

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

ANNUAL REPORT

20
21

UNITED BANCORP

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

UBCP NasdaqListed



ANNUAL REPORT

20
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To the shareholders of United Bancorp, Inc....

As United Bancorp, Inc. (UBCP) continued to operate in an extremely unsettled economic environment this past year, I am extremely proud to report on the high performance achieved and level of earnings produced by our Company in 2021. This past year, UBCP reported diluted earnings per share of \$1.62 and net income of \$9,451,000. These levels were \$0.23 per share, or 17%, and \$1,497,000, or 19%, greater than the respective levels for each of these earnings metrics reported the previous year. And, yes... at these levels, our Company has produced record earnings, once again, for the fifth consecutive year-- even though our general economy and overall operations continue to be greatly impacted by the pandemic. Although our economic recovery may be going more slowly than we all would like (and, with a few speedbumps as different variants of the virus emerge), we remain optimistic that the worst is now behind us. In that spirit, we look forward to what the new year will have in store for us and the opportunity to grow our Company to even greater heights!

The Ongoing Headwinds From the Covid Pandemic on Our Economy (and, Company): Even though our economy continues on its road to full recovery from the impact of the events that have occurred for the majority of the past two years relating to the Covid pandemic, we did see steady progress in its recovery therefrom throughout the course of 2021. Accordingly, our economy did perform more closely to the normalized, pre-pandemic level this past year; especially, as the year progressed. With the rollout of the Covid Vaccine earlier in 2021 and its more widespread distribution throughout the course of the year, we did see our economy begin to reopen and economic activity pick-up, once again. Although we did have newer variants of Covid-19 emerge, such as Delta and Omicron, our country was in a much better position to deal with the impacts thereof and continue to make progress in its recovery. Even as our economy operated at a slightly more optimum level than the previous year, we still had many challenges with which we were confronted and had to overcome. Inflation reared its ugly head as our supply chains continued to be somewhat disrupted and demand for goods elevated. Additionally, increased competition to recruit and retain qualified employees drove wage levels higher (while creating some staffing and delivery challenges for our Company). As the year progressed and to combat general price increases (which proved to be more than simply “transitory”), we began to see the general tightening of our monetary policy and the threat of higher interest rates emerge. After experiencing Zero Interest Rate Policy (ZIRP) for the better part of two years, this is actually somewhat of a welcome development and we are hopeful to see interest rates increase in a steady and predictable fashion as our economy strengthens. Assuming that this tightening cycle is orderly and controlled, I believe that our Company is well positioned to grow and prosper at levels greater than we have seen the last two years. Regardless, the continuation of the pandemic-related headwinds this past year continued to make it challenging to grow our Company toward its \$1 billion asset goal and produce stellar bottom line results as demand for loans remained subdued and general costs increased. Therefore, considering all of these aforementioned challenges... it is very gratifying to report on the record year of performance for United Bancorp, Inc. in 2021.

Continuing a Trend of Positive Performance this Past Year: As previously mentioned, United Bancorp, Inc. (UBCP) achieved record earnings in 2021, which is the fifth consecutive year for this accomplishment! For the year ending December 31, 2021, UBCP produced net income of \$9,451,000 and diluted earnings per share of \$1.62. Our Company achieved this level of earnings performance even though we only saw marginal growth in our loans outstanding and a fairly significant decline in our securities portfolio balance. As of December 31, 2021, gross loans were \$454.4 million, which was an increase of \$10.9 million, or 2.5%, over the previous year. Historically speaking, this level of loan growth is considered rather low. The marginal growth in our loan portfolio was highly reflective of the limited lending

A Letter from the President and CEO - Continued

opportunities which continued to confront our industry over the course of the past year due to the lingering effect of economic challenges created by the pandemic. Even at this lower level, our Company's loan growth this past year was in-line with our peers. In addition, average securities and other restricted stock was \$135.3 million at year-end, which was a decrease of \$32.1 million, or 19.2%, from the previous year. With interest rates still relatively low from a historical perspective and the threat of increasing rates in the near term, Management did not think that the timing was ideal to leverage our securities portfolio. Without the addition of new securities to our investment portfolio, we experienced a decline in our investment securities balances as many of our revenue bonds had redemptions in the lower rate environment in which we were operating. Also contributing to a decline in our securities portfolio balance was the sale of approximately \$12 million in municipal securities in the third quarter of 2021. With the heightened probability of increasing rates in the short term, Management believed that this was a prudent action to take and it produced a gain for our Company of \$1,250,000. Unlike 2020, where the sale of investment securities produced gains that greatly helped to fortify our allowance for loan losses during the most critical and uncertain time of the pandemic, this past year's gain on the sale of investment securities was harvested to take advantage of an opportune situation with the prospect of reinvesting the sold balances within a reasonable timeframe.

Considering our marginal loan growth and the decline in our average securities and other restricted stock (along with the near zero percent interest rate environment in which we have operated for the past twenty-four months), our level of both interest income and loan fees generated this past year declined from the levels earned the previous year. As of December 31, 2021, total interest income (including loan fees) was down \$2.92 million, or 10.6%, from the level achieved in 2020. We are optimistic that as our economy starts to more fully recover and as interest rates potentially rise in the near term, we will have better opportunities to leverage our securities portfolio in-line with our previous level (especially, in tax-exempt securities) and ramp-up our loan production to levels at which we are more historically accustomed; therefore, increasing our level of higher yielding assets, improving our overall tax efficiency and generating more interest and loan fee income.

As we have previously disclosed, United Bancorp, Inc. (UBCP) was properly positioned from a sensitivity perspective to benefit from declining rates over the course of the past two years. Even though we had already experienced a significant reduction in our interest expense levels in 2020 and saw a tremendous inflow of retail funding into our Company in 2021, this past year we were able to, once again, lower our total interest expense. This reduction in our interest expense helped to mitigate the decline in the level of net interest income that UBCP realized in the highly volatile environment in which we continued to operate. For the year, total deposits increased by \$25.6 million or 4.4%. We saw lower-costing retail funding, consisting of demand and savings balances, increase by \$50.1 million, or 10.0%, while our higher-costing time deposit balances declined by \$24.5 million or 30.3%. While we did experience an increase in our total deposits this past year, we were able to reduce total interest expense by \$2.1 million, or 45.2%, as compared to 2020. Even with this substantial reduction in total interest expense in 2021, our Company still experienced an overall decrease in the level of net interest income that it realized of \$783,000, which is a decline of 3.4% over the previous year. We are optimistic that UBCP will achieve a higher level of net interest income as our economy further recovers from the effects of the pandemic and gets back to a more normalized level of performance--- potentially in the near term.

United Bancorp, Inc. (UBCP) has successfully maintained credit-related strength and stability within its loan portfolio over the course of the pandemic and this positive trend continued for our Company in 2021. As of December 31, 2021, UBCP's total nonaccrual loans and loans past due thirty plus days were \$4.6 million or 0.90% of gross loans. Further, net loans charged off for 2021, excluding overdrafts, was \$108,000 or 0.02% annualized. Considering UBCP's overall sound credit quality and the improving economy, our Company had credit reserve releases (or, negative provisioning) of \$1,225,000 over the course of this past year. This "non-core" income realized in 2021 resulted directly from the substantial build-up of our allowance for loan losses the previous year to prepare for the catastrophic losses that potentially could have arisen as a result of the (hopefully) once-in-a-lifetime Covid pandemic. Quite simply, the loan loss reserve build-up that occurred in 2020 due to the risks posed by the onset of the pandemic and ensuing economic slow-down have, so far, not led to deterioration of our Company's credit quality nor an increase in loan related losses. Assuming that our trend in solid credit

quality continues and barring any unforeseen events that would have a negative impact thereon, our Company anticipates being able to release additional reserves, once again, in 2022.

The challenges with which United Bancorp, Inc. (UBCP) has been confronted over the course of the past two years has challenged our Company-- more than any other time in our history-- to focus on process improvement and cost containment in order to offset the pressure on our bottom line. At the same time, we have had to allocate limited resources to and prudently spend money on investments that will ensure our future relevancy. Focusing internally, we have continued to improve many processes which has led to (or, will lead to) various efficiency gains and optimization of our delivery. We have eliminated unnecessary expenses while spending money on staffing optimization and technological infrastructure, so that we can more effectively compete within our industry by having highly skilled team members and cutting-edge systems deliver our products and services in a manner that is demanded by the markets that we proudly serve. As a result of this inward focus, this past year our Company formed a Process Improvement Team (Pit Crew) which is comprised of valued team members from all areas of our operation. The primary vision of this team is to streamline and create more efficient processes, eliminate unnecessary expenses and perfect a more appealing, customer-centric delivery which we proudly call the Unified Experience. Customer satisfaction has always been a differentiator for our Company and we are now even more focused on providing the highest quality service as a top performing community banking organization. We are truly excited about the production of the "Pit Crew" in 2021 and look forward to the innovation and change that they will continue to instigate and inspire in the coming years.

Relating to cost containment matters, this past year we closed our Loan Production Office in Wheeling, West Virginia in the second quarter. Not being a full-service office, the personnel at this office were reassigned to other work spaces that did not create additional expense for our Company. In addition, in the fourth quarter we effected the closure of our Dillonvale, Ohio Banking Center which was consolidated into two other banking centers located within close proximity to this market. Each of these events have had minimal customer impact and will create cost savings that we anticipate more fully recognizing in 2022. Even though we did keenly focus on reducing our non-interest expense levels in 2021, total noninterest expense increased by \$501,000 or 2.8%. With a focus on the future, most of this expense was related to our new Moundsville, West Virginia Banking Center which was opened for the entire year in 2021, overall higher wage and benefit levels, and the additional expense related to our investment in and the higher utilization of our technology. Our Company is fortunate to have invested in previous years in a digital delivery system that has become better accepted and more highly utilized by our customer base since the inception of the pandemic. Quite simply, investments such as this will help us grow our company, develop more solid and well-rounded relationships and ensure our future relevancy.

At United Bancorp, Inc. (UBCP), our primary focus is protecting the investment of our shareholders in our Company and rewarding them at a high level by growing their value and paying an attractive cash dividend. Presently, our cash dividend produces one of the highest yields in our industry! Accordingly, this past year we remained focused on being an efficient, productive and profitable Company that is well capitalized. In 2021, our valued shareholders were nicely rewarded with a year-over-year increase in the cash dividends paid of \$0.115, or 20.2%, which is inclusive of a special cash dividend of \$0.10 paid in the first quarter. Also this past year, our shareholders saw their market value increase by \$3.47, or 26.3%, to a level of \$16.65 as of December 31, 2021. Relating to our overall levels of capitalization, UBCP continues to have very sound levels of capital. With our Company producing record earnings and, having a Return on Assets (ROA) of 1.31% and a Return on Equity (ROE) of 13.28%, capital levels and measurements were further enhanced over the course of this past year. Overall, UBCP saw its shareholders' equity grow by \$3.4 million, or 4.9%, and its tangible book value increase by 5.4%. Going forward, we will continue to strive to protect your investment in UBCP at the highest level while producing returns and paying dividends to which you have grown accustomed. As always, we are truly appreciative of your continued support!

I am extremely proud to report that with our high level of performance and sound operation in 2021, United Bancorp, Inc. (UBCP) was recognized for its achievements. In the second quarter, UBCP was notified that it had been awarded the Raymond James Community Bankers Cup on the basis of its superior performance during the previous twelve months. The Raymond James Cup is awarded each year

A Letter from the President and CEO - Continued

to the top ten percent (10%) of community banks on the basis of various profitability, operational, efficiency, and balance sheet metrics. Exchange-traded domestic banks with assets between \$500 million and \$10 billion are evaluated and considered for the award. Also, at the beginning of the third quarter of 2021, UBCP was notified that it was named to the American Banker's "Top 200 Community Banks." American Banker rated UBCP 124 on its Top 200 Community Banks list--- consisting of banks with assets under \$2.0 billion--- based on an average return on equity for the previous three years as of December 31, 2020. It was very gratifying to be recognized for our exemplary performance during these very trying times. This recognition truly affirms that there are a lot of good things going on at our Company. For this, we are truly humbled and proud of what we have accomplished... but, we firmly realize that we cannot rest on our past laurels and need to perform at this high level each and every year!

These past two years have been very challenging for both our industry and United Bancorp, Inc. (UBCP). But, I firmly believe that the challenges with which we have been confronted and dealt during this timeframe have made UBCP a more fundamentally sound Company with a strong focus on the potential of the future. Although the pandemic and related economic slowdown took us off our path of growth for the past two years, we still have our sights set on becoming a \$1.0 billion asset community banking organization in order to be at a scale to achieve additional operating efficiencies, greater profitability and, most importantly, a higher market capitalization which will lead to more opportunities for our acquisition-related opportunities for which UBCP is strongly positioned at present. With the current rebound that our economy is experiencing, I firmly believe that we will have quality chances in each of these areas on which our Company can capitalize. With our Company's vision of "creating better lives and futures for the people and communities that we proudly serve" and having a team that truly lives the "Unified Way," I have great confidence that UBCP, and its affiliate bank... Unified Bank, can achieve whatever they seek. Having a "United and Unified" team, management, board of directors and shareholders group is key to our successful and profitable operations. ***Together, we will accomplish more!***



Scott A. Everson
President and Chief Executive Officer
ceo@unitedbancorp.com
February 19, 2022

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



DIVIDEND AND STOCK HISTORY

	Cash Dividends Declared ⁽¹⁾	Special Cash Dividends and Stock Dividends	Distribution Date of Dividends and Exchanges
1983	\$ 0.05	-	-
1984	\$ 0.06	4 for 1 Exchange ⁽²⁾	January 2, 1984
1985	\$ 0.07	-	-
1986	\$ 0.09	-	-
1987	\$ 0.09	50% Stock Dividend	October 2, 1987
1988	\$ 0.10	-	-
1989	\$ 0.10	-	-
1990	\$ 0.11	-	-
1991	\$ 0.12	-	-
1992	\$ 0.12	100% Stock Dividend	September 10, 1992
1993	\$ 0.12	100% Stock Dividend	November 30, 1993
1994	\$ 0.13	10% Stock Dividend	September 9, 1994
1995	\$ 0.19	-	-
1996	\$ 0.20	10% Stock Dividend	June 20, 1996
1997	\$ 0.23	10% Stock Dividend	September 19, 1997
1998	\$ 0.26	5% Stock Dividend	December 18, 1998
1999	\$ 0.30	5% Stock Dividend	December 20, 1999
2000	\$ 0.31	5% Stock Dividend	December 20, 2000
2001	\$ 0.32	5% Stock Dividend	December 20, 2001
2002	\$ 0.33	5% Stock Dividend	December 20, 2002
2003	\$ 0.35	10% Stock Dividend	December 19, 2003
2004	\$ 0.39	10% Stock Dividend	December 20, 2004
2005	\$ 0.43	10% Stock Dividend	December 20, 2005
2006	\$ 0.48	10% Stock Dividend	December 20, 2006
2007	\$ 0.52	-	-
2008	\$ 0.54	-	-
2009	\$ 0.56	-	-
2010	\$ 0.56	-	-
2011	\$ 0.56	-	-
2012	\$ 0.42	-	-
2013	\$ 0.29	-	-
2014	\$ 0.33	-	-
2015	\$ 0.37	5¢ Per Share Special Dividend	December 29, 2016
2016	\$ 0.42	5¢ Per Share Special Dividend	December 29, 2017
2017	\$ 0.46	5¢ Per Share Special Dividend	December 29, 2018
2018	\$ 0.52	5¢ Per Share Special Dividend	December 28, 2019
2019	\$ 0.545	-	-
2020	\$ 0.57	-	-
2021	\$ 0.685	10¢ Per Share Special Dividend	March 19, 2021

2022 ANTICIPATED DIVIDEND PAYABLE DATES

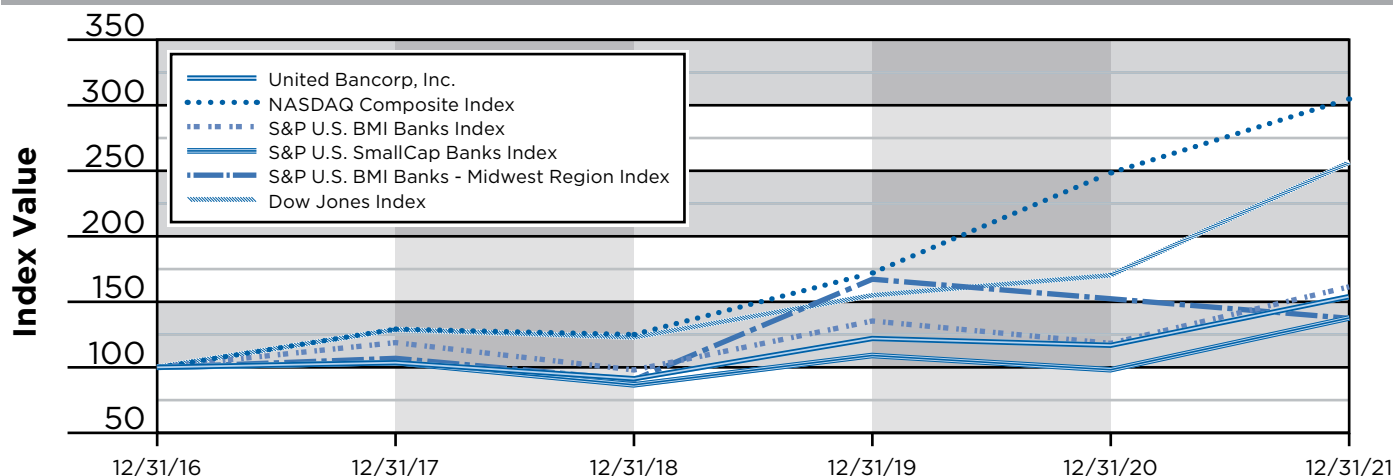
- ◆ **First Quarter**
March 18, 2022
- ◆ **Second Quarter***
June 17, 2022
- ◆ **Third Quarter***
September 20, 2022
- ◆ **Fourth Quarter***
December 20, 2022

*Subject to action by Board of Directors

(1) Adjusted for stock dividends and exchanges.

(2) Formation of United Bancorp, Inc. (UBCP). Unified Bank (formerly The Citizen's Saving Bank) shareholders received 4 shares of UBCP stock in exchange for 1 share of bank stock.

TOTAL RETURN PERFORMANCE



Index	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
United Bancorp, Inc.	100.00	102.29	92.31	120.99	116.47	153.81
NASDAQ Composite Index	100.00	129.64	125.96	172.18	249.51	304.85
S&P U.S. BMI Banks Index	100.00	118.21	98.75	135.64	118.33	160.89
S&P U.S. SmallCap Banks Index	100.00	104.33	87.06	109.22	99.19	138.09
S&P U.S. BMI Banks - Midwest Region Index	100.00	107.46	91.76	119.38	102.64	135.60
Dow Jones Index	100.00	128.11	123.65	154.99	170.06	205.68

Directors



Erin S. Ball



Jonathan C. Clark



Scott A. Everson



Gary W. Glessner



Brian M. Hendershot



John R. Herzig



John M. Hoopingarner



Richard L. Riesbeck



Bethany E. Schunn

DIRECTORS OF UNITED BANCORP, INC.

Scott A. Everson ¹	President & Chief Executive Officer, United Bancorp, Inc. Chairman, President & Chief Executive Officer, Unified Bank, Martins Ferry, Ohio
Gary W. Glessner ²	CPA & CGMA, Managing Member, Glessner & Associates, PLLC; Glessner Wharton Andrews Insurance, LLC; Tiffany's, LLC; GWA Realty, LLC, GW Rentals, LLC; Trustee, Windmill Truckers Center, Inc.
John M. Hoopingarner, Esq. ^{1,2,3,4}	Of Counsel, McMahon, DeGulis LLP, Columbus, Cleveland & Cincinnati, Ohio
Richard L. Riesbeck ^{1,2,3,4}	Chairman, United Bancorp, Inc.; President, Riesbeck Food Markets, Inc., St. Clairsville, Ohio
James W. Everson	Chairman Emeritus 1969 - 2016

OFFICERS OF UNITED BANCORP, INC.

Scott A. Everson	President & Chief Executive Officer
Matthew F. Branstetter	Senior Vice President, Chief Operating Officer
Randall M. Greenwood	Senior Vice President, Chief Financial Officer, Treasurer & Corporate Secretary

DIRECTORS OF UNIFIED BANK

Erin S. Ball	Vice President, Carenbauer Distributing Corporation, Wheeling, West Virginia
Jonathan C. Clark, Esq.	Attorney at Law, Lancaster, Ohio
Scott A. Everson ¹	President & Chief Executive Officer, United Bancorp, Inc. Chairman, President & Chief Executive Officer, Unified Bank, Martins Ferry, Ohio
Gary W. Glessner ²	CPA & CGMA, Managing Member, Glessner & Associates, PLLC; Glessner Wharton Andrews Insurance, LLC; Tiffany's, LLC; GWA Realty, LLC, GW Rentals, LLC; Trustee, Windmill Truckers Center, Inc.
Brian M. Hendershot	President, Ohio-West Virginia Excavating, Shadyside, Ohio
John R. Herzig	President, Toland-Herzig Funeral Homes & Crematory, Strasburg and Dover, Ohio
John M. Hoopingarner, Esq. ^{1,2}	Of Counsel, McMahon, DeGulis LLP, Columbus, Cleveland and Cincinnati, Ohio
Richard L. Riesbeck ^{1,2,♦}	Chairman, United Bancorp, Inc.; President, Riesbeck Food Markets, Inc., St. Clairsville, Ohio
Bethany E. Schunn	Plant Manager, Cardinal Operating Company, Brilliant, Ohio
James W. Everson	Chairman Emeritus 1969 - 2016

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

The journey to becoming the institution we are today began in Martins Ferry, Ohio in 1902. Originally founded as The German Savings Bank and renamed to The Citizens Savings Bank in 1918, the last 119 years have seen growth and change that would have been unimaginable at its' founding. The bank has grown through sound management, the addition of new offices and the acquisition of others. With the name change from The Citizens Savings Bank to Unified Bank in 2018, it has and will continue to move forward.

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

PAST PRESIDENTS

Edward E. McCombs, 1902-1936

John E. Reynolds, 1936 - 1940

Harold H. Riethmiller, 1940 - 1973

James W. Everson, 1973 - 2002

Past Board of Directors

Edward E. McCombs, 1902-1936*

John E. Reynolds, 1902-1940

Dr. Joseph W. Darrah, 1902-1937

J.A. Crossley, 1902-1903

William M. Lupton, 1902-1902

F.K. Dixon, 1902-1909

Dr. R.H. Wilson, 1902-1905

Chris A. Heil, 1903-1909

David Coss, 1904-1938

L.L. Scheele, 1905-1917

A.T. Selby, 1906-1954

H.H. Rothermund, 1907-1912

Dr. J.G. Parr, 1912-1930

T.E. Pugh, 1920-1953

J.J. Weiskircher, 1925-1942

David H. James, 1925-1963

Dr. C.B. Messerly, 1931-1957

H.H. Riethmiller, 1936-1980*

E.M. Nickles, 1938-1968

L.A. Darrah, 1939-1962

R.L. Heslop, 1941-1983

Joseph E. Weiskircher, 1943-1975

Edward M. Selby, 1953-1976

David W. Thompson, 1954-1966

Dr. Charles D. Messerly, 1957-1987

James M. Blackford, 1962-1968

John H. Morgan, 1967-1976

Emil F. Snyder, 1968-1975

James H. Cook, 1976-1986

Paul Ochsenbein, 1978-1991

David W. Totterdale, 1981-1995

Albert W. Lash, 1975-1996

Premo R. Funari, 1976-1997

Donald A. Davison, 1963-1997*

Harold W. Price, 1999-1999

John H. Clark, Jr., 1976-2001

Dwain R. Hicks, 1999-2002

Michael A. Ley, 1999-2002

Michael J. Arciello 1992 - 2009

Leon F. Favede, O.D., 1981-2012

Herman E. Borkoski, 1987-2012

James W. Everson, 1969-2014*

Robin L. Rhodes, 2007-2015

Andrew C. Phillips, 2007-2015

Errol C. Sambuco, 1996-2015

Samuel J. Jones, 2007-2015

Matthew C. Thomas, 1988-2016

Terry A. McGhee, 2001-2017

Carl A. Novak, D.D.S., 2018-2020

* Past Chairman

Shareholder Information

United Bancorp, Inc.'s (the Company) common stock trades on *The Nasdaq Capital Market* tier of The Nasdaq Stock Market under the symbol UBCP, CUSIP #909911109. At year-end 2021, there were 6,053,851 shares issued, held among approximately 3,300 shareholders of record and in street name. The following table sets forth the quarterly high and low closing prices of the Company's common stock from January 1, 2021 to December 31, 2021 compared to the same periods in 2020 as reported by the NASDAQ.

	2 0 2 1				2 0 2 0			
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
Market Price Range								
High (\$)	\$ 15.88	15.66	15.79	16.65	\$ 14.75	10.70	12.67	13.35
Low (\$)	\$ 12.75	14.26	12.90	14.75	\$ 9.31	9.10	10.50	11.80
Cash Dividends								
Quarter (\$)	\$ 0.2425	0.1450	0.1475	0.1500	\$ 0.1425	0.1425	0.1425	0.1425
Cumulative (\$)	\$ 0.2425	0.3875	0.5350	0.6850	\$ 0.1425	0.2850	0.4275	0.5700

Investor Relations:

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

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

Annual Meeting:

The Annual Meeting of Shareholders will be held at 2:00 p.m., April 20, 2022 at the Corporate Offices in Martins Ferry, Ohio.

Internet:

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

Independent Auditors:

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

Corporate Offices:

Unified Bank Building
201 South 4th Street, Martins Ferry, Ohio 43935
Randall M. Greenwood
Corporate Secretary
(888) 275-5566 (EXT 6181)
(740) 633-0445 (EXT 6181)
(740) 633-1448 (FAX)

Transfer Agent and Registrar:

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

Stock Trading:

Raymond James
222 South Riverside Plaza
7th Floor
Chicago, Illinois 60606
Anthony LanFranco
312-655-2961

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

Tom Thurston
Piper Sandler Companies
1251 Avenue of the Americas
New York, NY 10020
212-466-8027

Dividend Reinvestment and Stock Purchase Plan:

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

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

Management's Discussion and Analysis

In the following pages, management presents an analysis of **United Bancorp, Inc.'s** financial condition and results of operations as of and for the year ended December 31, 2021 as compared to prior years. This discussion is designed to provide shareholders with a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the Consolidated Financial Statements and related footnotes and the selected financial data included elsewhere in this report.

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

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

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

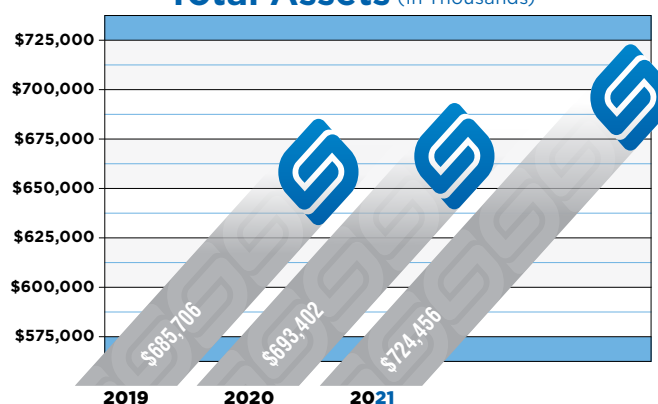
Financial Condition

Overview

United Bancorp reported diluted earnings per share of \$0.41 for the three months ended December 31, 2021. For the year ending December 31, 2021, UBCP reported diluted earnings per share of \$1.62, an increase of 17%, and net income of \$9,451,000, an increase of 19%, over the previous year, which are record levels for the Company.

Even though our economy continues on its road to full recovery from the impact of the events that have occurred for the majority of the past two years, we are extremely pleased to report on our earnings performance for the fourth quarter and for the year. For the quarter ending December 31, 2021, our Company achieved solid net income and diluted earnings per share results of \$2,456,000 and \$0.41 as compared to \$2,640,000 and \$0.46, respectively, in the fourth quarter of 2020. For the year ending December 31, 2021, our Company produced net income of \$9,451,000 and diluted earnings per share of \$1.62, which were respective increases of \$1,498,000, or 19%, and \$0.23, or 17%, over the previous year. We are exceedingly proud to report these earnings levels, especially on our record earnings performance for the year 2021. Our Company achieved this level of earnings performance even though we only saw marginal growth in our loans outstanding and a fairly significant decline in our securities portfolio balance. As of December 31, 2021, gross loans were \$454.4 million,

Total Assets (In Thousands)



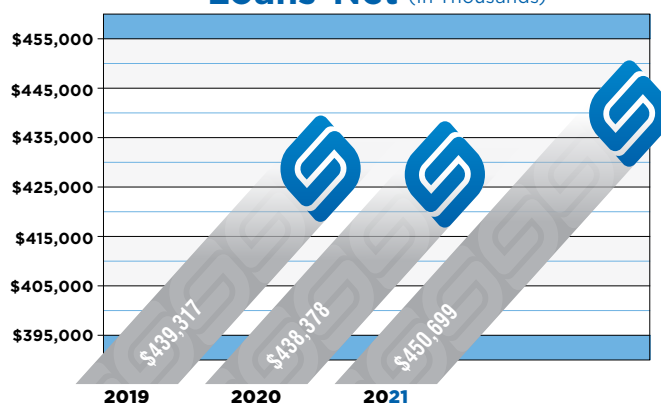
which was an increase of \$10.9 million, or 2.5%, over the previous year. In addition, average securities and other restricted stock was \$135.3 million, which was a decrease of \$32.1 million, or 19.2%, from the previous year. The marginal growth of our loan portfolio was highly reflective of the limited lending opportunities which, once again, confronted our industry over the course of the past year due to the lingering effect of economic challenges created by the pandemic. With that stated, our loan growth was in-line with the loan growth achieved by our peers. In addition, we once again experienced a decline in our average securities and other restricted stock. This decline was the result of either calls and prepayments of securities held within our investment portfolio or the sale of select municipal

investment securities, which produced gains for our Company. Unlike 2020, where the sale of investment securities produced gains that greatly helped to fortify our loan loss reserve during the most critical and uncertain time of the pandemic, this past year's gains on the sale of investment securities were harvested to take advantage of the opportunity still available and to better prepare for the potential of rising rates in the near term. Considering our marginal loan growth and the decline in our average securities and other required stock (along with declining rates that we have experienced within the past twenty-one months), our level of both interest income and loan fees generated this past year declined from the levels earned the previous year. As of December 31, 2021, total interest income, including loan fees, was down \$2.92 million, or 10.6%, from the level achieved in 2020. We are optimistic that as our economy starts to more fully recover and as rates potentially rise in the near term, we will have better opportunities to leverage our securities portfolio more in-line with our previous level (especially, in tax-exempt securities) and ramp-up our loan production to levels at which we are more historically accustomed; therefore, increasing our level of higher yielding earning assets, improving our overall tax efficiency and generating more interest and loan fee income.

As we have previously disclosed, our Company was properly positioned to benefit from declining rates over the course of the past two years. Even though we saw a significant inflow of retail funding over that timeframe, we were able to lower our interest expense levels to help mitigate the decline in the level of net interest income that our Company achieved in this highly volatile environment. In 2021, total deposits increased \$25.6 million or 4.4%. We saw lower-cost retail funding, consisting of demand and savings balances, increase by \$50.1 million, or 10.0%, while our higher-cost time deposit balances declined by \$24.5 million or 30.3%. Even with the overall increase in our total deposits, we were able to reduce total interest expense by \$2.1 million, or 45.2%, this past year as compared to 2020. While we were able to continue to substantially reduce total interest expense in 2021, our Company still experienced an overall decrease in the level of net interest income that it realized of \$782,000, which is a decline of 3.4% over the previous year. We are optimistic that our Company will achieve higher levels of net interest income, as previously mentioned, as our economy more fully recovers---potentially in the near term.

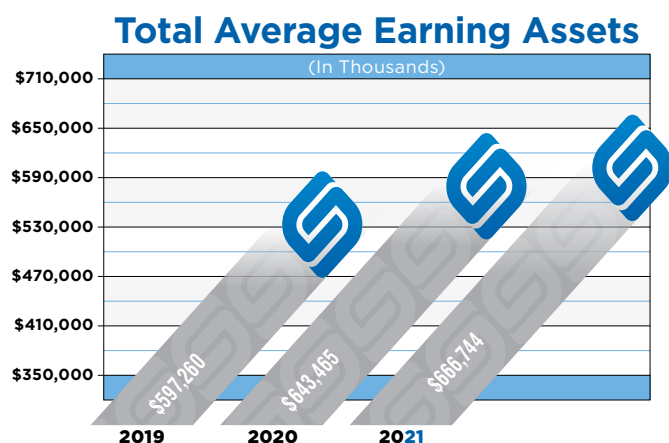
We have successfully maintained credit-related strength and stability within our loan portfolio over the course of the pandemic and this trend continued for our Company as of year-end. As of December 31, 2021, our total nonaccrual

Loans-Net (In Thousands)



loans and loans past due 30 plus days were \$4.6 million or 0.9% of gross loans. Further, net loans charged off for 2021, excluding overdrafts, was \$108,000 or 0.02% annualized. Considering our overall sound credit quality and the improving economy, our Company had credit reserve releases of \$400,000 during the fourth quarter of 2021. We are pleased that the substantial level of provisioning to our loan loss reserve in 2020, along with our continued solid credit performance in 2021, once again, supported a negative provision for our Company in the most recently ended quarter. Barring any unforeseen events, we anticipate being able to release additional reserves in the current year. As of year-end 2021, our Company continues to be very well capitalized with equity to assets of 9.90% and total shareholders' equity of \$71.7 million, which is an increase of \$3.4 million, or 4.90%, over the previous year.

As our Company continued to operate in an unsettled economic environment this past year, we were able to achieve a record level of earnings in 2021. Even though we achieved record earnings performance, our Company's growth in quality, higher-yielding assets has been restrained by the ongoing uncertainty that permeates our economy. With this challenge, we continued to experience limited growth in our loans outstanding and shrinkage in our securities portfolio. In addition, this past year we continued to experience a substantial build-up of our cash balances at the Federal Reserve Bank (FRB) due to the ongoing inflow of stimulus-related, retail-based funding that has flowed onto our balance sheet and largely remains in lower yielding overnight investments. These dynamics have led to a marginal year-over-year decline in our net interest income. With this reality, we were exceedingly happy to perform at a high level and achieve a return on assets of 1.31% and return on equity of 13.28% this past year. Throughout 2021, we continued to be relieved to see the ongoing recovery of our economy; albeit, at a slower rate than anticipated in the last two quarters of the year due to a few set-backs that impacted our recovery relative to the first two quarters of the year. Although things remain somewhat uncertain



relating to our economy, we are optimistic that the continuing recovery thereof will allow us to leverage some of our lower-yielding, highly liquid overnight investments into higher-yielding, quality loan and securities investments in 2022. Achieving this should stabilize and improve the level of interest income that we generate, our tax efficiency and our overall “core” earnings. On a “non-core” basis, we anticipate being able to continue releasing tranches of our allowance for loan losses in future periods if our credit quality remains sound. Quite simply, the loan loss reserve build-up that occurred in 2020 due to the risks posed by the onset of the pandemic and ensuing economic slow-down have, so far, not led to deterioration of our credit quality nor an increase in loan-related losses. Such action should further enhance our bottom line performance.

As always, our primary focus is protecting the investment of our shareholders in our Company and rewarding them at a high level by growing their value and paying an attractive cash dividend. Accordingly, we remained focused on being an efficient, productive and profitable company that is well capitalized. In these areas, our shareholders have been nicely rewarded with a year-over-year increase in the cash dividends paid of \$0.115, or 20.2%, (inclusive of a special cash dividend of \$0.10 paid in the first quarter), and a market value increase of \$3.47, or 26.3%, to a level of \$16.65 as of December 31, 2021. These past two years have been very challenging for our Company. But, the challenges with which we have been confronted and dealt have made us a more fundamentally sound company with a focus on the potential of the future. Focusing internally, we have continued to improve many processes which has led to (or, will lead to) various efficiency gains and optimization of our delivery. We have eliminated unnecessary expenses while spending money on staffing optimization and technological infrastructure, so that we can more effectively compete within our industry by having highly skilled team members

and cutting-edge systems deliver our products and services in a manner that is demanded by the markets that we proudly serve. Relating to cost containment, this year we closed our Loan Production Office in Wheeling, West Virginia. In addition, during the course of the fourth quarter, we effected the closure of our Dillonvale, Ohio Banking Center which was consolidated into two other banking centers located within close proximity of this market. Each of these events have had minimal customer impact and will create cost savings that we anticipate seeing more fully in 2022. Although the pandemic and related economic slowdown took us off our course of growth over the past two years, we still have our sights set on becoming a \$1.0 billion community banking organization in order to be at a scale to achieve additional operating efficiencies, greater profitability and, most importantly, a higher market capitalization which will lead to more opportunities for our Company. We can only realize this vision by having robust organic growth and capitalizing on acquisition-related opportunities for which our Company is strongly positioned at present. With the current rebound that our economy is experiencing, we firmly believe that we will have quality chances in each of these areas on which our Company can capitalize. Accordingly, we are truly excited about our future.

Earning Assets -Loans

The Company’s gross loans totaled \$454.4 million at December 31, 2021, representing a \$10.9 million, or 2.46%, increase over the \$443.5 million at December 31, 2020. Average loans totaled \$451.8 million for 2021, representing a 1.2% increase compared to average loans of \$446.5 million for 2020.

The increase in gross loans from December 31, 2020 to December 31, 2021 was primarily an increase in commercial real estate by \$20.6 million.

The Company’s commercial and commercial real estate loan portfolio represents 78.7% of the total portfolio at December 31, 2021 compared to 78.8% at December 31, 2020. The Company’s commercial and commercial real estate loans increased approximately \$8.2 million from December 31, 2020 to December 31, 2021. We utilize all the SBA, Ohio Department of Development and State of Ohio loan programs as well as local revolving loan funds to best fit the needs of our customers.

The Company’s installment lending portfolio represented 1.5% of the total portfolio at December 31, 2021, compared to 1.9% at December 31, 2020. Competition for installment

loans principally comes from the captive finance companies offering low to zero percent financing for extended terms.

The Company's residential real estate portfolio represents 19.8% of the total portfolio at December 31, 2021, compared to 19.3% at December 31, 2020. Residential real estate loans are comprised of 1-, 3-, and 5-year adjustable-rate mortgages and 15-year fixed rate loans used to finance 1-4 family units. The Company also offers fixed-rate real estate loans through our Secondary Market Real Estate Mortgage Program. Once these fixed-rate loans are originated and immediately sold without recourse in what is referred to as the secondary market, the Company does not assume credit risk or interest rate risk in this portfolio. This arrangement is quite common in banks and saves our customers from looking elsewhere for their home financing needs.

The Company did recognize a gain on the sale of secondary market loans of \$272,000 in 2021 and a gain of \$180,000 in 2020.

The allowance for loan losses represents the amount which management and the Board of Directors estimates is adequate to provide for probable incurred losses in the loan portfolio. Accounting for the allowance and the related provision for loan losses is viewed by management as a critical accounting policy. The allowance balance and the annual provision charged to expense are reviewed by management and the Board of Directors on a monthly basis. The allowance calculation is determined by utilizing a risk grading model that considers borrowers' past due experience, coverage ratio to industry averages, economic conditions and various other circumstances that are subject to change over time. In general, the loan loss policy for installment loans requires a charge-off if the loan reaches 120-day delinquent status or if notice of bankruptcy liquidation is received. The Company follows lending policies, with established criteria for determining the

repayment capacity of borrowers, requirements for down payments and current market appraisals or other valuations of collateral when loans are originated. Installment lending also utilizes credit scoring to help in the determination of credit quality and pricing.

The Company generally recognizes interest income on the accrual basis, except for certain loans which are placed on non-accrual status, when in the opinion of management; doubt exists as to collection on the loan. The Company's policy is to generally place loans greater than 90 days past due on non-accrual status unless the loan is both well secured and in the process of collection. When a loan is placed on non-accrual status, interest income may be recognized on a cash basis as payment is received if the loan is well secured. If the loan is not deemed well secured, payments are credited to principal.

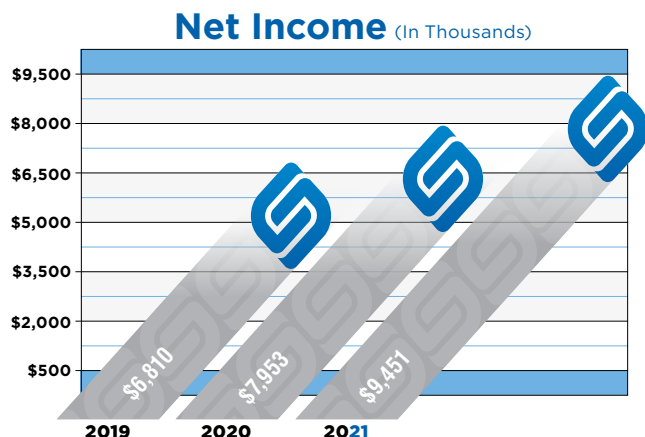
Management and the Board of Directors believe the current balance of the allowance for loan losses is sufficient to cover probable incurred losses. Refer to the Provision for Loan Losses section for further discussion on the Company's credit quality.

Earning Assets – Securities and Federal Funds Sold

The securities portfolio is comprised of tax-exempt obligations of state and political subdivisions and certain other investments. Securities available for sale at December 31, 2021 decreased approximately \$11.7 million from December 31, 2020 totals. To take advantage of a favorable yield curve on state and municipal obligation, the Company sold certain available-for-sale securities for a total gain of approximately \$1.25 million during 2021 and \$2.6 million during 2020. During 2021 the Company purchased \$24.1 million of Subordinated notes to take advantage of the rates offered on securities.

Sources of Funds – Deposits

The Company's primary source of funds is retail core deposits from individuals and business customers. These core deposits include all categories of time deposits, excluding certificates of deposit greater than \$250,000. Total deposits increased \$25.6 million, or 4.4%, from \$579.5 million at December 31, 2020 to \$605.1 million at December 31, 2021. Overall total deposit growth was mainly focused on interest bearing money market and savings accounts. The Company has a strong deposit base from public agencies, including local school districts, city and township municipalities, public works facilities and others, which may tend to be more seasonal in nature resulting from the receipt and disbursement of state and federal grants. These



entities have maintained relatively stable balances with the Company due to various funding and disbursement timeframes.

Certificates of deposit greater than \$250,000 are not considered part of core deposits and, as such, are used to balance rate sensitivity as a tool of funds management. Certificates of deposit greater than \$250,000 decreased \$3.1 million, from \$7.5 million at December 31, 2020, to \$4.4 million at December 31, 2021

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

Other interest-bearing liabilities include securities sold under agreements to repurchase, and Federal Home Loan Bank (“FHLB”) advances. Securities sold under agreements to repurchase increased approximately \$3.0 million from December 31, 2020 to December 31, 2021. Securities sold under agreements to repurchase totaled \$15.7 million and \$12.7 million at December 31, 2021 and 2020, respectively.

On May 14, 2019 the Company issued \$20,000,000 of junior subordinated debentures in denominations of not less than \$250,000. The debentures bear interest at a fixed rate of 6.0% until May 2024, which then becomes a floating interest rate equal to the three-month LIBOR (or an equivalent index) plus 3.625%, resetting quarterly. Interest on the subordinated notes will be payable semiannually through May 2024 and quarterly thereafter through the maturity date of May 2029. Principal is due upon maturity. The debentures are unsecured and payable to various investors. For purposes of computing regulatory capital, the debentures are included in Tier 2 Capital. The subordinated notes may not be repaid in whole or in part prior to the fifth anniversary of the issue date (May 2019).

Performance Overview 2021 to 2020

Net Income

The Company reported basic and diluted earnings per share of \$1.62 and net income of \$9,451,000 for the year ended December 31, 2021, an increase of \$1.5 million, or 18.8%, over net income of \$7,953,000 for the year ended December 31, 2020.

Net Interest Income

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the

composition or mix of interest-earning assets in relation to interest-bearing liabilities. Comparing the year ended December 31, 2021 to 2020, the Company’s net interest margin was 3.48% compared to 3.76%, a decrease of 28 basis points.

Average interest-earning assets increased \$23.3 million in 2021 as compared to 2020 while the associated weighted-average yield on these interest-earning assets decreased from 4.49% in 2020 to 3.87% for 2021. Average interest-bearing liabilities increased \$8.8 million in 2021 as compared to 2020, while the associated weighted-average costs on these interest-bearing liabilities decreased from 0.92% in 2020 to 0.52% in 2021.

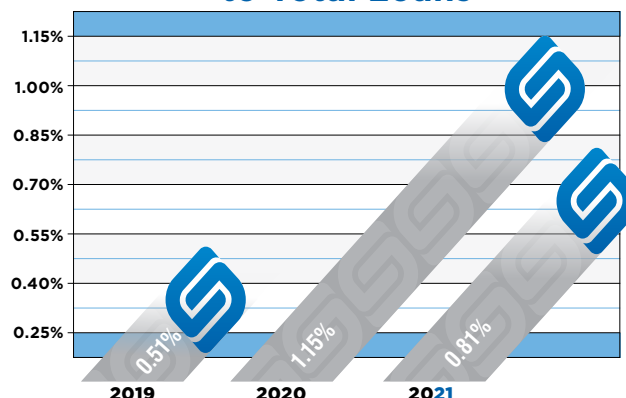
Refer to the sections on Asset and Liability Management and Sensitivity to Market Risks and Average Balances, Net Interest Income and Yields Earned and Rates Paid elsewhere herein for further information.

Provision For Loan Losses

The provision or credit for loan losses is a charge or credit to expense recorded to maintain the related balance sheet allowance for loan losses at an amount considered adequate by Management and the Board of Directors to cover probable incurred losses in the portfolio.

As of December 31, 2021, our total nonaccrual loans and loans past due 30 plus days were \$4.6 million or 0.9% of gross loans. Further, net loans charged off for 2021, excluding overdrafts, was \$108,000 or 0.02% annualized. Considering our overall sound credit quality and the improving economy, our Company had credit reserve releases of \$1,255,000 for 2021. We are pleased that the substantial level of provisioning to our loan loss reserve in 2020, along with our continued solid credit performance in

Total Allowance for Loan Losses to Total Loans



2021, once again, supported a negative provision for our Company in 2021. Barring any unforeseen events, we anticipate being able to release additional reserves in the current year. With the concerns around COVID-19 and the surge in unemployment, the Company increased the provision for loan losses which was \$3.3 million for the year ended December 31, 2020 compared to \$908,000 for the year ended December 31, 2019, an increase of \$2.4 million year-over-year.

Noninterest Income

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

Noninterest income for the year ended December 31, 2021 was \$5.7 million, a decrease of \$1.2 million, compared to \$6.9 million for the year ended December 31, 2020. The main driver of this decrease was the \$1.3 million differential of gain recognized on the sale of available-for-sale securities in 2020 as compared to 2021.

Noninterest Expense

In 2021, our Company saw its overall noninterest expense levels increase at a modest level of 2.8%. Relating to cost containment, this year we closed our Loan Production Office in Wheeling, West Virginia. In addition, during the course of the fourth quarter, we effected the closure of our Dillonvale, Ohio Banking Center which was consolidated into two other banking centers located within close proximity of this market. Each of these events have had minimal customer impact and will create cost savings that we anticipate seeing more fully in 2022. Overall noninterest expense for 2021 increased \$502,000, as compared to 2020.

Income tax expense for 2021 was \$1,230,000 compared to \$629,000 in 2020, an increase of \$601,000. The Company's effective income tax rate was 11.5% in 2021 and 7.3% in 2020. Refer to Note 9 Income Taxes for a reconciliation of the effective tax rate for the Company.

Asset/Liability Management and Sensitivity to Market Risks

In the environment of changing business cycles, interest rate fluctuations and growing competition, it has become increasingly difficult for banks to produce adequate earnings on a consistent basis. Although management can anticipate changes in interest rates, it is not possible to

(In thousands)			
	2021	2020	
Noninterest income			
Customer service fees.....	\$ 2,852	\$ 2,580	
Gains on sales of loans.....	272	180	
Earnings on bank-owned life insurance.....	802	706	
Realized gains on available-for-sale securities.....	1,250	2,593	
Other income.....	530	856	
Total noninterest income.....	\$ 5,706	\$ 6,915	
Noninterest expense			
Salaries and employee benefits.....	\$ 9,698	\$ 9,311	
Occupancy and equipment.....	2,364	2,406	
Professional services.....	1,217	1,232	
Insurance.....	531	486	
Deposit insurance premiums.....	195	184	
Franchise and other taxes.....	551	492	
Marketing expense.....	380	339	
Printing and office supplies.....	115	122	
Amortization of intangibles.....	150	150	
Other expenses.....	3,191	3,168	
Total noninterest expense.....	\$ 18,392	\$ 17,890	

reliably predict the magnitude of interest rate changes. As a result, the Company must establish a sound asset/liability management policy, which will minimize exposure to interest rate risk while maintaining an acceptable interest rate spread and insuring adequate liquidity.

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

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

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

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

Gap management is defined as those actions taken to measure and match rate-sensitive assets to rate-sensitive liabilities. A rate-sensitive asset is any interest-earning

asset, which can be repriced to a market rate in a given time frame. Similarly, a rate-sensitive liability is any interest-bearing liability, which can have its interest rate changed to a market rate during the specified time period. Caps, collars and prepayment penalties may prevent certain loans and securities from adjusting to the market rate.

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

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

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

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

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

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

(Dollars in Thousands)

Net Portfolio Value - December 31, 2021

<u>Change in Rates</u>	<u>\$ Amount</u>	<u>\$ Change</u>	<u>% Change</u>
+200	184,334	18,563	12%
+100	165,771	10,675	7%
Base	155,096	-	-
-100	138,685	(16,411)	-11%

(Dollars in Thousands)

Net Portfolio Value - December 31, 2020

<u>Change in Rates</u>	<u>\$ Amount</u>	<u>\$ Change</u>	<u>% Change</u>
+200	141,208	13,597	10%
+100	127,611	8,005	6%
Base	119,606	-	-
-100	105,524	(14,082)	-13%

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

The projected volatility of the net present value at both December 31, 2021 and 2020 fall within the general guidelines established by the Board of Directors. The 2021 NPV table shows that in a falling interest rate environment, in the event of a 100 basis point change, the NPV would decrease 11%. A consideration is that once rates decrease 100 basis points from current levels, we tend to reach a floor on how low depository rates can adjust downward.

In an upward change in interest rates, the Company's NPV would increase 7% with a 100 basis point interest rate increase. In a 200 basis point rate increase, the Company's NPV would increase 12%.

The following table is a summary of selected quarterly results of operations for the years ended December 31, 2021 and 2020.

	<u>March 31</u>	<u>Three Months Ended</u> <u>June 30</u> <u>September 30</u> (In thousands, except per share data) 2021		<u>December 31</u>
Total interest income	\$ 6,088	\$ 6,233	\$ 6,234	\$ 6,153
Total interest expense	<u>775</u>	<u>676</u>	<u>629</u>	<u>516</u>
Net interest income	5,313	5,557	5,605	5,637
(Credit) Provision for losses on loans	(205)	(250)	(400)	(400)
Other income	926	1,142	2,287	1,351
General, administrative and other expense	<u>4,449</u>	<u>4,550</u>	<u>4,942</u>	<u>4,451</u>
Income before income taxes	1,995	2,399	3,350	2,937
Federal income taxes	<u>87</u>	<u>214</u>	<u>448</u>	<u>481</u>
Net income	<u>\$ 1,908</u>	<u>\$ 2,185</u>	<u>\$ 2,902</u>	<u>\$ 2,456</u>
Earnings per share				
Basic	<u>\$ 0.33</u>	<u>\$ 0.38</u>	<u>\$ 0.50</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.38</u>	<u>\$ 0.50</u>	<u>\$ 0.41</u>

	<u>March 31</u>	<u>Three Months Ended</u> <u>June 30</u> <u>September 30</u> (In thousands, except per share data) 2020		<u>December 31</u>
Total interest income	\$ 7,319	\$ 6,949	\$ 6,692	\$ 6,668
Total interest expense	<u>1,685</u>	<u>1,427</u>	<u>948</u>	<u>674</u>
Net interest income	5,634	5,522	5,744	5,994
Provision for losses on loans	563	1,408	1,333	33
Other income	1,044	2,156	2,340	1,375
General, administrative and other expense	<u>4,410</u>	<u>4,579</u>	<u>4,492</u>	<u>4,409</u>
Income before income taxes	1,705	1,691	2,259	2,927
Federal income taxes	<u>126</u>	<u>16</u>	<u>200</u>	<u>287</u>
Net income	<u>\$ 1,579</u>	<u>\$ 1,675</u>	<u>\$ 2,059</u>	<u>\$ 2,640</u>
Earnings per share				
Basic	<u>\$ 0.28</u>	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.46</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.46</u>

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

The following table provides average balance sheet information and reflects the taxable equivalent average yield on interest-earning assets and the average cost of interest-bearing liabilities for the years ended December 31, 2021 and 2020. The yields and costs are calculated by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities.

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

(Dollars In thousands)	2021			2020		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets						
Loans (1).....	\$ 451,762	20,220	4.48%	\$ 446,256	22,106	4.95%
Taxable securities - AFS.....	13,297	467	3.51	29,472	596	2.02
Tax-exempt securities - AFS (1).....	118,062	4,908	4.16	137,948	6,057	4.39
Federal funds sold.....	79,698	101	0.13	25,522	49	0.19
FHLB stock and other.....	3,925	81	2.06	4,267	98	2.29
Total interest-earning assets.....	666,744	25,777	3.87	643,465	28,906	4.49
Noninterest-earning assets						
Cash and due from banks.....	8,593			7,864		
Premises and equipment (net).....	13,469			13,164		
Other nonearning assets.....	38,170			42,228		
Less: allowance for loan losses.....	(4,576)			(3,794)		
Total noninterest-earning assets.....	55,656			59,462		
Total assets.....	722,400			702,927		
Liabilities & stockholders' equity						
Interest-bearing liabilities						
Demand deposits.....	\$ 256,638	313	0.12%	\$ 248,167	1,395	0.56%
Savings deposits.....	133,826	17	0.01	114,709	37	0.03
Time deposits.....	69,591	920	1.32	94,168	1,709	1.81
FHLB advances.....	—	—	—	9,341	174	1.86
Federal funds purchased.....	—	—	—	9,472	60	0.63
Subordinated debentures.....	23,665	1,323	5.59	23,604	1,329	5.63
Repurchase agreements.....	19,452	23	0.12	12,524	30	0.24
Total interest-bearing liabilities.....	503,172	2,596	0.52	511,985	4,734	0.92
Noninterest-bearing liabilities						
Demand deposits.....	140,555			115,340		
Other liabilities.....	7,512			6,145		
Total noninterest-bearing liabilities.....	148,067			121,485		
Total liabilities.....	651,239					
Total stockholders' equity.....	71,161			69,457		
Total liabilities & stockholders' equity.....	\$ 722,400			\$ 702,927		
Net interest income.....		\$ 23,181			\$ 24,172	
Net interest spread.....			3.35%			3.57%
Net yield on interest-earning assets.....			3.48%			3.76%

• For purposes of this schedule, nonaccrual loans are included in loans.

• Fees collected on loans are included in interest on loans. Not material for comparative purposes.

(1) Shown on a tax equivalent basis. Federal taxes of 21%.

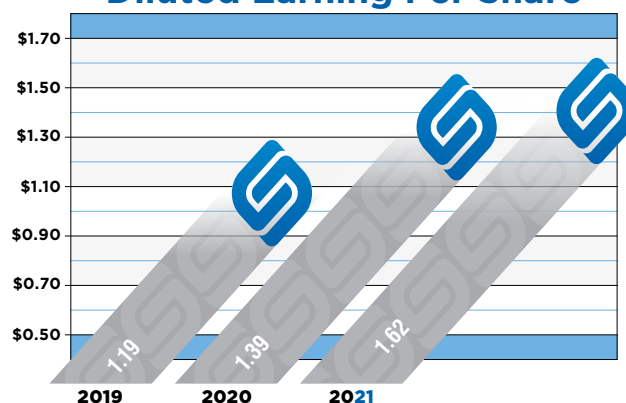
Rate/Volume Analysis

The table below describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected interest income and expense during 2021. For purposes of this table, changes in interest due to volume and rate were determined using the following methods:

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

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

Diluted Earning Per Share



Capital Resources

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Bank. The Company's stockholders' equity was \$71.7 million and \$68.3 million at December 31, 2021 and 2020, respectively. Total stockholders' equity in relation to total assets was 9.90% at December 31, 2021 and 9.85% at December 31, 2020. Please refer to the Consolidated

2021 Compared to 2020 Increase/(Decrease) (In thousands)

	Total Change	Change Due To Volume	Change Due To Rate
Interest and dividend income			
Loans	\$ (1,886)	270	(2,156)
Taxable securities available for sale	(129)	(78)	(51)
Tax-exempt securities available for sale	(1,149)	(839)	(310)
Federal funds sold	52	74	(22)
FHLB stock and other	(17)	(8)	(9)
Total interest and dividend income	(3,129)	(581)	(2,548)
Interest expense			
Demand deposits.....	(1,082)	46	(1,128)
Savings deposits.....	(20)	5	(25)
Time deposits	(789)	(387)	(402)
FHLB advances.....	(60)	(60)	—
Federal funds purchased.....	(6)	—	(6)
Subordinated debentures	(174)	(174)	—
Repurchase agreements.....	(7)	12	(19)
Total interest expense	(2,138)	(558)	(1,580)
Net interest income.....	\$ (991)	(23)	(968)

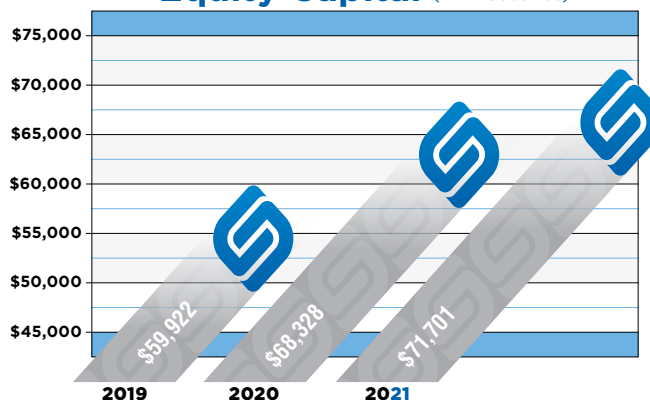
Statements of Stockholders' Equity for a detailed roll forward of stockholders' equity from 2020 to 2021.

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

The Company's Articles of Incorporation permits the creation of a class of preferred shares with 2,000,000 authorized shares. If utilized, this will enable the Company, at the option of the Board of Directors, to issue series of preferred shares in a manner calculated to take advantage of financing techniques which may provide a lower effective cost of capital to the Company. The class of preferred shares provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. As of December 31, 2021, the Company has not issued any preferred shares.

On May 14, 2019 the Company issued \$20,000,000 of junior subordinated debentures in denominations of not less than \$250,000. The debentures bear interest at a fixed rate of 6.0% until May 2024, which then becomes a floating interest rate equal to the three-month LIBOR (or an equivalent index) plus 3.625%, resetting quarterly. Interest on the subordinated notes will be payable semiannually through May 2024 and quarterly thereafter through the maturity date of May 2029. Principal is due upon maturity. The debentures are unsecured and payable to various investors. For purposes of computing regulatory capital, the debentures are included in Tier 2 Capital. The subordinated notes may not be repaid in whole or in part prior to the fifth anniversary of the issue date (May 2019).

Equity Capital (In Thousands)



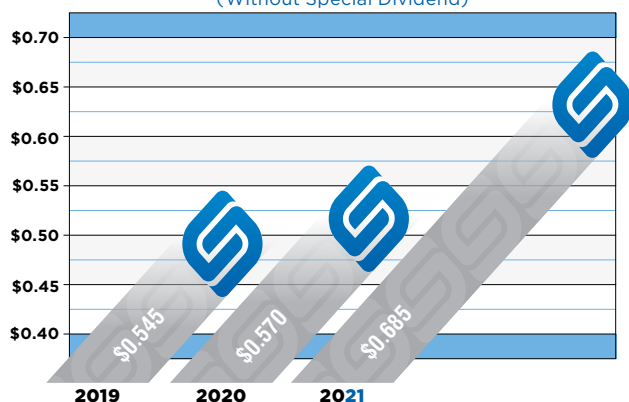
In 2005, a Delaware statutory business trust owned by the Company, United Bancorp Statutory Trust I ("Trust I" or the "Trust"), issued \$4.1 million of mandatorily redeemable debt securities which mature in 2035. The sale proceeds were utilized to purchase \$4.1 million of the Company's subordinated debentures. The Company's subordinated debentures are the sole asset of Trust I. The Company's investment in Trust I is not consolidated herein as the Company is not deemed the primary beneficiary of the Trust. However, the \$4.1 million of mandatorily redeemable debt securities issued by the Trust are includible for regulatory purposes as a component of the Company's Tier 1 Capital. The interest rate is a variable rate per annum, reset quarterly, equal to three-month LIBOR plus 1.35% and is payable quarterly.

Liquidity

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold and securities available-for-sale. These assets are commonly referred to as liquid assets. Liquid assets were \$229.3 million at December 31, 2021, compared to \$209.7 million at December 31, 2020. Management recognizes securities may need to be sold in the future to help fund loan demand and, accordingly, as of December 31, 2021, \$146.3 million of the securities portfolio was classified as available for sale. The Company's residential real estate portfolio can and has been readily used to collateralize borrowings as an additional source of liquidity. Management believes its current liquidity level is sufficient to meet cash requirements.

The Cash Flow Statements for the periods presented provide an indication of the Company's sources and uses of cash as well as an indication of the ability of the Company

Cash Dividends Per Share (Without Special Dividend)



to maintain an adequate level of liquidity. A discussion of the cash flow statements for 2021 and 2020 follows.

Net cash provided by operating activities totaled \$8.2 million and \$9.4 million for the years ended December 31, 2021 and 2020, respectively. The adjustments to reconcile net income to net cash from operating activities consisted mainly of depreciation and amortization of premises and equipment and intangibles, gain on sales of loans, securities and other assets, the provision for loan losses, Federal Home Loan Bank stock dividends, net amortization of securities and net changes in other assets and liabilities.

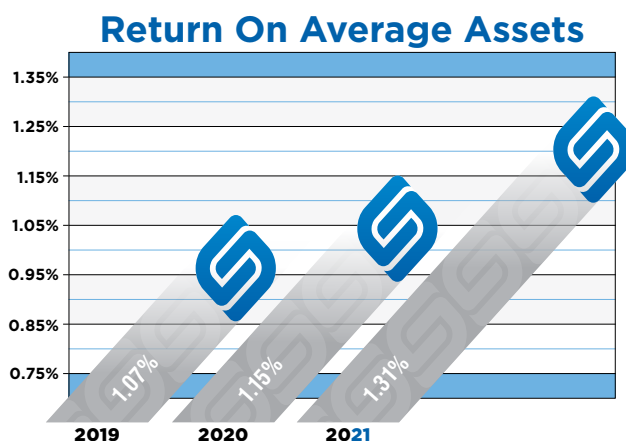
For the year ended December 31, 2021, net cash used by investing activities totaled \$1.2 million. For the year ended December 31, 2020 net cash provided by investing activities totaled \$33.7 million. The changes in net cash from investing activities include loan growth, security purchases, as well as normal maturities, security calls/sales and reinvestments of securities and premises and equipment expenditures.

Net cash provided by financing activities totaled \$24.4 million for the year ended December 31, 2021. For the year ended December 31, 2020 net cash used in financing activities totaled \$6.4 million. The net cash provided by financing activities in 2021 was primarily attributable to a \$25.6 million increase in deposits.

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

Inflation

The majority of assets and liabilities of the Company are monetary in nature and therefore the Company differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an important



impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation significantly affects noninterest expense, which tends to rise during periods of general inflation. Management believes the most significant impact on financial results is the Company's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest sensitive assets and liabilities and actively manages the amount of securities available for sale in order to protect against the effects of wide interest rate fluctuations on net income and shareholders' equity.



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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Bancorp, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which it relates.

Allowance for Loan Losses

As described in Note 4 to the consolidated financial statements, the Company's consolidated allowance for loan losses (ALL) was \$3.7 million at December 31, 2021. The Company also describes in Note 1 of the consolidated financial statements the "Allowance for Loan Losses" accounting policy around this estimate. The ALL is an estimate of losses inherent in the loan portfolio. The determination of the reserve requires significant judgment reflecting the Company's best estimate of probable loan losses.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management determines that an outstanding loan will not be collected. Subsequent recoveries, if any, are credited to the allowance.

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

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

The primary reason for our determination that the allowance for loan losses is a critical audit matter is that auditing the estimated allowance for loan losses involved significant judgment and complex review. There is a

Report of Independent Registered Public Accounting Firm

high degree of subjectivity in evaluating management's estimate, such as evaluating management's assessment of economic conditions and other environmental factors including the impact of the COVID-19 pandemic on the loan portfolio, evaluating the adequacy of specific allowances associated with impaired loans and assessing the appropriateness of loan grades.

Our audit procedures related to the estimated allowance for loan losses included:

- Testing clerical and computational accuracy of the ALL model.
- Testing the completeness and accuracy of the underlying information utilized in the ALL model.
- Computing an independent calculation of an acceptable range and comparing it to the Company's estimate.
- Evaluating the qualitative and environmental adjustments to the historical loss rates, including assessing the basis for the adjustments and the reasonableness, reliability and relevance of the significant assumptions and underlying data.
- Evaluating the relevance and reliability of data and assumptions.
- Testing of the loan review function and the accuracy of loan grades determined. Specifically, utilizing internal loan review professionals to assist us in evaluating the appropriateness of loan grades and to assess the reasonableness of specific impairments on loans.
- Evaluating the accuracy and completeness of disclosures in the consolidated financial statements.

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

BKD, LLP

Cincinnati, Ohio
March 18, 2022

Consolidated Balance Sheets

December 31, 2021 and 2020

(In thousands, except share data)

	2021	2020
Assets		
Cash and due from banks	\$ 7,653	\$ 11,637
Interest-bearing demand deposits	75,346	39,955
Cash and cash equivalents	82,999	51,592
Available-for-sale securities	146,313	158,067
Loans, net of allowance for loan losses of \$3,673 and \$5,113 at December 31, 2021 and 2020, respectively	450,699	438,378
Premises and equipment	12,757	13,743
Federal Home Loan Bank stock	3,704	4,177
Foreclosed assets held for sale, net	415	721
Core deposit intangible assets	560	710
Goodwill	682	682
Accrued interest receivable	2,345	2,901
Bank-owned life insurance	18,809	18,109
Other assets	5,173	4,322
Total Assets	<u>\$ 724,456</u>	<u>\$ 693,402</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 408,296	\$ 376,287
Savings	140,598	122,549
Time	56,242	80,699
Total deposits	605,136	579,535
Securities sold under repurchase agreements	15,701	12,705
Subordinated debentures	23,665	23,604
Deferred federal income tax	1,681	2,185
Interest payable and other liabilities	6,572	7,045
Total liabilities	<u>652,755</u>	<u>625,074</u>
Stockholders' Equity		
Preferred stock, no par value, authorized 2,000,000 shares; no shares issued	—	—
Common stock, \$1 par value; authorized 10,000,000 shares; issued 2021 – 6,053,851 shares, 2020 – 6,046,351 shares; outstanding 2021 – 5,791,853, 2020 – 5,791,853	6,054	6,046
Additional paid-in capital	23,635	23,166
Retained earnings	37,847	32,497
Stock held by deferred compensation plan; 2021 – 172,538 shares, 2020 – 174,905 shares	(1,738)	(1,675)
Unearned ESOP compensation	—	—
Accumulated other comprehensive income	6,964	9,283
Treasury stock, at cost 2021 – 84,363 shares, 2020 – 79,593 shares	(1,061)	(989)
Total stockholders' equity	<u>71,701</u>	<u>68,328</u>
Total liabilities and stockholders' equity	<u>\$ 724,456</u>	<u>\$ 693,402</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Years Ended December 31, 2021 and 2020

(In thousands, except per share data)

	2021	2020
Interest and Dividend Income		
Loans	\$ 20,181	\$ 22,099
Securities		
Taxable	468	596
Tax-exempt	3,877	4,785
Federal funds sold	101	49
Dividends on Federal Home Loan Bank and other stock	81	99
Total interest and dividend income	24,708	27,628
Interest Expense		
Deposits	1,273	3,141
Borrowings	1,323	1,593
Total interest expense	2,596	4,734
Net Interest Income	22,112	22,894
(Credit) Provision for Loan Losses	(1,255)	3,337
Net Interest Income After (Credit) Provision for Loan Losses	23,367	19,557
Noninterest Income		
Customer service fees	2,852	2,580
Net gains on loan sales	272	180
Earnings on bank-owned life insurance	802	706
Realized gains on available-for-sale securities	1,250	2,593
Other	530	856
Total noninterest income	5,706	6,915
Noninterest Expense		
Salaries and employee benefits	9,698	9,311
Net occupancy and equipment expense	2,364	2,406
Professional fees	1,217	1,232
Insurance	531	486
Deposit insurance premiums	195	184
Franchise and other taxes	551	492
Marketing expense	380	339
Printing and office supplies	115	122
Amortization of intangible assets	150	150
Other	3,191	3,168
Total noninterest expense	18,392	17,890
Income Before Federal Income Taxes	10,681	8,582
Provision for Federal Income Taxes	1,230	629
Net Income	\$ 9,451	\$ 7,953
Basic Earnings Per Share	\$ 1.62	\$ 1.39
Diluted Earnings Per Share	\$ 1.62	\$ 1.39

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

(In thousands)

	2021	2020
Net income	\$ 9,451	\$ 7,953
Other comprehensive income (loss), net of tax		
Reclassification adjustment for realized losses (gains) on available-for-sale securities included in net income, net of taxes \$263 and \$544 for each respective period	(987)	(2,049)
Unrealized holding (losses) gains on available-for-sale securities during the period, net of (benefits) taxes of \$(497) and \$1,841 for each respective period	(1,871)	6,925
Change in funded status of defined benefit plan, net of taxes (benefits) of \$104 and \$(312) for each respective period	396	(1,174)
Amortization of prior service included in net periodic pension expense, net of tax benefits of \$19 and \$19 for each respective period	(70)	(70)
Amortization of net loss included in net periodic pension cost, net of taxes of \$57 and \$30 for each respective period	213	115
Comprehensive income	<u>\$ 7,132</u>	<u>\$ 11,700</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2021 and 2020

(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock and Deferred Compensation	Shares Acquired By ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2020	\$ 5,959	22,871	(2,121)	(228)	27,905	5,536	59,922
Net income	—	—	—	—	7,953	—	7,953
Other comprehensive income	—	—	—	—	—	3,747	3,747
Cash dividends - \$0.57 per share	—	—	—	—	(3,361)	—	(3,361)
Shares purchased for deferred compensation plan	—	17	(17)	—	—	—	—
Shares purchased for treasury stock	—	—	(526)	—	—	—	(526)
Expense related to share-based compensation plans	—	324	—	—	—	—	324
Restricted stock activity	87	(87)	—	—	—	—	—
Amortization of ESOP	—	41	—	228	—	—	269
Balance, December 31, 2020	6,046	\$ 23,166	\$ (2,664)	\$ —	\$ 32,497	\$ 9,283	\$68,328
Net income	—	—	—	—	9,451	—	9,451
Other comprehensive (loss)	—	—	—	—	—	(2,319)	(2,319)
Cash dividends - \$0.685 per share	—	—	—	—	(4,101)	—	(4,101)
Shares activity for deferred compensation plan	—	63	(63)	—	—	—	—
Shares purchased for treasury stock	—	—	(72)	—	—	—	(72)
Expense related to share-based compensation plans	—	414	—	—	—	—	414
Restricted stock activity	8	(8)	—	—	—	—	—
Balance, December 31, 2021	<u>\$ 6,054</u>	<u>\$ 23,635</u>	<u>\$ (2,799)</u>	<u>\$ —</u>	<u>\$ 37,847</u>	<u>\$ 6,964</u>	<u>\$71,701</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

(In thousands)

	2021	2020
Operating Activities		
Net income	\$ 9,451	\$ 7,953
Items not requiring (providing) cash		
Depreciation and amortization	1,143	1,157
(Credit) Provision for loan losses	(1,255)	3,337
Gain on sale of available-for-sale securities	(1,250)	(2,593)
Amortization of premiums and discounts on securities-net	384	407
Amortization of intangible assets	150	150
Deferred income taxes	112	(547)
Originations of loans held for sale	(11,631)	(8,040)
Proceeds from sale of loans held for sale	11,903	8,220
Net gains on sales of loans	(272)	(180)
Amortization of ESOP	---	270
Expense related to share-based compensation plans	414	324
Gain on sale of real estate and other repossessed assets	(75)	(5)
Increase in cash surrender value of bank-owned life insurance	(441)	(463)
Amortization of debt issuance costs	61	61
Changes in		
Accrued interest receivable	556	(205)
Other assets	(1,237)	(1,800)
Interest payable and other liabilities	179	1,324
Net cash provided by operating activities	8,192	9,370
Investing Activities		
Purchases of available-for-sale securities	(24,371)	(22,602)
Sale of available-for-sale securities	12,684	31,675
Maturities, prepayments and calls	20,834	30,003
Net change in loans	(10,864)	(2,658)
Mandatory redemption (Purchase) of Federal Home Loan Bank Stock	473	(165)
Purchases of bank-owned life insurance	(259)	(450)
Purchases of premises and equipment, net	(777)	(2,519)
Proceeds from sale of premises and equipment	620	21
Proceeds from sales of foreclosed assets	451	363
Net cash (used in) provided by investing activities	(1,209)	33,668

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows *Continued*

Years Ended December 31, 2021 and 2020

(In thousands)

	2021	2020
Financing Activities		
Net increase in deposits	\$ 25,601	\$ 31,466
Repayment of Federal Home Loan Bank advances	---	(39,800)
Net change in securities sold under repurchase agreements	2,996	5,790
Repurchase of common stock	(72)	(526)
Cash dividends paid	(4,101)	(3,361)
Net cash provided by (used in) financing activities	<u>24,424</u>	<u>(6,431)</u>
Increase in Cash and Cash Equivalents	31,407	36,607
Cash and Cash Equivalents, Beginning of Year	<u>51,592</u>	<u>14,985</u>
Cash and Cash Equivalents, End of Year	<u>\$ 82,999</u>	<u>\$ 51,592</u>
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	<u>\$ 2,182</u>	<u>\$ 4,723</u>
Federal income taxes paid	<u>\$ 710</u>	<u>\$ 990</u>
Supplemental Disclosure of Non-Cash Investing Activities		
Transfers from loans to foreclosed assets held for sale	<u>\$ 70</u>	<u>\$ 260</u>

See Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

Principles of Consolidation

The consolidated financial statements include the accounts of United Bancorp, Inc. ("United" or "the Company") and its wholly-owned subsidiary, Unified Bank of Martins Ferry, Ohio ("the Bank" or "Unified"). All intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations

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

The Company's primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

Revenue Recognition

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, investment securities, as well as revenue related to our mortgage banking activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures.

December 31, 2021 and 2020

Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our statements of income as components of non-interest income are as follows:

Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Use of Estimates

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

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

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted primarily of due from accounts with the Federal Reserve and other correspondent banks.

Currently, the FDIC's insurance limits are \$250,000. At December 31, 2021 and 2020, the Company's various cash accounts did not exceed the federally insured limit of \$250,000. At December 31, 2021 and 2020, the Company held \$74,752,000 and \$37,738,000 at the Federal Home Loan Bank and the Federal Reserve Bank, respectively, which are not subject to FDIC limits.

Securities

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

For debt securities with fair value below amortized cost, when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

December 31, 2021 and 2020

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. At December 31, 2021 and 2020, the Company did not have any loans held for sale.

Loans

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

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

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

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

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

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

December 31, 2021 and 2020

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

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

Allowance for Loan Losses

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

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

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

December 31, 2021 and 2020

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

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

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

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

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

December 31, 2021 and 2020

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

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

On March 27, 2020, the President of the United State signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides entities with optional temporary relief from certain accounting and financial reporting requirements under U.S. GAAP. Section 4013 of the CARES Act allows financial institutions to suspend application of certain TDR accounting guidance for loan and lease modifications related to the COVID-19 pandemic made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. Section 4013 of the CARES Act was amended on December 27, 2020 to extend this relief until January 1, 2022. The relief can be applied to loan and lease modifications for borrowers that were not more than 30 days past due as of December 31, 2019 and to loan and lease modifications that defer or delay the payment of principal or interest, or change the interest rate on the loan. The Company chose to apply this relief to eligible loan and lease modifications.

Premises and Equipment

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

Federal Home Loan Bank Stock

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

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Bank-Owned Life Insurance

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

Treasury Stock

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

Restricted Stock Awards

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

December 31, 2021 and 2020

Income Taxes

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

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

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. At December 31, 2021, the Company had no uncertain tax positions.

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

The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to the examination by tax authorities for years before 2018.

Deferred Compensation Plan

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

The Company has entered into supplemental income agreements for certain individuals. These agreements call for a fixed payment over 180 months after the individual reaches normal retirement age.

Stockholders' Equity and Dividend Restrictions

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

December 31, 2021 and 2020

Earnings Per Share

Basic earnings per share allocated to common stockholders is calculated using the two-class method and is computed by dividing net income allocated to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is adjusted for the dilutive effects of stock based compensation and is calculated using the two-class method or the treasury method. There were no dilutive effects for the years ended December 31, 2021 and 2020.

Comprehensive Income

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

Advertising

Advertising costs are expensed as incurred.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 2: Restriction on Cash and Due From Banks

The Company did not have a reserve requirement at December 31, 2021 and 2020.

Note 3: Securities

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(In thousands)		
Available-for-sale Securities:				
December 31, 2021:				
U.S. government agencies	\$ ---	\$ ---	\$ —	\$ ---
Subordinated notes	28,837	76	(148)	28,765
State and municipal obligations	106,533	\$ 11,015	—	117,548
Total debt securities	<u>\$ 135,370</u>	<u>\$ 11,091</u>	<u>\$ (148)</u>	<u>\$ 146,313</u>
Available-for-sale Securities:				
December 31, 2020:				
U.S. government agencies	\$ 10,000	\$ 53	\$ —	\$ 10,053
Subordinated notes	4,500	6	(1)	4,505
State and municipal obligations	129,006	\$ 14,503	—	143,509
Total debt securities	<u>\$ 143,506</u>	<u>\$ 14,562</u>	<u>\$ (1)</u>	<u>\$ 158,067</u>

During 2021 the Company sold \$11.4 million of State and Municipal securities for a total gain of approximately \$1,250,000. During 2020 the Company sold \$23.7 million of State and Municipal securities for a total gain of approximately \$2,525,000 and the Company also sold \$8.0 million of US Government Agency bonds for a total gain of approximately \$69,000.

The amortized cost and fair value of available-for-sale securities at December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

	Amortized Cost	Fair Value
	(In thousands)	
One to five years	\$ 3,202	\$ 3,191
Five to ten years	25,634	25,573
Over ten years	106,534	117,549
Totals	\$ 135,370	\$146,313

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$64.4 million and \$55.8 million at December 31, 2021 and 2020, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2021 and 2020, was \$14.2 million and \$1.0 million, which represented approximately 10% and less than 1%, respectively, of the Company's available-for-sale investment portfolio.

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

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020:

Description of Securities	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
US government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subordinated notes	\$ 14,204	\$ (148)	\$ ---	\$ ---	\$ 14,204	\$ (148)
State and municipal obligations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total temporarily impaired securities	\$ 14,204	\$ (148)	\$ ---	\$ ---	\$ 14,204	\$ (148)

Notes to Consolidated Financial Statements

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Description of Securities	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
US government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subordinated notes	—	—	\$ 1,000	\$ (1)	\$ 1,000	\$ (1)
State and municipal obligations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total temporarily impaired securities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,000</u>	<u>\$ (1)</u>	<u>\$ 1,000</u>	<u>\$ (1)</u>

The unrealized losses on the Company's investments in subordinated notes were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2021	2020
(In thousands)		
Commercial loans	\$ 90,892	\$ 103,277
Commercial real estate	266,777	246,167
Residential real estate	90,132	85,789
Installment loans	6,571	8,258
Total gross loans	454,372	443,491
Less allowance for loan losses	(3,673)	(5,113)
Total loans	<u>\$ 450,699</u>	<u>\$ 438,378</u>

December 31, 2021 and 2020

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

Commercial

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

Commercial Real Estate

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

Residential and Installment

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

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2021 and 2020:

2021						
	Commercial	Commercial Real Estate	Residential	Installment	Unallocated	Total
(In thousands)						
Allowance for loan losses:						
Balance, beginning of year	\$ 1,397	\$ 1,821	\$ 1,471	\$ 424	\$ —	\$ 5,113
(Credit) Provision charged to expense	(276)	(586)	(331)	(62)	—	(1,255)
Losses charged off	(78)	---	(26)	(126)	—	(230)
Recoveries	3	—	7	35	—	45
Balance, end of year	<u>\$ 1,046</u>	<u>\$ 1,235</u>	<u>\$ 1,121</u>	<u>\$ 271</u>	<u>\$ —</u>	<u>\$ 3,673</u>
Ending balance: individually evaluated for impairment	<u>\$ —</u>	<u>\$ 230</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 230</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,046</u>	<u>\$ 1,005</u>	<u>\$ 1,121</u>	<u>\$ 271</u>	<u>\$ —</u>	<u>\$ 3,443</u>
Loans:						
Ending balance: individually evaluated for impairment	<u>\$ ---</u>	<u>\$ 3,933</u>	<u>\$ ---</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,933</u>
Ending balance: collectively evaluated for impairment	<u>\$ 90,892</u>	<u>\$ 262,844</u>	<u>\$ 90,132</u>	<u>\$ 6,571</u>	<u>\$ —</u>	<u>\$ 450,439</u>

2020						
	Commercial	Commercial Real Estate	Residential	Installment	Unallocated	Total
(In thousands)						
Allowance for loan losses:						
Balance, beginning of year	\$ 568	\$ 792	\$ 572	\$ 299	\$ —	\$ 2,231
Provision charged to expense	875	1,254	986	222	—	3,337
Losses charged off	(69)	(225)	(104)	(169)	—	(567)
Recoveries	23	—	17	72	—	112
Balance, end of year	<u>\$ 1,397</u>	<u>\$ 1,821</u>	<u>\$ 1,471</u>	<u>\$ 424</u>	<u>\$ —</u>	<u>\$ 5,113</u>
Ending balance: individually evaluated for impairment	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,397</u>	<u>\$ 1,820</u>	<u>\$ 1,471</u>	<u>\$ 424</u>	<u>\$ —</u>	<u>\$ 5,112</u>
Loans:						
Ending balance: individually evaluated for impairment	<u>\$ 80</u>	<u>\$ 182</u>	<u>\$ 114</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 376</u>
Ending balance: collectively evaluated for impairment	<u>\$ 103,197</u>	<u>\$ 245,985</u>	<u>\$ 85,675</u>	<u>\$ 8,258</u>	<u>\$ —</u>	<u>\$ 443,115</u>

Notes to Consolidated Financial Statements

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

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

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

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

The following table shows the portfolio quality indicators as of December 31, 2021:

Loan Class	Commercial				Installment	Total
	Commercial	Real Estate	Residential			
	(In thousands)					
Pass Grade	\$ 90,892	\$ 254,760	\$ 90,132	\$ 6,571	\$ 442,355	
Special Mention	---	4,115	---	---	7,943	
Substandard	---	7,902	---	---	4,074	
Doubtful	---	---	---	---	---	
	<u>\$ 90,892</u>	<u>\$ 266,777</u>	<u>\$ 90,132</u>	<u>\$ 6,571</u>	<u>\$ 454,372</u>	

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The following table shows the portfolio quality indicators as of December 31, 2020:

Loan Class	Commercial				Total
	Commercial	Real Estate	Residential	Installment	
(In thousands)					
Pass Grade	\$ 103,181	\$ 239,862	\$ 85,675	\$ 8,258	\$ 436,976
Special Mention	15	3,422	—	—	3,437
Substandard	81	2,883	114	—	3,078
Doubtful	—	—	—	—	—
	\$ 103,277	\$ 246,167	\$ 85,789	\$ 8,258	\$ 443,491

The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant methodology changes were made during 2021 and 2020.

The following table shows the loan portfolio aging analysis of the recorded investment in loans as of December 31, 2021:

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
(In thousands)							
Commercial	\$ 63	\$ —	\$ —	\$ —	\$ 63	\$ 90,829	\$ 90,892
Commercial real estate	220	—	—	3,818	4,038	262,739	266,777
Residential	22	—	—	391	413	89,719	90,132
Installment	40	—	—	—	40	6,531	6,571
Total	<u>\$ 345</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,209</u>	<u>\$ 4,554</u>	<u>\$ 449,818</u>	<u>\$ 454,372</u>

The following table shows the loan portfolio aging analysis of the recorded investment in loans as of December 31, 2020:

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
(In thousands)							
Commercial	\$ —	\$ —	\$ —	\$ 83	\$ 83	\$ 103,194	\$ 103,277
Commercial real estate	—	—	—	98	98	246,069	246,167
Residential	120	59	—	445	624	85,165	85,789
Installment	7	20	—	—	27	8,231	8,258
Total	<u>\$ 127</u>	<u>\$ 79</u>	<u>\$ —</u>	<u>\$ 626</u>	<u>\$ 832</u>	<u>\$ 442,659</u>	<u>\$ 443,491</u>

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

The following table presents impaired loans for the year ended December 31, 2021:

	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
(In thousands)					
Loans without a specific valuation allowance:					
Commercial	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Commercial real estate	128	128	—	128	6
Real Estate	---	---	—	---	---
Installment	—	---	—	—	---
	128	128	—	128	6
Loans with a specific valuation allowance:					
Commercial	\$ —	\$ —	\$ —	\$ ---	\$ —
Commercial real estate	3,805	3,805	230	3,822	105
Real Estate	—	—	—	—	—
	\$ 3,805	\$ 3,805	\$ 230	\$ 3,822	\$ 105
Total:					
Commercial	\$ ---	\$ ---	\$ —	\$ ---	\$ ---
Commercial Real Estate	\$ 3,933	\$ 3,933	\$ 230	\$ 3,950	\$ 111
Real Estate	\$ ---	\$ ---	\$ —	\$ ---	\$ ---
Installment	\$ —	\$ ---	\$ —	\$ —	\$ ---

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The following table presents impaired loans for the year ended December 31, 2020:

	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
(In thousands)					
Loans without a specific valuation allowance:					
Commercial	\$ 80	\$ 80	\$ —	\$ 78	\$ 11
Commercial real estate	110	196	—	136	8
Real Estate	114	121	—	118	22
Installment	—	14	—	—	5
	304	411	—	332	46
Loans with a specific valuation allowance:					
Commercial	\$ —	\$ —	\$ —	\$ 92	\$ —
Commercial real estate	72	72	1	3	3
Real Estate	—	—	—	—	—
	\$ 72	\$ 72	\$ 1	\$ 95	\$ 3
Total:					
Commercial	\$ 80	\$ 80	\$ —	\$ 170	\$ 11
Commercial Real Estate	\$ 182	\$ 268	\$ 1	\$ 139	\$ 11
Real Estate	\$ 114	\$ 121	\$ —	\$ 118	\$ 22
Installment	\$ —	\$ 14	\$ —	\$ —	\$ 5

At December 31, 2021 and 2020, the Company had certain loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The following tables present information regarding troubled debt restructurings by class and by type of modification for the year ended December 31, 2021 and 2020:

	<u>Number of Contracts</u>	<u>Year Ended December 31, 2021</u>	
		<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
		(In thousands)	
Commercial	—	\$ —	\$ —
Commercial Real Estate	---	\$ ---	\$ ---

	<u>Year Ended December 31, 2021</u>			
	<u>Interest Only</u>	<u>Term</u>	<u>Combination</u>	<u>Total Modification</u>
	(In thousands)			
Commercial	\$ —	\$ —	\$ —	\$ —
Commercial Real Estate	\$ —	\$ ---	\$ —	\$ ---

	<u>Number of Contracts</u>	<u>Year Ended December 31, 2020</u>	
		<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
		(In thousands)	
Commercial	—	\$ —	\$ —
Commercial Real Estate	1	\$ 86	\$ 86

	<u>Year Ended December 31, 2020</u>			
	<u>Interest Only</u>	<u>Term</u>	<u>Combination</u>	<u>Total Modification</u>
	(In thousands)			
Commercial	\$ —	\$ —	\$ —	\$ —
Commercial Real Estate	\$ —	\$ 86	\$ —	\$ 86

During the year ended December 31, 2021 and 2020, troubled debt restructurings did not have an impact on the allowance for loan losses. At December 31, 2021 and 2020 and for the years then ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 5: Premises and Equipment

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

	2021	2020
	(In thousands)	
Land, buildings and improvements	\$ 19,838	\$ 19,956
Furniture and equipment	15,079	15,051
Computer software	2,284	2,225
	37,201	37,232
Less accumulated depreciation	(24,444)	(23,489)
		13,743
Net premises and equipment	\$ 12,757	\$

Note 6: Time Deposits

Time deposits in denominations of \$250,000 or more were \$4.4 million at December 31, 2021 and \$7.8 million at December 31, 2020. At December 31, 2021, the scheduled maturities of time deposits are as follows:

	(In thousands)
Due during the year ending December 31,	
2022	\$ 36,815
2023	11,755
2024	5,430
2025	1,516
2026	366
Thereafter	360
	\$ 56,242

Note 7: Borrowings

At December 31, 2021 and 2020, as a member of the Federal Home Loan Bank system the Bank had the ability to obtain up to \$154.1 million and \$140.5 million, respectively, in additional borrowings based on securities and certain loans pledged to the FHLB. At December 31, 2021 and 2020, the Bank had approximately \$228.2 million and \$207.9 million, respectively of one- to four-family residential real estate and commercial real estate loans pledged as collateral for borrowings. Also at December 31, 2020 and 2019, the Company and the Bank have cash management lines of credit with various correspondent banks (excluding FHLB cash management lines of credit) enabling additional borrowings of up to \$18.0 million. At December 31, 2021 and 2020 the Company had no outstanding borrowings with the FHLB.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Securities sold under repurchase agreements were approximately \$15.7 million and \$12.7 million at December 31, 2021 and 2020.

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

	2021	2020
	(Dollars in thousands)	
Balance outstanding at year end	\$ 15,701	\$ 12,705
Average daily balance during the year	\$ 19,452	\$ 12,524
Average interest rate during the year	0.12%	0.29%
Maximum month-end balance during the year	\$ 26,653	\$ 16,503
Weighted-average interest rate at year end	0.12%	0.29%

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

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

Remaining Contractual Maturity of the Agreement (In thousands)

December 31, 2021	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
State and municipal obligations	\$ 15,701	\$ —	\$ —	\$ —	\$ 15,701
Total	\$ 15,701	\$ —	\$ —	\$ —	\$ 15,701

December 31, 2020	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S government agencies	\$ 12,705	\$ —	\$ —	\$ —	\$ 12,705
Total	\$ 12,705	\$ —	\$ —	\$ —	\$ 12,705

Securities with an approximate carrying value of \$37.5 million and \$30.1 million at December 31, 2021 and 2020, respectively, were pledged as collateral for repurchase borrowings.

December 31, 2021 and 2020

Note 8: Subordinated Debentures

On May 14, 2019 the Company issued \$20,000,000 of junior subordinated debentures. The debentures bear interest at a fixed rate of 6.0% until May 2024, which then becomes a floating interest rate equal to the three-month LIBOR (or an equivalent index) plus 3.625%, resetting quarterly. Interest on the subordinated notes is payable semiannually through May 2024 and quarterly thereafter through the maturity date of May 2029. Principal is due upon maturity. The debentures are unsecured and payable to various investors. For purposes of computing regulatory capital, the debentures are included in Tier 2 Capital. The subordinated notes may not be repaid in whole or in part prior to the fifth anniversary of the issue date (May 2019). Unamortized debt costs were \$459,000 and \$519,000 as of December 31, 2021 and 2020, respectively.

In 2005, a Delaware statutory business trust owned by the Company, United Bancorp Statutory Trust I (“Trust I” or the “Trust”), issued \$4.1 million of mandatorily redeemable debt securities. The sale proceeds were utilized to purchase \$4.1 million of the Company’s subordinated debentures which mature in 2035. The Company’s subordinated debentures are the sole asset of Trust I. The Company’s investment in Trust I is not consolidated herein as the Company is not deemed the primary beneficiary of the Trust. However, the \$4.1 million of mandatorily redeemable debt securities issued by the Trust are includible for regulatory purposes as a component of the Company’s Tier I Capital. Interest on the Company’s subordinated debentures is equal to three month LIBOR plus 1.35% and is payable quarterly.

Subordinated debentures, net of unamortized debt costs, totaled \$23.7 million and \$23.6 million at December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 9: Income Taxes

The provision for income taxes includes these components:

	2021	2020
	(In thousands)	
Taxes currently payable	\$ 1,118	\$ 1,176
Deferred income taxes	112	(547)
Income tax expense	<u>\$ 1,230</u>	<u>\$ 629</u>

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

	2021	2020
	(In thousands)	
Computed at the statutory rate (21%)	\$ 2,243	\$ 1,802
(Decrease) increase resulting from		
Tax exempt interest	(822)	(967)
Earnings on bank-owned life insurance - net	(168)	(148)
Low income housing credit	(52)	(131)
Other	29	73
Actual tax expense	<u>\$ 1,230</u>	<u>\$ 629</u>

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

	2021	2020
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 771	\$ 992
Stock based compensation	253	187
Deferred compensation, and other accruals	472	456
Employee benefit expense	---	159
Non-accrual loan interest	33	2
Other	7	10
Total deferred tax assets	<u>1,536</u>	<u>1,806</u>
Deferred tax liabilities		
Depreciation	(407)	(390)
Deferred loan costs, net	(34)	(51)
FHLB stock dividends	(304)	(304)
Unrealized gains on securities available for sale	(2,298)	(3,058)
Prepaid expenses	(49)	(70)
Intangibles	(97)	(118)
Employee benefit expense	(28)	—
Total deferred tax liabilities	<u>(3,217)</u>	<u>(3,991)</u>
Net deferred tax liability	<u>\$ (1,681)</u>	<u>\$ (2,185)</u>

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 10: Accumulated Other Comprehensive Income

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

	2021	2020
	(In thousands)	
Net unrealized gain on securities available-for-sale	\$ 10,943	\$ 14,561
Net unrealized loss for funded status of defined benefit plan liability	(2,127)	(2,810)
	8,816	11,751
Tax effect	(1,852)	(2,468)
Net-of-tax amount	\$ 6,964	\$ 9,283

Reclassifications out of accumulated other comprehensive income during 2021 and 2020 and the affected line items in the Consolidated Financial Statements of Income were as follows:

	2021	2020
	(In thousands)	
Realized gains on securities available-for-sale	\$ 1,250	\$ 2,593
Less provision for federal income taxes	263	544
Reclassification adjustment, net of taxes	\$ 987	\$ 2,049

Note 11: Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company and the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

In July 2013, the Federal Reserve approved final rules, referred to herein as the Basel III Rules, establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Rules generally implement the Basel Committee on Banking Supervision's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The Basel III Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and Unified, as compared to the current U.S. general risk-based capital rules. The Basel III Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the computation of regulatory capital ratios. The Basel III rules added another capital ratio component "Tier 1 Common Capital Ratio" which is a measurement of a bank's core equity capital compared with its total risk-weighted assets. The Basel III Rules also prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current categories to a larger more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The Basel III capital rules became effective for the Company and Unified on January 1, 2015, subject to phase-in periods for certain components. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

As of December 31, 2021, the Company exceeded its minimum regulatory capital requirements with a total risk-based capital ratio of 19.5%, common equity tier 1 ratio of 13.9%, Tier 1 risk-based capital ratio of 14.7% and a Tier 1 leverage ratio of 10.3%.

As of December 31, 2021, the most recent notification from Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2021						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 96,785	19.5 %	\$ 39,746	8.0%	N/A	N/A
Unified	79,740	14.95	42,683	8.0	\$ 53,353	10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 69,112	13.9%	\$ 22,357	4.5%	N/A	N/A
Unified	76,067	14.3	24,009	4.5	\$ 34,680	6.5%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	\$ 73,112	14.7%	\$ 29,810	6.0%	N/A	N/A
Unified	76,067	14.3	32,012	6.0	\$ 42,683	8.0%
Tier I Capital (to Average Assets)						
Consolidated	\$ 73,112	10.3%	\$ 28,438	4.0%	N/A	N/A
Unified	76,067	10.6	28,594	4.0	\$ 35,742	5.0%
As of December 31, 2020						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 94,085	18.9%	\$ 39,746	8.0%	N/A	N/A
Unified	80,494	16.2	39,860	8.0	\$ 48,825	10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 64,972	13.1%	\$ 22,357	4.5%	N/A	N/A
Unified	75,831	15.2	22,421	4.5	\$ 32,386	6.5%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	\$ 68,972	13.9%	\$ 29,810	6.0%	N/A	N/A
Unified	75,831	15.2	29,895	6.0	\$ 39,860	8.0%
Tier I Capital (to Average Assets)						
Consolidated	\$ 68,972	10.1%	\$ 27,572	4.0%	N/A	N/A
Unified	75,831	11.2	27,007	4.0	\$ 33,759	5.0%

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 12: Related Party Transactions

At December 31, 2021 and 2020, the Bank had loan commitments outstanding to executive officers, directors, significant stockholders and their affiliates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. Such loans are summarized below.

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Aggregate balance – January 1	\$ 20,984	\$ 17,768
New loans	4,439	5,236
Repayments	<u>(5,076)</u>	<u>(2,020)</u>
Aggregate balance – December 31	<u>\$ 20,347</u>	<u>\$ 20,984</u>

Deposits from related parties held by the Bank at December 31, 2021 and 2020, totaled approximately \$5.6 million and \$6.1 million, respectively.

Note 13: Benefit Plans

Pension and Other Postretirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute \$744,000 to the plan in 2022.

The Company has certain agreements which provide for a fixed number of payments once the individual reaches normal retirement age. At December 31, 2021, the present value of these future payments was approximately \$401,000.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

	Pension Benefits	
	2021	2020
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ (7,215)	\$ (5,588)
Service cost	(528)	(389)
Interest cost	(239)	(234)
Actuarial gain (loss)	45	(1,534)
Benefits paid	379	530
End of year	(7,558)	(7,215)
Change in fair value of plan assets		
Beginning of year	6,522	6,111
Actual return on plan assets	944	563
Employer contribution	657	378
Benefits paid	(379)	(530)
End of year	7,744	6,522
Funded (unfunded) status at end of year	\$ 186	\$ (693)

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

	Pension Benefits	
	2021	2020
	(In thousands)	
Unamortized net loss	\$ 2,531	\$ 3,302
Unamortized prior service	(403)	(492)
	\$ 2,128	\$ 2,810

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The estimated net loss and prior service credit for the defined benefit pension plan that will be amortized from accumulated other comprehensive income as a credit into net periodic benefit cost over the next fiscal year is approximately \$95,000. The accumulated benefit obligation for the defined benefit pension plan was \$6.4 million and \$6.2 million at December 31, 2021 and 2020, respectively.

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

	December 31,	
	2021	2020
	(In thousands)	
Projected benefit obligation	\$ 7,558	\$ 7,215
Accumulated benefit obligation	\$ 6,405	\$ 6,168
Fair value of plan assets	\$ 7,744	\$ 6,522

	December 31,	
	2021	2020
	(In thousands)	
Components of net periodic benefit cost		
Service cost	\$ 528	\$ 389
Interest cost	239	234
Expected return on plan assets	(487)	(467)
Amortization of prior service credit	(89)	(89)
Amortization of net loss	270	145
Net periodic benefit cost	\$ 461	\$ 212

Significant assumptions include:

	Pension Benefits	
	2021	2020
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	3.75%	3.41%
Rate of compensation increase	3.50%	3.50%
Weighted-average assumptions used to determine benefit cost:		
Discount rate	3.75%	3.41%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.50%	3.50%

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2021:

	Pension Benefits
	(In thousands)
2022	\$ 544
2023	383
2024	468
2025	428
2026	598
2027--2031	3,336
Total	<u>\$ 6,301</u>

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

The asset allocation strategy of the plan is designed to allow flexibility in the determination of the appropriate investment allocations between equity and fixed income investments. This strategy is designed to help achieve the actuarial long term rate on plan assets of 7.0%. The target asset allocation percentages for both 2021 and 2020 are as follows:

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

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

At December 31, 2021 and 2020, the fair value of plan assets as a percentage of the total was invested in the following:

	December 31,	
	2021	2020
Equity securities	69.5%	70.3%
Debt securities	28.0	28.1
Cash and cash equivalents	2.5	1.6
	<u>100.0%</u>	<u>100.0%</u>

Pension Plan Assets

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include investments in mutual funds that involve equity, bond and money market investments. All of the Plan's assets are classified as Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2021 and 2020, the Plan did not contain Level 2 or Level 3 investments.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

December 31, 2021				
Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Mutual money market	\$ 198	\$ 198	\$ —	\$ —
Mutual funds – equities				
ETF mutual funds	4,964	4,964	—	—
Large and small Cap	99	99	—	—
International	319	319		
Commodities	—	—	—	—
Mutual funds – fixed income				
Fixed income	1,340	1,340	—	—
ETF fixed income	824	824	—	—
Total	\$ 7,744	\$ 7,744	\$ —	\$ —

December 31, 2020					
Asset Category	Total Fair Value	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)					
Mutual money market	\$ 103	\$ 103	\$ —	\$ —	
Mutual funds – equities					
ETF mutual funds	4,190	4,190	—	—	
Large and small Cap	111	111	—	—	
International	287	287			
Commodities	—	—	—	—	
Mutual funds – fixed income					
Fixed income	1,193	1,193	—	—	
ETF fixed income	638	638	—	—	
Total	\$ 6,522	\$ 6,522	\$ —	\$ —	

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (“ESOP”) with an integrated 401(k) plan covering substantially all employees of the Company. As of December 31, 2020, the original ESOP loan was repaid in full and all allocations/expenses were completed by December 31, 2020. Dividends on the allocated shares are recorded as dividends and charged to retained earnings. ESOP Compensation expense in 2020 was recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP. The Company’s 401(k) matching percentage was 50% of the employees’ first 6% of contributions for 2021 and 2020.

ESOP and 401(k) expense for the years ended December 31, 2021 and 2020 was approximately \$132,000 and \$270,000, respectively.

Share information for the ESOP is as follows at December 31, 2021 and 2020:

	2021	2020
Allocated shares at beginning of the year	417,086	411,411
Shares released for allocation during the year	---	23,635
Net shares distributed due to retirement/diversification	(18,982)	(17,960)
Unearned shares	—	—
Total ESOP shares	398,104	417,086
Fair value of unearned shares at December 31st	\$ —	\$ —

At December 31, 2021, the fair value of the 398,104 the shares held by the ESOP was approximately \$6,632,000.

Split Dollar Life Insurance Arrangements

The Company has split-dollar life insurance arrangements with its executive officers and certain directors that provide certain death benefits to the executive’s beneficiaries upon his or her death. The agreements provide a pre- and post-retirement death benefit payable to the beneficiaries of the executive in the event of the executive’s death. The Company has purchased life insurance policies on the lives of all participants covered by these agreements in amounts sufficient to provide the sums necessary to pay the beneficiaries, and the Company pays all premiums due on the policies. In the case of an early separation from the Company, the nonvested executive portion of the death benefit is retained by the Company. The accumulated post retirement benefit obligation was \$1.8 million and \$1.7 million at December 31, 2021 and December 31, 2020, respectively.

December 31, 2021 and 2020

Note 14: Restricted Stock Plan

During 2018, the Company's stockholders authorized the adoption of the United Bancorp, Inc. 2018 Stock Incentive Plan (the "2018 Plan"). No more than 500,000 shares of the Company's common stock may be issued under the 2018 Plan. As of December 31, 2021, 92,500 shares have been issued under this plan. The shares that may be issued can be authorized but unissued shares or treasury shares. The 2018 Plan permits the grant of incentive awards in the form of options, stock appreciation rights, restricted share and share unit awards, and performance share awards. The 2018 Plan contains annual limits on certain types of awards to individual participants. In any calendar year, no participant may be granted awards covering more than 25,000 shares.

During 2008, the Company's stockholders authorized the adoption of the United Bancorp, Inc. 2008 Stock Incentive Plan (the "2008 Plan"). No more than 500,000 shares of the Company's common stock may be issued under the 2008 Plan. The shares that may be issued can be authorized but unissued shares or treasury shares. The 2008 Plan permits the grant of incentive awards in the form of options, stock appreciation rights, restricted share and share unit awards, and performance share awards. The 2008 Plan contains annual limits on certain types of awards to individual participants. In any calendar year, no participant may be granted awards covering more than 25,000 shares. As of December 31, 2018, no additional shares can be awarded under the 2008 Plan.

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

A summary of the status of the Company's nonvested restricted shares as of December 31, 2021, and changes during the year then ended, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	320,000	\$ 11.73
Granted	10,000	14.08
Vested	(10,000)	10.73
Forfeited	(2,500)	13.00
Nonvested, end of year	<u>317,500</u>	<u>\$ 11.83</u>

Notes to Consolidated Financial Statements

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Total compensation cost recognized in the income statement for share-based payment arrangements during the years ended December 31, 2021 and 2020 was \$414,000 and \$324,000, respectively.

The recognized tax benefits related thereto were \$65,000 and \$68,000, for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, there was \$2,890,000 and \$2,864,000, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 6.9 years.

Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2021		
	Net	Weighted-	Per Share
	Income	Average	Amount
	(In	Shares	
	thousands)		
Net income	\$ 9,451		
Less allocated earnings on non-vested restricted stock	(348)		
Less allocated dividends on non-vested restricted stock	(221)		
Net income allocated to common stockholders	8,882		
		5,477,266	
Basic and diluted earnings per share			\$ 1.62

	Year Ended December 31, 2020		
	Net	Weighted-	Per Share
	Income	Average	Amount
	(In	Shares	
	thousands)		
Net income	\$ 7,953		
Less allocated earnings on non-vested restricted stock	(141)		
Less allocated dividends on non-vested restricted stock	(253)		
Net income allocated to common stockholders	7,559		
		5,458,365	
Basic and diluted earnings per share			\$ 1.39

Note 16: Disclosures about Fair Value of Financial Instruments and Other Assets and Liabilities

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

December 31, 2021 and 2020

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

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

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

Notes to Consolidated Financial Statements

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The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

December 31, 2021				
Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value				
(In thousands)				
Subordinated notes	\$ 28,765	\$ —	\$ 28,765	\$ —
State and municipal obligation	\$117,548	\$ —	\$ 117,548	\$ —

December 31, 2020				
Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value				
(In thousands)				
U.S government agencies	\$ 10,053	\$ —	\$ 10,053	\$ —
Subordinated notes	\$ 4,505	\$ —	\$ 4,505	\$ —
State and municipal obligations	\$143,509	\$ —	\$ 143,509	\$ —

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

Impaired Loans (Collateral Dependent)

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

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

Foreclosed Assets Held for Sale

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

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

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

	December 31, 2021			
	Fair Value Measurements Using			
	Quoted Prices in		Significant	
	Active Markets		Other	Significant
	for Identical	Assets	Observable	Unobservable
Fair Value	(Level 1)	(Level 2)	(Level 2)	(Level 3)
(In thousands)				
Collateral dependent impaired loans	\$ 2,822	\$ —	\$ —	\$ 2,822
Foreclosed assets held for sale	—	—	—	—

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

	Fair Value	December 31, 2020		
		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Collateral dependent impaired loans	\$ 71	\$ —	\$ —	\$ 71
Foreclosed assets held for sale	—	—	—	—

Unobservable (Level 3) Inputs

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

	Fair Value at 12/31/21 (In thousands)	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	\$ 2,822	Market comparable properties	Comparability adjustments	5% – 10%
Foreclosed assets held for sale	—	Market comparable properties	Marketability discount	10% – 35%
	Fair Value at 12/31/20 (In thousands)	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	\$ 71	Market comparable properties	Comparability adjustments	5% - 10%
Foreclosed assets held for sale	—	Market comparable properties	Marketability discount	10% – 35%

There were no significant changes in the valuation techniques used during 2021.

Notes to Consolidated Financial Statements

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

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount			
(In thousands)				
December 31, 2021				
Financial assets				
Cash and cash equivalents	\$ 82,999	\$ 82,999	\$ —	\$ —
Loans, net of allowance	450,699	—	—	459,031
Federal Home Loan Bank stock	3,704	—	3,704	—
Accrued interest receivable	2,345	—	2,345	—
Financial liabilities				
Deposits	605,135	—	605,855	—
Securities sold under repurchase agreements	15,701	—	15,701	—
Subordinated debentures	23,665	—	23,575	—
Interest payable	180	—	180	—

Notes to Consolidated Financial Statements

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The fair value has been derived from the December 31, 2020 audited consolidated financial statements.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Carrying Amount				
(In thousands)				
December 31, 2020				
Financial assets				
Cash and cash equivalents	\$ 51,592	\$ 51,592	\$ —	\$ —
Loans, net of allowance	438,378	—	—	436,893
Federal Home Loan Bank stock	4,177	—	4,177	—
Accrued interest receivable	2,901	—	2,901	—
Financial liabilities				
Deposits	579,535	—	580,130	—
Securities sold under repurchase agreements	12,705	—	12,705	—
Subordinated debentures	23,604	—	21,989	—
Interest payable	224	—	224	—

Notes to Consolidated Financial Statements

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

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

The carrying amounts approximate fair value.

Loans

Fair values of loans and leases are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

Deposits

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

Interest Payable

The carrying amount approximates fair value.

Securities Sold Under Repurchase Agreements and Subordinated Debentures

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

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

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at December 31, 2021 and 2020.

December 31, 2021 and 2020

Note 17: Significant Estimates and Concentrations

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

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur and that such changes could affect the amounts reported in the accompanying statements of financial position.

Note 18: Commitments and Credit Risk

At December 31, 2021 and 2020, total commercial and commercial real estate loans made up 78.7% and 78.3%, respectively, of the loan portfolio. Installment loans account for 1.5% and 1.9%, respectively, of the loan portfolio. Real estate loans comprise 19.8% and 19.8% of the loan portfolio as of December 31, 2021 and 2020, respectively, and primarily include first mortgage loans on residential properties and home equity lines of credit.

Included in cash and cash equivalents as of December 31, 2021 and 2020 is \$79.6 and \$39.7 million, respectively, of deposits with the Federal Reserve Bank of Cleveland.

COVID-19: Update on Company Action and Ongoing Risks

In December 2019, a novel coronavirus (COVID-19) was reported in China, and, in March 2020, the World Health Organization declared it a pandemic. On March 12, 2020, the President of the United States declared the COVID-19 outbreak in the United States a national emergency. The COVID-19 pandemic has caused significant economic dislocation in the United States as many state and local governments have ordered non-essential businesses to close and residents to shelter in place at home. This has resulted in an unprecedented slow-down in economic activity and a related increase in unemployment. As a result of the spread of COVID-19, economic uncertainties arose which can ultimately affect the financial position, results of operations and cash flows of the Company as well as the Company's customers. The *Coronavirus Aid, Relief, and Economic Security Act* passed by Congress in March 2020 (CARES Act) included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The *2021 Consolidated Appropriations Act*, passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Company into 2021.

The CARES Act included several provisions designed to help financial institutions like the Bank in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Bank has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2021, the Bank has \$7.8 million of outstanding loans that were modified and are paying interest only and a \$67,000 loan on total payment deferrals. These modifications were granted in 2020 under the CARES Act guidance.

Commitments to Originate Loans

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

December 31, 2021 and 2020

but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2021 and 2020, the Company had outstanding commitments to originate variable rate loans aggregating approximately \$75.8 million and \$39.6 million, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days, some of which are intended for sale to investors in the secondary market. The Company did not have any mortgage loans in the process of origination which are intended for sale at December 31, 2021 or 2020.

Standby Letters of Credit

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

The Company had \$127,000 and \$22,000 at December 31, 2021 and 2020, respectively in outstanding standby letters of credit. At both December 31, 2021 and 2020, the Company had no deferred revenue under standby letter of credit agreements.

Lines of Credit and Other

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

At December 31, 2021, the Company had granted unused lines of credit to borrowers aggregating approximately \$78.1 million and \$49.4 million for commercial lines and open-end consumer lines, respectively. At December 31, 2020, the Company had granted unused lines of credit to borrowers aggregating approximately \$49.4 million and \$39.6 million for commercial lines and open-end consumer lines, respectively.

Note 19: Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*." The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-

Notes to Consolidated Financial Statements

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13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

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

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

On October 16, 2019, FASB approved a final ASU delaying the effective date of ASU 2016-13 for small reporting companies to interim and annual periods beginning after December 15, 2022. The Company is currently evaluating the impact of these amendments to the Company's financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. The Allowance for Loan Losses (ALL) estimate is material to the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the ALL at adoption date. The Company is anticipating a significant change in the processes and procedures to calculate the ALL, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for the other-than-temporary impairment on available-for-sale securities will be replaced with an allowance approach. The Company continues to run projections and now have multiple scenarios to consider and continues to review segmentation to ensure it is fully compliant with the amendments at adoption date. For additional information on the allowance for loan losses, see Note 4.

Note 20: Condensed Financial Information (Parent Company Only)

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

Condensed Balance Sheets

	December 31,	
	2021	2020
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 9,092	\$ 3,684
Investment in the Bank	85,954	88,276
Other assets	1,182	1,564
Total assets	<u>\$ 96,228</u>	<u>\$ 93,524</u>
Liabilities and Stockholders' Equity		
Subordinated debentures	\$ 23,665	\$ 23,603
Other liabilities	862	1,593
Stockholders' equity	71,701	68,328
Total liabilities and stockholders' equity	<u>\$ 96,228</u>	<u>\$ 93,524</u>

Notes to Consolidated Financial Statements

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Condensed Statements of Income and Comprehensive Income

	Years Ended December 31,	
	2021	2020
	(In thousands)	
Operating Income		
Dividends from subsidiary	\$ 12,363	\$ 2,392
Interest and dividend income from securities and federal funds	—	—
Total operating income	12,363	2,392
General, Administrative and Other Expenses	4,210	3,733
Income (Loss) Before Income Taxes and Equity in Undistributed Income of Subsidiary	8,153	(1,341)
Income Tax Benefits	773	785
Income (Loss) Before Equity in Undistributed Income of Subsidiary	8,926	(556)
Equity in Undistributed Income of Subsidiary	525	8,509
Net Income	\$ 9,451	\$ 7,953
Comprehensive Income	\$ 7,132	\$ 11,700

Notes to Consolidated Financial Statements

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Condensed Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
	(In thousands)	
Operating Activities		
Net income	\$ 9,451	\$ 7,953
Items not requiring (providing) cash		
Equity in undistributed income of subsidiary	(525)	(8,509)
Amortization of ESOP and share-based compensation plans	404	594
Net change in other assets and other liabilities	251	687
Net cash provided by operating activities	9,581	725
Investing Activities		
Equity infusion into the Bank	—	—
Net cash used in investing activities	—	—
Financing Activities		
Repurchase of Common Stock	(72)	(526)
Dividends paid to stockholders	(4,101)	(3,361)
Net cash used in financing activities	(4,173)	(3,887)
Net Change in Cash and Cash Equivalents	5,408	(3,162)
Cash and Cash Equivalents at Beginning of Year	3,684	6,846
Cash and Cash Equivalents at End of Year	<u>\$ 9,092</u>	<u>\$ 3,684</u>

Notes to Consolidated Financial Statements

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Note 21: Quarterly Financial Data (Unaudited)

The following tables summarize the Company's quarterly results of operations for the years ended December 31, 2021 and 2020.

2021:	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 6,088	\$ 6,233	\$ 6,234	\$ 6,153
Total interest expense	775	676	629	516
Net interest income	5,313	5,557	5,605	5,637
Credit for loan losses	(205)	(250)	(400)	(400)
Noninterest income	926	1,142	2,287	1,351
Noninterest expense	4,449	4,550	4,942	4,451
Income before income taxes	1,995	2,399	3,350	2,937
Federal income taxes	87	214	448	481
Net income	\$ 1,908	\$ 2,185	\$ 2,902	\$ 2,456
Earnings per share				
Basic	\$ 0.33	\$ 0.38	\$ 0.50	\$ 0.41
Diluted	\$ 0.33	\$ 0.38	\$ 0.50	\$ 0.41

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December 31, 2021 and 2020

2020:	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data)			
Total interest income	\$ 7,319	\$ 6,949	\$ 6,692	\$ 6,668
Total interest expense	1,685	1,427	948	674
Net interest income	5,634	5,522	5,744	5,994
Provision for loan losses	563	1,408	1,333	33
Noninterest income	1,044	2,156	2,340	1,375
Noninterest expense	4,410	4,579	4,492	4,409
Income before income taxes	1,705	1,691	2,259	2,927
Federal income taxes	126	16	200	287
Net income	\$ 1,579	\$ 1,675	\$ 2,059	\$ 2,640
Earnings per share				
Basic	\$ 0.28	\$ 0.29	\$ 0.36	\$ 0.46
Diluted	\$ 0.28	\$ 0.29	\$ 0.36	\$ 0.46

Note 22: Goodwill and Core Deposits

The following table shows the changes in the carrying amount of goodwill for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Balance beginning of year	\$ 682	\$ 682
Additions from acquisition	—	—
Balance, end of year	\$ 682	\$ 682

Intangible assets in the consolidated balance sheets at December 31, 2021 and 2020 were as follows (in thousands):

	2021			2020		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	\$ 1,041	481	560	1,041	331	710

The estimated aggregate future amortization expense for each of the next five years for intangible assets remaining as of December 31, 2021 is as follows (in thousands):

2022	\$ 150
2023	150
2024	150
2025	110