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UNITED BANCORP INC /OH/
Form 10-Q
May 15, 2006

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 MARCH 31, 2006

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 X 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 X

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INDICATE THE NUMBER OF SHARES OUTSTANDING OF THE ISSUER'S CLASSES OF COMMON STOCK AS OF THE LATEST PRACTICABLE DATE.

COMMON STOCK, \$1.00 PAR VALUE 4,624,265 SHARES AS OF MAY 1, 2006

PART I
FINANCIAL INFORMATION

UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousand, except per share data)

| | MARCH 31, 2006 | DECEMBER 31, 2005 |
|---|----------------------|----------------------|
| | ----- (Unaudited) | ----- |
| ASSETS | | |
| Cash and due from financial institutions | \$ 11,569 | \$ |
| Interest-bearing deposits in other financial institutions | 3,310 | --- |
| | ----- | ----- |
| Total cash and cash equivalents | 14,879 | --- |
| Securities available for sale - at market | 127,373 | 1 |
| Securities held to maturity - estimated fair value of \$20,107 and \$20,483 at March 31, 2006 and December 31, 2005, respectively | 19,895 | --- |
| Total loans | 232,908 | 2 |
| Allowance for loan losses | (2,925) | --- |
| | ----- | ----- |
| Loans - net | 229,983 | 2 |
| Federal Home Loan Bank stock - at cost | 4,367 | --- |
| Premises and equipment | 7,520 | --- |
| Accrued interest receivable | 2,738 | --- |
| Other real estate and repossessions | 1,210 | --- |
| Core deposit and other intangible assets | 17 | --- |
| Bank-owned life insurance | 8,252 | --- |
| Other assets | 3,236 | --- |
| | ----- | ----- |
| Total assets | \$419,470 | \$4 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Demand deposits | | |
| Noninterest-bearing | \$ 24,848 | \$ |
| Interest-bearing | 91,274 | --- |
| Savings deposits | 36,833 | --- |
| Time deposits - under \$100,000 | 122,269 | 1 |
| Time deposits - \$100,000 and over | 38,916 | --- |
| | ----- | ----- |
| Total deposits | 314,140 | 3 |
| Federal funds purchased | 7,454 | --- |
| Advances from the Federal Home Loan Bank | 44,801 | --- |
| Securities sold under agreements to repurchase | 11,786 | --- |
| Trade date security purchases | 3,990 | --- |

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| | | |
|---|-----------|-----|
| Subordinated debentures | 4,000 | |
| Accrued expenses and other liabilities | 1,209 | |
| | ----- | --- |
| Total liabilities | 387,380 | 3 |
| 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; 4,624,265 and 4,615,111 shares issued at March 31, 2006 and December 31, 2005, respectively | 4,624 | |
| Additional paid-in capital | 27,030 | |
| Retained earnings | 7,878 | |
| Stock held by deferred compensation plan; 83,434 and 83,024 shares at March 31, 2006 and December 31, 2005, respectively - at cost | (908) | |
| Treasury stock - 37,500 and 27,500 shares at March 31, 2006 and December 31, 2005, respectively - at cost | (438) | |
| Less required contributions for shares acquired by Employee Stock Ownership Plan (ESOP) | (3,417) | |
| Accumulated comprehensive loss, unrealized losses on securities designated as available for sale, net of related tax benefits | (2,679) | |
| | ----- | --- |
| Total shareholders' equity | 32,090 | |
| | ----- | --- |
| Total liabilities and shareholders' equity | \$419,470 | \$4 |
| | ===== | == |

The accompanying notes are an integral part of these statements.

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UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

For the three months ended March 31, 2006 and 2005

(In thousand, except per share data)

| | 2006 | 2005 |
|---|-------------|---------|
| | ----- | ----- |
| | (Unaudited) | |
| Interest and dividend income | | |
| Loans, including fees | \$4,172 | \$3,534 |
| Taxable securities | 1,390 | 1,327 |
| Non-taxable securities | 300 | 316 |
| Federal funds sold | 50 | 1 |
| Dividends on Federal Home Loan Bank stock and other | 73 | 45 |
| | ----- | ----- |
| Total interest and dividend income | 5,985 | 5,223 |
| Interest expense | | |
| Deposits | | |
| Demand | 485 | 146 |
| Savings | 31 | 38 |

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| | | |
|--|---------|---------|
| Time | 1,568 | 1,381 |
| Borrowings | 751 | 409 |
| | ----- | ----- |
| Total interest expense | 2,835 | 1,974 |
| | ----- | ----- |
| Net interest income | 3,150 | 3,249 |
| Provision for loan losses | 102 | 144 |
| | ----- | ----- |
| Net interest income after provision for loan losses | 3,048 | 3,105 |
| Noninterest income | | |
| Service charges on deposit accounts | 350 | 314 |
| (Loss) gain on sales of securities designated as available for sale | (30) | 3 |
| Gain on sale of loans | 5 | 6 |
| Other income | 287 | 243 |
| | ----- | ----- |
| Total noninterest income | 612 | 566 |
| Noninterest expense | | |
| Salaries and employee benefits | 1,463 | 1,365 |
| Occupancy and equipment | 330 | 330 |
| Professional services | 114 | 102 |
| Insurance | 82 | 75 |
| Franchise and other taxes | 98 | 99 |
| Advertising | 105 | 82 |
| Stationery and office supplies | 60 | 66 |
| Amortization of intangibles | 1 | 4 |
| Other expenses | 536 | 497 |
| | ----- | ----- |
| Total noninterest expense | 2,789 | 2,620 |
| | ----- | ----- |
| Earnings before income taxes | 871 | 1,051 |
| Income tax expense | 169 | 230 |
| | ----- | ----- |
| Net Earnings | \$ 702 | \$ 821 |
| | ===== | ===== |
| EARNINGS PER COMMON SHARE | | |
| Basic | \$ 0.17 | \$ 0.20 |
| | ===== | ===== |
| Diluted | \$ 0.17 | \$ 0.20 |
| | ===== | ===== |
| Dividends per share | \$ 0.13 | \$0.118 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, 2006 and 2005

(In thousands)

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| | 2006 | 2005 |
|--|-------------|------------|
| | ----- | ----- |
| | (Unaudited) | |
| Net earnings | \$ 702 | \$ 821 |
| Other comprehensive loss, net of related tax effects: | | |
| Unrealized holding losses on securities during the period, net of tax benefits of \$261 and \$603 in 2006 and 2005, respectively | (507) | (1,170) |
| Reclassification adjustment for realized gains (losses) included in earnings, net of taxes (benefits) of \$10 and \$(1) in 2006 and 2005, respectively | 20 | (2) |
| | ----- | ----- |
| Comprehensive income (loss) | \$ 215 | \$ (351) |
| | ===== | ===== |
| Accumulated comprehensive loss | \$ (2,679) | \$ (1,807) |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2006 and 2005

(In thousands)

| | 2006 | 2005 |
|--|-------------|--------|
| | ----- | ----- |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net earnings | \$ 702 | \$ 821 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 133 | 182 |
| Provision for loan losses | 102 | 144 |
| Deferred taxes | 2 | -- |
| Federal Home Loan Bank stock dividends | (61) | (43) |
| Loss (gains) on sales or calls of securities | 30 | (3) |
| Amortization of premiums and discounts on securities, net | 183 | 114 |
| Gain on sale of loans | (5) | (6) |
| Increase in value of bank owned life insurance | (66) | (65) |
| Amortization of mortgage servicing rights | 21 | 20 |
| Loss (gains) on sale of real estate owned | 11 | (3) |
| Net change in accrued interest receivable and other assets | (496) | (566) |
| Net change in accrued expenses and other liabilities | (55) | 27 |
| | ----- | ----- |
| Net cash provided by operating activities | 501 | 622 |
| Cash flows provided by (used in) investing activities: | | |
| Securities available for sale: | | |
| Sales | 2,138 | 4,580 |

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| | | |
|--|----------|------------|
| Maturities, prepayments and calls | 1,636 | 13,784 |
| Purchases | (6,046) | (8,406) |
| Securities held to maturity: | | |
| Maturities, prepayments and calls | 375 | 50 |
| Purchases | -- | (1,947) |
| Net change in loans | (973) | (3,368) |
| Proceeds from sale of real estate owned | 30 | 128 |
| Purchase of bank owned life insurance | -- | (266) |
| Purchases of premises and equipment | (46) | (53) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (2,886) | 4,502 |
| Cash flows provided by (used in) financing activities: | | |
| Net change in deposits | 7,225 | 110 |
| Net change in short-term borrowings | (3,002) | (4,108) |
| Principal payments on long-term debt | (231) | (261) |
| Cash dividends paid | (600) | (503) |
| Proceeds from issuance of shares to Dividend Reinvestment Plan | 105 | 89 |
| Proceeds from exercise of stock options | -- | 68 |
| Tax benefits related to exercise of stock options | -- | 114 |
| Treasury stock purchases | (110) | (285) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 3,387 | (4,776) |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 1,002 | 348 |
| Cash and cash equivalents at beginning of period | 13,877 | 7,581 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$14,879 | \$ 7,929 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Interest paid on deposits and borrowings | \$ 2,709 | \$ 1,971 |
| | ===== | ===== |
| Supplemental disclosure of noncash investing activities: | | |
| Transfer from loans to other real estate and repossessions | \$ 8 | \$ -- |
| | ===== | ===== |
| Recognition of mortgage servicing rights | \$ 35 | \$ 20 |
| | ===== | ===== |
| Unrealized losses on securities designated as available for sale, net of related tax benefits | \$ (487) | \$ (1,172) |
| | ===== | ===== |

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UNITED BANCORP, INC.

ITEM I. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2006 and 2005

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 March 31, 2006, and its results of operations and cash flows for the three month period 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

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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 consolidated financial statements, and related notes thereto, of the Company for the year ended December 31, 2005 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.

1. Principles of Consolidation

The consolidated financial statements include the accounts of United Bancorp, Inc. ("UNITED" or "the Company"), an Ohio corporation, and its wholly-owned subsidiaries, The Citizens Savings Bank of Martins Ferry, Ohio ("CITIZENS") and The Community Bank, Lancaster, Ohio ("COMMUNITY"), (collectively hereinafter "the Banks"). All intercompany transactions and balances have been eliminated in consolidation.

2. Nature of Operations/Segments

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. COMMUNITY conducts its business through its seven 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.

3. Use of Estimates

The financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and general accounting practices within the financial services industry. In preparing consolidated financial statements in accordance with U.S. GAAP, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results could differ from such estimates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the year, less shares in the ESOP which are unallocated and not committed to be released. At March 31, 2005, the ESOP held 322,319 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 quarter ended March 31, 2005 have been restated for the stock split in the form of a dividend declared and distributed in the fourth quarter of 2005. The computation is as follows:

| | THREE MONTHS ENDED MARCH 31, | |
|---|---------------------------------|-----------|
| | 2006 | 2005 |
| BASIC | | |
| Net earnings (in thousands) | \$ 702 | \$ 821 |
| | ===== | ===== |
| Weighted average common shares outstanding | 4,182,375 | 4,166,957 |
| | ===== | ===== |
| Basic earnings per common share | \$ 0.17 | \$ 0.20 |
| | ===== | ===== |
| DILUTED | | |
| Net earnings (in thousands) | \$ 702 | \$ 821 |
| | ===== | ===== |
| Weighted average common shares outstanding for basic earnings per common share | 4,182,375 | 4,166,957 |
| Add: Dilutive effects of assumed exercise of stock options | 1,541 | 10,176 |
| | ----- | ----- |
| Average shares and dilutive potential common shares | 4,183,916 | 4,177,133 |
| | ===== | ===== |
| Diluted earnings per common share | \$ 0.17 | \$ 0.20 |
| | ===== | ===== |

Outstanding options to purchase 22,042 shares of common stock were excluded from the computation of common share equivalents for both the three months ended March 31, 2006 and 2005, because the exercise prices were greater than the average market prices of common shares.

5. Stock Options and Benefit Plans

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 dividends and stock splits.

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Effective January 1, 2006, the Company accounts for its stock option plan in accordance with Statement of Financial Accounting Standards, ("SFAS") No. 123(R), "Share-Based Payment." This standard requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and therefore has not restated our financial results for prior periods. The Company will recognize

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Stock Options and Benefit Plans (continued)

compensation cost for the portion of awards for which the requisite service period has not been rendered (unvested awards) that are outstanding as of January 1, 2006, as the remaining service is rendered. The compensation costs totaling \$5,000 for the quarter ended March 31, 2006 upon adoption of SFAS No. 123(R) was based upon the grant date fair value as calculated for the pro forma disclosures required by SFAS No. 123.

Prior to the adoption of SFAS No. 123(R), the Company presented tax benefits resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. SFAS No. 123 (R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost ("excess tax benefits") be classified as financing cash flows. There were no options exercised in the three months ended March 31, 2006, while \$114,000 of tax benefits related to exercise of stock options realized for the three months ended March 31, 2005 was reclassified to financing activities.

Prior to January 1, 2006, the Company accounted for its stock option plan in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits companies to continue to account for stock options and similar equity investments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB No. 25 are required to make pro forma disclosures of net earnings and earnings per share as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

Prior to January 1, 2006, the Company applied APB Opinion No. 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized in 2005 for the plans. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the accounting method utilized in SFAS No. 123, the Company's net earnings and earnings per share would have been reported at the pro-forma amounts indicated in the table below.

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| | THREE MONTHS ENDED MARCH 31, 2005 ----- |
|--------------------------------------|--|
| NET EARNINGS (In thousands) | |
| As reported | \$ 821 |
| Stock-based compensation, net of tax | (2) |
| | ----- |
| Pro-forma | \$ 819 |
| | ===== |
| EARNINGS PER SHARE | |
| BASIC | |
| As reported | \$0.20 |
| Stock-based compensation, net of tax | -- |
| | ----- |
| Pro-forma | \$0.20 |
| | ===== |
| DILUTED | |
| As reported | \$0.20 |
| Stock-based compensation, net of tax | -- |
| | ----- |
| Pro-forma | \$0.20 |
| | ===== |

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Stock Options and Benefit Plans (continued)

All share and per share prices have been restated to reflect the stock split distributed in 2005. The fair value of each option granted in 2005 has been estimated using the Black-Scholes options pricing model with the following assumptions; risk-free interest rate of 4.54%, dividend yield of 4.21% and expected volatility of 30.53%. No stock options were granted in 2006. Any option not exercised within the designated time frame will be forfeited. All options become immediately exercisable upon retirement, death, or 9 1/2 years after issuance, or in the event of a change in control of the Company.

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate is 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 is based upon historical volatility of the Company's stock.

The stock option plan has expired; therefore, there are no options available for grant as of March 31, 2006.

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A summary of the status of the Company's stock option plan for the three months ended March 31, 2006 and 2005 is presented below:

| | 2006 | | 2005 | |
|---|----------|---|----------|---|
| | SHARES | WEIGHTED- AVERAGE EXERCISE PRICE | SHARES | WEIGHTED- AVERAGE EXERCISE PRICE |
| Outstanding at beginning of quarter | 94,609 | \$11.51 | 112,228 | \$ 8.47 |
| Granted | -- | -- | 11,000 | 13.50 |
| Exercised | -- | -- | (53,680) | 7.21 |
| Forfeited | (29,027) | 11.22 | -- | -- |
| Outstanding at end of period | 65,582 | \$11.64 | 69,548 | \$10.25 |
| Options exercisable at period-end | 5,147 | \$10.51 | 34,445 | \$ 7.85 |
| Options expected to be exercisable at year-end | 10,904 | | 6,335 | |
| Weighted-average fair value of options granted during the period | | \$ -- | | \$ 3.11 |

The following table summarizes information about stock options outstanding at March 31, 2006:

| EXERCISE PRICE | OPTIONS OUTSTANDING AT 3/31/06 | DATE OF EXPIRATION | OPTIONS EXERCISABLE AT 3/31/06 | REMAINING CONTRACTUAL LIFE |
|-------------------|--------------------------------------|-----------------------|--------------------------------------|----------------------------------|
| \$ 7.56 | 2,410 | 05/14/06 | 2,410 | .2 years |
| 10.70 | 24,081 | 05/15/15 | -- | 9.0 years |
| 11.27 | 17,050 | 01/16/15 | -- | 8.8 years |
| 12.82 | 8,494 | 12/01/06 | 2,379 | .6 years |
| 13.50 | 11,000 | 8/23/14 | -- | 8.4 years |
| 15.02 | 2,547 | 07/07/07 | 358 | 1.3 years |

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Stock Options and Benefit Plans (continued)

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The Company received net cash of \$68,000 from the options exercised during the first three months of 2005. The impact of these cash receipts is included in financing activities in the accompanying consolidated statements of cash flows.

The Company initiated an Employee Stock Ownership Plan ("ESOP") in November 2005 that provided for the purchase of 322,319 treasury shares from the Company. No share allocations were awarded in 2005, and accordingly, no expense was recognized in 2005. The Company's loan to the ESOP will be repaid from contributions by the Banks over a 15 year period.

A defined benefit pension plan covers all employees 21 or over, who have completed 1,000 hours of service during an anniversary year, measured from date of hire. The plan calls for benefits to be paid to eligible employees at retirement, based primarily upon years of service and compensation rates near retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. Plan assets consist of primarily common stock and debt instruments. Pension expense is the net of service and interest cost, return on plan assets, and amortization of gains and losses not immediately recognized.

The Company offers a 401(k) plan, which covers all employees who have attained the age of 21 and have completed one year of service. Eligible employees may contribute up to \$15,000 in 2006 and employees who have attained the age of 50 years or older may contribute an additional \$5,000 in 2006. The Company may make a discretionary matching contribution equal to a percentage of each participant's elective deferral not to exceed 6% of the participant's annual compensation. Employee contributions are always vested. Employer contributions become 100% vested after 3 years of service.

6. Income Taxes

The Company accounts for federal income taxes pursuant to SFAS 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, carried back against prior years' earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

Deferred income taxes result from different methods of accounting for deferred loan origination fees and costs, Federal Home Loan Bank stock dividends, mortgage servicing rights, the loan loss allowance, amortization of intangibles, deferred compensation and pension expense. Additionally, a temporary difference is recognized for depreciation computed using accelerated methods for federal income tax purposes.

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For the three months ended March 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Effects of 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 is currently evaluating SFAS No. 155, but does not expect it to have a 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 disclosures 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.

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 Corporation, with earlier application permitted. The Corporation is currently evaluating SFAS No. 156, but does not expect it to have a material effect on the Corporation's financial position or results of operations.

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2006 and 2005

NOTE B - BENEFIT PLANS

Pension expense is comprised of the following:

| | THREE MONTHS ENDED MARCH 31, | |
|---|---------------------------------|-----------|
| | 2006 | 2005 |
| Service cost | \$ 56,134 | \$ 59,004 |
| Interest cost | 39,989 | 34,404 |
| Expected return on assets | (43,030) | (43,090) |
| Amortization of prior service cost, transition liability, net loss, and plan amendments | 7,492 | 9,333 |
| | \$ 60,585 | \$ 59,651 |
| Pension expense | \$ 60,585 | \$ 59,651 |

NOTE C - OFF-BALANCE SHEET ACTIVITIES

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Company grants retail, commercial and commercial real estate loans to customers primarily located in northeastern, eastern and southeastern Ohio. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Although the Company has a diversified loan portfolio, a substantial portion of the borrowers' ability to honor their contracts is dependent upon the economic conditions in each borrower's geographic location.

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

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| | MARCH 31, 2006 | DECEMBER 31, 2005 |
|-------------------------------------|-------------------|----------------------|
| | ----- | ----- |
| | (In thousands) | |
| Commitments to extend credit | \$31,544 | \$29,617 |
| Credit card and ready reserve lines | 2,176 | 2,028 |
| Standby letters of credit | 852 | 855 |

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UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2006 and 2005

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 10K for the year ended December 31, 2005, filed on March 30, 2005.

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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 March 31, 2006, as compared to December 31, 2005 and the results of operations for the three months ended March 31, 2006 compared to the same period in 2005. 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 is not aware of any trends, events or uncertainties that will have

or are reasonably likely to have a material effect on its liquidity or capital resources except as discussed herein. The Company is not aware of any current recommendation by regulatory authorities that would have such effect if implemented.

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.

Management makes certain judgments that affect the amounts reported in the financial statements and footnotes. These estimates, assumptions and judgements 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 judgement.

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 judgement 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 reviewed monthly by management 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 judgement is a review of each bank's trend in delinquencies and loan losses, and economic factors.

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 judgement about the credit quality of the loan portfolio. While the Company strives to reflect all known risk factors in its evaluation, judgement errors may occur.

UNITED BANCORP, INC.

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

Analysis of Financial Condition

Earning Assets - Loans

At March 31, 2006, gross loans were \$232.9 million compared to \$232.0 million at year-end 2005, an increase of approximately \$900,000 or 0.4%. The increase in total outstanding loans was the result of net increase in the commercial real estate and installment portfolios.

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Installment loans represented 17.8% of total loans at March 31, 2006 compared to 18.9% at December 31, 2005. The 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 57.3% of total loans at March 31, 2006 compared to 56.2% at December 31, 2005. Commercial and commercial real estate loans have increased \$3.1 million, or 2.4% since December 31, 2005. 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. The majority of these loans are secured by real estate holdings comprised of hotels, motels and churches located in various geographic locations, including Columbus and the Akron-Canton, Ohio metropolitan areas.

Real estate loans were 24.8% of total loans at March 31, 2006 and 24.9% at year-end 2005. The total of real estate loans has remained stable since December 31, 2005. Real estate lending for the three months of 2006 has been extremely slow, particularly with respect to the Company's adjustable rate mortgage products.

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 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 accounts for impaired loans in accordance with SFAS No. 114, "Accounting for Creditors for Impairment of a Loan." SFAS 114 requires that impaired loans be measured 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. A loan is defined under SFAS No. 114 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, 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. 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 three months ended March 31, 2006 were approximately \$81,000, or 2.8%, of the beginning balance in the allowance for loan losses.

UNITED BANCORP, INC.

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

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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, nor any derivative securities. The quality rating of obligations of state and political subdivisions within Ohio is no less than 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 March 31, 2006 increased approximately \$5.4 million or 4.5% from year-end 2005 totals. Securities held to maturity at March 31, 2006 decreased approximately \$367,000 or 1.8% compared to year-end 2005 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 period ended March 31, 2006, total core deposits increased approximately \$7.4 million, or 2.8%. The Company's interest-bearing demand deposits increased \$9.0 million, or 10.9%, noninterest-bearing demand deposits decreased \$1.8 million, or 6.6% while certificates of deposits under \$100,000 increased by \$1.0 million, or 0.8%. During the first quarter of 2006, CITIZENS as part of a strategic move to grow deposits introduced a new product "free checking with interest." Management feels this move will help us strategically over time expand and gain market share in deposits. To our knowledge, no other local competitor is offering a free checking account that pays interest. In addition to paying interest, a debit/ATM product named the "Freedom Card" was issued with the accounts. The benefit of the Freedom Card is to allow our customers to use any ATM in the continental United States without a service fee.

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 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 March 31, 2006, certificates of deposit greater than \$100,000 decreased approximately \$207,000 or 0.5%, from year-end 2005 totals.

Over the past several years, COMMUNITY has developed several large depository customers. As of March 31, 2006, the nine largest depository customers accounted for approximately 27.7% of COMMUNITY'S certificate of deposits and approximately 74.9% of total certificates of deposits greater than \$100,000. These customers also represent 7.5% of COMMUNITY'S demand deposits at March 31, 2006. Total concentration of retail funding is approximately 42.9% of COMMUNITY'S total deposits at March 31, 2006. On a consolidated level, this represents approximately 6.5% of total retail deposits at March 31, 2006 compared to 7.1% at December 31, 2005. This deposit concentration does pose possible liquidity and earnings risk for COMMUNITY. The earnings risks would be triggered if COMMUNITY would be placed in a position to sell assets below book value to meet current liquidity needs. This risk is mitigated with COMMUNITY'S capability to borrow wholesale funding from its correspondent banks. Management has an active asset/liability committee that monitors, among other items, monthly liquidity needs on a 90 day time horizon.

UNITED BANCORP, INC.

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

Results of Operations for the Three Months Ended March 31, 2006 and 2005

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 three months of 2006, 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. Total borrowings, including federal funds purchased, decreased approximately \$3.0 million, or 4.4% from year-end 2005 totals.

Net Income

Basic and diluted earnings per share for the three months ended March 31, 2006 totaled \$0.17, compared with \$0.20 for the three months ended March 31, 2005. In dollars, net income decreased by approximately \$119,000 or 14.5% for the three months ended March 31, 2006, compared to the same quarter in 2005.

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 3.0%, or approximately \$99,000 for the three months ended March 31, 2006 compared to the same period in 2005 due to continued downward pressure on the net interest margin during the current three month period caused by a continued flattening of the yield curve.

Total interest income for the three months ended March 31, 2006 was \$6.0 million compared to \$5.2 million for the same period in 2005, an increase of \$762,000, or 14.6%. The increase can be attributed to the overall growth of the loan portfolio and the increasing interest rates on adjustable rate loans.

Total interest expense for the three months ended March 31, 2006 when compared to the same three-month period ended March 31, 2005, increased by 43.6%, or approximately \$861,000. The Company has experienced an increase in interest expense due to growth in interest-bearing liabilities, as well as the effect of a higher interest of rate environment in 2006 as compared to 2005. In addition, the Company has recognized approximately \$60,000 of interest expense related to the subordinated debentures issued in November 2005.

Provision for Loan Losses

The provision for loan losses was \$102,000 for the three months ended March 31, 2006 compared to \$144,000 for the same period in 2005. At March 31, 2006 the allowance for loan losses to total gross loans was 1.26% as compared to 1.25% at

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December 31, 2005. Due to a relatively stable level of net loans charged off for the three months ended March 31, 2006 to 2005 and a relatively stable balance in nonperforming loans over the three months ended March 31, 2006, the Company lowered its year over year provision for loan losses.

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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 March 31, 2006 and 2005
(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 March 31, 2006 was approximately \$612,000 compared to \$566,000 for the same three-month period ended March 31, 2005, an increase of approximately 8.1%, or \$46,000. During the three-months ended March 31, 2006, the increase in noninterest income was driven by increase in the servicing income on secondary market loans of approximately \$17,000, increased merchant income of \$11,000 and gain on sale of other real estate of \$11,000.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2006 increased approximately \$169,000 or 6.5%, over the three months ended March 31, 2005. Salaries and employee benefits expense increased approximately \$98,000 or 7.2% mainly due to annual merit increases and higher costs related to the Company's medical insurance benefits. Advertising expenses increased approximately \$23,000 as a result of additional promotional campaigns for the Banks. Other expenses increased approximately \$39,000, mainly due to increases in merchant expenses of approximately \$12,000 and data communication expenses of approximately \$12,000.

Capital Resources

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Shareholders' equity at March 31, 2006, totaled \$32.1 million compared to \$32.5 million at December 31, 2005, a 1.2% decrease. Total shareholders' equity in relation to total assets was 7.7% at March 31, 2006 and 7.9% at December 31, 2005. In May 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

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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 multi-bank holding company. The Banks are subject to regulations of the Federal Deposit Insurance Corporation (FDIC) and the State of Ohio, Division of Financial Institutions. At March 31, 2006, the Company and the Banks met all regulatory capital requirements.

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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 March 31, 2006 and 2005
(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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The principal market risk affecting the Company is interest rate risk. The Banks do not maintain a trading account for any class of financial instrument and the Company is not affected by foreign currency exchange rate risk or commodity price risk. Because the Banks do not hold any material equity securities other than stock in the Federal Home Loan Bank of Cincinnati, the Company is not subject to equity price risk.

The Company, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets reprice differently than its interest-bearing liabilities. One of the principal financial objectives is to achieve long-term profitability while reducing its exposure to fluctuations in interest rates. The Company has sought to reduce exposure of its earnings to changes in market interest rates by managing assets and liability maturities and interest rates primarily by originating variable-rate lending products, or if issued with a fixed interest rate, as is the case with the indirect automobile portfolio, the term is rather short in duration. As discussed previously, the Company does originate long-term fixed rate mortgages but immediately sells these loans in the secondary market. Both the variable interest rates inherent in the commercial, commercial real estate and real estate loan portfolios, and the short duration loan products, mitigate the Company's exposure to dramatic interest rate movements.

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The Company's securities are all fixed rate and are weighted more heavily towards available for sale which accounts for 86% of the portfolio compared to the 14% for held to maturity securities. The Company primarily invests in U.S. Agency obligations and state and municipal obligations and has a modest amount invested in mortgage-backed securities. Due to total securities approximating 35% of total assets and a small portion of its loan portfolio consisting of long term fixed rate loans, the Company is somewhat sensitive to periods of rising interest rates. In such periods, the Company's net interest spread could be negatively affected because the interest rate paid on deposits may increase faster than the rates earned on loans. Management is continuing to originate variable rate loans as the primary means to manage this risk.

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UNITED BANCORP, INC.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

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

NET PORTFOLIO VALUE MARCH 31, 2006

| CHANGE IN RATES | \$ AMOUNT | \$ CHANGE | % CHANGE |
|------------------------|-----------|-----------|----------|
| (Dollars in thousands) | | | |
| +200 | 23,850 | (7,566) | -24% |
| +100 | 27,562 | (3,764) | -12% |
| Base | 31,416 | | |
| -100 | 34,473 | 3,057 | 10% |
| -200 | 34,975 | 3,559 | 11% |

NET PORTFOLIO VALUE DECEMBER 31, 2005

| CHANGE IN RATES | \$ AMOUNT | \$ CHANGE | % CHANGE |
|------------------------|-----------|-----------|----------|
| (Dollars in thousands) | | | |
| +200 | 26,567 | (3,988) | -13% |
| +100 | 29,888 | (967) | -3% |
| Base | 30,555 | | |
| -100 | 33,901 | 3,346 | 11% |

| | | | |
|------|--------|-------|-----|
| -200 | 33,833 | 3,277 | 11% |
|------|--------|-------|-----|

The projected volatility of the net present value at both March 31, 2006 and December 31, 2005 fall within the general guidelines established by the Board of Directors. The NPV table for March 31, 2006 shows that in a rising interest rate environment, the NPV would decrease 12% for a 100 basis point increase in rates and decrease 24% when rates increase 200 basis points. The decrease in a 100 and 200 basis point increase in rate is a result of the Company's available for sale securities portfolio that is invested in fixed-rate securities. As interest rates increase, the market value of the securities declines. However, since the Company currently has the ability to hold these securities to their final maturity, it would not have to recognize any losses. In a falling interest rate environment, the Company's NPV at March 31, 2006 would increase 10% with a 100 basis point decrease in rates and with a 200 basis points decrease in rates the NPC would increase 11%.

Certain shortcomings are inherent in the NPV method of analysis. 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 proportion 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 analysis. Finally, the ability of many borrowers to repay their adjustable-rate debt may decrease in the case of an increase in interest rates.

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UNITED BANCORP, INC.

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

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 March 31, 2006 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 March 31, 2006 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

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ITEM 1. LEGAL PROCEEDINGS

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

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

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ISSUER PURCHASES OF EQUITY SECURITIES

| PERIOD | (A) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED | (B) AVERAGE PRICE PAID PER SHARE (OR UNIT) | (C) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS | (D) MAXIMUM NUMBER APPROXIMATE DOLLAR OF SHARES (OR UNITS) MAY YET BE PURCHASED THE PLANS OR PROGRAMS |
|--------------------------------------|--|--|--|--|
| Month #1 1/1/2006 to 1/31/2006 | | | | |
| Month #2 2/1/2006 to 2/28/2006 | 10,000 | \$11.01 | 10,000 | \$1,560,900 |
| Month #3 3/1/2006 to 3/31/2006 | | | | |
| Total | 10,000 ===== | \$11.01 ===== | 10,000 ===== | \$1,560,900 ===== |

United Bancorp purchased these shares under a stock purchase program publicly announced by a press release issued on November 16, 2005, 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 15, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

UNITED BANCORP, INC.

PART II - OTHER INFORMATION (CONTINUED)

ITEM 5. OTHER INFORMATION

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None

ITEM 6. EXHIBITS

Exhibit No.

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)
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: May 12, 2006

By: /s/ James W. Everson

James W. Everson
Chairman, President & Chief
Executive Officer

Date: May 12, 2006

By: /s/ Randall M. Greenwood

Randall M. Greenwood

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Senior Vice President, Chief
Financial Officer and Treasurer

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EXHIBIT INDEX

| Exhibit No. ----- | Description ----- |
|----------------------|---|
| 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 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. |