

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

UNITED BANCORP INC /OH/  
Form 10-Q  
November 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2007

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

For the transition period from N/A to N/A

Commission File Number: 0-16540

UNITED BANCORP, INC.  
(Exact name of registrant as specified in its charter.)

OHIO  
(State or other jurisdiction of  
incorporation or organization)

34-1405357  
(IRS Employer  
Identification No.)

201 SOUTH 4TH STREET, MARTINS FERRY, OHIO 43935-0010  
(Address of principal executive offices) (Zip Code)

(740) 633-0445  
(Registrant's telephone number, including area code)

NOT APPLICABLE  
(Former name, former address and former fiscal year, if changed since last report)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES  NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF "ACCELERATED FILER AND LARGE ACCELERATED FILER" IN RULE 12B-2 OF THE EXCHANGE ACT. (CHECK ONE.)

LARGE ACCELERATED FILER  ACCELERATED FILER  NON-ACCELERATED FILER

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN EXCHANGE ACT RULE 12B-2).

YES  NO

INDICATE THE NUMBER OF SHARES OUTSTANDING OF THE ISSUER'S CLASSES OF COMMON

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STOCK AS OF THE LATEST PRACTICABLE DATE.

COMMON STOCK, \$1.00 PAR VALUE 5,010,987 SHARES AS OF NOVEMBER 13, 2007

UNITED BANCORP, INC.

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except per share data)

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
	-----	-----
	(Unaudited)	
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 5,250	\$ 6,817
Interest-bearing deposits in other financial institutions	8,136	7,737
	-----	-----
Total cash and cash equivalents	13,386	14,554
Securities available for sale - at market	159,398	133,808
Securities held to maturity - estimated fair value of \$15,939 and \$18,220 at September 30, 2007 and December 31, 2006, respectively	16,735	17,870
Total loans	227,329	231,517
Allowance for loan losses	(2,218)	(2,345)
	-----	-----
Loans -- net	225,111	229,172
Federal Home Loan Bank stock - at cost	4,624	4,556
Premises and equipment	7,082	7,261
Accrued interest receivable	3,587	2,578
Other real estate and repossessed assets	820	794
Bank-owned life insurance	9,207	8,927
Mortgage servicing assets - at amortized cost	435	403
Other assets	1,763	1,730
	-----	-----
Total assets	\$442,148	\$421,653
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Demand deposits		
Noninterest-bearing	\$ 22,386	\$ 23,703
Interest-bearing	128,899	100,449
Savings deposits	28,585	30,972
Time deposits - under \$100,000	126,357	128,663
Time deposits - \$100,000 and over	43,460	46,218
	-----	-----
Total deposits	349,687	330,005
Federal funds purchased	7,345	--
Advances from the Federal Home Loan Bank	33,801	44,135
Securities sold under agreements to repurchase	12,589	6,218
Trade date security purchases	--	2,886
Subordinated debentures	4,000	4,000
Accrued expenses and other liabilities	2,610	1,829
	-----	-----
Total liabilities	410,032	389,073

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Commitments	--	--
Shareholders' equity		
Preferred stock - 2,000,000 shares without par value authorized; no shares issued	--	--
Common stock - \$1 par value; 10,000,000 shares authorized; 5,164,948 and 5,131,874 shares issued at September 30, 2007 and December 31, 2006, respectively	5,165	5,132
Additional paid-in capital	27,903	27,547
Retained earnings	6,875	6,962
Stock held by deferred compensation plan; 103,155 and 103,135 shares at September 30, 2007 and December 31, 2006, respectively	(1,033)	(1,019)
Treasury stock - at cost, 153,961 and 84,024 shares at September 30, 2007 and December 31, 2006, respectively	(1,609)	(864)
Less required contributions for shares acquired by Employee Stock Ownership Plan (ESOP)	(3,266)	(3,266)
Accumulated comprehensive loss	(1,919)	(1,912)
	-----	-----
Total shareholders' equity	32,116	32,580
	-----	-----
Total liabilities and shareholders' equity	\$442,148	\$421,653
	=====	=====

See notes to consolidated financial statements.

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UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
	-----			
	(Unaudited)			
Interest and dividend income				
Loans, including fees	\$4,395	\$4,606	\$13,450	\$13,230
Taxable securities	1,709	1,491	4,553	4,300
Non-taxable securities	459	341	1,382	980
Federal funds sold	28	46	125	130
Dividends on Federal Home Loan Bank stock and other	82	68	237	200
	-----	-----	-----	-----
Total interest and dividend income	6,673	6,552	19,747	18,850
Interest expense				
Deposits				
Demand	1,075	748	2,869	1,860
Savings	34	31	94	90
Time	2,062	1,829	6,108	5,070
Borrowings	636	777	1,818	2,340
	-----	-----	-----	-----

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Total interest expense	3,807	3,385	10,889	9,377
Net interest income	2,866	3,167	8,858	9,488
Provision for loan losses	283	652	657	1,057
Net interest income after provision for loan losses	2,583	2,515	8,201	8,431
Noninterest income				
Service charges on deposit accounts	481	350	1,336	1,021
Net realized gains (losses) on sales of securities	--	--	1	(35)
Net realized gains on sales of loans	13	4	9	1
Other income	291	345	890	901
Total noninterest income	785	699	2,236	1,597
Noninterest expense				
Salaries and employee benefits	1,701	1,439	4,606	4,331
Occupancy and equipment	305	299	909	1,011
Professional services	153	123	457	451
Insurance	98	84	272	251
Franchise and other taxes	104	111	271	311
Advertising	92	91	277	281
Stationery and office supplies	72	86	192	201
Amortization of intangibles	--	5	--	1
Other expenses	480	535	1,358	1,621
Total noninterest expense	3,005	2,773	8,342	8,501
Income before income taxes	363	441	2,095	1,511
Income tax (benefit) expense	(29)	38	221	121
Net income	\$ 392	\$ 403	\$ 1,874	\$ 1,391
EARNINGS PER COMMON SHARE				
Basic	\$ 0.09	\$ 0.09	\$ 0.41	\$ 0.33
Diluted	\$ 0.09	\$ 0.09	\$ 0.41	\$ 0.33
DIVIDENDS PER COMMON SHARE	\$ 0.13	\$ 0.12	\$ 0.39	\$ 0.33

See notes to consolidated financial statements.

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UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMBER
2007	2006	2007

(Unaudited)

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Net income	\$ 392	\$ 403	\$ 1,874
Other comprehensive income, net of related tax effects:			
Unrealized holding gains (losses) on securities during the period, net of (taxes) benefits of \$(936), \$(1,039), \$8 and \$(74) for each respective period	1,817	2,016	(16)
Reclassification adjustment for realized gains (losses) included in income, net of tax benefits of \$119 for the nine months ended September 30, 2006	--	--	(1)
Amortization of prior service costs and actuarial losses, net of tax effect of \$4	--	--	10
	-----	-----	-----
Comprehensive income	\$ 2,581	\$ 2,419	\$ 1,867
	=====	=====	=====
Accumulated comprehensive loss	\$ (1,919)	\$ (1,818)	\$ (1,919)
	=====	=====	=====

See notes to consolidated financial statements.

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UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2007 and 2006  
(In thousands)

	2007	2006
	-----	-----
	(Unaudited)	
Cash flows from operating activities:		
Net income for the period	\$ 1,874	\$ 1,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	348	465
Provision for loan losses	657	1,056
Increase in value of bank-owned life insurance	(221)	(212)
Federal Home Loan Bank stock dividends	(68)	(186)
Net realized (gains) losses on sales of securities	(1)	350
Amortization of securities, net	86	147
Net realized gains on sale of loans	(4)	(14)
Net realized gain (loss) on sale of repossessed assets	(117)	33
Amortization of mortgage servicing rights	54	62
Net change in accrued interest receivable and other assets	(1,273)	(1,057)
Net change in accrued expenses and other liabilities	(60)	4,301
	-----	-----
Net cash provided by operating activities	1,277	6,337
Cash flows used in investing activities:		
Securities available for sale:		
Sales	--	7,729
Maturities, prepayments and calls	12,185	5,479
Purchases	(38,420)	(29,095)
Securities held to maturity:		
Maturities, prepayments and calls	1,160	1,465
Trade date securities purchase	(2,886)	3,985

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Net change in loans receivable	4,150	(5,520)
Purchases of premises and equipment	(178)	(195)
Proceeds from sale of repossessed assets	835	1,020
	-----	-----
Net cash used in investing activities	(23,154)	(15,132)
Cash flows provided by financing activities:		
Net change in deposits	19,682	30,387
Net change in borrowings	3,382	(21,400)
Treasury stock purchases	(745)	(478)
Proceeds from issuance of common stock	350	322
Exercise of stock options, including tax benefits	--	95
Cash dividends paid	(1,960)	(1,785)
	-----	-----
Net cash provided by financing activities	20,709	7,141
	-----	-----
Net decrease in cash and cash equivalents	(1,168)	(1,654)
Cash and cash equivalents at beginning of period	14,554	13,877
	-----	-----
Cash and cash equivalents at end of period	\$ 13,386	\$ 12,223
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 10,097	\$ 9,286
	=====	=====
Federal income taxes paid	\$ 246	\$ 573
	=====	=====
Supplemental disclosure of noncash investing activities:		
Transfer from loans to other real estate and repossessions	\$ 743	\$ 98
	=====	=====
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	\$ (7)	\$ 143
	=====	=====
Recognition of mortgage servicing rights	\$ 85	\$ 140
	=====	=====

See notes to consolidated financial statements.

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements are prepared without audit and reflect all adjustments which, in the opinion of management, are necessary to present fairly the financial position of United Bancorp, Inc. ("Company") at September 30, 2007, and its results of operations and cash flows for the nine and three month periods presented. All such adjustments are normal and recurring in nature. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not purport to contain all the necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances and should be read in conjunction with the Company's consolidated financial statements and related notes for the

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year ended December 31, 2006 included in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Consolidated Financial Statements contained in its Annual Report on Form 10-K. The Company has consistently followed these policies in preparing this Form 10-Q. The results of operations for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

### 1. Principles of Condensed Consolidation

The consolidated financial statements include the accounts of United Bancorp, Inc. ("United" or "the Company") and its wholly-owned subsidiaries, The Citizens Savings Bank of Martins Ferry, Ohio ("Citizens") and The Community Bank, Lancaster Ohio (collectively the "Banks"). Effective July 1, 2007 the Company merged The Community Bank into The Citizens Savings Bank and now operates that market area as The Community Bank, a division of The Citizens Savings Bank. All intercompany transactions and balances have been eliminated in consolidation.

### 2. Nature of Operations

The Company's revenues, operating income, and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Athens, Belmont, Carroll, Fairfield, Harrison, Hocking, and Tuscarawas Counties and the surrounding localities in northeastern, eastern and southeastern Ohio, and include a wide range of individuals, business and other organizations. Citizens conducts its business through its main office in Martins Ferry, Ohio and nine branches in Bridgeport, Colerain, Dellroy, Dover, Jewett, New Philadelphia, St. Clairsville, Sherrodsville, and Strasburg Ohio. The Community Bank, a division of The Citizens Savings Bank., conducts its business through its main office in Lancaster, Ohio and six offices in Amesville, Glouster, Lancaster, and Nelsonville, Ohio. The Company's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3. Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions

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affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

### 4. Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required based on past loan loss experience, the nature and volume of loans in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. The Company measures impaired loans based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral. The Company considers its investment in one-to-four family residential loans and consumer installment loans to be homogenous and therefore excluded from separate identification for evaluation of impairment. With respect to the Company's investment in nonresidential and multi-family residential real estate loans, and its evaluation of impairment thereof, such loans are generally collateral dependent and, as a result, are carried as a practical expedient at the fair value of the collateral.

Collateral dependent loans which are more than ninety days delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under SFAS No. 114 at that time.

The Company's impaired loan information is as follows as of and for the nine months ended September 30:

	2007	2006
	-----	-----
	(In thousands)	
Impaired loans with related allowance for unconfirmed losses	\$1,064	\$1,149
Impaired loans without allowance for unconfirmed losses	1,712	1,973
	-----	-----
Total impaired loans	\$2,776	\$3,122
	=====	=====

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Allowance for Loan Losses (continued)

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	2007	2006
	-----	-----
	(In thousands)	
Allowance with respect to unconfirmed losses on impaired loans		
Beginning balance	\$ 305	\$ --
Transfers from allowance for loan losses	500	1,024
Charge-off of impaired loans	(409)	--
	-----	-----
Ending balance	\$ 396	\$1,024
	=====	=====
Average balance of impaired loans	\$2,878	\$2,311
Interest income recognized on impaired loans	\$ 109	\$ 232

5. Mortgage Servicing Assets

A summary of the Company's mortgage servicing assets as of and for the nine months ended September 30, 2007 and as of and for the year ended December 31, 2006 is as follows:

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
	-----	-----
	(In thousands)	
Beginning balance	\$403	\$367
Recognition of mortgage servicing rights on sale of loans	86	107
Amortization during the period	(54)	(71)
	-----	-----
Net carrying value	\$435	\$403
	=====	=====

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period, less shares in the ESOP which are unallocated and not committed to be released. At September 30, 2007 and 2006, the ESOP held 354,551 (adjusted) unallocated shares which were not included in weighted-average common shares outstanding. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under the Company's stock option plans. Earnings and dividends per share for the nine and three months ended September 30, 2006 have been restated

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for the stock split in the form of a dividend declared and distributed in the fourth quarter of 2006.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
<b>BASIC</b>				
Net income (In thousands)	\$ 392	\$ 403	\$ 1,874	\$ 1,874
Weighted average common shares outstanding	4,579,381	4,576,756	4,564,741	4,589,381
Basic earnings per common share	\$ 0.09	\$ 0.09	\$ 0.41	\$ 0.41
<b>DILUTED</b>				
Net income (In thousands)	\$ 392	\$ 403	\$ 1,874	\$ 1,874
Weighted average common shares outstanding for basic earnings per common share	4,579,381	4,576,756	4,564,741	4,589,381
Add: Dilutive effects of assumed exercise of stock options	2,074	161	2,024	
Average shares and dilutive potential common shares	4,581,455	4,576,917	4,566,765	4,590,762
Diluted earnings per common share	\$ 0.09	\$ 0.09	\$ 0.41	\$ 0.41
Number of stock options not considered in computing diluted earnings per share due to antidilutive nature	12,100	43,001	12,100	43,001
Weighted average exercise price of dilutive stock options	\$ 9.83	\$ 9.72	\$ 9.83	\$ 9.83

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Stock Options

The Company maintains a nonqualified stock option plan for directors and officers. The exercise price for options granted under this plan is no less than 100% of the fair market value of the shares on the date of grant, adjusted for stock splits in the form of a dividend.

In December, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment," which revised SFAS No. 123, "Accounting for

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Stock-Based Compensation," and superseded Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires that cost related to the fair value of all equity-based awards to employee, including grants of employee stock options, be recognized in the financial statements.

The Company adopted the provisions of SFAS No. 123(R) effective January 1, 2006, using the modified prospective transition method, as permitted, and therefore did not restate its financial statements for prior periods. Under this method, the Company has applied the provisions of SFAS No. 123(R) to new equity awards and to equity based awards modified, repurchased, or cancelled after January 1, 2006. In addition, the Company has recognized compensation costs for the portion of equity-based awards for which the requisite service period has not been rendered ("unvested equity-based awards") that were outstanding January 1, 2006. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the quarters ended September 30, 2007 and 2006, the Company recorded \$10,000 in compensation costs (\$6,000 after-tax) for equity based awards that vested in each period. The Company has \$120,000 of total unrecognized compensation costs related to non-vested equity-based awards granted under its stock incentive plan as of September 30, 2007, which is expected to be recognized over a remaining weighted-average period of 8 years.

No stock options were granted during the nine months ended September 30, 2007 and 2006.

The expected term of the options was based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate was based upon the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility was based upon historical volatility of the Company's stock.

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### UNITED BANCORP, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 7. Stock Options (continued)

There are no remaining options available for grant under the Company's plan as of September 30, 2007. A summary of the status of the Company's stock option plan for the nine months ended September 30, 2007 and 2006 is presented below:

	2007		2006	
	SHARES	WEIGHTED- AVERAGE EXERCISE PRICE	SHARES	WEIGHTED- AVERAGE EXERCISE PRICE
Outstanding at January 1,	69,488	\$10.73	104,069	\$10.46
Granted	--	--	--	--
Exercised	--	--	(2,651)	6.87

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Forfeited	(13,960)	12.00	(31,930)	10.20
	-----	-----	-----	-----
Outstanding at end of period	55,528	\$10.34	69,488	\$10.73
	=====	=====	=====	=====
Options exercisable at period-end	--	\$ --	3,011	\$11.92
	=====	=====	=====	=====

The following table summarizes information about stock options outstanding at September 30, 2007:

EXERCISE PRICE	OPTIONS OUTSTANDING AT 9/30/07	DATE OF EXPIRATION	OPTIONS EXERCISABLE AT 9/30/07	REMAINING CONTRACTUAL LIFE
-----	-----	-----	-----	-----
\$ 9.63	26,489	05/15/15	--	7.7 years
10.15	16,939	01/16/15	--	7.7 years
12.15	12,100	8/23/14	--	6.1 years

8. Income Taxes

The Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." As required by Interpretation 48, which clarifies Statement No. 109, "Accounting for Income Taxes," the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of Interpretation 48, the Company was not required to record any liability for unrecognized tax benefits as of January 1, 2007. There have been no material changes in unrecognized tax benefits since January 1, 2007.

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Income Taxes (continued)

The Company is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax

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authorities for the years before 2003.

The Company will recognize, if applicable, interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

### 9. Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments - an amendment of FASB Statements No. 133 and 140," to simplify and make more consistent the accounting for certain financial instruments. Specifically, SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," to allow a qualifying special purpose entity to hold a derivative instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, or January 1, 2007 as to the Corporation, with earlier application allowed. The Corporation adopted SFAS No. 155 effective January 1, 2007, as required, without material effect on the Corporation's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of SFAS No. 140," to simplify the accounting for separately recognized servicing assets and servicing liabilities. Specifically, SFAS No. 156 amends SFAS No. 140 to require an entity to take the following steps:

- Separately recognize financial assets as servicing assets or servicing liabilities, each time it undertakes an obligation to service a financial asset by entering into certain kinds of servicing contracts;
- Initially measure all separately recognized servicing assets and liabilities at fair value, if practicable, and;
- Separately present servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosure for all separately recognized servicing assets and servicing liabilities.

Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 also permits a servicer that uses derivative financial instruments to offset risks on servicing to use fair value measurement when reporting both the derivative financial instrument and related servicing asset or liability.

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For the nine and three months ended September 30, 2007 and 2006

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 9. Recent Accounting Pronouncements (continued)

SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, or January 1, 2007 as to the Company, with earlier application permitted. The Company adopted SFAS No. 156 effective January 1, 2007, as required, utilizing the amortization method without effect on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. This Statement is effective for fiscal years beginning after November 15, 2007, or January 1, 2008 as to the Company, and interim periods within that fiscal year. The adoption of this Statement is not expected to have a material adverse effect on the Company's financial position or results of operations.

In September 2006, the FASB ratified the Emerging Issues Task Force's (EITF) Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," which requires companies to recognize a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee extending to postretirement periods. The liability should be recognized based on the substantive agreement with the employee. This Issue is effective beginning January 1, 2008. The Issue can be applied as either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, or a change in accounting principle through retrospective application to all periods. The Company is in the process of evaluating the impact the adoption of Issue 06-4 will have on the financial statements.

In September 2006, the FASB ratified a consensus opinion reached by the EITF on EITF Issue 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4." The guidance in EITF Issue 06-5 requires policyholders to consider other amounts included in the contractual terms of an insurance policy, in addition to cash surrender value, for purposes of determining the amount that could be realized under the terms of the insurance contract. If it is probable that contractual terms would limit the amount that could be realized under the insurance contract, those contractual limitations should be considered when determining the realizable amounts. The amount that could be realized under the insurance contract should be determined on an individual policy (or certificate) level and should include any amount realized on the assumed surrender of the last individual policy or certificate in a group policy

The Company holds several life insurance policies; however, the policies do not contain any provisions that would restrict or reduce the cash surrender value of the policies. The consensus in EITF Issue 06-5 is effective for fiscal years beginning after December 15, 2006. The Company applied the guidance in EITF Issue 06-5 effective January 1, 2007 which did not have any effect on the Company's financial statements.

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Recent Accounting Pronouncements (continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." This Statement allows companies the choice to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, or January 1, 2008 as to the Company, and interim periods within that fiscal year. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, "Fair Value Measurements." The Company is currently evaluating the impact the adoption of SFAS No. 159 will have on the financial statements.

NOTE B - ALLOWANCE FOR LOAN LOSSES

The activity in the allowance for loan losses was as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
	(In thousands)			
Beginning balance	\$2,188	\$2,840	\$2,345	\$2,904
Provision for loan losses	283	652	657	1,056
Loans charged-off	(313)	(95)	(966)	(640)
Recoveries of previous charge-offs	60	77	182	154
	-----	-----	-----	-----
Ending balance	\$2,218	\$3,474	\$2,218	\$3,474
	=====	=====	=====	=====

Nonperforming loans were as follows:

SEPTEMBER 30, 2007	DECEMBER 31, 2006
-----------------------	----------------------

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	-----	
	(In thousands)	
Loans past due over 90 days still on accrual	\$1,915	\$ 55
Nonaccrual loans	1,586	3,396
	-----	-----
Total nonperforming loans	\$3,501	\$3,451
	=====	=====

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine and three months ended September 30, 2007 and 2006

NOTE C - BENEFIT PLANS

Pension expense includes the following:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
	(In thousands)			
Service cost	\$ 65	\$ 56	\$ 195	\$ 168
Interest cost	46	40	138	120
Expected return on assets	(54)	(43)	(162)	(129)
Amortization of prior service cost, transition liability and plan amendment	15	7	45	21
	-----	-----	-----	-----
Pension expense	\$ 72	\$ 60	\$ 216	\$ 180
	=====	=====	=====	=====

NOTE D - OFF-BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contracts are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at the indicated dates is as follows:

SEPTEMBER 30,      DECEMBER 31,

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	2007	2006
	-----	-----
	(Unaudited)	
	(In thousands)	
Commitments to extend credit	\$31,666	\$33,429
Credit card and ready reserve lines	12,675	12,666
Standby letters of credit	565	707

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UNITED BANCORP, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discusses the financial condition of the Company as of September 30, 2007, as compared to December 31, 2006, and the results of operations for the nine and three months ended September 30, 2007, compared to the same periods in 2006. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

FORWARD-LOOKING STATEMENTS

When used in this document, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projected" or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Banks' market areas, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Banks' market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any statements expressed with respect to future periods.

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

CRITICAL ACCOUNTING POLICIES

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

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

yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

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

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UNITED BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

CRITICAL ACCOUNTING POLICIES (continued)

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

ANALYSIS OF FINANCIAL CONDITION

Earning Assets - Loans

At September 30, 2007, gross loans were \$227.3 million, compared to \$231.5 million at December 31, 2006, a decrease of \$4.2 million, or 1.8%. The decrease in total outstanding loans was the result of a decrease in the commercial portfolio. Management attributes the decrease in loans to the sluggish loan demand in the markets served.

Installment loans represented 18.0% of total loans at both September 30, 2007 and December 31, 2006. This indirect lending type of financing carries somewhat more risk than real estate lending; however, it also provides for higher yields. The targeted lending areas encompass four metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's 17 branch locations.

Commercial and commercial real estate loans comprised 56.9% of total loans at September 30, 2007 compared to 57.6% at December 31, 2006. Commercial and commercial real estate loans have decreased \$4.1 million, or 3.1% since December 31, 2006. The Company has originated and purchased participations in loans from other banks for out-of-area commercial and commercial real estate loans to benefit from consistent economic growth outside the Company's primary market area.

Real estate loans were 25.0% of total loans at September 30, 2007 and 24.3% at December 31, 2006. Real estate loans decreased by 1.2%, or \$694 thousand, since December 31, 2006. Real estate lending for the nine months of 2007 has been

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extremely slow with respect to the Company's adjustable-rate mortgage products. As of September 30, 2007, the Banks have approximately \$36.6 million in fixed-rate loans that they service for a fee that is typically 25 basis points. The Company did not hold any loans for sale at September 30, 2007 and December 31, 2006.

The allowance for loan losses represents the amount which management and the Board of Directors estimates is adequate to provide for probable losses inherent in the loan portfolio. The allowance balance and the provision charged to expense are reviewed by management and the Board of Directors monthly using a risk evaluation model that considers borrowers' past due experience, economic conditions and various other circumstances that are subject to change over time. Management believes the current balance of the allowance for loan losses is adequate to absorb probable incurred credit losses associated with the loan portfolio. Net charge-offs for the nine months ended September 30, 2007 were approximately \$784,000 or 33.5%, of the beginning balance in the allowance for loan losses.

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### UNITED BANCORP, INC.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

##### ANALYSIS OF FINANCIAL CONDITION (CONTINUED)

##### Earning Assets - Securities and Federal Funds Sold

The securities portfolio is comprised of U.S. Government agency-backed securities, tax-exempt obligations of states and political subdivisions and certain other investments. The Company does not hold any collateralized mortgage-backed securities other than those issued by U.S. government agencies, or derivative securities. The quality rating of obligations of state and political subdivisions within Ohio is no less than Aaa, Aa or A, with all out-of-state bonds rated at AAA. Board policy permits the purchase of certain non-rated bonds of local schools, townships and municipalities, based on their estimated levels of credit risk. Securities available for sale at September 30, 2007 increased approximately \$25.6 million, or 19.1%, from December 31, 2006 totals. This growth partially reflects deployment of the Company's increased deposits. Securities held to maturity at September 30, 2007, decreased approximately \$1.1 million, or 6.4% compared to December 31, 2006 totals.

##### Sources of Funds - Deposits

The Company's primary source of funds is core deposits from retail and business customers. These core deposits include all categories of interest-bearing and noninterest-bearing deposits, excluding certificates of deposit greater than \$100,000. For the nine-month period ended September 30, 2007, total core deposits increased approximately \$22.4 million, or 7.9%. The Company's interest-bearing demand deposits increased \$28.4 million, or 28.3%, noninterest-bearing demand deposits decreased \$1.3 million, or 5.6% while certificates of deposit under \$100,000 decreased by \$2.3 million, or 1.8%. As part of a strategic focus to grow deposits, the Banks have introduced premium rate money market index accounts.

The Company has a strong deposit base from public agencies, including local school districts, city and township municipalities, public works facilities and others that may tend to be more seasonal in nature resulting from the receipt

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and disbursement of state and federal grants. These entities have maintained fairly static balances with the Company due to various funding and disbursement timeframes.

Certificates of deposit greater than \$100,000 are not considered part of core deposits and as such are used to balance rate sensitivity as a tool of funds management. At September 30, 2007, certificates of deposit greater than \$100,000 decreased \$2.7 million, or 6.0%, from December 31, 2006 totals.

### Sources of Funds - Securities Sold under Agreements to Repurchase and Other Borrowings

Other interest-bearing liabilities include securities sold under agreements to repurchase, sweep accounts, federal funds purchased, Treasury, Tax and Loan notes payable and Federal Home Loan Bank ("FHLB") advances. In the first nine months of 2007, the Company continued to utilize the FHLB programs to manage interest rate risk and liquidity positions. The majority of the Company's repurchase agreements are with local school districts and city and county governments. As a result of the Company's growth in deposits in 2007, total borrowings, including federal funds purchased, decreased approximately \$3.0 million, or 6.8% from December 31, 2006 totals.

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## UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

##### Net Income

Basic and diluted earnings per share for the nine months ended September 30, 2007 totaled \$0.41, compared with \$0.30, for the nine months ended September 30, 2006, an increase of 36.7%. In the aggregate, the Company's net income increased by \$482,000, or 34.6%, for the nine months ended September 30, 2007, compared to the same period in 2006.

##### Net Interest Income

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the composition or mix of interest-earning assets in relation to interest-bearing liabilities. Net interest income decreased 6.6%, or \$627,000, for the nine months ended September 30, 2007, compared to the same period in 2006, due to continued downward pressure on the net interest margin caused by a continuation of the flat yield curve environment.

Total interest income for the nine months ended September 30, 2007, was \$19.7 million compared to \$18.9 million for the same period in 2006, an increase of \$891,000, or 4.7%. The increase can be attributed to the overall growth of the Company's earning assets.

Total interest expense for the nine months ended September 30, 2007 when compared to the same nine-month period ended September 30, 2006, increased by 16.2%, or \$1.5 million. The Company has experienced an increase in interest

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expense due to growth in interest-bearing liabilities, as well as the effect of a higher interest rate environment in 2007 as compared to 2006. Also contributing to higher interest expense is the higher costs of the Company's certificates of deposit. As the current certificate of deposit portfolio matures, they are replaced with higher costing certificates.

### Provision for Loan Losses

The provision for loan losses was \$657,000 for the nine months ended September 30, 2007 compared to \$1.1 million for the same period in 2006. The decrease in the provision for loan losses for the nine month period ended September 30, 2007 is primarily a result of a higher level of provision booked in September 2006 related to loans that were charged-off without specific loss allocations.

### Noninterest Income

Total noninterest income is made up of bank related fees and service charges, as well as other income producing services provided, sale of secondary market loans, 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 nine months ended September 30, 2007 was \$2.2 million compared to \$1.6 million for the nine-month period ended September 30, 2006, an increase of \$645,000, or 40.5%. During the nine-months ended September 30, 2007, the increase in noninterest income was primarily driven by increase of \$312,000 related to service charges on deposit accounts.

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## UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (CONTINUED)

##### Noninterest Expense

Noninterest expense for the nine months ended September 30, 2007 decreased \$161,000, or 1.9%, from the nine months ended September 30, 2006. Occupancy expense decreased \$107,000, mainly due to the additional charge of \$90,000 taken in 2006 to improve the profitability and customer service related to the Company's ATM and credit card platforms. Other noninterest expenses decreased \$264,000, which included decreases in data communication expenses, merchant interchange and expenses related to other real estate owned.

#### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

##### Net Income

Basic and diluted earnings per share for the three months ended September 30, 2007 totaled \$0.09, compared with \$0.09 for the three months ended September 30, 2006. In dollars, the Company's net income decreased by \$11,000 for the three months ended September 30, 2007, compared to the same quarter in 2006. Refer to "Net Income" discussion for Nine Months Ended September 30, 2007 for further information.

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### Net Interest Income

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the composition or mix of interest-earning assets in relation to interest-bearing liabilities. Net interest income decreased 9.5%, or \$301,000, for the three months ended September 30, 2007, compared to the same period in 2006, due to continued downward pressure on the net interest margin due to a continuation of the flat yield curve environment.

Total interest income for the three months ended September 30, 2007, was \$6.7 million compared to \$6.6 million for the same period in 2006, an increase of \$121,000, or 1.8%.

Total interest expense for the three months ended September 30, 2007, when compared to the same three-month period ended September 30, 2006, increased by 12.5%, or \$422,000. The Company has experienced an increase in interest expense due to growth in interest-bearing liabilities and an increase in the cost of funds year-to-year.

### Provision for Loan Losses

The provision for loan losses was \$283,000 for the three months ended September 30, 2007 compared to \$652,000 for the same period in 2006. The decrease in loan loss provision for the three month period ended September 30, 2007 is primarily a result of a higher level of provision for loan losses booked in September of 2006 related to loans that were charged-off without specific loss allocations.

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UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (CONTINUED)

##### Net Interest Income (continued)

##### Noninterest Income

Total noninterest income is made up of bank related fees and service charges, as well as other income producing services provided, sale of secondary market loans, 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 three months ended September 30, 2007 was \$785,000 compared to \$699,000 for the same three-month period ended September 30, 2006, an increase of approximately \$86,000, or 12.3%. During the three-months ended September 30, 2007, the increase in noninterest income was primarily driven by increase of \$131,000 related to service charges on deposit accounts.

##### Noninterest Expense

Noninterest expense for the three months ended September 30, 2007, increased

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\$232,000, or 8.4%, from the three months ended September 30, 2006. Salaries and employee benefits increased \$262,000 due to merger related expenses for severance payments and duplication of personnel related to the July 1, 2007 consolidation of bank charters.

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UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### CAPITAL RESOURCES

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Shareholders' equity at September 30, 2007, totaled \$32.1 million compared to \$32.6 million at December 31, 2006, a \$464,000 decrease. Total shareholders' equity in relation to total assets was 7.3% at September 30, 2007 and 7.7% at December 31, 2006. In 2001, our shareholders approved an amendment to the Company's Articles of Incorporation to create a class of preferred shares with 2,000,000 authorized shares. This enables the Company, at the option of the Board of Directors, to issue series of preferred shares in a manner calculated to take advantage of financing techniques which may provide a lower effective cost of capital to the Company. The amendment also provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. Although this preferred stock is a financial tool, it has not been utilized to date.

The Company has a Dividend Reinvestment Plan ("The Plan") for shareholders under which the Company's common stock will be purchased by the Plan for participants with automatically reinvested dividends. The Plan does not represent a change in the Company's dividend policy or a guarantee of future dividends.

The Company is subject to the regulatory requirements of The Federal Reserve System as a bank holding company. The Bank is subject to regulations of the Federal Deposit Insurance Corporation (FDIC) and the State of Ohio, Division of Financial Institutions. The most important of these various regulations address capital adequacy.

The minimums related to such capital requirements are:

	TOTAL CAPITAL TO RISK-WEIGHTED ASSETS -----	TIER 1 CAPITAL TO RISK-WEIGHTED ASSETS -----	TIER 1 CAPITAL TO AVERAGE ASSETS -----
Well capitalized	10.00%	6.00%	5.00%
Adequately capitalized	8.00%	4.00%	4.00%
Undercapitalized	6.00%	3.00%	3.00%

The following table illustrates the Company's well-capitalized classification at September 30, 2007

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SEPTEMBER 30,  
2007

-----  
(Unaudited)  
(Dollars in thousands)

Tier 1 capital	\$ 35,506
Total risk-based capital	37,733
Risk-weighted assets	262,806
Average total assets	457,733
Total risk-based capital ratio	14.36%
Tier 1 risk-based capital ratio	13.51%
Tier 1 capital to average assets	7.76%

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UNITED BANCORP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

### LIQUIDITY

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

### INFLATION

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with generally accepted accounting principles of the United States of America ("GAAP"). GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, impaired loans and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

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

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performance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change from disclosures included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

The Company, under the supervision, and with the participation, of its management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the requirements of Exchange Act Rule 13a-15e. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2007 in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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UNITED BANCORP, INC.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None, other than ordinary routine litigation incidental to the Company's business.

ITEM 1A. RISK FACTORS

There have been no material changes from risk factors as previously disclosed in Part 1 Item 1A of the Company's for 10K for the year ended December 31, 2006, filed on March 30, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c)	Maxi Appr Value Units) Purchase o
			Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans Or Programs	
Month #1 7/1/2007 to 7/30/2007	6,813	\$10.49	6,813	

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Month #2			
8/1/2007 to 8/31/2007	3,135	\$10.47	3,135
Month #3			
9/1/2007 to 9/30/2007	2,411	\$10.45	2,411

United Bancorp maintains a stock repurchase program publicly announced by a press release issued on November 21, 2006, under which its Board of Directors authorized management to cause the Company to purchase up to \$2 million of its common shares over a two-year period. Such authorization will expire on November 21, 2008.

The Company adopted the United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan (the "Plan"), which is an unfunded deferred compensation plan. Amounts deferred pursuant to the Plan remain unrestricted assets of the Company, and the right to participate in the Plan is limited to members of the Board of Directors and certain senior executive officers. Under the Plan, eligible participants may defer fees payable to them by the Company, which fees are used to acquire common shares which are credited to a participant's respective account. Except in the event of certain emergencies, no distributions are to be made from any account as long as the participant continues to be an employee or member of the Board of Directors. Upon termination of service, the aggregate number of shares credited to the participant's account are distributed to him or her along with any cash proceeds credited to the account which have not yet been invested in the Company's stock. There were no purchases during the quarter ended September 30, 2007. No underwriting fees, discounts, or commissions are paid in connection with the Plan. The shares allocated to participant accounts have not been registered under the Securities Act of 1933 in reliance upon the exemption provided by Section 4(2) thereof.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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UNITED BANCORP, INC.

### PART II - OTHER INFORMATION (CONTINUED)

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

#### ITEM 5. OTHER INFORMATION

None.

#### ITEM 6. EXHIBITS

Exhibit No.

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- |     |  |
|-----|--|
| 3.1 | Amended Articles of Incorporation of United Bancorp, Inc.(1)                   |
| 3.2 | Amended Code of Regulations of United Bancorp, Inc.(2)                         |
| 4.0 | Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2) |

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31.1 Rule 13a-14(a) Certification - CEO  
31.2 Rule 13a-14(a) Certification - CFO  
32.1 Section 1350 Certification - CEO  
32.2 Section 1350 Certification - CFO

- (1) Incorporated by reference to Appendix B to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.
- (2) Incorporated by reference to Appendix C to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.

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UNITED BANCORP, INC.

SIGNATURES

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

/s/United Bancorp, Inc.

Date: November 14, 2007

By: /s/ James W. Everson

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James W. Everson  
Chairman, President &  
Chief Executive Officer

Date: November 14, 2007

By: /s/ Randall M. Greenwood

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Randall M. Greenwood  
Senior Vice President,  
Chief Financial Officer and Treasurer

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EXHIBIT INDEX

Exhibit No.	Description
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3.1	Amended Articles of Incorporation of United Bancorp, Inc. incorporated by reference to Appendix B to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.
3.2	Amended Code of Regulations of United Bancorp, Inc. incorporated by

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reference to Appendix C to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.

- 4.0 Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2)
- 31.1 Rule 13a-14(a) Certification - Principal Executive Officer
- 31.2 Rule 13a-14(a) Certification - Principal Financial Officer
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.