United Community Bancorp
Form 10-Q
November 14, 2014

**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, 2014

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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 12, 2014, there were 4,658,831 shares of the registrant's common stock outstanding.

**UNITED COMMUNITY BANCORP**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

| (In thousands, except share amounts) | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 2,494 | $ 5,265 |
| Interest-earning deposits in other financial institutions | 36,881 | 19,705 |
| Cash and cash equivalents | 39,375 | 24,970 |
| Investment securities: | | |
| Securities available for sale - at estimated market value | 40,954 | 39,965 |
| Securities held to maturity - at amortized cost | 13,142 | 337 |
| Mortgage-backed securities available for sale - at estimated market value | 141,879 | 179,017 |
| Investment securities | 195,975 | 219,319 |
| Loans receivable, net | 245,961 | 244,384 |
| Loans available for sale | 98 | 138 |
| Property and equipment, net | 7,134 | 7,115 |
| Federal Home Loan Bank stock, at cost | 6,588 | 6,588 |
| Accrued interest receivable: | | |
| Loans | 845 | 806 |
| Investments and mortgage-backed securities | 795 | 828 |
| Other real estate owned, net | 705 | 598 |
| Cash surrender value of life insurance policies | 17,062 | 16,927 |
| Deferred income taxes | 3,507 | 3,510 |
| Prepaid expenses and other assets | 1,759 | 2,213 |
| Goodwill | 2,522 | 2,522 |
| Intangible asset | 517 | 547 |
| Total assets | $ 522,843 | $ 530,465 |
| Liabilities and Stockholders' Equity | | |
| Deposits | $ 434,523 | $ 439,636 |
| Advances from FHLB | 15,000 | 15,000 |
| Accrued interest on deposits | 16 | 14 |
| Accrued interest on FHLB advance | 11 | 11 |
| Advances from borrowers for payment of insurance and taxes | 373 | 228 |
| Accrued expenses and other liabilities | 2,629 | 2,646 |
| Total liabilities | 452,552 | 457,535 |
| 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, 2014 and June 30, 2014; 4,702,219 and 4,959,842 shares outstanding at September 30, 2014 and June 30, 2014, respectively | 51 | 51 |
| Additional paid-in capital | 51,104 | 51,044 |
| Retained earnings | 28,770 | 28,581 |
| Less shares purchased for stock plans | (3,413) | (3,504) |
| Treasury Stock, at cost - 447,345 and 189,722 shares at September 30, 2014 and June 30, 2014, respectively | (5,206) | (2,151) |
| Accumulated other comprehensive income (loss): | | |
| Unrealized loss on securities available for sale, net of income taxes | (1,015) | (1,091) |
| Total stockholders' equity | 70,291 | 72,930 |
| Total liabilities and stockholders' equity | $ 522,843 | $ 530,465 |

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, 2014 | 2013 |
|---|---|---|
| Interest income: | | |
| Loans | $ 2,849 | $ 3,097 |
| Investments and mortgage-backed securities | 912 | 662 |
| Total interest income | 3,761 | 3,759 |
| Interest expense: | | |
| Deposits | 614 | 705 |
| Borrowed funds | 63 | 43 |
| Total interest expense | 677 | 748 |
| Net interest income | 3,084 | 3,011 |
| Provision for (recovery of) loan losses | 9 | (442) |
| Net interest income after provision for (recovery of) loan losses | 3,075 | 3,453 |
| Other income: | | |
| Service charges | 671 | 651 |
| Gain on sale of loans | 27 | 87 |
| Loss on sale of investments | (21) | - |
| Gain (loss) on sale of other real estate owned | 19 | (1) |
| Gain on sale of fixed assets | - | 136 |
| Income from bank owned life insurance | 134 | 108 |
| Other | 54 | 71 |
| Total other income | 884 | 1,052 |
| Other expense: | | |
| Compensation and employee benefits | 1,816 | 1,803 |
| Premises and occupancy expense | 339 | 304 |
| Deposit insurance premium | 99 | 97 |
| Advertising expense | 102 | 106 |
| Data processing expense | 339 | 406 |
| Provision for loss on real estate owned | - | 1 |
| Intangible amortization | 30 | 39 |
| Professional fees | 314 | 289 |

| | | |
|---|---|---|
| Other operating expenses | 367 | 403 |
| Total other expense | 3,406 | 3,448 |
| Income before income taxes | 553 | 1,057 |
| Income tax provision | 74 | 295 |
| Net income | $ 479 | $ 762 |
| Basic and diluted earnings per share | $ 0.10 | $ 0.16 |

See accompanying notes to the consolidated financial statements.

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**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income

*(In thousands)*

| | For the Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net income | $ 479 | $ 762 |
| Other comprehensive income (loss), net of tax Unrealized gain (loss) on securities available for sale | 63 | (735 ) |
| Reclassification adjustment for losses on securities available for sale included in income | 13 | - |
| Total comprehensive income | $ 555 | $ 27 |

See accompanying notes to consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

| (In thousands) | For the Three Months Ended September 30, 2014 | 2013 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 479 | $ 762 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 110 | 103 |
| Recovery of loan losses | 9 | (442) |
| Deferred loan origination costs | (18) | (5) |
| Amortization of premium on investments | 778 | 1,048 |
| Proceeds from sale of loans | 1,003 | 7,639 |
| Loans disbursed for sale in the secondary market | (936) | (7,218) |
| Gain on sale of loans | (27) | (87) |
| Amortization of intangible asset | 30 | 39 |
| Amortization of acquisition-related loan yield adjustment | (60) | 162 |
| Amortization of acquisition-related credit risk adjustment | - | (257) |
| Gain on sale of investment securities | 21 | - |
| Gain on sale of fixed assets | - | (136) |
| Provision for loss on real estate owned | - | 1 |
| Loss (gain) on sale of other real estate owned | (19) | 1 |
| Increase in cash surrender value of life insurance | (134) | (108) |
| Stock-based compensation | 60 | - |
| ESOP shares committed to be released | 91 | 74 |
| Deferred income taxes | (47) | (63) |
| Effects of change in operating assets and liabilities: | | |
| Accrued interest receivable | (6) | (123) |
| Prepaid expenses and other assets | 454 | 278 |
| Accrued interest | 2 | (4) |
| Accrued expenses and other | (18) | 293 |
| Net cash provided by operating activities | 1,772 | 1,957 |
| Investing activities: | | |
| Proceeds from sale of available for sale investment securities | - | 45 |
| Proceeds from maturity of held to maturity securities | 26 | 24 |
| Proceeds from repayment of mortgage-backed securities available for sale | 9,391 | 11,155 |
| Proceeds from sale of mortgage-backed securities available for sale | 26,834 | - |
| Proceeds from sale of fixed assets | - | 425 |

| | | |
|---|---|---|
| Proceeds from sale of other real estate owned | 53 | 3 |
| Purchases of available for sale investment securities | (791 ) | (1,534 ) |
| Purchases of held to maturity investment securities | (12,834 ) | - |
| Purchases of mortgage-backed securities available for sale | - | (18,226 ) |
| Net (increase) decrease in loans | (1,649 ) | 7,918 |
| Capital expenditures | (129 ) | (303 ) |
| Net cash provided by (used in) investing activities | 20,946 | (493 ) |
| Financing activities: | | |
| Net increase (decrease) in deposits | (5,113 ) | 3,588 |
| Repayments of Federal Home Loan Bank advances | - | (5,000 ) |
| Dividends paid to stockholders | (290 ) | (309 ) |
| Repurchases of common stock | (3,055 ) | - |
| Net increase in advances from borrowers for payment of insurance and taxes | 145 | 109 |
| Net cash used in financing activities | (8,313 ) | (1,612 ) |
| Net increase (decrease) in cash and cash equivalents | 14,405 | (148 ) |
| Cash and cash equivalents at beginning of period | 24,970 | 16,787 |
| Cash and cash equivalents at end of period | $ 39,375 | $ 16,639 |

See accompanying notes to consolidated financial statements.

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**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 the purpose of collecting commissions on investments referred to Lincoln Financial Group.

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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. These financial statements should be read in conjunction the Company’s audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2014, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 26, 2014.

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, 2014 and June 30, 2014, the ESOP owned 237,893 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 each of the three months ended September 30, 2014 and 2013, 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, | |
|---|---|---|
| | 2014 | 2013 |
| Basic weighted average outstanding shares | 4,583,593 | 4,875,257 |
| Effect of dilutive stock options | — | — |
| Diluted weighted average outstanding shares | 4,583,593 | 4,875,257 |

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 $60,000 and $-0- for the three months ended September 30, 2014 and 2013, respectively. No stock-based compensation awards were granted during the three months ended September 30, 2014 and 2013.

5. DIVIDENDS – On July 24, 2014, the Board of Directors of the Company declared a cash dividend on the Company’s outstanding shares of stock of $0.06 per share for each period. The dividend, totaling $290,000, was paid during the three months ended September 30, 2014.

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 will be conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of September 30, 2014, 447,345 shares have been repurchased at a total cost of $5.2 million. Of these shares, 257,623 were repurchased during the three months ended September 30, 2014 at a total cost of $3.1 million.

7. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (Dollars in thousands) | |
| Supplemental disclosure of cash flow information is as follows: | | |
| Cash paid during the period for: | | |
| Income taxes | $ - | $ 362 |

| | | |
|---|---|---|
| Interest | $ 675 | $ 752 |
| | | |
| Supplemental disclosure of non-cash investing and financing activities is as follows: | | |
| Unrealized gain (loss) on securities designated as available for sale, net of tax | $ 76 | $ (735 ) |
| Transfers of loans to other real estate owned | $ 141 | $ - |
| Beginning of period adjustment from transfer of mortgage servicing rights from amortized cost method to fair value method, net of tax | $ - | $ 45 |

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.

Advance 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, 2014 and June 30, 2014 are as follows:

| | September 30, 2014 | | June 30, 2014 | |
|---|---|---|---|---|
| | Carrying Amounts | Fair Value | Carrying Amounts | Fair Value |
| | (In thousands) | | | |
| Financial assets: | | | | |
| Cash and due from banks | $39,375 | $39,375 | $24,970 | $24,970 |
| Investment securities available for sale | 40,954 | 40,954 | 39,965 | 39,965 |
| Investment securities held to maturity | 13,142 | 13,121 | 337 | 337 |
| Mortgage-backed securities | 141,879 | 141,879 | 179,017 | 179,017 |
| Loans receivable and loans receivable held for sale | 246,059 | 246,868 | 244,522 | 245,150 |
| Accrued interest receivable | 1,640 | 1,640 | 1,634 | 1,634 |
| Investment in FHLB stock | 6,588 | 6,588 | 6,588 | 6,588 |
| Financial liabilities: | | | | |
| Deposits | 434,523 | 435,541 | 439,636 | 440,849 |
| Accrued interest payable | 27 | 27 | 25 | 25 |
| FHLB advance | 15,000 | 14,983 | 15,000 | 15,041 |
| 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.

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) |
|---|---|---|---|---|
| | (In thousands) | | | |
| September 30, 2014: | | | | |
| Mortgage-backed securities | $141,879 | $ — | $ 141,879 | $ — |
| Municipal bonds | 38,769 | — | 38,769 | — |
| U.S. Government Agency Bonds | 1,987 | — | 1,987 | — |
| Other equity securities | 198 | 198 | — | — |
| Mortgage servicing rights | 668 | — | 668 | — |
| June 30, 2014: | | | | |
| Mortgage-backed securities | $179,017 | $ — | $ 179,017 | $ — |
| Municipal bonds | 37,815 | — | 37,815 | — |

| | | | | |
|---|---|---|---|---|
| U.S. Government Agency Bonds | 1,992 | — | 1,992 | — |
| Other equity securities | 158 | 158 | — | — |
| Mortgage servicing rights | 722 | — | 722 | — |

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 (Level 2) | Significant other unobservable inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| September 30, 2014: | | | | |
| Other real estate owned | $705 | $ — | $ 705 | $ — |
| Loans held for sale | 98 | — | 98 | — |
| Impaired loans | 13,448 | — | 13,448 | — |
| June 30, 2014: | | | | |
| Other real estate owned | $598 | $ — | $ 598 | $ — |
| Loans held for sale | 138 | — | 138 | — |
| Impaired loans | 15,445 | — | 15,445 | — |

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, 2014: | | | | |
| Financial assets: | | | | |
| Cash and interest bearing deposits | $39,375 | $ 39,375 | $ — | $ — |
| Investment securities held to maturity | 13,121 | — | 13,121 | — |
| Loans receivable and loans held for sale | 246,868 | — | 246,868 | — |
| Accrued interest receivable | 1,640 | — | 1,640 | — |
| Investment in FHLB stock | 6,588 | — | 6,588 | — |
| Financial liabilities: | | | | |
| Deposits | 435,541 | — | 435,523 | — |
| Accrued interest payable | 27 | — | 27 | — |
| FHLB advances | 14,983 | — | 14,983 | — |

| | | | | |
|---|---|---|---|---|
| June 30, 2014: | | | | |
| Financial assets: | | | | |
| Cash and interest bearing deposits | $24,970 | $ 24,970 | $ — | $ — |
| Investment securities held to maturity | 337 | — | 337 | — |
| Loans receivable and loans held for sale | 245,150 | — | 245,150 | — |
| Accrued interest receivable | 1,634 | — | 1,634 | — |
| Investment in FHLB stock | 6,588 | — | 6,588 | — |
| Financial liabilities: | | | | |
| Deposits | 440,849 | — | 440,849 | — |
| Accrued interest payable | 25 | — | 25 | — |
| FHLB advances | 15,041 | — | 15,041 | — |

9. INVESTMENT SECURITIES

Investment securities available for sale at September 30, 2014 consisted of the following:

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| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Mortgage-backed securities | $ 143,577 | $ 200 | $ 1,898 | $ 141,879 |
| Municipal bonds | 38,711 | 571 | 513 | 38,769 |
| U.S. Government Agency Bonds | 2,000 | - | 13 | 1,987 |
| Other equity securities | 210 | — | 12 | 198 |
| | $ 184,498 | $ 771 | $ 2,436 | $ 182,833 |

Investment securities held to maturity at September 30, 2014 consisted of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Municipal Bonds | $ 13,142 | $ 18 | $ 39 | $ 13,121 |

Investment securities available for sale at June 30, 2014 consisted of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Mortgage-backed securities | $ 180,563 | $ 501 | $ 2,047 | $ 179,017 |
| Municipal bonds | 38,000 | 479 | 664 | 37,815 |
| U.S. Government Agency Bonds | 2,000 | — | 8 | 1,992 |
| Other equity securities | 210 | — | 52 | 158 |
| | $ 220,773 | $ 980 | $ 2,771 | $ 218,982 |

Investment securities held to maturity at June 30, 2014 consisted of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Municipal Bonds | $ 337 | $ — | $ — | $ 337 |

The mortgage-backed securities, callable bonds and municipal bonds have the following maturities at September 30, 2014:

| | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| | Amortized cost | Estimated market value | Amortized cost | Estimated market value |
| Due or callable in one year or less | $- | $- | $87 | $ 88 |
| Due or callable in 1 - 5 years | 124,540 | 123,046 | 224 | 235 |
| Due or callable in 5 - 10 years | 49,406 | 49,166 | 5,083 | 5,054 |
| Due or callable in greater than 10 years | 10,342 | 10,423 | 7,748 | 7,744 |
| Total debt securities | $184,288 | $182,635 | $13,142 | $ 13,121 |

All other securities available for sale at September 30, 2014 are saleable within one year.

Gross proceeds on the sale of investment and mortgage-backed securities were $26.8 million and $45,000 for the three months ended September 30, 2014 and 2013, respectively. Gross realized gains for the three months ended September 30, 2014 and 2013 were $249,000 and $-0-, respectively. Gross realized losses for the three months ended September 30, 2014 and 2013 were $270,000 and $-0-, respectively.

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, 2014:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Mortgage-backed securities | $27,160 | $ 186 | $80,327 | $ 1,712 | $107,487 | $ 1,898 |
| Municipal bonds | 10,197 | 59 | 17,424 | 493 | 27,621 | 552 |
| U.S. Government agency bonds | 1,987 | 13 | - | - | 1,987 | 13 |
| Other equity securities | - | - | 198 | 12 | 198 | 12 |
| | $39,344 | $ 258 | $97,949 | $ 2,217 | $137,293 | $ 2,475 |
| Number of investments | 31 | | 65 | | 96 | |

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, 2014:

| | Core Deposit Intangible | Goodwill |
|---|---|---|
| | (In thousands) | |
| Balance at June 30, 2014 | $ 547 | $ 2,522 |
| Amortization | (30 ) | - |
| Balance at September 30, 2014 | $ 517 | $ 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, 2014:

| | |
|---|---|
| October 1, 2014 through June 30, 2015 | $ 88 |
| 2016 | 117 |
| 2017 | 117 |
| 2018 | 117 |
| 2019 | 78 |
| | $ 517 |

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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, 2014 (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, 2014: | $ 1,196 | $ 564 | $ 201 | $ 929 | $ 2,508 | $ 5 | $ 19 | $ 37 | $ 5,459 |
| Charge offs | (12) | (23) | (3) | - | - | - | - | - | (38) |
| Recoveries | 57 | 24 | 51 | - | 1 | - | - | 1 | 134 |
| Provision (credit) | 84 | (1) | (87) | (37) | 46 | 2 | 1 | 1 | 9 |
| Ending Balance: | $ 1,325 | $ 564 | $ 162 | $ 892 | $ 2,555 | $ 7 | $ 20 | $ 39 | $ 5,564 |
| Balance, Individually Evaluated | $ - | $ - | $ - | $ - | $ 120 | $ - | $ - | $ - | $ 120 |
| Balance, Collectively Evaluated | $ 1,325 | $ 564 | $ 162 | $ 892 | $ 2,435 | $ 7 | $ 20 | $ 39 | $ 5,444 |
| Financing receivables: | | | | | | | | | |
| Ending balance | $ 117,870 | $ 34,657 | $ 14,428 | $ 22,304 | $ 47,882 | $ 3,590 | $ 3,581 | $ 8,305 | $ 252,617 |
| Ending Balance: individually evaluated for impairment | $ 3,532 | $ 535 | $ 196 | $ 1,656 | $ 7,190 | $ - | $ 19 | $ - | $ 13,128 |
| Ending Balance: collectively evaluated for impairment | $ 106,902 | $ 30,518 | $ 13,764 | $ 20,648 | $ 40,520 | $ 3,590 | $ 3,537 | $ 7,808 | $ 227,287 |
| Ending Balance: loans acquired with deteriorated | $ 7,436 | $ 3,604 | $ 468 | $ - | $ 172 | $ - | $ 25 | $ 497 | $ 12,202 |

credit quality

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For the year ended June 30, 2014 (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: | $ 942 | $ 553 | $ 215 | $ 1,286 | $ 2,386 | $ 10 | $ 17 | $ 34 | $ 5,443 |
| Charge offs | (554) | (159) | (52) | (430) | (30) | - | (15) | (4) | (1,244) |
| Recoveries | 436 | 133 | 3 | 644 | 29 | - | 24 | 3 | 1,272 |
| Other adjustment | 8 | 4 | - | - | 108 | - | - | - | 120 |
| Provision (credit) | 364 | 33 | 35 | (571) | 15 | (5) | (7) | 4 | (132) |
| Ending Balance: | $ 1,196 | $ 564 | $ 201 | $ 929 | $ 2,508 | $ 5 | $ 19 | $ 37 | $ 5,459 |
| Balance, Individually Evaluated | $ - | $ - | $ - | $ - | $ 120 | $ - | $ - | $ - | $ 120 |
| Balance, Collectively Evaluated | $ 1,196 | $ 564 | $ 201 | $ 929 | $ 2,388 | $ 5 | $ 19 | $ 37 | $ 5,339 |
| Financing receivables: | | | | | | | | | |
| Ending balance | $ 114,486 | $ 34,669 | $ 14,998 | $ 23,645 | $ 48,769 | $ 2,880 | $ 3,391 | $ 7,970 | $ 250,808 |
| Ending Balance: individually evaluated for impairment | $ 3,425 | $ 544 | $ 503 | $ 2,863 | $ 7,763 | $ - | $ 20 | $ - | $ 15,118 |
| Ending Balance: collectively evaluated for impairment | $ 103,417 | $ 30,358 | $ 13,932 | $ 20,782 | $ 40,747 | $ 2,880 | $ 3,346 | $ 7,453 | $ 222,915 |
| Ending Balance: loans acquired with deteriorated credit quality | $ 7,644 | $ 3,767 | $ 563 | $ - | $ 259 | $ - | $ 25 | $ 517 | $ 12,775 |

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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. When we classify an asset as special mention, we account for those classifications when establishing a general allowance for loan losses. If we classify an asset as substandard, doubtful or loss, we 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, 2014
(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 | $ 107,452 | $ 32,683 | $ 8,097 | $ 16,183 | $ 29,079 | $ 3,590 | $ 1,768 | $ 6,494 | $ 205,346 |
| Watch | 6,098 | 983 | 4,683 | 4,127 | 9,265 | — | 737 | 1,803 | 27,696 |
| Special mention | 415 | 368 | 1,063 | 338 | 2,250 | — | 1,057 | 5 | 5,496 |
| Substandard | 3,905 | 623 | 585 | 1,656 | 7,288 | — | 19 | 3 | 14,079 |
| Total: | $ 117,870 | $ 34,657 | $ 14,428 | $ 22,304 | $ 47,882 | $ 3,590 | $ 3,581 | $ 8,305 | $ 252,617 |

Credit Risk Profile by Internally Assigned Grade
At June 30, 2014
(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 | $ 104,266 | $ 32,898 | $ 9,210 | $ 16,573 | $ 29,539 | $ 2,880 | $ 1,591 | $ 5,951 | $ 202,908 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Watch | 6,067 | 913 | 4,531 | 3,867 | 9,001 | — | 723 | 2,019 | 27,121 |
| Special mention | 370 | 120 | 753 | 342 | 2,368 | — | 1,057 | — | 5,010 |
| Substandard | 3,783 | 738 | 504 | 2,863 | 7,861 | — | 20 | — | 15,769 |
| Total: | $ 114,486 | $ 34,669 | $ 14,998 | $ 23,645 | $ 48,769 | $ 2,880 | $ 3,391 | $ 7,970 | $ 250,808 |

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, 2014
(in thousands)

| | 30-59 days past due | 60-89 days past due | Greater than 90 days | Total past due | Total current | Total loans receivable |
|---|---|---|---|---|---|---|
| Mortgage One- to Four- Family - Owner-Occupied | $ 1,751 | $ 319 | $ 671 | $ 2,741 | $ 115,129 | $ 117,870 |
| Consumer | 189 | 145 | 4 | 338 | 34,319 | 34,657 |
| One- to Four- Family Non-Owner Occupied Mortgage | 729 | 440 | 10 | 1,179 | 13,249 | 14,428 |
| Multi-family Residential Real Estate Mortgage | 213 | - | - | 213 | 22,091 | 22,304 |
| Non-Residential Real Estate | 73 | - | 819 | 892 | 46,990 | 47,882 |
| Construction | - | - | - | - | 3,590 | 3,590 |
| Land | - | - | - | - | 3,581 | 3,581 |
| Commercial and Agricultural | - | 5 | - | 5 | 8,300 | 8,305 |
| Total | $ 2,955 | $ 909 | $ 1,504 | $ 5,368 | $ 247,249 | $ 252,617 |

Age Analysis of Past Due Loans Receivable
At June 30, 2014
(in thousands)

| | 30-59 days past due | 60-89 days past due | Greater than 90 days | Total past due | Total current | Total loans receivable |
|---|---|---|---|---|---|---|
| Mortgage One- to Four- Family - Owner-Occupied | $ 1,590 | $ 165 | $ 440 | $ 2,195 | $ 112,291 | $ 114,486 |
| Consumer | 175 | 119 | 7 | 301 | 34,368 | 34,669 |
| One- to Four- Family Non-Owner-Occupied Mortgage | 304 | 809 | 60 | 1,173 | 13,825 | 14,998 |
| Multi-family Residential Real Estate Mortgage | 342 | — | 1,200 | 1,542 | 22,103 | 23,645 |
| Nonresidential Real Estate | 161 | 75 | 829 | 1,065 | 47,704 | 48,769 |
| Construction | — | — | — | — | 2,880 | 2,880 |
| Land | — | 168 | — | 168 | 3,223 | 3,391 |
| Commercial and Agricultural | 12 | — | — | 12 | 7,958 | 7,970 |
| Total | $ 2,584 | $ 1,336 | $ 2,536 | $ 6,456 | $ 244.352 | $ 250,808 |

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

Impaired Loans

| | | | | For the three months ended September 30, 2014 | |
|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Specific allowance | Interest income recognized | Average recorded investment |
| | (in thousands) | | | | |
| With an allowance recorded: | | | | | |
| One- to Four- Family - Owner-Occupied | $— | $ — | $ — | $ — | $ — |
| Consumer | — | — | — | — | — |
| One- to Four- Family Non-Owner Occupied Mortgage | — | — | — | — | — |
| Multi-family Residential Real Estate Mortgage | — | — | — | — | — |
| Nonresidential Real Estate | 1,867 | 1,987 | (120 ) | 29 | 1,867 |
| Construction | — | — | — | — | — |
| Land | — | — | — | — | — |
| Commercial and Agricultural | — | — | — | — | — |
| Total | $1,867 | $ 1,987 | $ (120 ) | $ 29 | $ 1,867 |

Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the three months ended September 30, 2014 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Without an allowance recorded: | | | | | |
| One- to Four- Family - Owner-Occupied | $3,885 | $4,411 | $ — | $ 13 | $ 3,834 |
| Consumer | 622 | 1,138 | — | 3 | 628 |
| One- to Four- Family Non-Owner Occupied Mortgage | 196 | 196 | — | — | 350 |
| Multi-family Residential Real Estate Mortgage | 1,656 | 2,990 | — | 27 | 2,260 |
| Nonresidential Real Estate | 5,203 | 8,804 | — | 10 | 5,489 |
| Construction | — | — | — | — | — |
| Land | 19 | 27 | — | — | 19 |
| Commercial and Agricultural | — | 4 | — | — | — |
| Total | $11,581 | $17,570 | $ — | $ 53 | $ 12,580 |

Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the three months ended September 30, 2014 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Total: | | | | | |
| One- to Four- Family - Owner-Occupied | $3,885 | $4,411 | $ — | $ 13 | $ 3,834 |
| Consumer | 622 | 1,138 | — | 3 | 628 |
| One- to Four- Family Non-Owner Occupied Mortgage | 196 | 196 | — | — | 350 |
| Multi-family Residential Real Estate Mortgage | 1,656 | 2,990 | — | 27 | 2,260 |
| Nonresidential Real Estate | 7,070 | 10,791 | (120 ) | 39 | 7,356 |
| Construction | — | — | — | — | — |
| Land | 19 | 27 | — | — | 19 |
| Commercial and Agricultural | — | 4 | — | — | — |
| Total | $13,448 | $19,557 | $ (120 ) | $ 82 | $ 14,447 |

Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the year ended June 30, 2014 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| With an allowance recorded: | | | | | |
| One- to Four- Family - Owner-Occupied | $— | $ — | $ — | $ — | $ — |

| | | | | | |
|---|---|---|---|---|---|
| Consumer | — | — | — | — | — |
| One- to Four- Family Non-Owner Occupied Mortgage | — | — | — | 5 | 164 |
| Multi-family Residential Real Estate Mortgage | — | — | — | 56 | 2,535 |
| Nonresidential Real Estate | 1,867 | 1,987 | (120) | 52 | 2,115 |
| Construction | — | — | — | — | — |
| Land | — | — | — | — | — |
| Commercial and Agricultural | — | — | — | — | — |
| Total | $1,867 | $ 1,987 | $ (120) | $ 113 | $ 4,814 |

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Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the year ended June 30, 2014 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Without an allowance recorded: | | | | | |
| One- to Four- Family - Owner-Occupied | $3,783 | $4,380 | $ — | $65 | $4,244 |
| Consumer | 634 | 1,163 | — | 25 | 591 |
| One- to Four- Family Non-Owner Occupied Mortgage | 504 | 617 | — | 25 | 874 |
| Multi-family Residential Real Estate Mortgage | 2,863 | 4,602 | — | 202 | 4,365 |
| Nonresidential Real Estate | 5,775 | 9,566 | — | 81 | 5,084 |
| Construction | — | — | — | — | — |
| Land | 19 | 28 | — | — | 24 |
| Commercial and Agricultural | — | 8 | — | — | 1 |
| Total | $13,578 | $20,364 | $ — | $398 | $15,183 |

Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the year ended June 30, 2014 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Total: | | | | | |
| One- to Four- Family - Owner-Occupied | $3,783 | $4,380 | $ — | $65 | $4,244 |
| Consumer | 634 | 1,163 | — | 25 | 591 |
| One- to Four- Family Non-Owner Occupied Mortgage | 504 | 617 | — | 30 | 1,038 |
| Multi-family Residential Real Estate Mortgage | 2,863 | 4,602 | — | 258 | 6,900 |
| Nonresidential Real Estate | 7,642 | 11,553 | (120) | 133 | 7,199 |
| Construction | — | — | — | — | — |
| Land | 19 | 28 | — | — | 24 |
| Commercial and Agricultural | — | 8 | — | — | 1 |
| Total | $15,445 | $22,351 | $ (120) | $511 | $19,997 |

The Bank did not have any investments in subprime loans at September 30, 2014. Impaired loans at September 30, 2014 included troubled debt restructurings ("TDR") with an aggregate principal balance of $8.1 million and a recorded investment of $8.0 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 mortgage, 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 restructured terms and has been performing 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, 2014 Loan Status | | | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | Accrual | Nonaccrual | **Total Unpaid Principal Balance** | **Related Allowance** | **Recorded Investment** | **Number of Loans** | **Average Recorded Investment** |
| One- to Four-Family residential real estate | $744 | $ 1,528 | $ 2,272 | $ - | $ 2,272 | 19 | $ 2,386 |
| Multi-family residential real estate | 1,656 | - | 1,656 | - | 1,656 | 6 | 2,260 |
| Nonresidential real estate | 2,728 | 1,439 | 4,167 | 120 | 4,047 | 8 | 4,287 |
| Total | $5,128 | $ 2,967 | $ 8,095 | $ 120 | $ 7,975 | 33 | $ 8,933 |

| | At June 30, 2014 Loan Status | | | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | Accrual | Nonaccrual | **Total Unpaid Principal Balance** | **Related Allowance** | **Recorded Investment** | **Number of Loans** | **Average Recorded Investment** |
| One- to Four-Family residential real estate | $947 | $ 1,552 | $ 2,499 | $ — | $ 2,499 | **21** | $ 3,382 |
| Multi-family residential real estate | 1,663 | 1,200 | 2,863 | — | 2,863 | 7 | 5,607 |
| Nonresidential real estate | 3,008 | 1,639 | 4,647 | 120 | 4,527 | 11 | 5,404 |
| Total | $5,618 | $ 4,391 | $ 10,009 | $ 120 | $ 9,889 | 39 | $ 14,393 |

Interest income recognized on TDRs is as follows:

For the three months ended September 30,

| | 2014 | 2013 |
|---|---|---|
| One-to-Four Family residential real estate | $ 6 | $ 20 |
| Multi-family residential real estate | 27 | 82 |
| Nonresidential real estate | 39 | 39 |
| Construction | - | - |
| Commercial | - | - |
| Consumer | - | - |
| Total | $ 72 | $ 141 |

At September 30, 2014, the Bank had 33 loans totaling $8.1 million that were reported as TDRs, and had established an allowance for losses on these loans of $120,000. With respect to the $8.1 million in TDRs, the Bank charged-off $4.7 million with respect to these loans at the time of restructuring into the Note A/B split note format. At June 30, 2014, the Bank had 39 loans totaling $10.0 million that were reported as TDRs, and had an allowance for losses on these loans of $120,000. With respect to the $10.0 million in TDRs, the Bank charged-off $4.9 million with respect to these loans at the time these loans were restructured into the Note A/B split note format. At September 30, 2014, 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, 2014 and June 30, 2014 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. Six of these loans, having an aggregate carrying value of $5.5 million at September 30, 2014, also have balloon payments due at the end of their lowered interest rate period. At September 30, 2014, there were 23 loans having an aggregate carrying value of $5.8 million with required principal and interest payments and three loans with required interest only payments. At June 30, 2014, there were 27 loans having an aggregate carrying value of $7.7 million with required principal and interest payments and three loans with required interest only payments.

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

| | Three Months Ended September 30, 2014 | |
|---|---|---|
| | Recorded Investment | Number of Loans |
| (Dollar amounts in thousands) | | |
| Beginning balance | $ 9,889 | 39 |
| Additions to TDR | - | - |
| Charge-offs | - | - |
| Removal of TDRs[1] | (1,844) | (6) |
| Payments | (70) | - |
| Ending balance | $ 7,975 | 33 |

[1] The removal of these loans from TDR was due to payoffs of loans and loans eligible for TDR removal during the three months ended September 30, 2014.

13. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure – a consensus of the FASB Emerging Issues Task Force*. This ASU reduces diversity in practice with regards to the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. For public companies, this ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 with earlier adoption permitted for companies which have already adopted ASU 2014-04. We do not expect the adoption of this guidance to have a significant impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved After the Requisite Service Period – a consensus of the FASB Emerging Issues Task Force*. This ASU requires that a performance target that could be achieved after the requisite service period be treated as a performance condition. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015 with earlier adoption permitted. We do not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, which modifies the accounting for and disclosures related to such transactions. For public companies, the accounting changes in the ASU are effective for the first interim or annual period beginning after December 15, 2014. Early application is prohibited. We do not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU affects companies that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. For public companies, this ASU is effective for annual reporting periods, including interim periods, beginning after December 15, 2016. Early application is not permitted. We do not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)*¸ which clarifies when an in substance repossession or foreclosure has occurred and the creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan either when legal title to the residential real estate property is obtained upon completion of a foreclosure or when the borrower has conveyed all interest in the residential real property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar arrangement. The ASU also require disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. 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 26, 2014, 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 collectibility 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 4 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 26, 2014.

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, 2014 and June 30, 2014. The Company recognized no interest and penalties on the underpayment of income taxes during the three month periods ended September 30, 2014 and 2013, and had no accrued interest and penalties on the balance sheet as of September 30, 2014 and June 30, 2014. 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 ending on or before June 30, 2010.

**Comparison of Financial Condition at September 30, 2014 and June 30, 2014**

**Balance Sheet Analysis**

Total assets were $522.8 million at September 30, 2014, compared to $530.5 million at June 30, 2014. A $23.3 million decrease in investment securities was partially offset by a $14.4 million increase in cash and cash equivalents. The sale of mortgage-backed securities generated cash proceeds of $26.8 million, with $12.8 million redeployed for the purchase of held to maturity investment securities.

Total liabilities decreased $4.9 million from $457.5 million at June 30, 2014 to $452.6 million at September 30, 2014 due to a $5.1 million decrease in deposits during the current year quarter, primarily as a result of a decrease in municipal deposits.

Total stockholders' equity decreased $2.6 million from $72.9 million at June 30, 2014 to $70.3 million at September 30, 2014. The decrease is primarily due to the repurchase of 257,623 shares of Company common stock at an aggregate purchase price of $3.1 million during the current quarter, partially offset by net income of $479,000 for the current quarter.

***Loans.*** At September 30, 2014, one- to four- family residential loans totaled $132.3 million, or 52.4% of total gross loans, compared to $129.5 million, or 51.6% of total gross loans, at June 30, 2014.

Multi-family and nonresidential real estate loans totaled $70.2 million and represented 27.8% of total loans at September 30, 2014, compared to $72.4 million, or 28.9% of total loans, at June 30, 2014.

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

| | At September 30, 2014 | | At June 30, 2014 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | |
| Residential real estate: | | | | |
| One- to four-family | $132,298 | 52.4 % | $129,484 | 51.6 % |
| Multi-family | 22,304 | 8.8 | 23,645 | 9.4 |
| Construction | 3,590 | 1.4 | 2,880 | 1.1 |
| Nonresidential real estate | 47,882 | 19.0 | 48,769 | 19.5 |
| Land | 3,581 | 1.4 | 3,391 | 1.4 |
| Commercial business | 4,610 | 1.8 | 4,514 | 1.8 |
| Agricultural | 3,695 | 1.5 | 3,456 | 1.4 |
| Consumer: | | | | |
| Home equity | 30,798 | 12.2 | 30,804 | 12.3 |
| Auto | 1,586 | 0.6 | 1,516 | 0.6 |
| Share loans | 973 | 0.4 | 1,088 | 0.4 |
| Other | 1,300 | 0.5 | 1,261 | 0.5 |
| Total consumer loans | 34,657 | 13.7 | 34,669 | 13.8 |
| Total loans | $252,617 | 100.0% | $250,808 | 100.0 % |
| | | | | |
| Less (plus): | | | | |
| Deferred loan costs, net | (1,136 ) | | (1,118 ) | |
| Undisbursed portion of loans in process | 2,228 | | 2,083 | |
| Allowance for loan losses | 5,564 | | 5,459 | |
| Loans, net | $245,961 | | $244,384 | |

**Loan Maturity**

The following table sets forth certain information at September 30, 2014 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments, which significantly shorten the average life of all loans 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 | $8,222 | $ 31,835 | $ 92,241 | $132,298 |
| Multi-family real estate | 1,505 | 3,902 | 16,897 | 22,304 |
| Construction | 99 | - | 3,491 | 3,590 |

| | | | | |
|---|---|---|---|---|
| Nonresidential real estate | 2,721 | 19,555 | 25,606 | 47,882 |
| Land | 83 | 2,607 | 891 | 3,581 |
| Commercial | 1,060 | 2,386 | 1,164 | 4,610 |
| Agricultural | 317 | 2,905 | 473 | 3,695 |
| Consumer | 1,577 | 3,264 | 29,816 | 34,657 |
| Total | $15,584 | $ 66,454 | $ 170,579 | $252,617 |

The following table sets forth the dollar amount of all loans at September 30, 2014 due after September 30, 2015 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) | | |
| One- to four-family residential real estate | $41,439 | $ 82,637 | $124,076 |
| Multi-family real estate | 8,816 | 11,983 | 20,799 |
| Construction | 3,103 | 388 | 3,491 |
| Nonresidential real estate | 10,638 | 34,523 | 45,161 |
| Land | 1,835 | 1,663 | 3,498 |
| Commercial | 1,660 | 1,890 | 3,550 |
| Agricultural | 775 | 2,603 | 3,378 |
| Consumer | 2,096 | 30,984 | 33,080 |
| Total | $70,362 | $ 166,671 | $237,033 |

**Loan Activity**

The following table shows loan origination, repayment and sale activity during the periods indicated.

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (in thousands) | |
| Total loans at beginning of period | $250,808 | $260,716 |
| Loans originated (1): | | |
| One- to four-family residential real estate | 8,766 | 5,455 |
| Multi-family residential real estate | - | - |
| Construction | 1,650 | - |
| Nonresidential real estate | 1,113 | 512 |
| Land | 217 | 26 |
| Commercial business | 871 | 17 |
| Consumer | 648 | 554 |
| Total loans originated | 13,265 | 6,564 |
| Deduct: | | |
| Loan principal repayments | 10,520 | 5,460 |
| Loans originated for sale | 936 | 7,218 |
| Net loan activity | 1,809 | (6,114 ) |
| Total loans at end of period | $252,617 | $254,602 |

(1) Includes loan renewals, loan refinancings and restructured loans.

**Results of Operations for the Three Months Ended September 30, 2014 and 2013**

***Overview.*** Net income decreased $283,000 to $479,000 for the quarter ended September 30, 2014, compared to net income of $762,000 for the quarter ended September 30, 2013.

***Net Interest Income.*** The following table summarizes changes in interest income and interest expense for the three months ended September 30, 2014 and 2013.

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | **(Dollars in thousands)** | | |
| Interest income: | | | |
| Loans | $2,849 | $3,097 | (8.0 )% |
| Investment and mortgage backed securities | 895 | 657 | 36.2 |
| Other interest-earning assets | 17 | 5 | 240.0 |
| Total interest income | 3,761 | 3,759 | 0.1 |
| | | | |
| Interest expense: | | | |
| NOW and money market deposit accounts | 108 | 140 | (22.9 ) |
| Passbook accounts | 55 | 53 | 3.8 |
| Certificates of deposit | 451 | 512 | (11.9 ) |
| Total interest-bearing deposits | 614 | 705 | (12.9 ) |
| FHLB advances | 63 | 43 | 46.5 |
| Total interest expense | 677 | 748 | (9.5 ) |
| Net interest income | $3,084 | $3,011 | 2.4 |

Net interest income increased to $3.1 million for the quarter ended September 30, 2014 compared to $3.0 million for the quarter ended September 30, 2013. Interest income remained constant while interest expense decreased $71,000 from the prior year period. A decrease in the average interest rate earned on loans from 4.95% for the quarter ended September 30, 2013 to 4.66% for the quarter ended September 30, 2014 and a $5.4 million decrease in the average balance of loans, were offset by an increase in the average rate earned on investments from 1.27% for the quarter ended September 30, 2013 to 1.74% for the quarter ended September 30, 2014. The decrease in interest expense was primarily the result of a decrease in the average interest rate paid on deposits from 0.66% for the quarter ended September 30, 2013 to 0.56% for the quarter ended September 30, 2014. Changes in interest rates are reflective of decreases in overall market rates.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2014 and 2013. For the purposes of this table, average balances have been calculated using month-end balances, and nonaccrual loans are included in average balances only. Yields are not presented on a tax equivalent basis.

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost |
| | (Dollars in thousands) | | | | | |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | $244,707 | $ 2,849 | 4.66 % | $250,092 | $ 3,097 | 4.95 % |
| Investment securities | 205,581 | 895 | 1.74 | 207,136 | 657 | 1.27 |
| Other interest-earning assets | 33,307 | 17 | 0.20 | 18,062 | 5 | 0.11 |
| Total interest-earning assets | 483,595 | 3,761 | 3.11 | 475,290 | 3,759 | 3.16 |
| Noninterest-earning assets | 41,643 | | | 38,557 | | |
| Total assets | $525,238 | | | $513,847 | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| NOW and money market deposit accounts | $164,873 | 108 | 0.26 % | $157,697 | 140 | 0.36 % |
| Passbook accounts | 98,169 | 55 | 0.22 | 95,120 | 53 | 0.22 |
| Certificates of deposit | 172,491 | 451 | 1.05 | 173,392 | 512 | 1.18 |
| Total interest-bearing deposits | 435,533 | 614 | 0.56 | 426,209 | 705 | 0.66 |
| FHLB advances | 15,000 | 63 | 1.68 | 11,250 | 43 | 1.53 |
| Total interest-bearing liabilities | 450,533 | 677 | 0.60 | 437,459 | 748 | 0.68 |
| Noninterest-bearing liabilities | 3,138 | | | 3,246 | | |
| Total liabilities | 453,671 | | | 440,705 | | |
| Total stockholders' equity | 71,567 | | | 73,142 | | |
| Total liabilities and stockholders' equity | $525,238 | | | $513,847 | | |
| Net interest income | | $ 3,084 | | | $ 3,011 | |
| Interest rate spread | | | 2.51 % | | | 2.48 % |
| Net interest margin | | | 2.55 % | | | 2.53 % |
| Average interest-earning assets to average interest-bearing liabilities | | | 107.34 % | | | 108.65 % |

***Provision for (Recovery of) Loan Losses.*** The provision for loan losses was $9,000 for the quarter ended September 30, 2014 compared to a recovery of loan losses of $442,000 for the quarter ended September 30, 2013. The prior year quarter was impacted by a $379,000 recovery of a commercial loan and a $124,000 recovery from two one- to four-family loans, all of which were paid off during the prior year quarter. The current quarter provision for loan losses is reflective of continued improvement in our asset quality. Nonperforming loans as a percentage of total loans decreased from 3.97% at June 30, 2014 to 3.34% at September 30, 2014, and nonperforming assets as a percentage of total assets decreased from 1.99% at June 30, 2014 to 1.75% at September 30, 2014.

***Other Income.*** The following table summarizes other income for the three months ended September 30, 2014 and 2013.

| | Three Months Ended September 30, | | % |
|---|---|---|---|
| | 2014 | 2013 | Change |
| | (Dollars in thousands) | | |
| Service charges | $671 | $651 | 3.1 % |
| Gain on sale of loans | 27 | 87 | (69.0 ) |
| Loss on sale of investments | (21 ) | - | (100.0 ) |
| Gain (loss) on sale of other real estate owned | 19 | (1 ) | 2,000.0 |
| Gain on sale of fixed assets | - | 136 | (100.0 ) |
| Income from bank-owned life insurance | 134 | 108 | 24.1 |
| Other | 54 | 71 | (23.9 ) |
| Total other income | $884 | $1,052 | (16.0 ) |

Other income decreased $168,000, or 16.0%, to $884,000 for the quarter ended September 30, 2014 from $1.1 million for the quarter ended September 30, 2013. The decrease in other income was primarily due to a $136,000 decrease in gain on sale of fixed assets due to the sale of our Osgood branch facility during the prior year quarter.

***Noninterest Expense.*** The following table shows the components of noninterest expense and the percentage changes for the three months ended September 30, 2014 and 2013.

| | Three Months Ended September 30, | | % |
|---|---|---|---|
| | 2014 | 2013 | Change |
| | (Dollars in thousands) | | |
| Compensation and employee benefits | $1,816 | $1,803 | 0.7 % |
| Premises and occupancy expense | 339 | 304 | 11.5 |
| Deposit insurance premium | 99 | 97 | 2.1 |
| Advertising expense | 102 | 106 | (3.8 ) |

| | | | |
|---|---|---|---|
| Data processing expense | 339 | 406 | (16.5 ) |
| Provision for loss on real estate owned | - | 1 | (100.0 ) |
| Intangible amortization | 30 | 39 | (23.1 ) |
| Professional fees | 314 | 289 | 8.7 |
| Other operating expenses | 367 | 403 | (8.9 ) |
| Total noninterest expense | $3,406 | $3,448 | (1.2 )% |

Noninterest expense remained constant at $3.4 million for the quarters ended September 30, 2014 and 2013.

***Income Taxes.*** Income tax expense for the three months ended September 30, 2014 was $74,000 compared to $295,000 for the three months ended September 30, 2013. The decrease in income tax expense for the current year period is due to a decrease in income before income taxes as well as increases in non-taxable income from municipal bonds and bank owned life insurance in the current year quarter.

***Analysis of Nonperforming Assets.*** We consider foreclosed real estate, repossessed assets and nonaccrual loans, including nonaccrual TDR loans to be nonperforming assets.

All of the TDRs at September 30, 2014 represented loan relationships with long-time borrowers. In measuring impairment, management considered the results of independent property appraisals, together with estimated selling expenses, and/or detailed cash flow analyses. At September 30, 2014, 33 loans were considered to be TDRs (with a recorded investment of $7.8 million) of which 22 loans (with a recorded investment of $2.8 million) were included in nonperforming assets.

The following table provides information with respect to our nonperforming assets at the dates indicated.

| (Dollars in thousands) | At September 30, 2014 (Unaudited) | At June 30, 2014 |
|---|---|---|
| Nonaccrual loans: | | |
| One- to four-family residential real estate | $ 1,809 | $ 1,788 |
| Nonresidential real estate and land | 3,042 | 3,136 |
| Consumer | 622 | 633 |
| Total nonaccrual loans | 5,473 | 5,557 |
| Nonaccrual restructured loans: | | |
| One- to four-family residential real estate | 1,528 | 1,552 |
| Multi-family real estate | - | 1,200 |
| Nonresidential real estate and land | 1,439 | 1,639 |
| Total nonaccrual restructured loans | 2,967 | 4,391 |
| Total nonperforming loans | 8,440 | 9,948 |
| Real estate owned | 705 | 598 |
| Total nonperforming assets | 9,145 | $ 10,546 |
| Accruing restructured loans | 5,128 | 5,618 |
| Accruing restructured loans and nonperforming assets | $ 14,273 | $ 16,164 |
| Total nonperforming loans to total loans | 3.34 % | 3.97 % |
| Total nonperforming loans to total assets | 1.61 | 1.88 |
| Total nonperforming assets to total assets | 1.75 | 1.99 |
| Total number of nonaccrual loans | 72 | 76 |

Interest income that would have been recorded for the three months ended September 30, 2014 had nonaccruing loans been current according to their original terms was $91,000. Interest recognized on the cash basis with regard to nonaccrual restructured loans was $56,000 for the three months ended September 30, 2014.

At September 30, 2014, the percentage of nonperforming assets to total assets decreased to 1.75% from 1.99% at June 30, 2014, a decrease of 0.24%, or 12.06%. A discussion of United Community Bank's largest outstanding loans that were reported as nonperforming loans or TDRs at either September 30, 2014 or June 30, 2014 are described below in the narratives regarding the "Loan Relationships." As reflected below, some of the Loan Relationships include loans that were restructured using the "Note A/B split note" strategy for which the amount of the Note B loan has been charged-off, with the borrower remaining responsible for that charged-off amount.

For purposes of this discussion, the loans are identified by a Loan number within each Loan Relationship, such as "Loan A-1", "Loan A-2" and "Loan M-1 and M-2".

The five largest commercial real estate nonaccrual loans at September 30, 2014 are Loans B-1, J, L, M-1, and M-2. At September 30, 2014, the five largest charge-offs were comprised of loans in Loan Relationships B, E, F, H and K. Management monitors the performance of all of these loans and reviews all options available to keep the loans current, including further restructuring of the loans. If restructuring efforts ultimately are not successful, management will initiate foreclosure proceedings.

- Loan Relationship A. At September 30, 2014, Loan A-2 had no carrying value because, as previously disclosed, the principal balance of Loan A-2, which was $1.2 million at June 30, 2014, was paid in full in July 2014, with the Bank experiencing no additional principal balance loss. At June 30, 2014, this Loan Relationship consisted of one loan (Loan A-2) that had an aggregate carrying value of $1.2 million. Loan A-2 was secured by a first mortgage on two mobile home parks. At September 30, 2014, Loan A-2 was not included in the above “Nonaccrual restructured loans, Multi-family real estate” table. At June 30, 2014, Loan A-2 is included in the above table in “Nonaccrual restructured loans, Multi-family real estate” due to its restructuring as described below. At September 30, 2014, Loan A-2 was not classified as “Multi-Family Residential Real Estate, Substandard” in the “Credit Risk Profile by Internally Assigned Grade” table on page 38. At June 30, 2014, Loan A-2 was classified as “Multi-Family Residential Real Estate, Substandard” in the “Credit Risk Profile by Internally Assigned Grade” table on page 39.

The loans comprising Loan Relationship A were originally restructured in October and November 2010. At the time of the original restructuring in 2010, Loan A-1, had a carrying value of $3.0 million, was 180 days delinquent, and Loans A-2 and A-3 were performing in accordance with their original terms. Management performed a global analysis of the borrowers and restructured each of the three loans by reducing the original loan rates by 125 to 225 basis points to a rate that was 25 basis points below market rate. Foregone interest income amounted to $51,000 on loans A-2 and A-3 at the time of their restructuring. The borrowers paid a loan modification fee of $3,000 for this restructuring. On each of the three loans, one of the borrowers is a corporate entity whose principals individually signed as co-borrowers. At the time of the original restructuring, the Bank analyzed the personal net worth, liquid net worth, debt-to-income ratios and credit scores of the co-borrowers. While the co-borrowers were not expected to cover a total loss on the loans, management believed the co-borrowers would mitigate the amount of the potential future losses. Management established a $1.1 million specific allocation on these three loans through a charge-off to the general allowance for loan losses as reflected in the Company's Form 10-K, as amended, for the year ended June 30, 2011 filed with the Securities and Exchange Commission on March 28, 2012.

In March 2011, Loan A-2 had a carrying value of $1.8 million and was performing in accordance with its restructured terms. Loan A-3 had a carrying valuation of $1.6 million. In March 2011, Loan A-3 was again experiencing cash flow problems due to the combined effect decreases in rental revenue from the properties. Due to financial difficulties experienced by the co-borrowers, including the cash flow problems of the subject properties and a decrease in other outside sources of income, the co-borrowers were unable to mitigate the losses on the loans. Therefore, in March 2011, Loan A-3 was restructured into two loans, using the Note A/B split note strategy. The first loan (Loan A-3, a Note A loan) had a balance of $994,000, was classified as substandard, reported as a TDR, and placed on nonaccrual. The second loan (a Note B loan) had a balance of $651,000 that was charged-off as reflected in the Company's Form 10-K, as amended, for the year ended June 30, 2011 filed with the Securities and Exchange Commission on March 28, 2012.

During the latter part of the quarter ended March 31, 2014, Loan A-2 began experiencing financial difficulties, primarily due to decreased rental revenue resulting from a decrease in occupancy. As a result of the decreased cash flow, the Bank re-appraised the two mobile home parks securing the loan. The new appraisal reflected a decrease of approximately $200,000 from the previous appraisal. In conjunction with the new appraisal, the Bank conducted an impairment analysis which resulted in the need for a specific allocation of $172,000. During the quarter ended June 30, 2014, Loan A-2 continued to experience financial difficulties, again, primarily due to decreased revenue caused by continuing decrease in occupancy. The Bank conducted another impairment analysis based on the further decreased revenue in the quarter ending June 30, 2014. This impairment analysis resulted in a need for a $404,000 charge off, including the specific allocation of $172,000 established in the March 31, 2014 quarter. As noted above, the balance of Loan A-2 was paid off in July 2014.

- Loan Relationship B. At September 30, 2014, this Loan Relationship consisted of two loans (one Note A loan, Loan B-1, and one Note B loan) having an aggregate carrying value of $1.1 million. At June 30, 2014, this Loan Relationship consisted of four loans (two Note A loans, Loan B-1 and Loan B-2, and two Note B loans) having an aggregate carrying value of $1.3 million. At September 30, 2014, Loan B-1, which was restructured previously using the Note A/B split note strategy, had an aggregate carrying value of $1.1 million, and is secured by a first mortgage on two separate retail strip shopping centers. At June 30, 2014, Loan B-1 had an aggregate carrying value of $1.2

million and secured by the same collateral. At September 30, 2014, Loan B-2, which was restructured previously using the Note A/B split note strategy, had no aggregate carrying value as the principal balance of Loan B-2, which was $169,000 at June 30, 2014, was paid in full in September 2014, with the Bank experiencing no additional principal balance loss. Loan B-1 is included in the above table as “Nonaccrual restructured loans, Nonresidential real estate” at September 30, 2014 and June 30, 2014. At September 30, 2014, Loan B-2 was not included in the above “Nonaccrual restructured loans, Nonresidential real estate” table. In the “Credit Risk Profile by Internally Assigned Grade” table on page 38, Loans B-1 is classified as “Nonresidential real estate, Substandard” at September 30, 2014 and June 30, 2014. At September 30, 2014, Loan B-2 was not classified as “Multi-Family Residential Real Estate, Substandard” in the “Credit Risk Profile by Internally Assigned Grade” table on page 38. At June 30, 2014, Loan B-2 was classified as “Multi-Family Residential Real Estate, Substandard” in the “Credit Risk Profile by Internally Assigned Grade” table on page 39. Loan B-1 was performing in accordance with its restructured terms at September 30, 2014. A more detailed history of Loan Relationship B follows.

The loans comprising Loan Relationship B were originally restructured in June 2010, with an aggregate carrying value of $4.1 million. At the time of the original restructuring, the property value was based primarily on the collateral's cash flow, including required personal cash infusions from the co-borrowers. Management believed that the lower debt service would improve the borrowers' cash flow, and in turn, the performance of the loans. One of the borrowers is a corporate entity. The principals of the corporate borrower are co-borrowers on the loans. The Bank analyzed the personal net worth, liquid net worth, debt to income ratios and credit scores of the co- borrowers. While the co-borrowers were not expected to cover a total loss on the loans, management believed the co-borrowers would mitigate the amount of potential future losses. The restructured loans were considered impaired at June 30, 2010, with an allowance for loan loss of $600,000 to reflect the reduction in carrying value resulting from the exclusion of the required personal cash infusions from the co-borrowers from the calculation of the carrying value. In March 2011, the loans were again experiencing cash flow problems due to the combined effect due to decreases in rental revenue from the properties. Due to financial difficulties experienced by the co-borrowers, including the cash flow problems of the subject properties and a decrease in other outside sources of income, the co-borrowers were unable to mitigate the losses on the loans. Therefore, in March 2011, the two loans secured by the two separate retail strip shopping centers were combined and refinanced into two loans, using the Note A/B split note strategy. The first loan (Loan B-1, a Note A loan) had a balance of $2.4 million and was classified as substandard, reported as a TDR, and placed on nonaccrual. The second loan (a Note B loan) had a balance of $1.3 million and was charged-off (inclusive of the $600,000 specific allowance recorded for this Loan Relationship in the quarter ended June 30, 2010).

In March 2011, Loan B-2 was refinanced into two loans, using the Note A/B split note strategy. The first loan (Loan B-2, a Note A loan) was for $238,000 and was classified as substandard, reported as a TDR, and placed on nonaccrual. The second loan (a Note B loan) was for $169,000 and was charged-off. The restructured loans had interest rates 275 basis points lower than their 2010 restructured rates for a period of two years, and 500 basis points below their original rates.

In May 2012, one of the two retail strip shopping centers that secured Loan B-1 experienced the loss of a major tenant. The resultant decrease in cash flow caused the Bank to have the two retail strip shopping centers securing the loan appraised in June 2012. The appraisal reflected that the value of properties had declined to $1.45 million from the February 2011 appraised value of $2.95 million. Management determined that this loan would ultimately be settled through the sale of the property. A charge-off of $956,000 was established in the quarter ended June 30, 2012 based on the then most recent appraisal which indicated a known loss, together with an additional impairment of $189,000 based on the Bank's experience in settling foreclosed property. The carrying value of this loan was classified as substandard, and reported as a TDR, and placed on nonaccrual. The Bank also appraised the single purpose commercial use property in June 2012. The value of this property declined to $225,000 from $325,000 in February 2011 due to decreased cash flow from the then current tenant. Management determined that this loan would also be settled from the sale of the property. A charge-off in the amount of $22,000 was established based on the then most recent appraisal indicating a known loss, together with an additional impairment of $29,000 based on the Bank's experience in settling foreclosed property. The carrying value of this loan was classified as substandard, reported as a TDR, and placed on nonaccrual. During the quarter ended March 31, 2013, the balloon payment for the two loans secured by the two separate retail strip shopping centers became due. An independent appraisal was performed in March 2013 on the properties reflecting that the appraised value of the properties had increased to $1.8 million. The loan was restructured during the March 2013 quarter using the Note A/B split note strategy. The first loan (Loan B-1, a Note A loan) was refinanced for $1.3 million, with a market interest rate of 5.50% based on a 30 year loan term, and a three year balloon payment. As stated above, the carrying value of this loan was put on nonaccrual, classified as

substandard, and reported as a TDR. The second loan (a Note B loan) was for $2.3 million was charged-off. This charged-off amount equaled the amount of the Note B loan balance in March 2011 ($1.3 million) plus that portion Note A loan balance in March 2011 that was charged-off during the period ended June 30, 2012 ($1.0 million).

The balloon payment for Loan B-2 also came due during the quarter ended March 31, 2013. The Note A loan and the Note B loan secured by the single purpose commercial use property were modified again using the Note A/B split note strategy. The first loan (Loan B-2, a Note A loan) was modified to a balance of $185,000, with a market interest rate of 5.50%, for a 30-year term, and a three year balloon payment. As stated above, the carrying value of this loan was put on nonaccrual, classified as substandard, and reported as a TDR. The second loan (a Note B loan) was modified at its then current balance of $191,000 was charged-off. This charged-off amount equaled the amount of the Note B loan balance in March 2011 ($169,000) plus that portion of the Note A loan having a balance in March 2011 that was charged-off during the period ended June 30, 2012 ($22,000). As noted above, the balance of Loan B-2 was paid off in September 2014.

- Loan Relationship E. At September 30, 2014, this Loan Relationship was comprised of two loans (a Note A loan and a Note B loan) having an aggregate carrying value of $270,000. At June 30, 2014, Loan Relationship E was comprised of two loans (a Note A loan and a Note B loan) having an aggregate carrying value of $276,000. The loans are secured by nonresidential warehouse properties. There are no personal guarantees or co-borrowers on these loans. As described below, these loans were previously restructured using the Note A/B split note strategy. The first loan (a Note A loan) is included in the above table in "Accruing restructured loans" at September 30, 2014 and June 30, 2014. In the "Credit Risk Profile by Internally Assigned Grade" table on page 38, the Note A loan was classified as "Nonresidential real estate, Watch" at September 30, 2014 and "Nonresidential real estate, Substandard" at June 30, 2014. At September 30, 2014, Note A was no longer reported as a TDR loan because the loan was current and there were more than twelve consecutive monthly payments made on time. Also, recent appraisals indicated that the loan to value was adequate; the cash flows of the properties securing the loan indicated that the debt service coverage ratio was adequate. The Note A loan in Loan Relationship E was performing in accordance with its terms at September 30, 2014. A more detailed history of Loan Relationship E follows.

Loan Relationship E was originally comprised of one loan. The loan was restructured in April 2010. At June 30, 2010, the charge-off to the general allowance for loan losses, based upon a then current independent appraisal, was $308,000. The restructured loan had payments deferred for one year, while accruing interest at a market rate. This loan was scheduled to undergo an interest rate and payment reset in February 2011. There were no personal guarantees or co-borrowers on this loan. At the time of the loan adjustment period, it became apparent that the borrower would have difficulty making the required monthly payments beginning in February 2011. As a result, management completed a detailed analysis of this loan and determined to again restructure the loan utilizing the Note A/B split note strategy in March 2011. The terms of Note A the loan were calculated using the borrower's then current financial information to yield a payment having a debt service coverage ratio of approximately 1.5x, which was more stringent than the Bank's normal underwriting standards. A restructuring fee of $9,000 was charged and included in the Note B loan at March 31, 2011. The Note A loan had a balance of $569,000, put on nonaccrual, classified as substandard and was reported as a TDR. The Note B loan had a balance of $508,000, which was charged-off in the quarter ended March 31, 2011. This charged-off amount was inclusive of the previous specific reserve of $308,000 recorded during the period ended June 30, 2010. During the quarter ended March 31, 2013, the balloon payments for these loans became due. At that time, the Bank had been reviewing the cash flow of the property on a monthly basis and verified that the cash flows had not changed. An independent appraisal was ordered to provide the "as is" value of the property. The Bank obtained the appraisal in February 2013, and the appraised value of the property had decreased to $910,000 from $997,000 in February 2011. The loans were refinanced into two loans, again using the Note A/B split note strategy. The first loan (a Note A loan) had a balance of $519,000 with a market interest rate of 5.50%, for a 30- year term and a three year balloon payment. This loan was put on accrual (because of its sufficient payment history), classified as substandard, and reported as a TDR. The second loan (a Note B loan) had a balance of $507,000 and was charged-off. This

charged-off amount equaled the amount of the Note B loan originated in March 2011. In the quarter ended December 31, 2013, the borrower sold one of the four nonresidential properties securing the Note A loan and the Note B loan. The Bank received the net proceeds of $227,000 from this sale and applied these net proceeds to the balance of the Note A loan.

- Loan Relationship F. At September 30, 2014 and June 30, 2014, Loan Relationship F was comprised of two loans (a Note A loan and a Note B loan) having an aggregate carrying value of $433,000 and $437,000, respectively. These loans are secured by a multi-family residential real estate property and a single-family real estate property. The borrower is a corporate entity, with three principals, each of whom is a co-borrower of the loan. At September 30, 2014 and June 30, 2014, the Note A loan is not included in the above table as "Accruing restructured loans". In the "Credit Risk Profile by Internally Assigned Grade" table on pages 38 and 39, the Note A loan is classified as "Multi-family real estate, Watch at September 30, 2014 and June 30, 2014. At June 30, 2014, Note A was no longer reported as a TDR loan because the loan was current and there were more than twelve consecutive monthly payments made on time. Also, recent appraisals indicated that the loan to value was adequate, and finally, the cash flows from updated financial information indicated that the debt service coverage ratio was adequate. The Note A loan in Loan Relationship F was performing in accordance with its terms at June 30, 2014. A more detailed history of Loan Relationship F follows.

The original loan was initially restructured using the Note A/B split note strategy in June 2010 based on an 80% loan-to-value ratio derived from an April 2010 independent appraisal. The first loan (Note A) had a balance of $631,000 with a market interest rate of 5.50%, for a 25-year term, based on a 3/1 ARM. This loan was put on nonaccrual and classified as substandard. The second loan (a Note B loan) had a balance of $216,800 and there was a specific reserve established for the entire amount of the loan. The borrower was a corporate entity, with two principals, each of whom individually was a co-borrower of the loans. At December 31, 2010, the first loan was 160 days delinquent. The delinquency was a result of personal problems between the borrowers affecting their ability to manage the multi-family residential real estate and the single-family real estate. The personal problems between the borrowers also resulted in the borrowers' inability to make the required personal cash infusions. In the latter part of 2010 and into early 2011, one of the borrowers effectively took control of the multi-family residential real estate and the single-family real estate, and brought the business current with respect to property taxes, deposit refunds to former tenants, and made required monthly loan payments in January and February 2011. Other than the January and February 2011 loan payments, the borrowers were unable to make payments to bring the loan current. Based upon those developments, management completed a detailed analysis of the total lending relationship with the borrowers. As a result of this analysis, these loans were again restructured, using the Note A/B split note strategy in March 2011. The terms of first loan (a Note A loan) were calculated using the borrowers' then current financial information to yield a payment having a debt service coverage ratio of approximately 1.5x, which was more stringent than the Bank's normal underwriting standards. A restructuring fee of $7,000 was charged and included in the second loan (a Note B loan) at March 31, 2011. After the restructuring in March 2011, the Note A loan had a balance of $475,000, was put on nonaccrual, classified as substandard and reported as a TDR. The Note B loan had balance of $405,000. The full amount of the Note B loan was charged-off in the quarter ended March 31, 2011, inclusive of the previous specific reserve of $216,800 from December 31, 2010. A two year balloon payment was due in March 31, 2013 on the loans unless the borrower refinanced the loans to a market rate loan at that time. During the quarter ended December 31, 2012, as a result of the continued personal problems of the co-borrowers, the two loans were modified with one of the borrowers who had taken control of the two properties in early 2011. The other borrower relinquished all of its interest in the two properties. However, in addition to the one borrower retained on the loan, two other borrowers were added to the loans to provide managerial strength to the relationship and increase property's income potential. The Bank had been reviewing the cash flow of the property on a monthly basis and determined that the cash flows had improved due to the borrowers' enhanced managerial ability. An independent appraisal was ordered to provide the "as is" value of the properties. The Bank obtained the appraisal in December 2012, and the appraised value of the properties had decreased to $730,000 from $774,000 in February 2011. During the quarter ended December 31, 2012, the two loans were modified, again using the Note A/B split note strategy, with both loans having three year balloon payments. The Note A loan was modified to a market interest rate of 5.50%, with no increase in the principal balance ($453,000). The term of the loan was also reduced to 324 months from the remaining term of 339 months. Even with the higher market interest rate and the shorter term of the loan, the debt service coverage ratio is above 1.20x, which

complied with the Bank's current loan underwriting standards. This loan was put on accrual (because of its sufficient payment history), classified as substandard, and reported as a TDR. There was no increase in the principal balance ($405,000) of the Note B loan from that loan's prior restructuring in March 2011, and therefore, the charge off amount ($405,000) remained the same as in March 2011. However, the interest rate was reduced to 0%, as the loan had been charged-off.

Loan Relationship H. At September 30, 2014 and June 30, 2014, Loan Relationship H was comprised of three loans having an aggregate carrying value of $1.0 million. At September 30, 2014 and June 30, 2014, Loan H-1 was previously restructured using the Note A/B split note strategy, had an aggregate carrying value of $719,000 and $723,000, respectively. Loan H-1 is secured by a first lien on an 18-unit apartment complex, a single-family dwelling, a 6.3 acre tract of land, and a second lien on a single-family owner occupied dwelling on 11.36 acres. The borrower is a limited liability corporation and the two co-borrowers are the principals of the limited liability corporation. At September 30, 2014 and June 30, 2014, Loan H-1 is not included in the above table as “Accruing restructured loans”. In the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39, Loan H-1 is classified as “Multi-family residential real estate, Watch” at September 30, 2014 and June 30, 2014. At June 30, 2014, Note A was no longer reported as a TDR loan because the loan was current and there were more than twelve consecutive monthly payments made on time. Also, recent appraisals indicated that the loan to value was adequate and the cash flows from updated financial information of the properties securing the loan indicated that the debt service coverage ratio was adequate. During the quarter ended June 30, 2013 the Bank refinanced the principal residence of the co-borrowers (the single-family owner occupied dwelling on 11.36 acres mentioned above). This loan, Loan H-2, had an original balance of $280,000 at a market rate of interest for a ten year term. At September 30, 2014 and June 30, 2014, the balance of Loan H-2 was $251,000 and $257,000, respectively. Loan H-2 is not included in the above table as “Accruing restructured loans” at September, 30, 2014 and June 30, 2014. At September 30, 2014 and June 30, 2014, Loan H-2 was classified as “One- to Four-Family Owner-Occupied Mortgage, Watch” in the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39. At September 30, 2014, Loan H-1 was performing in accordance with its terms and Loan H-2 was performing in accordance with its original terms. A more detailed history of Loan Relationship H follows.

Originally, Loan Relationship H was comprised of one loan. The interest rate was to reset to 5.75% on June 1, 2012. The borrowers approached the Bank and advised it that the property’s cash flow could not service the increase in interest rate. Independent appraisals received in June 2012 reflected that the properties on which the Bank maintained a first lien interest were valued at $978,000. As of June 30, 2012, the Bank recorded a charge-off of $481,000 to reflect the carrying value of the loan at $744,000. Prior to the establishment of the $481,000 charge-off, management had established a specific allocation on this loan through a charge-off to the general allowance beginning in the June 30, 2009 quarter. The amount of the specific allocation as of March 31, 2012 was $639,000. The one loan was performing in accordance with its restructured terms at June 30, 2012. In the September 30, 2012 quarter, the borrowers again approached the Bank and advised it that the property’s cash flow could not service the loan. Therefore, the one loan was restructured, using the Note A/B split note strategy. The first loan (a Note A loan) was for $748,000, with a market rate of interest of 5.00%, for a 30-year term and a three year balloon payment. The carrying value of this loan was placed on nonaccrual, classified as substandard, and reported as a TDR. The second loan (a Note B loan) was for $515,000 (inclusive of the $481,000 that was charged-off in the June 30, 2012 quarter) and was charged-off. The interest rate was reduced to 0% as the loan had been charged-off.

Loan Relationship J. At September 30, 2014 and June 30, 2014, this relationship was comprised of two loans having an aggregate carrying value of $1.6 million. Loan J-1 is secured by a first mortgage on a nonresidential real estate property located on 2.17 acres of land and an additional 1.753 acre tract of land that is contiguous to the nonresidential real estate and is zoned for commercial development. Loan J-2 is secured by a first mortgage on six one-to four-family non owner-occupied residential properties and an 80 acre tract of land. Two of the Loan J-1 borrowers are corporate entities, each of whose principals individually signed as co-borrowers. One of the Loan J-2 borrowers is a corporate entity whose principal individually signed as a co-borrower. At September 30, 2014 and June 30, 2014, Loan J-1 is included in the above table in “Nonaccrual, Nonresidential Real Estate”. At September 30, 2014 and June 30, 2014, Loan J-2 is not included in the Nonaccrual table. At September 30, 2014 and June 30, 2014, Loan J-1 was classified as “Nonresidential Real Estate, Substandard” in the “Credit Risk Profile by Internally Assigned

Grade" table on pages 38 and 39. At September 30, 2014 and June 30, 2014, Loan J-2 was classified as "One-to Four-Family Non Owner-Occupied Mortgage, Watch" in the "Credit Risk Profile by Internally Assigned Grade" table on pages 38 and 39. At September 30, 2014, Loan J-1 was performing in accordance with its restructured terms, and J-2 was performing in accordance with its original terms. A more detailed history of Loan Relationship J follows.

During the quarter ended June 30, 2013, the co-borrowers of Loan J-1 approached the Bank and advised it that the entity that had been buying the nonresidential real estate portion of this property on land contract, was vacating the premises. The contract buyers also stated they were unable to make the contract loan payments. The co-borrowers had been using the payments from this land contract to make loan payments to the Bank. The Bank ordered an independent appraisal of the nonresidential real estate and the contiguous 1.753 acre tract of land. The appraised value, received in June 2013, totaled $1.1 million, $720,000 for the nonresidential real estate property, and $390,000 for the 1.753 acres tract of land. This was a decrease from the April 2007 appraised value of $1.6 million. The co-borrowers are able to pay $1,550 per month for the monthly real estate taxes and $3,450 per month on Loan J-1. Therefore, in the June 30, 2013 quarter, Loan J-1, with a carrying value of $869,000, net of the charge off amount of $161,000, was put on nonaccrual and classified as substandard and was reported as a TDR. The carrying value and the charge off amount were determined by an impairment analysis using 80% of the appraised value of the nonresidential real estate plus 75% of the appraised value of the 1.753 acre tract of land. Subsequent to June 30, 2013, the borrowers signed a purchase agreement with an unrelated third party for the nonresidential real estate property at a sales price that would enable any unpaid principal balance to be fully collateralized by the remaining collateral. During the quarter ended March 31, 2014, the purchase agreement expired and the potential purchaser decided they were no longer interested in the property. At the time of this filing, the borrowers are pursuing other possible sale or refinance opportunities.

· Loan Relationship K. At September 30, 2014 and June 30, 2014, this Loan Relationship was comprised of seven loans having an aggregate carrying value of $1.5 million. At September 30, 2014 and June 30, 2014 Loan K-1 had an aggregate carrying value of $734,000 and $735,000, respectively, and is secured by 11 one-to four-family non-owner occupied properties and one multi-family property. As further described below, Loan K-1 was previously restructured using the Note A/B strategy. Loan K-2 is secured by a first mortgage on the principal residence of two of the individual co-borrowers. Loan K-3 is a home equity line of credit secured by a second mortgage on the principal residence of two of the individual co-borrowers. Loan K-5 is secured by a first mortgage on the principal residence of the two individual co-borrowers. Loan K-6 is secured by a UCC-1 filing and a second mortgage on the principal residence the two individual co-borrowers. Loan K-7 is secured by a first mortgage on a nonresidential property and a third mortgage on the principal residence the two individual co-borrowers. One of the Loan K-1 co-borrowers is a corporate entity, each of whose principals, together with their respective spouses, is a co-borrower. Two of the Loan K-2 and K-3 co-borrowers are individual co-signors. Loan K-5 co-borrowers are individually signed. One of the Loan K-6 and K-7 co-borrowers is a corporate entity whose principal, together with their spouse, is co-borrower.

At September 30, 2014 and June 30, 2014, Note A of Loan K-1 is included in the above table in “Accruing Restructured Loans.” At September 30, 2014 and June 30, 2014, Loans K-2, K-3, K-5, K-6, and K-7, are not included in the above nonaccrual table because these loans were performing in accordance with their original terms. At September 30, 2014 and June 30, 2014, the Note A loan of Loan K-1 was classified as “Multi-Family, Substandard” in the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39. At September 30, 2014 and June 30, 2014, Loan K-2 was classified as “One-to Four-Family Owner-Occupied Mortgage, Watch” in the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39. At September 30, 2014 and June 30, 2014, Loan K-3 was classified as “Consumer, Pass” in the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39. At September 30, 2014 and June 30, 2014, Loan K-5 was classified as “One-to Four-Family Owner-Occupied Mortgage, Pass” in the “Credit Risk Profile by Internally Assigned Grade” table on page 38. At September 30, 2014 and June 30, 2014, Loan K-6 was classified as “Commercial and Agricultural, Pass” in the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39. At September 30, 2014 and June 30, 2014, Loan K-7 was classified as “Nonresidential Real Estate, Pass” in the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39. At September 30, 2014, the Note A loan of Loan K-1 was performing in accordance with its restructured terms, and

Loans K-2, K-3, K-5, K-6, and K-7, were performing in accordance with their original terms. A more detailed history of Loan K-1 follows.

In November 2011, a charge-off in the amount of $406,000 was established for Loan K-1 because of cash flow issues of the rental properties securing this loan. At that time independent appraisals were ordered. The new appraisals, received in December 2011, reflected that the values of the properties had decreased to $1.3 million from $2.0 million as of May 2007. The Bank determined to restructure the loan utilizing the Note A/B split note strategy. The first loan (Loan K-1, a Note A loan) was for $1.1 million with the market rate of interest of 5.50% and a two year balloon payment. This loan was put on nonaccrual, classified as substandard, and reported as a TDR. The second loan (a Note B loan) had a balance of $415,000 and was charged-off and the interest rate reduced to 0%. This charge-off amount was $9,000 more than the charge-off amount established in November 2011. In July 2012, the borrowers sold four of the rental properties and the net proceeds of $301,000 were applied to Loan K-1, reducing the principal to $823,000 from $1.1 million. A fifth rental property was released because of the condition of the property.

Loan K-1 was restructured again utilizing the Note A/B split note strategy during the quarter ended December 31, 2013 due to the balloon payment described above. The first loan (a Note A loan) was for $809,000 with the market rate of interest of 5.50% and a three year balloon payment. This loan was put on accrual (because of its sufficient payment history), classified as substandard, and reported as a TDR. The second loan (a Note B loan) had a balance of $415,000 and was charged-off and the interest rate reduced to 0%. In March 2014, the borrowers sold one of the rental properties and the net proceeds of $65,000 were applied to Loan K-1, reducing the principal to $739,000. Therefore, at September 30, 2014, there were a total of 12 rental properties remaining as collateral for this loan. In the December 31, 2013 quarter, Loan K-4 was paid in full.

· Loan Relationship L. At September 30, 2014 and June 30, 2014, this Loan Relationship was comprised of one loan having an aggregate carrying value of $295,000 and $304,000, respectively. This loan is secured by a first mortgage on two one-to four-family non-owner occupied properties and two nonresidential properties. The borrowers are husband and wife who jointly own these properties. Each of the borrowers is also a co-borrower on the loan. The loan is included in the above table in “Nonaccrual restructured loans, Nonresidential real estate” as of September 30, 2014 and June 30, 2014. In the “Credit Risk Profile by Internally Assigned Grade” table on pages 38 and 39, this loan is classified as “Nonresidential real estate, Substandard” at September 30, 2014 and June 30, 2014, and is reported as a TDR. This loan was performing in accordance with its restructured terms at September 30, 2014. A more detailed history of Loan Relationship L follows.

This Loan Relationship was originally comprised of two loans originated in the first quarter of 2008 and had an aggregate net carrying value of $743,000 at March 31, 2008. In early 2011, the borrowers began to experience cash flow problems because a major tenant in one of the nonresidential properties was making sporadic rental payments. At June 30, 2011, the two loans were not 30 days delinquent; nevertheless, the Bank ordered independent appraisals on the properties securing the loan due to the underlying cash flow problems. The appraisals were received in June 2011 and reflected a total value of $676,000 compared to the original November 2007 appraised value of $1.2 million. At September 30, 2011, one of the loans was 30 days delinquent at which time management determined to establish an impairment of $93,000. Based on the then most recent appraisal indicating a known loss and the borrowers’ cash flow problems, in the quarter ending December 31, 2011, management determined to refinance the two loans into one loan at a below market interest rate. A charge off of $124,000, inclusive of the impairment established in the September 30, 2011 quarter, was also recorded. As part of the Bank’s ongoing monitoring and impairment analysis, the Bank obtained new appraisals on all five properties relating to this loan relationship in the quarter ended June 30, 2013. The total value of these new appraisals was $680,000, reflecting an increase of $4,000 from the appraisals completed in June 2011. In the quarter ended September 30, 2013, the borrowers received an offer from a qualified buyer to purchase one of the nonresidential properties for $182,000. This property had appraised for $185,000 in June 2013. Based on the anticipated net proceeds from the sale to be applied to the loan’s principal balance, the Bank increased the charge off amount on this loan to $154,000 as of December 31, 2013. In January 2014, the property was sold and net proceeds of $65,000 were applied to the principal balance of the loan.

· Loan Relationship M. At September 30, 2014 and June 30, 2014, Loan Relationship M was comprised of two loans having an aggregate carrying value of $2.2 million and $2.3 million, respectively. The loans are secured by a first mortgage on two golf courses, including a club house on each, in the greater Cincinnati area, an approximately 25 acre tract of land, and a second mortgage on the principal residence of two of the individual co-borrowers. The borrower of Loans M-1 and M-2 is a corporate entity, each of whose principals, a husband and wife, has individually signed as a co-borrower, as have the father and step mother of one of the co-borrowers. At September 30, 2014 and June 30, 2014, Loans M-1 and M-2 are included in the above table in “Nonaccrual, Nonresidential Real Estate”. At

September 30, 2014 and June 30, 2014, Loans M-1 and M-2 were classified as "Nonresidential Real Estate, Substandard" in the "Credit Risk Profile by Internally Assigned Grade" table on pages 38 and 39. At March 31, 2014, the Bank had entered into a payment plan agreement with the borrowers to bring current loan payments that were not paid in November and December 2013, and real estate taxes due during the quarter ended March 31, 2014. At September 30, 2014, the borrowers have successfully completed the payment plan agreement from March 31, 2014 and both loans were current. Additionally, subsequent to June 30, 2014, the real estate taxes due during the March 31, 2014 quarter, were paid. However, at September 30, 2014, the real estate taxes that were due in July 2014 were not paid. Also, subsequent to the quarter ending September 30, 2014, due to cash flow issues caused by inclement weather during the month of October 2014, the payments due for October 2014, were not made and as of the date of the filing of this Form 10-Q, have not been paid. A more detailed history of Loan Relationship M follows.

Loan M-1 originated in December 2007 and Loan M-2 originated in July 2009 each with a 20 year term. Under each loan's terms, payments are due from April through December of each year; no payments are required in January, February and March of each year. Due to reduced cash flows resulting from inclement weather, in December 2013, the co-borrowers advised the Bank that they would pay the amounts due for November and December 2013 in February and March 2014, respectively. Due to the continuation of the severe winter weather and resultant reduced cash flows, borrowers were unable to make the payment due in February 2014 and were unable to make the tax payment due during the period ended March 31, 2014. As a result of the failure to make the November payment, the decrease in cash flow and the borrowers' failure to pay real estate taxes, the Bank had both properties appraised. The appraisals were received in March 2014 and reflected an aggregate decrease in value of approximately $500,000 as compared to their March 2009 appraised value. Based on the new appraised value, there was no known loss to the Bank. The Bank also performed an impairment analysis on each loan in March 2014 resulting in an aggregate impairment of $41,000. In March 2014, the Bank and the co-borrowers agreed to a revised repayment plan to bring all payments, and real estate taxes due, but not paid during the period ended March 31, 2014, current by July 31, 2014. At June 30, 2014, an impairment analysis was performed. The impairment analysis showed that no impairment was needed on either Loan M-1or Loan M-2. At this time, based on further impairment analysis, no additional impairment is needed.

The following table summarizes all Note A/B format loans at September 30, 2014:

| (Dollars in thousands) | Loan Balances | | | Number of Loans | |
|---|---|---|---|---|---|
| | Note A | Note B | Total | Note A | Note B |
| Nonresidential real estate | $2,522 | $3,285 | $5,807 | 4 | 4 |
| Multi-family residential real estate | 1,885 | 1,335 | 3,220 | 3 | 3 |
| Total (1) | $4,407 | $4,620 | $9,027 | 7 | 7 |

(1) Included in this total are an aggregate of $2.6 million comprised of Note A loans and $3.6 million comprised of Note B loans that are included in the discussion of Loan Relationships B, E, F and K.

The following table provides information with respect to all of our loans that are classified as troubled debt restructurings. For additional information regarding troubled debt restructurings on nonaccrual status, see the table of nonperforming assets above.

| | At September 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loan Status | | | | | | |
| (in thousands) | Accrual | Nonaccrual | Total Unpaid Principal Balance | Related Allowance | Recorded Investment | Number of Loans | Average Recorded Investment |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| One- to four-family residential real estate | $744 | $ 1,528 | $ 2,272 | $ - | $ 2,272 | 19 | $ 2,386 |
| Multi-family residential real estate | 1,656 | - | 1,656 | - | 1,656 | 6 | 2,260 |
| Nonresidential real estate | 2,728 | 1,439 | 4,167 | 120 | 4,047 | 8 | 4,287 |
| Total | $5,128 | $ 2,967 | $ 8,095 | $ 120 | $ 7,975 | 33 | $ 8,993 |

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

| | Three Months Ended September 30, 2014 | |
|---|---|---|
| | Recorded Investment | Number of Loans |
| (Dollar amounts in thousands) | | |
| Beginning balance | $ 9,889 | 39 |
| Additions to TDR | - | - |
| Charge-offs | - | - |
| Removal of TDRs[1] | (1,844) | (6) |
| Payments | (70) | - |
| Ending balance | $ 7,975 | 33 |

(1) The removal of these loans from TDR was due to payoffs of the loans and loans eligible for TDR removal during the three months ended September 30, 2014.

Loans that were included in TDRs at September 30, 2014 and June 30, 2014 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. Six of these loans, having an aggregate carrying value of $5.5 million at September 30, 2014, also have balloon payments due at the end of their lowered interest rate period. At September 30, 2014, there were 23 loans having an aggregate carrying value of $5.8 million with required principal and interest payments and three loans with required interest only payments. At June 30, 2014, there were 27 loans having an aggregate carrying value of $7.7 million with required principal and interest payments and three loans with required interest only payments.

The following table shows the aggregate amounts of our classified loans at the dates indicated.

| | At September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Special mention assets | $5,496 | $5,098 |
| Substandard assets | 14,079 | 21,095 |
| Total classified assets | $19,575 | $26,193 |

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b) at September 30, 2014 and at June 30, 2014.

At September 30, 2014:

| | Credit Risk Profile by Internally Assigned Grade | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| | (In thousands) | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | $ 107,452 | $ 32,683 | $ 8,097 | $ 16,183 | $ 29,079 | $ 3,590 | $ 1,768 | $ 6,494 | $ 205,346 |
| Watch | 6,098 | 983 | 4,683 | 4,127 | 9,265 | — | 737 | 1,803 | 27,696 |
| Special mention | 415 | 368 | 1,063 | 338 | 2,250 | — | 1,057 | 5 | 5,496 |
| Substandard | 3,905 | 623 | 585 | 1,656 | 7,288 | — | 19 | 3 | 14,079 |
| Total | $ 117,870 | $ 34,657 | $ 14,428 | $ 22,304 | $ 47,882 | $ 3,590 | $ 3,581 | $ 8,305 | $ 252,617 |

At June 30, 2014:

| | Credit Risk Profile by Internally Assigned Grade | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| | (In thousands) | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | $104,266 | $32,898 | $9,210 | $16,573 | $29,539 | $2,880 | $1,591 | $5,951 | $202,908 |
| Watch | 6,067 | 913 | 4,531 | 3,867 | 9,001 | - | 723 | 2,019 | 27,121 |
| Special mention | 370 | 120 | 753 | 342 | 2,368 | - | 1,057 | - | 5,010 |
| Substandard | 3,783 | 738 | 504 | 2,863 | 7,861 | - | 20 | - | 15,769 |
| Total | $114,486 | $34,669 | $14,998 | $23,645 | $48,769 | $2,880 | $3,391 | $7,970 | $250,808 |

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

| | At September 30, 2014 | | At June 30, 2014 | |
|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 30-59 Days Past Due | 60-89 Days Past Due |
| | (in thousands) | | | |
| One- to four-family mortgage – owner-occupied | $1,751 | $319 | $1,590 | $165 |
| Consumer | 189 | 145 | 175 | 119 |
| One- to four-family mortgage – nonowner-occupied | 729 | 440 | 304 | 809 |
| Multi-family mortgage | 213 | — | 342 | — |
| Nonresidential real estate mortgage – commercial and office buildings | 73 | — | 161 | 75 |
| Construction | — | — | — | — |
| Land | — | — | — | 168 |
| Commercial and agricultural | — | 5 | 12 | — |
| Total | $2,955 | $909 | $2,584 | $1,336 |

The following table illustrates the changes to the allowance for loan losses for the three months ended September 30, 2014:

| | 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, 2014: | $ 1,196 | $ 564 | $ 201 | $ 929 | $ 2,508 | $ 5 | $ 19 | $ 37 | $ 5,459 |
| Charge offs | (12 ) | (23 ) | (3 ) | - | - | - | - | - | (38 ) |
| Recoveries | 57 | 24 | 51 | - | 1 | - | - | 1 | 134 |
| Provision (credit) | 84 | (1 ) | (87 ) | (37 ) | 46 | 2 | 1 | 1 | 9 |
| Ending Balance: | $ 1,325 | $ 564 | $ 162 | $ 892 | $ 2,555 | $ 7 | $ 20 | $ 39 | $ 5,564 |
| Balance, Individually Evaluated | $ - | $ - | $ - | $ - | $ 120 | $ - | $ - | $ - | $ 120 |
| Balance, Collectively Evaluated | $ 1,325 | $ 564 | $ 162 | $ 892 | $ 2,435 | $ 7 | $ 20 | $ 39 | $ 5,444 |
| Financing receivables: Ending balance | $ 117,870 | $ 34,657 | $ 14,428 | $ 22,304 | $ 47,882 | $ 3,590 | $ 3,581 | $ 8,305 | $ 252,617 |
| Ending Balance: individually evaluated for impairment | $ 3,532 | $ 535 | $ 196 | $ 1,656 | $ 7,190 | $ - | $ 19 | $ - | $ 13,128 |
| Ending Balance: collectively evaluated for impairment | $ 106,902 | $ 30,518 | $ 13,764 | $ 20,648 | $ 40,520 | $ 3,590 | $ 3,537 | $ 7,808 | $ 227,287 |
| Ending Balance: loans acquired with deteriorated credit quality | $ 7,436 | $ 3,604 | $ 468 | $ - | $ 172 | $ - | $ 25 | $ 497 | $ 12,202 |

The following table sets forth the allocation of the allowance for loan losses by loan category at the

dates indicated.

| | At September 30, 2014 | | | At June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Amount | % of Allowance to Total Allowance | % of Loans in Category to Total Loans | Amount | % of Allowance to Total Allowance | % of Loans in Category to Total Loans |
| | (Dollars in thousands) | | | | | |
| One- to four-family residential real estate | $1,487 | 26.7 % | 52.4 % | $1,397 | 25.6 % | 51.6 % |
| Multi-family real estate | 892 | 16.0 | 8.8 | 929 | 17.0 | 9.4 |
| Nonresidential real estate | 2,555 | 45.9 | 19.0 | 2,508 | 46.0 | 19.5 |
| Land | 20 | 0.4 | 1.4 | 19 | 0.3 | 1.4 |
| Agricultural | - | - | 1.5 | - | - | 1.4 |
| Commercial | 39 | 0.7 | 1.8 | 37 | 0.7 | 1.8 |
| Consumer | 564 | 10.2 | 13.7 | 564 | 10.3 | 13.8 |
| Construction | 7 | 0.1 | 1.4 | 5 | 0.1 | 1.1 |
| Total allowance for loan losses | $5,564 | 100.0 % | 100.0 % | $5,459 | 100.0 % | 100.0 % |
| Total loans | $252,617 | | | $250,808 | | |

***Liquidity Management.*** Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the Federal Home Loan Bank of Indianapolis. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows, in particular municipal deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled $39.4 million at September 30, 2014 and $25.0 million at June 30, 2014. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled $52.0 million at September 30, 2014. Total securities classified as available-for-sale were $182.8 million at September 30, 2014. In addition, at September 30, 2014, we had

the ability to borrow a total of approximately $112.0 million from the Federal Home Loan Bank of Indianapolis.

At September 30, 2014, we had $31.0 million in loan commitments outstanding, consisting of $1.1 million in mortgage loan commitments, $24.4 million in unused home equity lines of credit and $5.5 million in commercial lines of credit. Certificates of deposit due within one year of September 30, 2014 totaled $100.1 million. This represented 59.6% of certificates of deposit at September 30, 2014. We believe that the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funding, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2014. However, based on past experience, we believe that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination and purchase of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to increase core deposit relationships. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

***Capital Management.*** United Community Bank is subject to various regulatory capital requirements administered by the OCC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2014, we exceeded all of our regulatory capital requirements and we are considered "well capitalized" under regulatory guidelines. See *"Regulation and Supervision—Regulation of Federal Savings Associations—Capital Requirements,"* and Note 16 to the Consolidated Financial Statements included in Item 8 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 26, 2014.

The following table summarizes the Bank's capital amounts and the ratios required at September 30, 2014:

| | Actual | | For capital adequacy purposes | | To be well capitalized under prompt corrective action provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (in thousands) | | | | | |
| September 30, 2014 (unaudited) | | | | | | |
| Tier 1 capital to risk-weighted assets | $62,872 | 25.23% | $ 9,968 | 4 % | $ 14,952 | 6 % |
| Total capital to risk-weighted assets | 66,017 | 26.50% | 19,930 | 8 % | 24,912 | 10 % |
| Tier 1 capital to adjusted total assets | 62,872 | 12.14% | 20,716 | 4 % | 25,895 | 5 % |
| Tangible capital to adjusted total assets | 62,872 | 12.14% | 7,768 | 1.5 % | NA | NA |

***Off-Balance Sheet Arrangements.*** In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. We currently have no plans to engage in hedging activities in the future.

For the three months ended September 30, 2014, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For a discussion of the Company's asset and liability management policies as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K, filed with the

Securities and Exchange Commission on September 26, 2014. The main components of market risk for the Company are interest rate risk and liquidity risk. The Company manages interest rate risk and liquidity risk by establishing and monitoring the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals. Model simulation is used to measure earnings volatility under both rising and falling rate scenarios.

We use an economic value of equity analysis prepared by a consulting firm to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net economic value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Economic value of equity 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. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 300 basis point increase or 100 and 200 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, these analyses are not performed for decreases of more than 200 basis points.

The following table presents the change in our net economic value of equity at June 30, 2014, the most recently completed date, that would occur in the event of an immediate change in interest rates, with no effect given to any steps that we might take to counteract that change.

| Basis Point ("bp") Change in Rates | Economic Value of Equity (Dollars in Thousands) Amount | Change | % Change | Economic Value of Equity as % of Economic Value of Total Assets Economic Value Ratio |
|---|---|---|---|---|
| 300 | $58,787 | $(18,713) | (24.15)% | 11.73 % |
| 200 | 65,879 | (11,621) | (14.99)% | 12.82 % |
| 100 | 73,236 | (4,264) | (5.50)% | 13.86 % |
| 0 | 77,500 | — | — | 14.28 % |
| (100) | 81,540 | 4,040 | 5.21 % | 14.75 % |
| (200) | 74,828 | (2,672) | (3.45)% | 14.63 % |

The model uses various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans and mortgage-backed securities we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

**Item 4. Controls and Procedures**

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions

regarding required disclosure. During the quarterly period ended September 30, 2014, there were no changes in the Company’s internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

**Item 1A. Risk Factors**

In addition to the risk factors and other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended June 30, 2014, which could materially affect our business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Repurchases of the Company's common stock during the quarter ended September 30, 2014 were as follows:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---|---|---|---|---|
| 7/1/2014 - 7/31/2014 | 127,626 | $ 11.89 | 127,626 | 197,608 |
| 8/1/2014 - 8/31/2014 | 33,300 | $ 11.83 | 33,300 | 164,308 |
| 9/1/2014 - 9/30/2014 | 96,697 | $ 11.83 | 96,697 | 67,611 |
| Total | 257,623 | $ 11.86 | 257,623 | |

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

| | |
|---|---|
| Exhibit 3.1 | Articles of Incorporation of United Community Bancorp (1) |
| Exhibit 3.2 | Bylaws of United Community Bancorp (2) |
| Exhibit 31.1 | Certification of Chief Executive Officer |
| Exhibit 31.2 | Certification of Chief Financial Officer |
| Exhibit 32 | Section 1305 Certifications |
| Exhibit 101.0 | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements. |

(1) Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended, initially filed on March 15, 2011.

(2) Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, as amended, initially filed on March 15, 2011.

**SIGNATURES**

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

**UNITED COMMUNITY BANCORP**

| | | | |
|---|---|---|---|
| Date: | November 14, 2014 | By: | /s/ Elmer G. McLaughlin |
| | | | Elmer G. McLaughlin |
| | | | President and Chief Executive Officer |
| | | | (principal executive officer) |
| Date: | November 14, 2014 | By: | /s/ Vicki A. March |
| | | | Vicki A. March |
| | | | Senior Vice President, Chief Financial Officer and Treasurer |
| | | | (principal accounting and financial officer) |