United Community Bancorp
Form 10-Q
November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from ______________ to _____________

Commission file number: **0-54876**

United Community Bancorp
(Exact name of registrant as specified in its charter)

Indiana	**80-0694246**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

92 Walnut Street, Lawrenceburg, Indiana 47025
(Address of principal executive offices) (Zip Code)

(812) 537-4822

(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of November 10, 2016, there were 4,198,143 shares of the registrant's common stock outstanding.

UNITED COMMUNITY BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	September 30, 2016	June 30, 2016
Assets		
Cash and due from banks	$ 1,749	$ 2,253
Interest-earning deposits in other financial institutions	26,424	26,727
Cash and cash equivalents	28,173	28,980
Investment securities:		
Securities available for sale - at estimated market value	75,240	77,725
Securities held to maturity - at amortized cost	40,676	40,763
Mortgage-backed securities available for sale - at estimated market value	73,051	74,727
Investment securities	188,967	193,215
Loans receivable, net	273,176	267,138
Loans available for sale	1,642	783
Property and equipment, net	6,786	6,877
Federal Home Loan Bank stock, at cost	3,527	3,527
Accrued interest receivable:		
Loans	826	872
Investments and mortgage-backed securities	941	1,010
Other real estate owned, net	70	70
Cash surrender value of life insurance policies	17,361	17,241
Deferred income taxes	2,262	2,073
Prepaid expenses and other assets	1,528	1,469
Goodwill	2,522	2,522
Intangible asset	282	312
Total assets	$ 528,063	$ 526,089

Liabilities and Stockholders' Equity

Deposits	$ 441,974	$ 438,885
Advances from FHLB	12,000	12,000
Accrued interest on deposits	11	12
Accrued interest on FHLB advance	9	10
Advances from borrowers for payment of insurance and taxes	818	608
Accrued expenses and other liabilities	2,576	4,120
Total liabilities	457,388	455,635
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value; 25,000,000 shares authorized, 5,149,564 shares issued at September 30, 2016 and June 30, 2016; 4,198,143 shares outstanding at September 30, 2016 and June 30, 2016	51	51
Additional paid-in capital	51,407	51,320
Retained earnings	33,014	32,484
Less shares purchased for stock plans	(2,241)	(2,335)
Treasury Stock, at cost - 951,421 shares at September 30, 2016 and June 30, 2016	(12,445)	(12,445)
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale, net of income taxes	889	1,379
Total stockholders' equity	70,675	70,454
Total liabilities and stockholders' equity	$ 528,063	$ 526,089

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except share amounts)

(In thousands, except per share data)	For the Three Months Ended September 30, 2016	2015
Interest income:		
Loans	$ 2,934	$ 2,887
Investments and mortgage-backed securities	1,009	1,071
Total interest income	3,943	3,958
Interest expense:		
Deposits	568	541
Borrowed funds	57	60
Total interest expense	625	601
Net interest income	3,318	3,357
Provision for loan losses	17	44
Net interest income after provision for loan losses	3,301	3,313
Noninterest income:		
Service charges	789	743
Gain on sale of loans	220	90
Gain on sale of investments	79	6
Provision for loss on real estate owned	-	(24)
Income from bank owned life insurance	120	186
Other	100	66
Total noninterest income	1,308	1,067
Noninterest expense:		
Compensation and employee benefits	2,180	2,160
Premises and occupancy expense	270	262
Deposit insurance premium	71	82
Advertising expense	106	91
Data processing expense	478	319
Intangible amortization	30	30
Professional fees	250	287
Other operating expenses	277	394

Total noninterest expense	3,662	3,625
Income before income taxes	947	755
Income tax provision	165	56
Net income	$ 782	$ 699
Basic and diluted earnings per share	$ 0.19	$ 0.16

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

	For the Three Months Ended September 30, 2016	2015
Net income	$ 782	$ 699
Other comprehensive income (loss), net of tax		
Net unrealized gain (loss) on available for sale securities net of taxes of $(283) and $299 for the three months ended September 30, 2016 and 2015, respectively.	(442)	467
Reclassification adjustment for the net realized gain on sale of available for sale securities included in net income, net of taxes of $(31) and $(2) for the three months ended September 30, 2016 and 2015, respectively.	(48)	(4)
Comprehensive income	$ 292	$ 1,162

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)	For the Three Months Ended September 30, 2016	2015
Operating activities:		
Net income	$ 782	$ 699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	107	97
Provision for loan losses	17	44
Deferred loan origination costs	(64)	(10)
Amortization of premium on investments	495	535
Proceeds from sale of loans	6,188	2,517
Loans disbursed for sale in the secondary market	(6,827)	(3,065)
Gain on sale of loans	(220)	(90)
Amortization of intangible asset	30	30
Amortization of acquisition-related loan yield adjustment	(33)	(44)
Gain on sale of investment securities	(79)	(6)
Provision for loss on real estate owned	-	24
Gain recognized from death benefit on bank owned life insurance	-	(68)
Increase in cash surrender value of life insurance	(120)	(128)
Stock-based compensation	63	65
Amortization of ESOP shares	118	112
Deferred income taxes	125	(109)
Effects of change in operating assets and liabilities:		
Accrued interest receivable	115	(74)
Prepaid expenses and other assets	(59)	338
Accrued interest payable	(2)	2
Accrued expenses and other	(1,544)	(109)
Net cash provided by (used in) operating activities	(908)	760
Investing activities:		
Proceeds from maturity of available for sale investment securities	280	45
Proceeds from maturity of held to maturity securities	30	27
Proceeds from sale of available for sale investment securities	6,935	-
Proceeds from repayment of mortgage-backed securities and collateralized mortgage obligations available for sale	5,524	6,165
Proceeds from sale of mortgage-backed securities available for sale	11,087	8,645

Purchases of available for sale investment securities	(9,885)	-
Purchases of held to maturity investment securities	-	(388)
Purchases of mortgage-backed securities available for sale	(10,943)	-
Proceeds from bank owned life insurance death benefit	-	446
Net increase in loans	(5,958)	(9,702)
Capital expenditures	(16)	-
Net cash provided by (used in) investing activities	(2,946)	5,238
Financing activities:		
Net increase (decrease) in deposits	3,089	(1,341)
Dividends paid to stockholders	(252)	(275)
Repurchases of common stock	-	(1,128)
Net increase in advances from borrowers for payment of insurance and taxes	210	221
Net cash provided by (used in) financing activities	3,047	(2,523)
Net increase (decrease) in cash and cash equivalents	(807)	3,475
Cash and cash equivalents at beginning of period	28,980	18,522
Cash and cash equivalents at end of period	$ 28,173	$ 21,997

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION - United Community Bancorp, a federal corporation ("old United Community Bancorp") completed its previously announced conversion from the mutual holding company form of organization to the stock holding company form on January 9, 2013. As a result of the conversion, United Community Bancorp, an Indiana corporation ("United Community Bancorp" or "Company"), became the holding company for United Community Bank ("Bank"), and United Community MHC and old United Community Bancorp, ceased to exist. As part of the conversion, all outstanding shares of old United Community Bancorp common stock (other than those owned by United Community MHC) were converted into the right to receive 0.6573 of a share of United Community Bancorp common stock.

The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure. UCB Financial Services, Inc., a wholly-owned subsidiary of the Bank, was formed for a variety of purposes, but was primarily being used for the collection of commissions from a wealth management partner. In addition to the collection of commissions, during the prior fiscal year, the Bank applied for, and received approval from the OCC to allow UCB Financial Services, Inc. to own and manage a portion of the Bank's municipal bond portfolio.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2016, which are included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2016.

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

2. EMPLOYEE STOCK OWNERSHIP PLAN (“ESOP”) – As of September 30, 2016 and June 30, 2016, the ESOP owned 173,894 shares of the Company’s common stock. The shares owned by the ESOP are held in a suspense account until released for allocation to participants.

3. EARNINGS PER SHARE (“EPS”) – Non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to ASC 260, *Earnings per Share,* when computing basic and diluted earnings per share. The Company’s restricted share awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in the losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted EPS. During periods of net loss, these shares are excluded from both basic and diluted EPS.

Basic EPS is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effects of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. For the three months ended September 30, 2016 outstanding options to purchase 227,626 shares were excluded from the computations of diluted earnings per share as their effect would have been anti-dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Basic weighted average outstanding shares	4,024,249	4,368,527
Effect of dilutive stock options	33,762	38,232
Diluted weighted average outstanding shares	4,058,011	4,406,759

4. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718, *Compensation – Stock Compensation*, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on a straight-line basis pursuant to ASC 718. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant. Stock-based compensation expense was $63,000 and $65,000 for the three months ended September 30, 2016 and 2015, respectively. No stock-based compensation awards were granted during the three months ended September 30, 2016 and 2015.

5. DIVIDENDS – On August 11, 2016 the Board of Directors of the Company declared cash dividends on the Company’s outstanding shares of stock of $0.06 per share for each period. The dividend, totaling $252,000, was paid during the three months ended September 30, 2016.

6. STOCK REPURCHASE PLAN – On February 3, 2014 the Company’s board of directors approved the repurchase of up to 514,956 shares of the Company’s outstanding common stock, which represented approximately 10% of the Company’s outstanding shares at that date. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of December 31, 2014, all 514,956 shares were repurchased at a total cost of $6.0 million.

Additionally, on May 18, 2015, the Company’s Board of Directors approved the repurchase of up to 231,571 shares of the Company’s outstanding common stock, which was approximately 5% of the Company’s outstanding shares as of May 18, 2015. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of June 30, 2016, 231,571 were repurchased at a total cost of $3.4 million.

On November 6, 2015, United Community Bancorp entered into a Stock Repurchase Agreement with Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P. and Stilwell Partners, L.P. (collectively, the “Sellers”). Pursuant to the Stock Repurchase Agreement, the Company purchased 318,756 shares of its common stock, $0.01 par value, from the Sellers for an aggregate purchase price of $4,781,340, or $15.00 per share. The repurchase was funded with cash on hand and completed the 5% repurchase program mentioned above. Following the repurchase transaction, the Company had 4,201,326 shares of common stock outstanding. On April 26, 2016 the Company purchased 3,183 shares of common stock from participants in the equity incentive plan. There were no other repurchases after this date and therefore at September 30, 2016, there were 4,198,143 shares of common stock outstanding.

Subsequent to the quarter ended September 30, 2016, on November 4, 2016, United Community Bancorp approved the repurchase of up to 209,907 shares of the Company's outstanding common stock, which was approximately 5% of the Company's outstanding shares as of November 4, 2016. Purchases will be conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan.

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes, net	$ 43	$ —
Interest	$ 627	$ 606
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gains on securities designated as available for sale, net of tax	$ 490	$ 463
Transfers of loans to other real estate owned	$ —	$ —

8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES - ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate the value. For financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

The following methods and assumptions are used in estimating the fair values of financial instruments:

Cash and cash equivalents

The carrying values presented in the consolidated statements of position approximate fair value.

Investments and mortgage-backed securities

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant non-performing loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank system and is required to maintain an investment based upon a pre-determined formula. The carrying values presented in the consolidated statements of position approximate fair value.

Deposits

The fair values of passbook accounts, NOW accounts, and money market savings and demand deposits approximate their carrying values. The fair values of fixed maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar maturities.

Advances from Federal Home Loan Bank

The fair value is calculated using rates available to the Company on advances with similar terms and remaining maturities.

Off-balance sheet items

Carrying value is a reasonable estimate of fair value. These instruments are generally variable rate or short-term in nature, with minimal fees charged.

The estimated fair values of the Company's financial instruments at September 30, 2016 and June 30, 2016 are as follows:

	September 30, 2016		June 30, 2016	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and interest-bearing deposits	$28,173	$28,173	$28,980	$28,980
Investment securities available for sale	75,240	75,240	77,725	77,725
Investment securities held to maturity	40,676	42,580	40,763	43,201
Mortgage-backed securities	73,051	73,051	74,727	74,727
Loans receivable and loans receivable held for sale	274,818	276,306	267,921	270,595
Accrued interest receivable	1,767	1,767	1,882	1,882
Investment in FHLB stock	3,527	3,527	3,527	3,527
Financial liabilities:				

Deposits	441,974	442,855	438,885	439,834
Accrued interest payable	20	20	22	22
FHLB advances	12,000	12,286	12,000	12,322
Off-balance sheet items	$—	$—	$—	$—

ASC 820-10-50-2 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Fair value methods and assumptions are set forth below for each type of financial instrument. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 2 securities include U.S. Government and agency mortgage-backed securities, U.S. Government agency bonds, municipal securities, and other real estate owned. If quoted market prices are not available, the Bank utilizes a third party vendor to calculate the fair value of its available for sale securities. The third party vendor uses quoted prices of securities with similar characteristics when available. If such quotes are not available, the third party vendor uses pricing models or discounted cash flow models with observable inputs to determine the fair value of these securities.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
September 30, 2016	(In thousands)			
Mortgage-backed securities	$73,051	$ —	$ 73,051	$ —
Municipal bonds	37,061	—	37,061	—
Small Business Administration	7,633	—	7,633	—
Collateralized Mortgage Obligations	27,314	—	27,314	—
Certificates of Deposit	3,070	—	3,070	—
Other equity securities	162	162	—	—
Mortgage servicing rights	694	—	694	—
June 30, 2016				
Mortgage-backed securities	$74,727	$ —	$ 74,727	$ —
Municipal bonds	34,790	—	34,790	—
Small Business Administration	7,872	—	7,872	—
Collateralized Mortgage Obligations	31,832	—	31,832	—
Certificatesof Deposit	3,064	—	3,064	—
Other equity securities	167	167	—	—
Mortgage servicing rights	639	—	639	—

Fair value measurements for certain assets and liabilities measured at fair value on a nonrecurring basis:

Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs	Significant other unobservable inputs

			(Level 2)	(Level 3)
September 30, 2016:	(In thousands)			
Other real estate owned	$70	$ —	$ 70	$ —
Loans held for sale	1,642	—	1,642	—
Impaired loans	5,315	—	5,315	—
June 30, 2016:				
Other real estate owned	$70	$ —	$ 70	$ —
Loans held for sale	783	—	783	—
Impaired loans	5,216	—	5,216	—

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The adjustments to other real estate owned and impaired loans are based primarily on appraisals of the real estate, cash flow analysis or other observable market prices. The Bank's policy is that fair values for these assets are based on current appraisals or cash flow analysis.

The following table presents fair value measurements for the Company's financial instruments which are not recognized at fair value in the accompanying statements of financial position on a recurring or nonrecurring basis.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
September 30, 2016:				
Financial assets:				
Cash and interest-bearing deposits	$28,173	$ 28,173	$ —	$ —
Investment securities held to maturity	42,580	—	42,580	—
Loans receivable and loans held for sale	276,306	—	276,306	—
Accrued interest receivable	1,767	—	1,767	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	442,855	—	442,855	—
Accrued interest payable	20	—	20	—
FHLB advances	12,286	—	12,286	—
June 30, 2016:				
Financial assets:				
Cash and interest-bearing deposits	$28,980	$ 28,980	$ —	$ —
Investment securities held to maturity	43,201	—	43,201	—
Loans receivable and loans held for sale	270,595	—	270,595	—
Accrued interest receivable	1,882	—	1,882	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	439,834	—	439,834	—
Accrued interest payable	22	—	22	—
FHLB advances	12,322	—	12,322	—

9. INVESTMENT SECURITIES

Investment securities available for sale at September 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 72,690	$ 529	$ 168	$ 73,051
Municipal bonds	36,184	995	118	37,061
Small Business Administration	7,503	130	—	7,633
Collateralized Mortgage Obligations	27,276	96	58	27,314
Certificates of Deposit	2,971	99	—	3,070
Other equity securities	210	—	48	162
	$ 146,834	$ 1,849	$ 392	$ 148,291

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Investment securities held to maturity at September 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	$ 40,676	$ 1,904	$ —	$ 42,580

Investment securities available for sale at June 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 74,198	$ 619	$ 90	$ 74,727
Municipal bonds	33,512	1,278	—	34,790
Small Business Administration	7,651	221	—	7,872
Collateralized Mortgage Obligations	31,650	182	—	31,832
Certificates of Deposit	2,971	93	—	3,064
Other equity securities	210	—	43	167
	$ 150,192	$ 2,393	$ 133	$ 152,452

Investment securities held to maturity at June 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	$ 40,763	$ 2,438	$ —	$ 43,201

The mortgage-backed securities, callable bonds and municipal bonds have the following maturities at September 30, 2016:

	Available for Sale		Held to Maturity	
	Amortized cost	Estimated market value	Amortized cost	Estimated market value
Due or callable in one year or less	$—	$—	$ 63	$ 64
Due or callable in 1 - 5 years	82,792	83,079	824	839

Due or callable in 5 - 10 years	44,184	45,210	4,861	5,024
Due or callable in greater than 10 years	19,648	19,840	34,928	36,653
Total debt securities	$146,624	$148,129	$40,676	$42,580

All other securities available for sale at September 30, 2016 are saleable within one year.

Gross proceeds on the sale of investment and mortgage-backed securities were $18.0 million and $8.6 million for the three months ended September 30, 2016 and 2015, respectively. Gross realized gains for the three months ended September 30, 2016 and 2015 were $110,000 and $78,000 respectively. Gross realized losses for the three months ended September 30, 2016 and 2015 were $31,000 and $72,000, respectively.

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The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at September 30, 2016:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Municipal Bonds	$9,182	$ 118	$ —	$ —	$9,182	$ 118
Mortgage-backed securities	15,972	89	16,135	79	32,107	168
Collateralized Mortgage Obligations	10,663	58	—	—	10,663	58
Other equity securities	—	—	162	48	162	48
	$35,817	$ 265	$ 16,297	$ 127	$52,114	$ 392
Number of investments		25		7		32

Securities available for sale are reviewed for possible other-than-temporary impairment on a quarterly basis. During this review, management considers the severity and duration of the unrealized losses as well as its intent and ability to hold the securities until recovery, taking into account balance sheet management strategies and its market view and outlook. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer or any credit enhancement providers, and the quality of the underlying collateral. Management does not intend to sell these securities in the foreseeable future, and does not believe that it is more likely than not that the Bank will be required to sell a security in an unrealized loss position prior to a recovery in its value. The decline in market value is due to changes in market interest rates. The fair values are expected to recover as the securities approach maturity dates.

10. GOODWILL AND INTANGIBLE ASSET

In June 2010, old United Community Bancorp acquired three branches from Integra Bank National Association (“Integra”), which was accounted for under the purchase method of accounting. Under the purchase method, the Company is required to allocate the cost of an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. The excess cost over the value of net assets acquired represents goodwill, which is not subject to amortization.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Company in connection with its acquisition relates to the inherent value in the business acquired and this value is dependent upon the Company’s ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods.

As permitted by current accounting rules, the Company completed its qualitative assessment to determine whether current events or changes in circumstances lead to a determination that it is more likely than not, as defined, that the fair value of the reporting unit is less than its carrying amount. Based upon the Company's assessment, there was no such determination that the fair value of the reporting unit is less than its carrying amount. Accordingly, the Company did not apply the traditional two-step goodwill impairment test.

The following table indicates changes to the core deposit intangible asset and goodwill balances for the three months ended September 30, 2016:

	Core Deposit Intangible	Goodwill
	(In thousands)	
Balance at June 30, 2016	$312	$ 2,522
Amortization	30	—
Balance at September 30, 2016	$282	$ 2,522

The core deposit intangible is being amortized using the double declining balance method over its estimated useful life of 8.75 years. Remaining amortization of the core deposit intangible is as follows (dollars in thousands) as of September 30, 2016:

October 1, 2016 through June 30, 2017	$87
2018	117
2019	78
	$282

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11. DISCLOSURES ABOUT THE CREDIT QUALITY OF LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (IN THOUSANDS)

The following tables illustrate certain disclosures required by ASC 310-10-50-11B(c), (g) and (h), the changes to the allowance for loan losses, for the three months ended September 30, 2016 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, July 1, 2016:	$1,235	$426	$108	$275	$2,577	$132	$10	$122	$4,885
Charge offs	—	(36)	—	—	(425)	—	—	—	(461)
Recoveries	23	25	—	3	1	—	—	—	52
Provision (credit)	1	7	(37)	115	(89)	(4)	10	14	17
Ending Balance:	$1,259	$422	$71	$393	$2,064	$128	$20	$136	$4,493
Balance, Individually Evaluated	$—	$—	$—	$—	$—	$—	$—	$—	$—
Balance, Collectively Evaluated	$1,259	$422	$71	$393	$2,064	$128	$20	$136	$4,493
Financing receivables:									
Ending balance	$131,668	$35,622	$11,918	$16,133	$63,388	$9,033	$2,445	$9,787	$279,994
Ending Balance: individually evaluated for impairment	$2,378	$391	$407	$—	$2,089	$—	$50	$—	$5,315
Ending Balance: collectively evaluated for impairment	$124,355	$32,790	$11,344	$16,133	$61,189	$9,033	$2,395	$9,780	$267,019
Ending Balance: loans acquired at fair value	$4,935	$2,441	$167	$—	$110	$—	$—	$7	$7,660

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For the year ended June 30, 2016 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Beginning balance:	$1,348	$517	$130	$474	$2,586	$4	$16	$49	$5,124
Charge offs	(135)	(157)	—	(192)	(561)	—	—	—	(1,045)
Recoveries	86	274	27	4	223	—	—	5	619
Provision (credit)	(64)	(208)	(49)	(11)	329	128	(6)	68	187
Ending Balance:	$1,235	$426	$108	$275	$2,577	$132	$10	$122	$4,885
Balance, Individually Evaluated	$—	$—	$—	$—	$—	$—	$—	$—	$—
Balance, Collectively Evaluated	$1,235	$426	$108	$275	$2,577	$132	$10	$122	$4,885
Financing receivables: Ending Balance	$130,883	$35,018	$12,160	$16,032	$58,981	$8,555	$2,151	$10,442	$274,222
Ending Balance: individually evaluated for impairment	$2,535	$398	$408	$—	$1,787	$—	$88	$—	$5,216
Ending Balance: collectively evaluated for impairment	$123,148	$32,071	$11,581	$16,032	$57,076	$8,555	$2,063	$10,313	$260,839
Ending Balance: loans acquired at fair value	$5,200	$2,549	$171	$—	$118	$—	$—	$129	$8,167

Federal regulations require us to review and classify our assets on a regular basis. In addition, the OCC has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. “Substandard assets” must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. “Doubtful assets” have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified “loss” is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a “special mention” category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. If we classify an asset as substandard, doubtful or loss, we analyze that asset and may establish a specific allocation for the asset at that time.

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b).

Credit Risk Profile by Internally Assigned Grade

At September 30, 2016

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 126,323	$ 34,503	$ 6,844	$ 14,030	$ 52,617	$ 6,789	$ 1,453	$ 8,964	$ 251,523
Watch	2,401	577	4,257	2,103	6,585	2,244	52	823	19,042
Special mention	533	151	154	—	2,008	—	890	—	3,736
Substandard	2,411	391	663	—	2,178	—	50	—	5,693
Total:	$ 131,668	$ 35,622	$ 11,918	$ 16,133	$ 63,388	$ 9,033	$ 2,445	$ 9,787	$ 279,994

Credit Risk Profile by Internally Assigned Grade

At June 30, 2016

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 125,089	$ 33,820	$ 7,007	$ 13,914	$ 48,886	$ 3,814	$ 1,119	$ 8,475	$ 242,124
Watch	2,545	582	4,298	2,118	5,018	4,741	54	1,967	21,323
Special mention	681	218	160	—	3,201	—	890	—	5,150
Substandard	2,568	398	695	—	1,876	—	88	—	5,625
Total:	$ 130,883	$ 35,018	$ 12,160	$ 16,032	$ 58,981	$ 8,555	$ 2,151	$ 10,442	$ 274,222

The following tables illustrate certain disclosures required by ASC 310-10-50-7A for gross loans.

Age Analysis of Past Due Loans Receivable

At September 30, 2016

(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Mortgage - Owner-Occupied	$ 337	$ 308	$ 384	$ 1,029	$ 130,639	$ 131,668
Consumer	124	1	23	148	35,474	35,622
One- to Four- Family Mortgage - Non-Owner Occupied	—	30	235	265	11,653	11,918
Multi-family Mortgage	—	—	—	—	16,133	16,133
Nonresidential Real Estate – commercial and office buildings	—	—	—	—	63,388	63,388
Construction	—	—	—	—	9,033	9,033
Land	—	—	39	39	2,406	2,445
Commercial and Agricultural	—	—	—	—	9,787	9,787
Total	$ 461	$ 339	$ 681	$ 1,481	$ 278,513	$ 279,994

Age Analysis of Past Due Loans Receivable

At June 30, 2016

(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Mortgage - Owner-Occupied	$ 594	$ 552	$ 401	$ 1,547	$ 129,336	$ 130,883
Consumer	109	49	23	181	34,837	35,018
One- to Four- Family Mortgage - Non-Owner-Occupied	95	30	235	360	11,800	12,160
Multi-family Mortgage	—	—	—	—	16,032	16,032
Nonresidential Real Estate – commercial and office buildings	—	—	—	—	58,981	58,981

Construction	—	—	—	—	8,555	8,555
Land	14	—	76	90	2,061	2,151
Commercial and Agricultural	—	—	—	—	10,442	10,442
Total	$ 812	$ 631	$ 735	$ 2,178	$ 272,044	$ 274,222

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The following table illustrates certain disclosures required by ASC 310-10-50-15.

	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended September 30, 2016 Interest income recognized	Average Recorded investment
With a related allowance recorded:					
One- to Four- Family Mortgage - Owner-Occupied	$ —	$ —	$ —	$ —	$ —
Consumer	—	—	—	—	—
One- to Four- Family Mortgage -Non-Owner Occupied	—	—	—	—	—
Multi-family Mortgage	—	—	—	—	—
Nonresidential Real Estate – commercial and office buildings	—	—	—	—	—
Construction	—	—	—	—	—
Land	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —

	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended September 30, 2016 Interest income recognized	Average Recorded investment
With no related allowance recorded:					
One- to Four- Family Mortgage - Owner-Occupied	$ 2,378	$ 2,759	$ —	$ 17	$ 2,457
Consumer	391	720	—	1	395
One- to Four- Family Mortgage -Non-Owner Occupied	407	407	—	2	408
Multi-family Mortgage	—	920	—	—	—
Nonresidential Real Estate – commercial and office buildings	2,089	3,922	—	11	1,938
Construction	—	—	—	—	—
Land	50	58	—	—	69
Commercial and Agricultural	—	6	—	—	—
Total	$ 5,315	$ 8,792	$ —	$ 31	$ 5,267

Impaired Loans

	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended September 30, 2016 Interest income recognized	Average Recorded investment
Total:					
One- to Four- Family Mortgage - Owner-Occupied	$ 2,378	$ 2,759	$ —	$ 17	$ 2,457
Consumer	391	720	—	1	395
One- to Four- Family Mortgage -Non-Owner Occupied	407	407	—	2	408
Multi-family Mortgage	—	920	—	—	—
Nonresidential Real Estate – commercial and office buildings	2,089	3,922	—	11	1,938
Construction	—	—	—	—	—
Land	50	58	—	—	69
Commercial and Agricultural	—	6	—	—	—
Total	$ 5,315	$ 8,792	$ —	$ 31	$ 5,267

Impaired Loans

	Recorded investment	Unpaid principal balance	Specific allowance	For the year ended June 30, 2016 Interest income recognized	Average recorded investment
	(in thousands)				
With an allowance recorded:					
One- to Four- Family Mortgage - Owner-Occupied	$—	$ —	$ —	$ —	$ —
Consumer	—	—	—	—	—
One- to Four- Family Mortgage - Non-Owner Occupied	—	—	—	—	—
Multi-family Mortgage	—	—	—	—	—
Nonresidential Real Estate – commercial and office buildings	—	—	—	—	496
Construction	—	—	—	—	—
Land	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—
Total	$—	$ —	$ —	$ —	$ 496

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Impaired Loans

	Recorded investment	Unpaid principal balance	Specific allowance	For the year ended June 30, 2016 Interest income recognized	Average recorded investment
	(in thousands)				
Without an allowance recorded:					
One- to Four- Family Mortgage - Owner-Occupied	$2,535	$ 2,973	$ —	$ 17	$ 2,886
Consumer	398	726	—	1	461
One- to Four- Family Mortgage - Non-Owner Occupied	408	408	—	3	647
Multi-family Mortgage	—	920	—	—	481
Nonresidential Real Estate – commercial and office buildings	1,787	3,195	—	11	3,293
Construction	—	—	—	—	—
Land	88	95	—	—	149
Commercial and Agricultural	—	7	—	—	—
Total	$5,216	$ 8,324	$ —	$ 32	$ 7,917

Impaired Loans

	Recorded investment	Unpaid principal balance	Specific allowance	For the year ended June 30, 2016 Interest income recognized	Average recorded investment
	(in thousands)				
Total:					
One- to Four- Family Mortgage - Owner-Occupied	$2,535	$ 2,973	$ —	$ 17	$ 2,886
Consumer	398	726	—	1	461
One- to Four- Family Mortgage - Non-Owner Occupied	408	408	—	3	647
Multi-family Mortgage	—	920	—	—	481
Nonresidential Real Estate – commercial and office buildings	1,787	3,195	—	11	3,789
Construction	—	—	—	—	—
Land	88	95	—	—	149
Commercial and Agricultural	—	7	—	—	—
Total	$5,216	$ 8,324	$ —	$ 32	$ 8,413

The Bank did not have any investments in subprime loans at September 30, 2016. Impaired loans at September 30, 2016 included troubled debt restructurings (“TDR”) with an aggregate principal balance of $3.3 million and a recorded investment of $3.3 million. See Note 12 for a discussion on TDRs.

12. TROUBLED DEBT RESTRUCTURINGS - From time to time, as part of our loss mitigation process, loans may be renegotiated in a TDR when we determine that greater economic value will ultimately be recovered under the new restructured terms than through foreclosure, liquidation, or bankruptcy. We may consider the borrower’s payment status and history, the borrower’s ability to pay upon a rate reset on an adjustable rate loan, size of the payment increase upon a rate reset, period of time remaining prior to the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. TDRs are accounted for as set forth in ASC 310-40 *Troubled Debt Restructurings by Creditors* (“ASC 310-40”). A TDR may be on nonaccrual or it may accrue interest. A TDR is typically on nonaccrual until the borrower successfully performs under the new terms for at least six consecutive months. However, a TDR may be placed on accrual immediately following the restructuring in those instances where a borrower’s payments are current prior to the modification, the loan is restructured at a market rate and management determines that principal and interest under the new terms are fully collectible. All TDRs are considered to be impaired loans. A TDR will be removed from TDR classification if it is restructured at a market rate, is not impaired under those restructured terms and has been performing under those terms for at least twelve consecutive months.

Existing performing loan customers who request a loan (non-TDR) modification and who meet the Bank's underwriting standards may, usually for a fee, modify their original loan terms to terms currently offered. The modified terms of these loans are similar to the terms offered to new customers with similar credit risk. The fee assessed for modifying the loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

The following tables summarize TDRs by loan type and accrual status.

	At September 30, 2016						
	Loan Status		Total Unpaid			Number	Average
(In thousands)	Accrual	Nonaccrual	Principal Balance	Related Allowance	Recorded Investment	of Loans	Recorded **Investment**
One- to Four-Family residential real estate	$1,535	$ 382	$ 1,917	$ —	$ 1,917	19	$ 1,940
Multi-family residential real estate	—	—	—	—	—	—	180
Nonresidential real estate	718	647	1,365	—	1,365	3	2,116
Total	$2,253	$ 1,029	$ 3,282	$ —	$ 3,282	22	$ 4,236

	At June 30, 2016						
	Loan Status		Total Unpaid			Number	Average
(In thousands)	Accrual	Nonaccrual	Principal Balance	Related Allowance	Recorded Investment	of Loans	Recorded Investment
One- to Four-Family residential real estate	$1,609	$ 324	$ 1,933	$ —	$ 1,933	19	$ 1,979
Multi-family residential real estate	—	—	—	—	—	—	361
Nonresidential real estate	721	1,066	1,787	—	1,787	3	3,009
Total	$2,330	$ 1,390	$ 3,720	$ —	$ 3,720	22	$ 5,349

Interest income recognized on TDRs is as follows:

	For the three months ended September 30,	
	2016	2015

One-to-Four Family residential real estate	$ 17	$ 11
Multi-family residential real estate	—	11
Nonresidential real estate	11	48
Construction	—	—
Commercial	—	—
Consumer	—	—
Total	$ 28	$ 70

At September 30, 2016, the Bank had 22 loans totaling $3.3 million that were reported as TDRs, and had established an allowance for losses on these loans of $0. With respect to the $3.3 million in TDRs, the Bank charged-off $1.4 million at the time the loans were restructured into the Note A/B split note format. At June 30, 2016, the Bank had 25 loans totaling $3.7 million that were reported as TDRs, and had an allowance for losses on these loans of $0. With respect to the $3.7 million in TDRs, the Bank charged-off $1.4 million with respect to those loans at the time the loans were restructured into the Note A/B split note format. At September 30, 2016, the Bank had no other commitments to lend on its TDRs. Management continues to monitor the performance of loans reported as TDRs on a monthly basis.

Loans that were included in TDRs at September 30, 2016 and June 30, 2016 were generally given concessions of interest rate reductions of between 25 and 300 basis points and/or structured as interest only payment loans for periods of one to three years. Some of these loans also have balloon payments due at the end of their lowered rate period, requiring the borrower to refinance at market rates at that time. At September 30, 2016 and June 30, 2016, all loans classified as TDRs required principal and interest payments.

The following table is a roll forward of activity in our TDRs:

	Three Months Ended September 30, 2016	
	Recorded Investment	Number of Loans
(Dollar amounts in thousands)		
Beginning balance	$ 3,720	22
Additions to TDR	—	—
Charge-offs	—	—
Removal of TDRs	—	—
Payments	(438)	—
Ending balance	$ 3,282	22

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Reclassification out of accumulated other comprehensive income during the three months ended September 30, 2016 and 2015 and the affected line items in the consolidated statements of income are as follows (in thousands):

	Three Months Ended September30,		
	2016	2015	Affected Line Item in the Consolidated Statements of Income
Realized gain (loss) on sale of securities	$ 79	$ 6	Gain on sale of investments
Less provision (benefit) for income taxes	31	2	Income tax provision
Reclassification adjustment, net of taxes	$ 48	$ 4	

14. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which changes the impairment model for most financial assets. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the ASU is that financial assets measured at amortized cost should 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 allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company will be evaluating the impact of this ASU over the next several years.

In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, and affects the guidance in ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. ASU No. 2016-10 clarifies the following two aspects of Topic 606: evaluating whether promised goods and services are separately identifiable, and determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property, which is satisfied at a point in time, or a right to access the entity’s intellectual property, which is satisfied over time. ASU No. 2016-10 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Adoption of ASU No. 2016-10 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, and affects all entities that issue share-based payment awards to their employees. The new guidance involves several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU No. 2016-09, any excess tax benefits or tax deficiencies should be recognized as income tax expense or benefit in the income statement. Excess tax benefits are to be classified as an operating activity in the statement of cash flows. In accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, as required under current guidance, or account for forfeitures when they occur. For an award to qualify for equity classification, an entity cannot partially settle the award in excess of the employer's maximum statutory withholding requirements. Such cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. The amendments in ASU No. 2016-09 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Adoption of ASU No. 2016-07 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and affects the guidance in ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. When another party is involved in providing goods or services to a customer, ASU No. 2014-09 requires an entity to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). The amendments in ASU No. 2016-08 are intended to improve the operability and understandability of the implementation guidance in ASU No. 2014-09 on principal versus agent considerations by offering additional guidance to be considered in making the determination. ASU No. 2016-08 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the financial statement impact of adopting the new guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), and requires a lessee to recognize in the statement of financial position a liability to make lease payments ("the lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. When measuring assets and liabilities arising from a lease, the lessee should include payments to be made in optional periods only if the lessee is reasonably certain, as defined, to exercise an option to the lease or not to exercise an option to terminate the lease. Optional payments to purchase the underlying asset should be included if the lessee is reasonably certain it will exercise the purchase option. Most variable lease payments should be excluded except for those that depend on an index or a rate or are in substance fixed payments. A lessee shall classify a lease as a finance lease if it meets any of five listed criteria: 1) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term. 2) The lease grants the lessee and option to purchase the underlying asset that the lessee is reasonably certain to exercise. 3) The lease term is for the major part of the remaining economic life of the underlying asset. 4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset. 5) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. For finance leases, a lessee shall recognize in the statement of comprehensive income interest on the lease liability separately from amortization of the right-of-use asset. Amortization of the right-of-use asset shall be on a straight-line basis, unless another basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset’s future economic benefits. If the lease does not meet any of the five criteria, the lessee shall classify it as an operating lease and shall recognize a single lease cost on a straight-line basis over the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments in this update are to be applied using a modified retrospective approach, as defined, and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted. The Company is currently evaluating the financial statement impact of adopting the new guidance.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10). The amendments in this update affect all entities that hold financial assets or owe financial liabilities. The update’s main provisions applicable to the Company are as follows: 1) Require equity investments with readily available fair values (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and 6) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. Public companies should apply the guidance in Update 2016-01 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is generally not permitted. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the annual reporting period of adoption. We do not expect the adoption of these provisions to have a significant impact on the Company’s consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predic results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets, changes in deposit flows, and changes in the quality or composition of the Company's loan or investment portfolios. Additionally, other risks and uncertainties may be described in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 2016, which is available through the SEC's website at www.sec.gov and in other reports filed by the Company. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake the responsibility, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: the allowance for loan losses and the valuation of deferred income taxes.

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on affected loans; and the value of collateral. Inherent loss factors based upon environmental and other economic factors are then applied to the remaining loan portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses. Such agency may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see Notes 1 and 3 of the Notes to the Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 27, 2016.

DEFERRED INCOME TAXES - We use the asset and liability method of accounting for income taxes as prescribed in Accounting Standards Codification (“ASC”) 740-10-50. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings. United Community Bancorp referred to as the Company, accounts for income taxes under the provisions of ASC 275-10-50-8 to account for uncertainty in income taxes. The Company had no unrecognized tax benefits as of September 30, 2016 and June 30, 2016. The Company recognized no interest and penalties on the underpayment of income taxes during the three month periods ended September 30, 2016 and 2015, and had no accrued interest and penalties on the balance sheet as of September 30, 2016 and June 30, 2016. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase within the next fiscal year. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years ended on or before June 30, 2012.

Comparison of Financial Condition at September 30, 2016 and June 30, 2016

Balance Sheet Analysis

Total assets were $528.1 million at September 30, 2016, compared to $526.1 million at June 30, 2016. Total loans increased by $6.0 million. The increase in loans was partially offset by a $4.3 million decrease in investment securities. The investment balances decreased partially due to normal amortization and maturities during the period and the sale of investment securities. A portion of the proceeds from the sale of investments securities was used to fund new loans, which is expected to enhance the Bank's net interest margin as well as increase interest income in the future.

Total liabilities increased $1.8 million from $455.6 million at June 30, 2016 to $457.4 million at September 30, 2016 primarily due to a $3.1 million increase in deposits during the quarter, partially offset by the settlement of investments which was included in other liabilities at June 30, 2016.

Stockholders' equity totaled $70.7 million as of September 30, 2016, which represents an increase of $221,000 when compared to June 30, 2016. Net income of $782,000 for the quarter ended September 30, 2016 was partially offset by a reduction in the unrealized gain on securities available for sale of $490,000 and dividends paid totaling $252,000. The $782,000 net income for the quarter ended September 30, 2016 represented an increase of $83,000, or 11.9% when compared to the quarter ended September 30, 2015. There were 4,198,143 outstanding shares of common stock at both September 30, 2016 and June 30, 2016. For all periods presented, the Bank was considered "well-capitalized" under applicable regulatory requirements.

Loans. At September 30, 2016, one- to four- family residential loans totaled $143.6 million, or 51.3% of total gross loans, compared to $143.0 million, or 52.2% of total gross loans, at June 30, 2016.

Multi-family and nonresidential real estate loans totaled $79.5 million and represented 28.4% of total loans at September 30, 2016, compared to $75.0 million, or 27.3% of total loans, at June 30, 2016. While repayments and charge-offs have recently reduced these portfolios, they remain a substantial segment of our loan portfolio. However, we have reviewed the economic environment in our lending markets, including those in southwestern Ohio and Northern Kentucky, and the level of our nonperforming assets, and beginning in December 2013, we implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate loan portfolios. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios.

Construction loans totaled $9.0 million, or 3.2% of total loans, at September 30, 2016, compared to $8.6 million, or 3.1% of total loans, at June 30, 2016.

Commercial business loans totaled $4.9 million, or 1.8% of total loans, at September 30, 2016, compared to $4.5 million, or 1.6% of total loans, at June 30, 2016.

Consumer loans totaled $35.6 million and represented 12.7% of total loans at September 30, 2016, compared to $35.0 million or 12.8% of total loans at June 30, 2016.

Agricultural loans totaled $4.8 million, or 1.7% of total loans, at September 30, 2016, compared to $6.0 million or 2.2% of total loans, at June 30, 2016.

Land loans totaled $2.4 million, or 0.9% of total loans, at September 30, 2016 compared to $2.2 million or 0.8% of total loans at June 30, 2016.

The following table sets forth the composition of our loan portfolio at the dates indicated.

	At September 30, 2016		At June 30, 2016	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate:				
One- to four-family	$143,586	51.3 %	$143,043	52.2 %
Multi-family	16,133	5.8	16,032	5.8
Construction	9,033	3.2	8,555	3.1
Nonresidential real estate	63,388	22.6	58,981	21.5
Land	2,445	0.9	2,151	0.8
Commercial business	4,942	1.8	4,476	1.6
Agricultural	4,845	1.7	5,966	2.2
Consumer:				
Home equity	30,977	11.0	30,558	11.2
Auto	2,374	0.8	2,249	0.8
Share loans	982	0.4	932	0.3
Other	1,289	0.5	1,279	0.5
Total consumer loans	35,622	12.7	35,018	12.8
Total loans	$279,994	100.0 %	$274,222	100.0 %
Less (plus):				
Deferred loan costs, net	(1,177)		(1,113)	
Undisbursed portion of loans in process	3,502		3,312	
Allowance for loan losses	4,493		4,885	
Loans, net	$273,176		$267,138	

Loan Maturity

The following table sets forth certain information at September 30, 2016 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments, which can significantly shorten the average life of the loan and may cause our actual repayment experience to differ from the contractual requirements shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	Less Than One Year	More Than One Year to Five Years	More Than Five Years	Total Loans
	(in thousands)			

One- to four-family residential real estate	$8,408	$ 33,000	$ 102,178	$143,586
Multi-family real estate	540	3,501	12,092	16,133
Construction	3,449	932	4,652	9,033
Nonresidential real estate	5,486	20,893	37,009	63,388
Land	1,000	774	671	2,445
Commercial	1,149	2,812	981	4,942
Agricultural	1,625	1,929	1,291	4,845
Consumer	1,981	3,639	30,002	35,622
Total	$23,638	$ 67,480	$ 188,876	$279,994

The following table sets forth the dollar amount of all loans at September 30, 2016 due after September 30, 2017 that have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan fees.

Fixed Rates	Floating or Adjustable Rates	Total
(in thousands)		