floating rates averaging 0.74% | — | 19,500 |
| Maturities January 2017 through August 2025, primarily at fixed rates ranging from 3.08% to 6.65%, averaging 3.93% | — | 20,355 |
| | $ 10,022 | $ 39,855 |

**December 31, 2017 and 2016**

At December 31, 2017 required annual principal payments on Federal Home Loan Bank advances were as follows:

| For the year ending December 31, | (In thousands) |
|---|---|
| 2018 | $ 9,919 |
| 2019 | 38 |
| 2020 | 15 |
| 2021 | 15 |
| 2022 | 15 |
| Thereafter | 20 |
| | $ 10,022 |

At December 31, 2017 and 2016, as a member of the Federal Home Loan Bank system the Bank had the ability to obtain up to $94.1 million and $60.8 million, respectively, in additional borrowings based on securities and certain loans pledged to the FHLB. At December 31, 2017 and 2016, the Bank had approximately $121.6 million and $122.6 million, respectively of one- to four-family residential real estate and commercial real estate loans pledged as collateral for borrowings. Also at December 31, 2017 and 2016, 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.

Securities sold under repurchase agreements were approximately $11.0 million and $9.4 million at December 31, 2017 and 2016.

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:

| | **2017** | **2016** |
|---|---|---|
| | (Dollars in thousands) | |
| Balance outstanding at year end | $ 10,022 | $ 9,393 |
| Average daily balance during the year | $ 13,578 | $ 11,058 |
| Average interest rate during the year | 0.28% | 0.12% |
| Maximum month-end balance during the year | $ 17,033 | $ 14,200 |
| Weighted-average interest rate at year end | 0.28% | 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.

## December 31, 2017 and 2016

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

### Remaining Contractual Maturity of the Agreement

(In thousands)

| December 31, 2017 | Overnight and Continuous | Up to 30 Days | 30-90 Days | Greater than 90 Days | Total |
|---|---|---|---|---|---|
| Repurchase Agreements | | | | | |
| U.S government agencies | $ 10,022 | $ — | $ — | $ — | $ 10,022 |
| Total | $ 10,022 | $ — | $ — | $ — | $ 10,022 |

(In thousands)

| December 31, 2016 | Overnight and Continuous | Up to 30 Days | 30-90 Days | Greater than 90 Days | Total |
|---|---|---|---|---|---|
| Repurchase Agreements | | | | | |
| U.S. government agencies | $ 9,393 | — | — | — | 9,393 |
| Total | $ 9,393 | $ — | $ — | $ — | $ 9,393 |

Securities with an approximate carrying value of $18.4 million and $13.0 million at December 31, 2017 and 2016, respectively, were pledged as collateral for repurchase borrowings.

**December 31, 2017 and 2016**

## 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:

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Taxes currently payable | $ 1,499 | $ 1,498 |
| Deferred income taxes | 545 | 82 |
| Income tax expense | $ 2,044 | $ 1,580 |

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

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Computed at the statutory rate (34%) | $ 1,901 | $ 1,755 |
| (Decrease) increase resulting from | | |
| Tax exempt interest | (17) | (42) |
| Earnings on bank-owned life insurance - net | (160) | (160) |
| Deferred tax re-valuation | 216 | --- |
| Other | 104 | 27 |
| Actual tax expense | $ 2,044 | $ 1,580 |

**December 31, 2017 and 2016**

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

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Deferred tax assets | | |
| Allowance for loan losses | $ 244 | $ 382 |
| Stock based compensation | 221 | 375 |
| Allowance for losses on foreclosed real estate | 31 | 82 |
| Deferred compensation and ESOP | 422 | 690 |
| Intangible assets | 65 | 124 |
| Non-accrual loan interest | 52 | 79 |
| Unrealized losses on securities available for sale | 61 | 164 |
| Total deferred tax assets | 1,096 | 1,896 |
| Deferred tax liabilities | | |
| Depreciation | (144) | (199) |
| Deferred loan costs, net | (86) | (158) |
| Accretion | --- | (1) |
| FHLB stock dividends | (315) | (510) |
| Mortgage servicing rights | (9) | (16) |
| Employee benefit expense | (193) | (162) |
| Total deferred tax liabilities | (747) | (1,046) |
| Net deferred tax asset | $ 349 | $ 850 |

## Note 10: Accumulated Other Comprehensive Loss

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

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Net unrealized loss on securities available-for-sale | $ (290) | $ (483) |
| Net unrealized loss for funded status of defined benefit plan liability | (289) | (205) |
| | (579) | (688) |
| Tax effect | 159 | 234 |
| Net-of-tax amount | $ (420) | $ (454) |

**December 31, 2017 and 2016**

## 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 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 Unified 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. The minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was 1.250% at December 31, 2017. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

As of December 31, 2017, the Company exceeded its minimum regulatory capital requirements with a total risk-based capital ratio of 13.2%, common equity tier 1 ratio of 11.5%, Tier 1 risk-based capital ratio of 12.6% and a Tier 1 leverage ratio of 10.6%.

As of December 31, 2017, 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

## December 31, 2017 and 2016

the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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, 2017 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 49,590 | 13.2% | $ 30,149 | 8.0% | N/A | N/A |
| Unified | 44,637 | 11.9 | 30,026 | 8.0 | $ 37,532 | 10.0% |
| Common Equity Tier 1 Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 43,468 | 11.5% | $ 16,959 | 4.5% | N/A | N/A |
| Unified | 42,515 | 11.3 | 16,889 | 4.5 | $ 24,396 | 6.5% |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 47,468 | 12.6% | $ 22,612 | 6.0% | N/A | N/A |
| Unified | 42,515 | 11.3 | 22,519 | 6.0 | $ 30,026 | 8.0% |
| Tier I Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Consolidated | $ 47,468 | 10.6% | $ 17,904 | 4.0% | N/A | N/A |
| Unified | 42,515 | 9.4 | 18,017 | 4.0 | $ 22,521 | 5.0% |
| As of December 31, 2016 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 48,429 | 13.6% | $ 28,516 | 8.0% | N/A | N/A |
| Unified | 41,801 | 11.8 | 28,382 | 8.0 | $ 35,478 | 10.0% |
| Common Equity Tier 1 Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 42,088 | 11.8% | $ 16,040 | 4.5% | N/A | N/A |
| Unified | 39,460 | 11.1 | 15,965 | 4.5 | $ 23,061 | 6.5% |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 46,088 | 12.9% | $ 21,387 | 6.0% | N/A | N/A |
| Unified | 39,460 | 11.1 | 21,287 | 6.0 | $ 28,382 | 8.0% |
| Tier I Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Consolidated | $ 46,088 | 11.0% | $ 16,729 | 4.0% | N/A | N/A |
| Unified | 39,460 | 9.3 | 17,048 | 4.0 | $ 21,310 | 5.0% |

**December 31, 2017 and 2016**

## Note 12: Related Party Transactions

At December 31, 2017 and 2016, 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.

| | 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| Aggregate balance – January 1 | $ 13,635 | $ 10,546 |
| New loans | 189 | 4,864 |
| Repayments | (828) | (1,775) |
| Aggregate balance – December 31 | $ 12,996 | $ 13,635 |

Deposits from related parties held by the Bank at December 31, 2017 and 2016, totaled approximately $691,000 and $1.4 million, 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 $421,000 to the plan in 2018.

**December 31, 2017 and 2016**

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

| | Pension Benefits 2017 | Pension Benefits 2016 |
|---|---|---|
| | (In thousands) | |
| Change in benefit obligation | | |
| Beginning of year | $ (3,926) | $ (3,968) |
| Service cost | (273) | (312) |
| Interest cost | (198) | (198) |
| Actuarial (loss) gain | (403) | 23 |
| Benefits paid | 128 | 529 |
| End of year | (4,672) | (3,926) |
| Change in fair value of plan assets | | |
| Beginning of year | 4,625 | 4,458 |
| Actual return on plan assets | 702 | 382 |
| Employer contribution | 406 | 314 |
| Benefits paid | (128) | (529) |
| End of year | 5,605 | 4,625 |
| Funded status at end of year | $ 933 | $ 699 |

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

| | Pension Benefits 2017 | Pension Benefits 2016 |
|---|---|---|
| | (In thousands) | |
| Unamortized net loss | $ 1,048 | $ 1,052 |
| Unamortized prior service | (758) | (847) |
| | $ 290 | $ 205 |

## December 31, 2017 and 2016

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 $41,000. The accumulated benefit obligation for the defined benefit pension plan was $4.4 million and $3.8 million at December 31, 2017 and 2016, respectively.

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In thousands) | |
| Projected benefit obligation | $ 4,672 | $ 3,926 |
| Accumulated benefit obligation | $ 4,375 | $ 3,756 |
| Fair value of plan assets | $ 5,605 | $ 4,625 |

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In thousands) | |
| Components of net periodic benefit cost | | |
| Service cost | $ 273 | $ 312 |
| Interest cost | 198 | 198 |
| Expected return on plan assets | (357) | (341) |
| Amortization of prior service (credit) cost | (89) | (89) |
| Amortization of net loss | 63 | 81 |
| Net periodic benefit cost | $ 88 | $ 161 |

Significant assumptions include:

| | Pension Benefits 2017 | Pension Benefits 2016 |
|---|---|---|
| Weighted-average assumptions used to determine benefit obligation: | | |
| Discount rate | 4.83% | 5.39% |
| Rate of compensation increase | 3.00% | 3.00% |
| Weighted-average assumptions used to determine benefit cost: | | |
| Discount rate | 4.83% | 5.39% |
| Expected return on plan assets | 7.50% | 7.50% |
| Rate of compensation increase | 3.00% | 3.00% |

**December 31, 2017 and 2016**

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 2016 to 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2017:

| | Pension Benefits |
|---|---|
| | (In thousands) |
| 2018 | $ 186 |
| 2019 | 199 |
| 2020 | 843 |
| 2021 | 548 |
| 2022 | 373 |
| 2023-2027 | 1,796 |
| Total | $ 3,945 |

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 2017 and 2016 are as follows:

| | |
|---|---|
| Large-Cap stocks | Not to exceed 68% |
| Small-Cap stocks | Not to exceed 23% |
| Mid-Cap stocks | Not to exceed 23% |
| International equity securities | Not to exceed 30% |
| Fixed income investments | Not to exceed 35% |
| Alternative investments | Not to exceed 19% |

**December 31, 2017 and 2016**

At December 31, 2017 and 2016, the fair value of plan assets as a percentage of the total was invested in the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Equity securities | 70.1% | 68.1% |
| Debt securities | 27.3 | 29.6 |
| Cash and cash equivalents | 2.6 | 2.3 |
| | 100.0% | 100.0% |

***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, 2017 and 2016, the Plan did not contain Level 2 or Level 3 investments.

## December 31, 2017 and 2016

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

**December 31, 2017**

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Asset Category** | **Total 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) | | |
| Mutual money market | $ 199 | $ 199 | $ — | $ — |
| Mutual funds – equities | | | | |
| ETF mutual funds | 3,042 | 3,042 | — | — |
| Large and small Cap | 301 | 301 | — | — |
| International | 420 | 420 | | |
| Commodities | 182 | 182 | — | — |
| Mutual funds – fixed income | | | | |
| Fixed income | 1,145 | 1,145 | — | — |
| ETF fixed income | 316 | 316 | — | — |
| Total | $ 5,605 | $ 5,605 | $ — | $ — |

**December 31, 2016**

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Asset Category** | **Total 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) | | |
| Mutual money market | $ 106 | $ 106 | $ — | $ — |
| Mutual funds – equities | | | | |
| Eft mutual funds | 2,561 | 2,561 | — | — |
| Large and Small Cap | 584 | 584 | — | — |
| Commodies | 140 | 140 | — | — |
| Mutual funds – fixed income | | | | |
| Fixed income | 1,022 | 1,022 | — | — |
| ETF fixed income | 212 | 212 | — | — |
| Total | $ 4,625 | $ 4,625 | $ — | $ — |

**December 31, 2017 and 2016**

### *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 2017 and 2016.

ESOP and 401(k) expense for the years ended December 31, 2017 and 2016 was approximately $280,000 and $231,000, respectively.

Share information for the ESOP is as follows at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Allocated shares at beginning of the year | $ 333,790 | $ 267,558 |
| Shares released for allocation during the year | 23,635 | 23,635 |
| Net shares acquired on reinvestment of cash or (distributed) due to retirement/diversification | (21,063) | 42,597 |
| Unearned shares | 70,906 | 94,541 |
| Total ESOP shares | 407,268 | 428,331 |
| Fair value of unearned shares at December 31st | $ 943,000 | $ 1,276,000 |

At December 31, 2017, the fair value of the 336,362 allocated shares held by the ESOP was approximately $4,474,000.

### *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 $1.5 million at December 31, 2017 and $1.5 million at December 31, 2016.

**December 31, 2017 and 2016**

## 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 can 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, 2017, and changes during the year then ended, is presented below:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested, beginning of year | 170,000 | $ 8.75 |
| Granted | 10,000 | 11.99 |
| Vested | (5,000) | 8.40 |
| Forfeited | --- | .--- |
| Nonvested, end of year | 175,000 | $ 8.95 |

Total compensation cost recognized in the income statement for share-based payment arrangements during the years ended December 31, 2017 and 2016 was $163,000 and $147,000, respectively. The recognized tax benefits related thereto were $55,000 and $50,000, for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, there was $728,000 and $660,000, 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 3.7 years.

**December 31, 2017 and 2016**

## Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

| | Year Ended December 31, 2017 | | |
|---|---|---|---|
| | Net Income | Weighted-Average Shares | Per Share Amount |
| | (In thousands) | | |
| Net income | $ 3,546 | | |
| Dividends on non-vested restricted stock | (31) | | |
| Net income allocated to stockholders | 3,515 | | |
| Basic earnings per share<br>Income available to common stockholders | — | 4,861,942 | $ 0.72 |
| Effect of dilutive securities<br>Restricted stock awards | — | 123,857 | |
| Diluted earnings per share<br>Income available to common stockholders and assumed conversions | $ 3,515 | 4,985,799 | $ 0.71 |

**December 31, 2017 and 2016**

| | Year Ended December 31, 2016 | | |
|---|---|---|---|
| | Net Income | Weighted-Average Shares | Per Share Amount |
| | (In thousands) | | |
| Net income | $ 3,580 | | |
| Dividends on non-vested restricted stock | (31) | | |
| Net income allocated to stockholders | 3,549 | | |
| Basic earnings per share | | | |
| Income available to common stockholders | — | 4,907,799 | $ 0.72 |
| Effect of dilutive securities | | | |
| Restricted stock awards | — | 108,521 | |
| Diluted earnings per share | | | |
| Income available to common stockholders and assumed conversions | $ 3,549 | 5,016,320 | $ 0.71 |

**December 31, 2017 and 2016**

## 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.

**December 31, 2017 and 2016**

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, 2017 and 2016:

| | | December 31, 2017 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 | $ 44,959 | $ — | $ 44,959 | $ — |

| | | December 31, 2016 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 | $ 38,514 | $ — | $ 38,514 | $ — |
| State and political subdivisions | 1,252 | — | 1,252 | — |

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.

**December 31, 2017 and 2016**

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, 2017 and 2016:

| | | December 31, 2017 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) | | | |
| Collateral dependent impaired loans | $ 336 | $ — | $ — | $ 336 |
| Foreclosed assets held for sale | 34 | — | — | 34 |

**December 31, 2017 and 2016**

| | December 31, 2016 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) | | | |
| Collateral dependent impaired loans | $ 3,435 | $ — | $ — | $ 3,435 |
| Foreclosed assets held for sale | 249 | — | — | 249 |

### *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 12/31/17 | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| | (In thousands) | | | |
| Collateral-dependent impaired loans | $ 333 | Market comparable properties | Comparability adjustments | Not available |
| Foreclosed assets held for sale | 34 | Market comparable properties | Marketability discount | 10% – 35% |

| | Fair Value at 12/31/16 | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| | (In thousands) | | | |
| Collateral-dependent impaired loans | $ 3,435 | Market comparable properties | Comparability adjustments | Not available |
| Foreclosed assets held for sale | 249 | Market comparable properties | Marketability discount | 10% – 35% |

There were no significant changes in the valuation techniques used during 2017.

**December 31, 2017 and 2016**

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 | | |
|---|---|---|---|---|
| | Carrying Amount | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | (In thousands) | | |
| **December 31, 2017** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | $ 14,315 | $ 14,315 | $ — | $ — |
| Loans, net of allowance | 366,467 | — | — | 368,033 |
| Federal Home Loan Bank stock | 4,164 | — | 4,164 | — |
| Accrued interest receivable | 993 | — | 993 | — |
| **Financial liabilities** | | | | |
| Deposits | 385,966 | — | 358,722 | — |
| Short term borrowings | 11,085 | — | 11,085 | — |
| Federal Home Loan Bank advances | 10,022 | — | 10,012 | — |
| Subordinated debentures | 4,124 | — | 3,590 | — |
| Interest payable | 70 | — | 70 | — |

**December 31, 2017 and 2016**

The classification of the assets and liabilities pursuant to the valuation hierarchy as of December 31, 2016 in the following table have not been audited. The fair value has been derived from the December 31, 2016 audited consolidated financial statements.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Carrying Amount | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (In thousands) | | | |
| **December 31, 2016** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | $ 11,541 | $ 11,541 | $ — | $ — |
| Loans, net of allowance | 354,380 | — | — | 355,753 |
| Federal Home Loan Bank stock | 4,164 | — | 4,164 | — |
| Accrued interest receivable | 840 | — | 840 | — |
| **Financial liabilities** | | | | |
| Deposits | 338,803 | — | 312,240 | — |
| Short term borrowings | 9,393 | — | 9,393 | — |
| Federal Home Loan Bank advances | 39,855 | — | 40,120 | — |
| Subordinated debentures | 4,124 | — | 3,435 | — |
| Interest payable | 111 | — | 111 | — |

**December 31, 2017 and 2016**

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.

### *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, 2017 and 2016.

**December 31, 2017 and 2016**

## 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, 2017 and 2016, total commercial and commercial real estate loans made up 76.0% and 74.6%, respectively, of the loan portfolio. Installment loans account for 3.4% and 4.0%, respectively, of the loan portfolio. Real estate loans comprise 20.6% and 21.4% of the loan portfolio as of December 31, 2017 and 2016, 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, 2017 and 2016, is $9.5 million and $7.3 million, respectively, of deposits with the Federal Reserve Bank of Cleveland.

### *Commitments to Originate Loans*

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

At December 31, 2017 and 2016, the Company had outstanding commitments to originate variable rate loans aggregating approximately $15.4 million and $12.3 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, 2017 or 2016.

**December 31, 2017 and 2016**

### *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, 2017 and 2016. At both December 31, 2017 and 2016, 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, 2017, the Company had granted unused lines of credit to borrowers aggregating approximately $25.8 million and $36.9 million for commercial lines and open-end consumer lines, respectively. At December 31, 2016, the Company had granted unused lines of credit to borrowers aggregating approximately $20.9 million and $35.6 million for commercial lines and open-end consumer lines, respectively.

**December 31, 2017 and 2016**

## Note 19: Recent Accounting Pronouncements

ASU No. 2018-02 was issued in February 2018 to provide guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve usefulness of information reported to financial statement users. The amendments in this ASU will also require certain disclosures about stranded tax effects and is effective for fiscal years beginning after December 31, 2018. The impact of this guidance is not material to the Company's financial statements.

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

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

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

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments."* The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the

expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

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

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

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

*ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"*

ASU No. 2016-01 was issued in January 2016 and applies to all entities that hold financial assets or owe financial liabilities. ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income; requiring public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of

**December 31, 2017 and 2016**

financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instruments specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity instruments that exist as of the date of adoption. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company's financial position or results of operations since it does not have any equity securities or a valuation allowance. However, the amendments will have an impact on certain items that are disclosed at fair value that are not currently utilizing the exit price notion when measuring fair value. The Company has adopted ASU 2016-01 on January 1, 2018 and it did not have a material effect on its fair value disclosures and other disclosure requirements. For additional information on fair value of assets and liabilities, see Note 16.

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

**December 31, 2017 and 2016**

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

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

(a) Some leases are classified as capital where by the lessee would recognize lease assets and liabilities on the balance sheet.

(b) Other leases are classified as operating leases whereby the lessee would not recognize lease assets and liabilities on the balance sheet.

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

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

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

**December 31, 2017 and 2016**

## 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, 2017 | December 31, 2016 |
|---|---|---|
| | (In thousands) | |
| **Assets** | | |
| Cash and cash equivalents | $ 2,771 | $ 4,644 |
| Investment in the Bank | 42,286 | 39,141 |
| Corporate owned life insurance | --- | 7 |
| Other assets | 3,042 | 2,973 |
| Total assets | $ 48,099 | $ 46,765 |
| **Liabilities and Stockholders' Equity** | | |
| Subordinated debentures | $ 4,124 | $ 4,124 |
| Other liabilities | 80 | --- |
| Stockholders' equity | 43,895 | 42,641 |
| Total liabilities and stockholders' equity | $ 48,099 | $ 46,765 |

December 31, 2017 and 2016

## Condensed Statements of Income and Comprehensive Income

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| **Operating Income** | | |
| Dividends from subsidiary | $ 2,035 | $ 4,701 |
| Interest and dividend income from securities and federal funds | 1 | 7 |
| Total operating income | 2,036 | 4,708 |
| **General, Administrative and Other Expenses** | 1,961 | 1,651 |
| **Income Before Income Taxes and Equity in Undistributed Income of Subsidiary** | 75 | 3,057 |
| **Income Tax Benefits** | 416 | 484 |
| **Income Before Equity in Undistributed Income of Subsidiary** | 491 | 3,541 |
| **Equity in Undistributed Income of Subsidiary** | 3,055 | 39 |
| **Net Income** | $ 3,546 | $ 3,580 |
| **Comprehensive Income** | $ 3,578 | $ 3,307 |

**December 31, 2017 and 2016**

**Condensed Statements of Cash Flows**

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| | (In thousands) | |
| **Operating Activities** | | |
| Net income | $ 3,546 | $ 3,580 |
| Items not requiring (providing) cash | | |
| Equity in undistributed income of subsidiary | (3,055) | (39) |
| Amortization of ESOP and share-based compensation plans | 443 | 378 |
| Net change in other assets and other liabilities | (38) | (190) |
| Net cash provided by operating activities | 896 | 3,729 |
| **Financing Activities** | | |
| Dividends paid to stockholders | (2,769) | (2,540) |
| Net cash used in financing activities | (2,769) | (2,540) |
| **Net Change in Cash and Cash Equivalents** | (1,873) | 1,189 |
| **Cash and Cash Equivalents at Beginning of Year** | 4,644 | 3,455 |
| **Cash and Cash Equivalents at End of Year** | $ 2,771 | $ 4,644 |

**December 31, 2017 and 2016**

## Note 21: Quarterly Financial Data (Unaudited)

The following tables summarize the Company's quarterly results of operations for the years ended December 31, 2017 and 2016.

| 2017: | Three Months Ended March 31, | June 30, | September 30, | December 31, |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| Total interest income | $ 4,184 | $ 4,290 | $ 4,586 | $ 4,591 |
| Total interest expense | 438 | 438 | 449 | 439 |
| Net interest income | 3,746 | 3,852 | 4,137 | 4,152 |
| Provision for loan losses | 25 | 25 | 25 | 25 |
| Other income | 832 | 869 | 892 | 859 |
| General, administrative and other expense | 3,334 | 3,365 | 3,456 | 3,494 |
| Income before income taxes | 1,219 | 1,331 | 1,548 | 1,492 |
| Federal income taxes | 369 | 415 | 548 | 712 |
| Net income | $ 850 | $ 916 | $ 1,000 | $ 780 |
| Earnings per share | | | | |
| Basic | $ 0.17 | $ 0.18 | $ 0.20 | $ 0.17 |
| Diluted | $ 0.17 | $ 0.18 | $ 0.20 | $ 0.16 |

**December 31, 2017 and 2016**

| 2016: | March 31, | June 30, | September 30, | December 31, |
|---|---|---|---|---|
| | Three Months Ended | | | |
| | (In thousands, except per share data) | | | |
| Total interest income | $ 4,038 | $ 4,187 | $ 4,166 | $ 4,244 |
| Total interest expense | 475 | 437 | 432 | 440 |
| Net interest income | 3,563 | 3,750 | 3,734 | 3,804 |
| Provision (credit) for loan losses | 71 | 105 | 131 | (6) |
| Other income | 867 | 902 | 1,056 | 856 |
| General, administrative and other expense | 3,141 | 3,251 | 3,345 | 3,333 |
| Income before income taxes | 1,218 | 1,296 | 1,314 | 1,333 |
| Federal income taxes | 373 | 389 | 386 | 432 |
| Net income | $ 845 | $ 907 | $ 928 | $ 901 |
| Earnings per share | | | | |
| Basic | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 |
| Diluted | $ 0.17 | $ 0.18 | $ 0.18 | $ 0.18 |

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