United Community Bancorp
Form 10-Q
May 15, 2017

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 March 31, 2017

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, smaller reporting company or an emerging growth company. See the definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨	Accelerated filer ¨
Non-Accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company x
	Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 May 9, 2017, there were 4,203,972 shares of the registrant’s common stock issued and outstanding.

UNITED COMMUNITY BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	unaudited 3/31/2017	June 30, 2016
Assets		
Cash and due from banks	$ 2,059	$ 2,253
Interest-earning deposits in other financial institutions	33,476	26,727
Cash and cash equivalents	35,535	28,980
Investment securities:		
Securities available for sale - at estimated market value	80,216	77,725
Securities held to maturity - at amortized cost	40,531	40,763
Mortgage-backed securities available for sale - at estimated market value	70,931	74,727
Investment securities	191,678	193,215
Loans receivable, net	280,434	267,138
Loans available for sale	995	783
Property and equipment, net	6,655	6,877
Federal Home Loan Bank stock, at cost	3,527	3,527
Accrued interest receivable:		
Loans	866	872
Investments and mortgage-backed securities	1,016	1,010
Other real estate owned, net	15	70
Cash surrender value of life insurance policies	17,224	17,241
Deferred income taxes	3,578	2,073
Prepaid expenses and other assets	1,319	1,469
Goodwill	2,522	2,522
Intangible asset	222	312
Total assets	$ 545,586	$ 526,089
Liabilities and Stockholders' Equity		
Deposits	$ 463,302	$ 438,885

Advances from FHLB	8,833	12,000
Accrued interest on deposits	12	12
Accrued interest on FHLB advance	9	10
Advances from borrowers for payment of insurance and taxes	782	608
Accrued expenses and other liabilities	2,659	4,120
Total liabilities	475,597	455,635
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 March 31, 2017 and June 30, 2016; 4,204,910 and 4,198,143 shares outstanding at March 31, 2017 and June 30, 2016, respectively.	51	51
Additional paid-in capital	51,561	51,320
Retained earnings	34,231	32,484
Less shares purchased for stock plans	(2,087)	(2,335)
Treasury Stock, at cost - 944,654 and 951,421 shares at March 31, 2017 and June 30, 2016, respectively.	(12,402)	(12,445)
Accumulated other comprehensive income:		
Unrealized gain (loss) on securities available for sale, net of income taxes	(1,365)	1,379
Total stockholders' equity	69,989	70,454
Total liabilities and stockholders' equity	$ 545,586	$ 526,089

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

unaudited

(In thousands, except per share data)	For the Three Months Ended March 31, 2017	2016	For the Nine Months Ended March 31, 2017	2016
Interest income:				
Loans	$ 2,960	$ 2,878	$ 8,788	$ 8,655
Investments and mortgage-backed securities	1,123	1,013	3,186	3,077
Total interest income	4,083	3,891	11,974	11,732
Interest expense:				
Deposits	484	472	1,546	1,479
Borrowed funds	49	58	162	178
Total interest expense	533	530	1,708	1,657
Net interest income	3,550	3,361	10,266	10,075
Provision for loan losses	11	52	43	141
Net interest income after provision for loan losses	3,539	3,309	10,223	9,934
Noninterest income:				
Service charges	739	719	2,322	2,212
Gain on sale of loans	130	63	549	219
Gain on sale of investments	-	64	79	124
Gain (loss) on sale of other real estate owned	(13)	-	(13)	27
Provision for loss on real estate owned	-	(19)	-	(60)
Income from bank owned life insurance	117	122	402	653
Other	62	172	281	366
Total noninterest income	1,035	1,121	3,620	3,541
Noninterest expense:				
Compensation and employee benefits	2,145	1,972	6,632	6,254
Premises and occupancy expense	251	298	779	824
Deposit insurance premium	41	68	123	236
Advertising expense	83	76	295	262
Data processing expense	451	348	1,362	1,003
Intangible amortization	30	30	90	90
Professional fees	90	128	514	587

Other operating expenses	326	310	946	1,127
Total noninterest expense	3,417	3,230	10,741	10,383
Income before income taxes	1,157	1,200	3,102	3,092
Income tax provision	219	259	642	474
Net income	$ 938	$ 941	$ 2,460	$ 2,618
Basic earnings per share	$ 0.23	$ 0.23	$ 0.61	$ 0.63
Diluted earnings per share	$ 0.23	$ 0.23	$ 0.60	$ 0.62

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

unaudited

(In thousands)	For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016	For the Nine Months Ended March 31, 2017	For the Nine Months Ended March 31, 2016
Net income	$ 938	$ 941	$ 2,460	$ 2,618
Other comprehensive income (loss), net of tax				
Net unrealized gain (loss) on available for sale securities net of taxes of $120 and $424 for the three months ended March 31, 2017 and 2016, respectively and $(1,724) and $662 for the nine months ended March 31, 2017 and 2016, respectively	188	663	(2,696)	1,036
Reclassification adjustment for the net realized gain on sale of available for sale securities included in net income, net of taxes of $0 and ($25) for the three months ended March 31, 2017 and 2016, respectively and $(31) and $(48) for the nine months ended March 31, 2017 and 2016, respectively	-	(39)	(48)	(76)
Comprehensive income (loss)	$ 1,126	$ 1,565	$ (284)	$ 3,578

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

unaudited

(In thousands)	For the Nine Months Ended March 31, 2017	2016
Operating activities:		
Net income	$ 2,460	$ 2,618
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	312	293
Provision for loan losses	43	141
Deferred loan origination costs	(62)	25
Amortization of premium on investments	1,363	1,397
Proceeds from sale of loans	21,586	7,204
Loans disbursed for sale in the secondary market	(21,249)	(7,287)
Gain on sale of loans	(549)	(219)
Amortization of intangible asset	90	90
Amortization of acquisition-related loan yield adjustment	(92)	(123)
Gain on sale of investment securities	(79)	(124)
Provision for loss on real estate owned	-	60
(Gain) loss on sale of other real estate owned	13	(27)
Gain recognized from death benefit on bank owned life insurance	(45)	(298)
Increase in cash surrender value of life insurance	(357)	(376)
Stock-based compensation	180	226
Amortization of ESOP shares	343	339
Deferred income taxes	249	(91)
Effects of change in operating assets and liabilities:		
Accrued interest receivable	-	(42)
Prepaid expenses and other assets	150	467
Accrued interest payable	(1)	-
Accrued expenses and other	(1,457)	(1,143)
Net cash provided by operating activities	2,898	3,130
Investing activities:		
Proceeds from maturity of available for sale investment securities	530	265
Proceeds from maturity of held to maturity securities	61	56
Proceeds from sale of available for sale investment securities	6,935	16,251

Proceeds from repayment of mortgage-backed securities and collateralized mortgage obligations available for sale	14,770	15,316
Proceeds from sale of mortgage-backed securities available for sale	11,087	23,749
Proceeds from sale of other real estate owned	71	73
Purchases of available for sale investment securities	(21,938)	(24,100)
Purchases of held to maturity investment securities	-	(388)
Purchases of mortgage-backed securities available for sale	(15,690)	(9,114)
Proceeds from bank owned life insurance death benefit	419	1,008
Net increase in loans	(13,214)	(15,262)
Capital expenditures	(90)	(91)
Net cash provided by (used in) investing activities	(17,059)	7,763
Financing activities:		
Net increase (decrease) in deposits	24,417	(553)
Borrowings from Federal Home Loan Bank	-	1,934
Repayments of Federal Home Loan Bank advances	(3,167)	(1,000)
Dividends paid to stockholders	(713)	(729)
Repurchases of common stock	(238)	(6,063)
Exercise of stock options	243	-
Net increase in advances from borrowers for payment of insurance and taxes	174	242
Net cash provided by (used in) financing activities	20,716	(6,169)
Net increase in cash and cash equivalents	6,555	4,724
Cash and cash equivalents at beginning of period	28,980	18,522
Cash and cash equivalents at end of period	$ 35,535	$ 23,246

See accompanying notes to the 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 a variety of purposes, but was primarily being used for the collection of commissions from a wealth management partner. In addition to the collection of commissions, during the prior fiscal year, the Bank applied for, and received approval from the OCC to allow UCB Financial Services, Inc. to own and manage a portion of the Bank’s municipal bond portfolio.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three and nine months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2016, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 2016.

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

2. EMPLOYEE STOCK OWNERSHIP PLAN (“ESOP”) – As of March 31, 2017 the ESOP owned 142,371 shares of the Company’s common stock. At June 30, 2016, the ESOP owned 173,894 shares of the Company’s common stock. The shares owned by the ESOP are held in a suspense account until released for allocation to participants.

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

Basic EPS is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effects of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. For the three months and nine months ended March 31, 2017 there were no outstanding options to purchase shares that were excluded from the computations of diluted earnings per share as all existing options are dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding.

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	2017	2016
Basic weighted average outstanding shares	4,056,993	4,027,432	4,036,066	4,173,027
Effect of dilutive stock options	46,272	30,168	42,009	32,143
Diluted weighted average outstanding shares	4,103,265	4,057,600	4,078,075	4,205,170

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 $73,000 and $63,000 for the three months ended March 31, 2017 and 2016, respectively. Stock-based compensation was $180,000 and $226,000 for the nine months ended March 31, 2017 and 2016, respectively. No stock-based compensation awards were granted during the three and nine months ended March 31, 2017 and 2016.

5. DIVIDENDS – On August 12, 2016, November 10, 2016, and February 9, 2017 the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of $0.06 per share for each period. The dividends, totaling $713,000, were paid during the nine months ended March 31, 2017.

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 as of February 3, 2014. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of December 31, 2014, all 514,956 shares were repurchased at a total cost of $6.0 million.

Additionally, on May 18, 2015, the Company's Board of Directors approved the repurchase of up to 231,571 shares of the Company's outstanding common stock, which was approximately 5% of the Company's outstanding shares as of May 18, 2015. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of December 31, 2015, all of the 231,571 shares were repurchased.

On November 6, 2015, United Community Bancorp entered into a Stock Repurchase Agreement with Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P. and Stilwell Partners, L.P. (collectively, the "Sellers"). Pursuant to the Stock Repurchase Agreement, the Company purchased 318,756 shares of its common stock, $0.01 par value, from the

Sellers for an aggregate purchase price of $4,781,340, or $15.00 per share. The repurchase was funded with cash on hand and completed the 5% repurchase program mentioned above. Following the repurchase transaction, the Company had 4,201,326 shares of common stock outstanding. On April 26, 2016 the Company purchased 3,183 shares of common stock from participants in the equity incentive plan. Following the repurchase, there were 4,198,143 shares of common stock outstanding as of September 30, 2016.

On November 4, 2016, the Company's Board of Directors approved the repurchase of up to 209,907 shares of the Company's outstanding common stock, which was approximately 5% of the Company's outstanding shares as of November 4, 2016. Purchases are being conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of March 31, 2017, a total of 14,692 shares have been purchased at a total cost of $238,000.

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended March 31,	
	2017	2016
	(Dollars in thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes, net	$ 96	$ 225
Interest	$ 1,709	$ 1,657
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gains (losses) on securities designated as available for sale, net of tax	$ (2,744)	$ 960
Transfers of loans to other real estate owned	$ 29	$ 29

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:

<u>Cash and cash equivalents</u>

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

<u>Investments and mortgage-backed securities</u>

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

Loans receivable

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

Federal Home Loan Bank stock

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

Deposits

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

Advances from Federal Home Loan Bank

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

Off-balance sheet items

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

The estimated fair values of the Company's financial instruments at March 31, 2017 and June 30, 2016 are as follows:

	March 31, 2017		June 30, 2016	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and interest-bearing deposits	$35,535	$35,535	$28,980	$28,980
Investment securities available for sale	80,216	80,216	77,725	77,725
Investment securities held to maturity	40,531	40,765	40,763	43,201
Mortgage-backed securities	70,931	70,931	74,727	74,727
Loans receivable and loans receivable held for sale	281,429	280,141	267,921	270,595
Accrued interest receivable	1,882	1,882	1,882	1,882
Investment in FHLB stock	3,527	3,527	3,527	3,527
Financial liabilities:				
Deposits	463,302	464,142	438,885	439,834

Accrued interest payable	21	21	22	22
FHLB advances	8,833	8,929	12,000	12,322
Off-balance sheet items	$—	$—	$—	$—

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

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

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)			
March 31, 2017:				
Mortgage-backed securities	$70,931	$ —	$ 70,931	$ —
Municipal bonds	36,476	—	36,476	—
Small Business Administration	9,820	—	9,820	—
Collateralized Mortgage Obligations	30,720	—	30,720	—
Certificates of Deposit	3,001	—	3,001	—
Other equity securities	199	199	—	—
Mortgage servicing rights	786	—	786	—
June 30, 2016				
Mortgage-backed securities	$74,727	$ —	$ 74,727	$ —
Municipal bonds	34,790	—	34,790	—
Small Business Administration	7,872	—	7,872	—
Collateralized Mortgage Obligations	31,832	—	31,832	—
Certificates of Deposit	3,064	—	3,064	—
Other equity securities	167	167	—	—
Mortgage servicing rights	639	—	639	—

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

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
	(In thousands)			
March 31, 2017:				
Other real estate owned	$15	$ —	$ 15	$ —
Loans held for sale	995	—	995	—
June 30, 2016:				
Other real estate owned	$70	$ —	$ 70	$ —
Loans held for sale	783	—	783	—

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.

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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)
March 31, 2017:				
Financial assets:				
Cash and interest-bearing deposits	$35,535	$ 35,535	$ —	$ —
Investment securities held to maturity	40,765	—	40,765	—
Loans receivable and loans held for sale	280,141	—	280,141	—
Accrued interest receivable	1,882	—	1,882	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	464,142	—	464,142	—
Accrued interest payable	21	—	21	—
FHLB advances	8,929	—	8,929	—
June 30, 2016:				
Financial assets:				
Cash and interest-bearing deposits	$28,980	$ 28,980	$ —	$ —
Investment securities held to maturity	43,201	—	43,201	—
Loans receivable and loans held for sale	270,595	—	270,595	—
Accrued interest receivable	1,882	—	1,822	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	439,834	—	439,834	—
Accrued interest payable	22	—	22	—
FHLB advances	12,322	—	12,322	—

9. INVESTMENT SECURITIES

Investment securities available for sale at March 31, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 72,080	$ 51	$ 1,200	$70,931

Municipal bonds	37,064	362	950	36,476
Small Business Administration	9,963	—	143	9,820
Collateralized Mortgage Obligations	31,096	—	376	30,720
Certificates of Deposit	2,971	30	—	3,001
Other equity securities	210	—	11	199
	$ 153,384	$ 443	$ 2,680	$ 151,147

Investment securities held to maturity at March 31, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	$ 40,531	$ 382	$ 148	$ 40,765

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

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

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

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

The mortgage-backed securities, small business administration, collateralized mortgage obligations, certificates of deposit, and municipal bonds have the following maturities at March 31, 2017:

	Available for sale		Held to maturity	
	Amortized cost	Estimated market value	Amortized cost	Estimated market value
Due or callable in one year or less	$ 1,493	$ 1,491	$ 65	$ 65
Due or callable in 1 - 5 years	87,400	86,870	2,126	2,141
Due or callable in 5 - 10 years	43,461	42,648	4,524	4,574
Due or callable in greater than 10 years	20,820	19,939	33,816	33,985
Total debt securities	$ 153,174	$ 150,948	$ 40,531	$ 40,765

All other securities available for sale at March 31, 2017 are saleable within one year.

Gross proceeds on the sale of investments and mortgage-backed securities were $0 and $5.0 million for the three months ended March 31, 2017 and 2016, respectively. Gross proceeds on the sale of investments and mortgage-backed securities were $18.0 million and $40.0 million for the nine months ended March 31, 2017 and 2016, respectively. Gross realized gains for the three month periods ended March 31, 2017 and 2016 were $0 and $70,000, respectively. Gross realized gains for the nine-month periods ended March 31, 2017 and 2016 were $110,000 and $435,000, respectively. Gross realized losses for the three month periods ended March 31, 2017 and 2016 were $0 and $6,000, respectively. Gross realized losses for the nine-month periods ended March 31, 2017 and 2016 were $31,000 and $311,000, respectively.

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at March 31, 2017:

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In thousands)					
Municipal bonds	$31,738	$ 1,098	$ —	$ —	$31,738	$ 1,098
Mortgage-backed securities	42,705	981	14,093	219	56,798	1,200
Small Business Administration	9,820	143	—	—	9,820	143
Collateralized Mortgage Obligations	22,962	376	—	—	22,962	376
Other equity securities	—	—	199	11	199	11
	$107,225	$ 2,598	$ 14,292	$ 230	$121,517	$ 2,828
Number of investments		97		8		105

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 nine months ended March 31, 2017:

	Core Deposit Intangible	Goodwill
	(In thousands)	
Balance at June 30, 2016	$312	$ 2,522
Amortization	90	—
Balance at March 31, 2017	$222	$ 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 March 31, 2017:

April 1, 2017 through June 30, 2017	$27
2018	117
2019	78
	$222

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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 and nine months ended March 31, 2017 (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 Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, January 1, 2017:	$ 1,230	$ 421	$ 68	$ 393	$ 2,170	$ 112	$ 20	$ 169	$ 4,583
Charge offs	(38)	(36)	(7)	—	—	—	(255)	—	(336)
Recoveries	32	26	—	5	2	—	—	—	65
Provision (credit)	(109)	(77)	4	(82)	(68)	34	356	(47)	11
Ending Balance:	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Allowance for Credit Losses:									
Balance, July 1, 2016:	$ 1,235	$ 426	$ 108	$ 275	$ 2,577	$ 132	$ 10	$ 122	$ 4,885
Charge offs	(47)	(174)	(7)	—	(600)	—	(255)	—	(1,083)
Recoveries	62	158	—	11	247	—	—	—	478
Provision (credit)	(135)	(76)	(36)	30	(120)	14	366	—	43
Ending Balance:	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Balance, Individually Evaluated	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Balance, Collectively	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323

Evaluated									
Financing receivables: Ending balance	$ 133,050	$ 33,438	$ 10,704	$ 15,843	$ 71,733	$ 11,928	$ 2,924	$ 9,840	$ 289,460
Ending Balance: individually evaluated for impairment	$ 1,936	$ 390	$ 257	$ —	$ 1,159	$ —	$ 649	$ —	$ 4,391
Ending Balance: collectively evaluated for impairment	$ 126,498	$ 30,785	$ 10,284	$ 15,843	$ 70,478	$ 11,928	$ 2,275	$ 9,833	$ 277,924
Ending Balance: loans acquired at fair value	$ 4,616	$ 2,263	$ 163	$ —	$ 96	$ —	$—	$ 7	$ 7,145

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

Allowance for Credit Losses and Recorded Investment in Loans Receivable

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

Ending Balance: loans acquired at fair value	$ 5,200	$ 2,549	$ 171	$ —	$ 118	$ —	$—	$ 129	$ 8,167

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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. If we classify an asset as substandard, doubtful or loss, we analyze that asset and may establish a specific allocation for the asset at that time.

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

Credit Risk Profile by Internally Assigned Grade

At March 31, 2017

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-Family Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 128,255	$ 32,348	$ 6,363	$ 13,780	$ 63,347	$ 9,409	$ 2,209	$ 9,175	$ 264,886
Watch	2,813	529	3,791	2,063	5,997	2,519	66	665	18,443
Special mention	46	171	85	—	1,144	—	—	—	1,446
Substandard	1,936	390	465	—	1,245	—	649	—	4,685
Total:	$ 133,050	$ 33,438	$ 10,704	$ 15,843	$ 71,733	$ 11,928	$ 2,924	$ 9,840	$ 289,460

Credit Risk Profile by Internally Assigned Grade

At June 30, 2016

(in thousands)

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

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

Age Analysis of Past Due Loans Receivable

At March 31, 2017

(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Owner-Occupied Mortgage	$ 744	$ 57	$ 364	$ 1,165	$ 131,885	$ 133,050
Consumer	158	—	23	181	33,257	33,438
One- to Four- Family Non-Owner Occupied Mortgage	—	—	257	257	10,447	10,704
Multi-Family Residential Real Estate	—	—	—	—	15,843	15,843
Non-Residential Real Estate	535	—	—	535	71,198	71,733
Construction	—	—	—	—	11,928	11,928
Land	—	—	39	39	2,885	2,924
Commercial and Agricultural	—	—	—	—	9,840	9,840
Total	$ 1,437	$ 57	$ 683	$ 2,177	$ 287,283	$ 289,460

Age Analysis of Past Due Loans Receivable
At June 30, 2016
(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Owner-Occupied Mortgage	$ 594	$ 552	$ 401	$ 1,547	$ 129,336	$ 130,883
Consumer	109	49	23	181	34,837	35,018
One- to Four- Family Non-Owner Occupied Mortgage	95	30	235	360	11,800	12,160
Multi-family Residential Real Estate	—	—	—	—	16,032	16,032
Non-Residential Real Estate	—	—	—	—	58,981	58,981
Construction	—	—	—	—	8,555	8,555
Land	14	—	76	90	2,061	2,151
Commercial and Agricultural	—	—	—	—	10,442	10,442
Total	$ 812	$ 631	$ 735	$ 2,178	$ 272,044	$ 274,222

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

Impaired Loans

(in thousands)

With a related allowance recorded:	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended March 31, 2017 Interest income recognized	For the three months ended March 31, 2017 Average Recorded investment	For the nine months ended March 31, 2017 Interest income recognized	For the nine months ended March 31, 2017 Average Recorded investment
One- to Four- Family Owner-Occupied Mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer	-	-	-	-	-	-	-
One- to Four- Family Non-Owner Occupied Mortgage	-	-	-	-	-	-	-
Multi-Family Residential Real Estate	-	-	-	-	-	-	-
Non-Residential Real Estate	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-
Commercial and Agricultural	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Impaired Loans

(in thousands)

With no related allowance recorded:	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended March 31, 2017 Interest income recognized	For the three months ended March 31, 2017 Average recorded investment	For the nine months ended March 31, 2017 Interest income recognized	For the nine months ended March 31, 2017 Average recorded investment
One- to Four- Family Owner-Occupied Mortgage	$ 1,936	$ 2,259	$ —	$ 15	$ 2,022	$ 45	$ 2,323
Consumer	390	680	—	1	399	3	408
	257	264	—	—	347	4	431

One- to Four- Family Non-Owner Occupied Mortgage							
Multi-Family Residential Real Estate	—	920	—	—	—	—	—
Non-Residential Real Estate	1,159	2,742	—	—	1,164	20	1,651
Construction	—	—	—	—	—	—	—
Land	649	912	—	—	349	—	197
Commercial and Agricultural	—	6	—	—	—	—	—
Total	$ 4,391	$ 7,783	$ —	$ 16	$ 4,281	$ 72	$ 5,010

Impaired Loans

(in thousands)

Total:	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended March 31, 2017 Interest income recognized	For the three months ended March 31, 2017 Average recorded investment	For the nine months ended March 31, 2017 Interest income recognized	For the nine months ended March 31, 2017 Average recorded investment
One- to Four- Family Owner-Occupied Mortgage	$ 1,936	$ 2,259	$ —	$ 15	$ 2,022	$ 45	$ 2,323
Consumer	390	680	—	1	399	3	408
One- to Four- Family Non-Owner Occupied Mortgage	257	264	—	—	347	4	431
Multi-Family Residential Real Estate	—	920	—	—	—	—	—
Non-Residential Real Estate	1,159	2,742	—	—	1,164	20	1,651
Construction	—	—	—	—	—	—	—
Land	649	912	—	—	349	—	197
Commercial and Agricultural	—	6	—	—	—	—	—
Total	$ 4,391	$ 7,783	$ —	$ 16	$ 4,281	$ 72	$ 5,010

Impaired Loans

(in thousands)

	Recorded investment	Unpaid principal balance	Specific allowance	For the year ended June 30, 2016 Interest income recognized	For the year ended June 30, 2016 Average recorded investment
With a related allowance recorded:					
One- to Four- Family Owner-Occupied Mortgage	$ —	$ —	$ —	$ —	$ —
Consumer	—	—	—	—	—
One- to Four- Family Non-Owner Occupied Mortgage	—	—	—	—	—
Multi-Family Residential Real Estate	—	—	—	—	—
Non-Residential Real Estate	—	—	—	—	496
Construction	—	—	—	—	—
Land	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ 496

Impaired Loans

(in thousands)

	Recorded investment	Unpaid principal balance	Specific allowance	For the year ended June 30, 2016 Interest income recognized	For the year ended June 30, 2016 Average recorded investment
With no related allowance recorded:					
One- to Four- Family Owner-Occupied Mortgage	$ 2,535	$ 2,973	$ —	$ 17	$ 2,886
Consumer	398	726	—	1	461
One- to Four- Family Non-Owner Occupied Mortgage	408	408	—	3	647
Multi-Family Residential Real Estate	—	920	—	—	481
Non-Residential Real Estate	1,787	3,195	—	11	3,293
Construction	—	—	—	—	—
Land	88	95	—	—	149
Commercial and Agricultural	—	7	—	—	—
Total	$ 5,216	$ 8,324	$ —	$ 32	$ 7,917

Impaired Loans

(in thousands)

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

The Bank did not have any investments in subprime loans at March 31, 2017. Impaired loans at March 31, 2017 included troubled debt restructurings ("TDR") with an aggregate principal balance of $2.7 million and a recorded investment of $2.7 million. See Note 12 for a discussion on TDRs.

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

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

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

	At March 31, 2017						
	Loan Status		Total Unpaid Principal	Related	Recorded	Number of	Average Recorded
(In thousands)	Accrual	Nonaccrual	Balance	Allowance	Investment	Loans	Investment
One- to Four-Family residential real estate	$1,305	$ 215	$ 1,520	$ —	$ 1,520	16	$ 1,737
NonResidential real estate	—	1,159	1,159	—	1,159	3	1,231
Total	$1,305	$ 1,374	$ 2,679	$ —	$ 2,679	19	$ 2,968

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

Interest income recognized on TDRs is as follows:

	For the three months ended March 31,		For the nine months ended March 31,	
	2017	2016	2017	2016

One-to-Four Family residential real estate	$ 13	$ 18	$ 44	$ 46
Multi-Family residential real estate	—	—	—	20
Non-Residential real estate	—	7	18	66
Commercial	—	—	—	—
Consumer	—	—	—	—
Total	$ 13	$ 25	$ 62	$ 132

At March 31, 2017, the Bank had 19 loans totaling $2.7 million that were reported as TDRs, and had established an allowance for losses on these loans of $0. With respect to the $2.7 million in TDRs, the Bank charged-off $1.4 million at the time the loans were restructured into the Note A/B split note format. At June 30, 2016, the Bank had 22 loans totaling $3.7 million that were reported as TDRs, and had an allowance for losses on these loans of $0. With respect to the $3.7 million in TDRs, the Bank charged-off $1.4 million with respect to those loans at the time the loans were restructured into the Note A/B split note format. At March 31, 2017, 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 March 31, 2017 and June 30, 2016 were generally given concessions of interest rate reductions of between 25 and 300 basis points and/or structured as interest only payment loans for periods of one to three years. Some of these loans also have balloon payments due at the end of their lowered rate period, requiring the borrower to refinance at market rates at that time. At March 31, 2017 and June 30, 2016, all loans classified as TDRs required principal and interest payments.

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

	Three months ended March 31, 2017		Nine months ended March 31, 2017	
	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans
(Dollar amounts in thousands)				
Beginning balance	$ 2,941	21	$ 3,720	22
Additions to TDR	—	—	—	—
Charge-offs	—	—	(175)	—
Removal of TDRs	(172)	(1)	(300)	(2)
Impairment Reversal	—	—	—	—
Payments	(90)	(1)	(566)	(1)
Ending balance	$ 2,679	19	$ 2,679	19

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Reclassification out of accumulated other comprehensive income during the three and nine months ended March 31, 2017 and 2016 and the affected line items in the consolidated statements of income are as follows (in thousands):

	Three months ended March 31,		Nine months ended March 31,		Affected Line Item in the Consolidated Statements of Income
	2017	2016	2017	2016	
Realized gain on sale of securities	$ —	$ 64	$ 79	$ 124	Gain on sale of investments
Less provision for income taxes	—	25	31	48	Income tax provision
Reclassification adjustment, net of taxes	$ —	$ 39	$ 48	$ 76	

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14. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because these amendments eliminate Step 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment. Public business entities should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Adoption of ASU 2017-04 is not expected to have a material impact on the Company’s consolidated financial statements.

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

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

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

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and affects the guidance in ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. When another party is involved in providing goods or services to a customer, ASU No. 2014-09 requires an entity to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). The amendments in ASU No. 2016-08 are intended to improve the operability and understandability of the implementation guidance in ASU No. 2014-09 on principal versus agent considerations by offering additional guidance to be considered in making the determination. ASU No. 2016-08 is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the financial statement impact of adopting the new guidance.In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), and requires a lessee to recognize in the statement of financial position a liability to make lease payments ("the lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. When measuring assets and liabilities arising from a lease, the lessee should include payments to be made in optional periods only if the lessee is reasonably certain, as defined, to exercise an option to the lease or not to exercise an option to terminate the lease. Optional payments to purchase the underlying asset should be included if the lessee is reasonably certain it will exercise the purchase option. Most variable lease payments should be excluded except for those that depend on an index or a rate or are in substance fixed payments. A lessee shall classify a lease as a finance lease if it meets any of five listed criteria: 1) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term; 2) The lease grants the lessee and option to purchase the underlying asset that the lessee is reasonably certain to exercise; 3) The lease term is for the major part of the remaining economic life of the underlying asset; 4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset; and 5) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. For finance leases, a lessee shall recognize in the statement of comprehensive income interest on the lease liability separately from amortization of the right-of-use asset. Amortization of the right-of-use asset shall be on a straight-line basis, unless another basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits. If the lease does not meet any of the five criteria, the lessee shall classify it as an operating lease and shall recognize a single lease cost on a straight-line basis over the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments in this update are to be applied using a modified retrospective approach, as defined, and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted. The Company is currently evaluating the financial statement impact of adopting the new guidance.

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

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

Forward-Looking Statements

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

Critical Accounting Policies

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

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

DEFERRED INCOME TAXES - We use the asset and liability method of accounting for income taxes as prescribed in Accounting Standards Codification ("ASC") 740-10-50. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings. United Community Bancorp, referred to as the Company, accounts for income taxes under the provisions of ASC 275-10-50-8 to account for uncertainty in income taxes. The Company had no unrecognized tax benefits as of March 31, 2017 and June 30, 2016. The Company recognized no interest and penalties on the underpayment of income taxes during the three month periods ended March 31, 2017 and 2016, and had no accrued interest and penalties on the balance sheet as of March 31, 2017 and June 30, 2016. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase within the next fiscal year. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years ended on or before June 30, 2013.

Comparison of Financial Condition at March 31, 2017 and June 30, 2016

Balance Sheet Analysis

Total assets were $545.6 million at March 31, 2017, compared to $526.1 million at June 30, 2016. Total assets increased during the period primarily as a result of a $13.3 million increase in loans and a $6.6 million increase in cash and cash equivalents. These increases were partially offset by a $1.5 million decrease in investment securities.

In addition to the loan growth achieved during the nine months ended March 31, 2017, the Company had approximately $5.9 million in undisbursed construction loans as of March 31, 2017. While these were not on the Company's balance sheet as of March 31, 2017 and there can be no assurance of disbursement in the future, the loans have closed and management expects the majority of these committed funds to be disbursed.

Total liabilities increased $20.0 million to $475.6 million at March 31, 2017 from $455.6 million at June 30, 2016. The increase is primarily due to a $24.4 million increase in deposits. This increase was partially offset by a $3.2 million decrease in FHLB advances and a $1.5 million decrease in other liabilities.

Stockholders' equity totaled $70.0 million as of March 31, 2017, which represented a decrease of $465,000 when compared to June 30, 2016. The decrease was primarily due to a $2.7 million decrease in accumulated other comprehensive income reflecting declines in the market value of available-for-sale securities, $713,000 in dividends declared during the period, and stock repurchases totaling $238,000. These decreases were partially offset by net income of $2.5 million and $243,000 in proceeds received related to the exercise of stock options during the period. The decrease in accumulated other comprehensive income is the result of increasing market interest rates during the period. In connection with the preparation of the financial statements for the quarter ended March 31, 2017, management evaluated the credit quality of the investment portfolio and believes all unrealized losses to be temporary. Management has the intent and the ability to hold these securities until the value recovers or until maturity.

Loans. At March 31, 2017, one- to four- family residential loans totaled $143.8 million, or 49.7% of total gross loans at March 31, 2017, compared to $143.0 million, or 52.2% of total gross loans, at June 30, 2016.

Multi-family and nonresidential real estate loans totaled $87.6 million, or 30.3% of total loans at March 31, 2017, compared to $75.0 million, or 27.3% of total loans, at June 30, 2016.

Construction loans totaled $11.9 million, or 4.1% of total loans, at March 31, 2017, compared to $8.6 million, or 3.1% of total loans, at June 30, 2016.

Land loans totaled $2.9 million, or 1.0% of total loans at March 31, 2017, compared to $2.2 million, or 0.8% of total loans at June 30, 2016.

Commercial business loans totaled $5.4 million, or 1.9% of total loans at March 31, 2017, compared to $4.5 million, or 1.6% of total loans at June 30, 2016.

Agricultural loans totaled $4.4 million, or 1.5% of total loans at March 31, 2017, compared to $6.0 million, or 2.2% of total loans at June 30, 2016.

Consumer loans totaled $33.4 million, or 11.5% of total loans at March 31, 2017, compared to $35.0 million or 12.8% of total loans at June 30, 2016.

We continue to review the economic environment in our lending markets, including those in southwestern Ohio and Northern Kentucky, and the level of our nonperforming assets. Beginning in December 2013, we implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate loan portfolios. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy. As a result, our nonresidential real estate and multi-family real estate loans have grown as a percentage of our total loan portfolio. Nevertheless, we manage these loans to prudent levels and within limits established by applicable regulatory guidance. Through OCC bulletin 2006-46, “Interagency Guidance on CRE Concentration Risk Management” and OCC bulletin 2015-51 “Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending,” the OCC defines a concentration to exist in commercial real estate loans when total commercial real estate loans represent 300% or more of the institution’s Tier 1 Capital plus the ALLL. Loans included in this concentration calculation are one-to four-family residential construction loans, other construction loans and all land development and other land loans, loans secured by multi-family residential properties and loans secured by nonfarm nonresidential properties. Under this guidance, our commericial real estate loans totaled $59.5 million and $47.4 million as of March 31, 2017 and June 30, 2016, respectively, resulting in concentration ratios of 93.0% and 74.2%, respectively.

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

	At March 31, 2017		At June 30, 2016	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate:				
One- to four-family	$143,754	49.7 %	$143,043	52.2 %
Multi-family	15,843	5.5	16,032	5.8
Construction	11,928	4.1	8,555	3.1
Non-Residential real estate	71,733	24.8	58,981	21.5
Land	2,924	1.0	2,151	0.8
Commercial business	5,433	1.9	4,476	1.6
Agricultural	4,407	1.5	5,966	2.2
Consumer:				
Home equity	29,079	10.0	30,558	11.2
Auto	2,103	0.7	2,249	0.8
Share loans	927	0.3	932	0.3
Other	1,329	0.5	1,279	0.5
Total consumer loans	33,438	11.5	35,018	12.8
Total loans	$289,460	100.0 %	$274,222	100.0 %
Less (plus):				
Deferred loan costs, net	(1,175)		(1,113)	
Undisbursed portion of loans in process	5,878		3,312	

Allowance for loan losses	4,323	4,885
Loans, net	$280,434	$267,138

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Loan Maturity

The following table sets forth certain information at March 31, 2017 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments, which can significantly shorten the average life of the loan and may cause our actual repayment experience to differ from the contractual requirements shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	Less Than One Year	More Than One Year to Five Years	More Than Five Years	Total Loans
	(in thousands)			
One- to four-family residential real estate	$8,549	$ 32,890	$ 102,315	$143,754
Multi-family residential real estate	554	3,516	11,773	15,843
Construction	3,633	642	7,653	11,928
Non-Residential real estate	7,294	19,173	45,266	71,733
Land	791	1,415	718	2,924
Commercial	890	2,985	1,558	5,433
Agricultural	839	2,100	1,468	4,407
Consumer	1,685	3,497	28,256	33,438
Total	$24,235	$ 66,218	$ 199,007	$289,460

The following table sets forth the dollar amount of all loans at March 31, 2017 due after March 31, 2018 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	$37,546	$ 97,659	$135,205
Multi-family residential real estate	7,340	7,949	15,289
Construction	1,704	6,591	8,295
Non-Residential real estate	16,654	47,785	64,439
Land	51	2,082	2,133
Commercial	2,814	1,729	4,543
Agricultural	1,913	1,655	3,568
Consumer	2,339	29,414	31,753
Total	$70,361	$ 194,864	$265,225

Loan Activity

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

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Total loans at beginning of period	$281,340	$270,872	$274,222	$259,419
Loans originated (1):				
One- to four-family residential real estate	10,539	8,395	41,586	25,455
Multi-family residential real estate	—	—	8,645	310
Construction	4,178	2,846	10,120	6,451
Non-Residential real estate	9,861	5,730	18,978	19,493
Land	579	—	1,527	196
Commercial and agricultural	811	328	1,917	4,715
Consumer	2,265	2,123	6,759	5,436
Total loans originated	28,233	19,422	89,532	62,056
Deduct:				
Loan principal repayments	15,058	12,863	53,123	38,437
Loans originated for sale	5,055	1,680	21,171	7,287

Net loan activity	8,120	4,879	15,238	16,332
Total loans at end of period	$289,460	$275,751	$289,460	$275,751

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

Results of Operations for the Three and Nine months ended March 31, 2017 and 2016

Overview. Net income totaled $938,000 for the quarter ended March 31, 2017, which represented a decrease of $3,000, or 0.3%, when compared to the quarter ended March 31, 2016.

Net Interest Income. The following table summarizes changes in interest income and interest expense for the three months ended March 31, 2017 and 2016.

	Three months ended March 31,			Nine months ended March 31,		
	2017	2016	% Change	2017	2016	% Change
	(Dollars in thousands)					
Interest income:						
Loans	$2,960	$2,878	2.8 %	$8,788	$8,655	1.5 %
Investment and mortgage backed securities	1,067	1,001	6.6	3,074	3,053	0.7
Other interest-earning assets	56	12	366.7	112	24	366.7
Total interest income	4,083	3,891	4.9	11,974	11,732	2.1
Interest expense:						
NOW and money market deposit accounts	86	45	91.1 %	319	191	67.0 %
Passbook accounts	84	70	20.0	234	218	7.3
Certificates of deposit	314	357	(12.0)	993	1,070	(7.2)
Total interest-bearing deposits	484	472	2.5	1,546	1,479	4.5
FHLB advances	49	58	(15.5)	162	178	(9.0)
Total interest expense	533	530	0.6	1,708	1,657	3.1
Net interest income	$3,550	$3,361	5.6	$10,266	$10,075	1.9

Net interest income totaled $3.6 million for the quarter ended March 31, 2017, which represents an increase of $189,000, or 5.6%, when compared to the quarter ended March 31, 2016. The growth in net interest income, the Company's core business, was the result of an increase in interest income, which was partially offset by an increase in interest expense. Interest income increased by $192,000 due to a $12.3 million increase in the average balance of loans, and an increase in the average rate earned on investment securities from 2.15% in the prior year quarter to 2.30% in the current year quarter. The increase in loan balances is primarily the result of the continued execution of our controlled growth strategies in mortgage and commercial lending. The increases were partially offset by a decrease in the average rate earned on loans from 4.34% in the prior year quarter to 4.26% in the current year quarter, and a $110,000 decrease in the average balance of investments. Interest expense increased $3,000 primarily due to a $24.1 million increase in the average balance of deposits, partially offset by a decrease in the average rate paid on deposits from 0.44% in the prior year quarter to 0.43% in the current year quarter.

Net interest income totaled $10.3 million for the nine months ended March 31, 2017, which represents an increase of $191,000, or 1.9%, when compared to the nine months ended March 31, 2016. The growth in net interest income, the Company's core business, was the result of an increase in interest income, which was partially offset by an increase in interest expense. Interest income increased by $242,000 due to an $11.6 million increase in the average balance of loans, and an increase in the average rate earned on investment securities from 2.13% in the prior year period to 2.19% in the current year period. The increase in loan balances is primarily the result of the continued execution of our controlled growth strategies in mortgage and commercial lending. These increases were partially offset by a decrease in the average rate earned on loans from 4.40% in the prior year period to 4.28% in the current year period, and a $3.4 million decrease in the average balance of investments. Interest expense increased $51,000 primarily due to a $17.7 million increase in the average balance of deposits. The average rate paid on deposits was 0.46% for both the nine month period ended March 31, 2017 and the nine month period ended March 31, 2016.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three and nine months ended March 31, 2017 and 2016. 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 March 31,						Nine months ended March 31,			
	2017			2016			2017			2016
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance
	(Dollars in thousands)									
Assets:										
Interest-earning assets:										
Loans	$277,633	$2,960	4.26 %	$265,330	$2,878	4.34 %	$273,946	$8,788	4.28 %	$262,354
Investment and mortgage backed securities	185,886	1,067	2.30	185,996	1,001	2.15	187,473	3,074	2.19	190,870
Other interest-earning assets	32,815	56	0.68	24,948	12	0.19	31,735	112	0.47	25,856
	496,334	4,083	3.29	476,274	3,891	3.27	493,154	11,974	3.24	479,080
Noninterest-earning assets	38,096			36,573			37,915			37,232
Total assets	$534,430			$512,847			$531,069			$516,312
Liabilities and stockholders' equity:										
Interest-bearing liabilities:										
NOW and money market deposit accounts (1)	193,710	86	0.18	173,452	45	0.10	190,475	319	0.22	170,008
Passbook accounts (1)	124,368	84	0.27	109,041	70	0.26	118,741	234	0.26	110,503
Certificates of deposit (1)	134,774	314	0.93	146,277	357	0.98	137,923	993	0.96	148,968
Total interest-bearing deposits	452,852	484	0.43	428,770	472	0.44	447,139	1,546	0.46	429,479
FHLB advances	9,208	49	2.13	12,374	58	1.82	10,550	162	2.05	12,893
Total interest-bearing liabilities	462,060	533	0.46	441,504	530	0.48	457,689	1,708	0.50	442,372

Noninterest bearing liabilities, commitments and contingencies	3,074			3,027			3,431			4,147
Total liabilities, commitments and contingencies	465,134			444,531			461,120			446,519
Stockholders' equity	69,296			68,316			69,949			69,793
Total liabilities and stockholders' equity	$534,430			$512,847			$531,069			$516,312
Net interest income		$3,550			$3,361			$10,266		
Interest rate spread			2.83 %			2.79 %			2.74 %	
Net interest margin (annualized)			2.86			2.82 %			2.78 %	
Average interest-earning assets to average interest-bearing liabilities			107.42%			107.88%			107.75%	

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Provision for Loan Losses. The provision for loan losses was $11,000 for the quarter ended March 31, 2017, which represents a decrease of $41,000 compared to the quarter ended March 31, 2016. The provision for loan losses was $43,000 for the nine months ended March 31, 2017, a $98,000 decrease compared to the prior year period.

Nonperforming assets as a percentage of total assets decreased from 0.75% at March 31, 2016 to 0.57% at March 31, 2017, but increased slightly from 0.53% at December 31, 2016. Nonperforming loans as a percentage of total loans decreased from 1.31% at March 31, 2016 to 1.07% at March 31, 2017, but increased slightly from 0.96% at December 31, 2016. The increase from December 31, 2016 was due to the addition to nonperforming loans of a land loan with a net value of $600,000. The Company remains focused on improving asset quality and continues to review all available options to decrease nonperforming assets.

Noninterest Income. The following table summarizes other income for the three and nine months ended March 31, 2017 and 2016.

	Three months ended March 31,			Nine months ended March 31,		
	2017	2016	% Change	2017	2016	% Change
	(*Dollars in thousands*)					
Service charges	$739	$719	2.8 %	$ 2,322	$ 2,212	5.0 %
Gain on sale of loans	130	63	106.3	549	219	150.7
Gain on sale of investments	—	64	(100.0)	79	124	(36.3)
Gain (loss) on sale of other real estate owned	(13)	—	(100.0)	(13)	27	(148.1)
Provision for loss on real estate owned	—	(19)	100.0	—	(60)	100.0
Income from Bank Owned Life Insurance	117	122	(4.1)	402	653	(38.4)
Other	62	172	(64.0)	281	366	(23.2)
Total	$1,035	$1,121	(7.7)	$ 3,620	$ 3,541	2.2

Noninterest income totaled $1.0 million for the quarter ended March 31, 2017, which represented a decrease of $86,000, or 7.7%, when compared to the quarter ended March 31, 2016. The decrease was primarily due to amortization and market value adjustments of mortgage servicing rights, which resulted in a charge to non-interest income of $25,000 in the quarter ended March 31, 2017 as compared to a $68,000 credit to non-interest income in the prior year quarter. In addition, investment securities sold in the prior year quarter resulted in a $64,000 gain; there were no sales of securities in the current year quarter. These decreases were partially offset by a $67,000 increase in gain on sale of loans and a $20,000 increase in service charge income on deposit accounts.

Noninterest income totaled $3.6 million for the nine months ended March 31, 2017, which represented an increase of $79,000, or 2.2%, compared to the prior year period. The increase was primarily due to a $330,000 increase in gain on the sale of mortgage loans due to higher sales volume. This increase was partially offset by a decrease in Bank-Owned Life Insurance income of $251,000. The decrease in Bank-Owned Life Insurance income was due to the receipt in the prior year period of Bank-Owned Life Insurance proceeds due to the death of a director and a former director, which resulted in a gain of $278,000, as compared to a gain of $45,000 in the current year period due to the death of a former director.

Noninterest Expense. The following table shows the components of noninterest expense and the percentage changes for the three and nine months ended March 31, 2017 and 2016.

	Three months ended March 31,			Nine months ended March 31,		
	2017	2016	% Change	2017	2016	% Change
	(Dollars in thousands)					
Compensation and employee benefits	$2,145	$1,972	8.8 %	$6,632	$6,254	6.0 %
Premises and occupancy expense	251	298	(15.8)	779	824	(5.5)
Deposit insurance premium	41	68	(39.7)	123	236	(47.9)
Advertising expense	83	76	9.2	295	262	12.6
Data processing expense	451	348	29.6	1,362	1,003	35.8
Intangible amortization	30	30	0.0	90	90	0.0
Professional fees	90	128	(29.7)	514	587	(12.4)
Other operating expenses	326	310	5.2	946	1,127	(16.1)
Total	$3,417	$3,230	5.8	$10,741	$10,383	3.4

Noninterest expense totaled $3.4 million for the quarter ended March 31, 2017, which represented an increase of $187,000, or 5.8%, when compared to the quarter ended March 31, 2016. The increase was primarily due to an increase in compensation expense of $173,000 and an increase in data processing expense of $103,000. Compensation expense increased primarily as a result of a two-month medical insurance holiday which saved the Company a total of $114,000 in the prior year quarter, with no such corresponding event in the current year quarter. The increase in data processing expense is the result of the expiration of temporary monthly credits and an increase in fraud prevention services, which serve to protect the Bank and its customers. These increases were partially offset by a $47,000 decrease in premises and occupancy expense and a $38,000 decrease in professional fees.

Noninterest expense totaled $10.7 million for the nine months ended March 31, 2017, which represented an increase of $358,000, or 3.4%, compared to the prior year period. The increase in noninterest expense was primarily the result of an increase of $378,000 in compensation expense and an increase of $359,000 in data processing expense. The increase in compensation expense was primarily due to two factors. The first factor was the payment of a $196,000 separation payment made in the current year period in connection with the departure of the Company’s former Chief Financial Officer. There was no such event in the prior year period. The second factor was the previously referenced two-month medical insurance holiday in the prior year period, which saved the Company $114,000, with no such corresponding event in the current year period. The increase in data processing expense was the result of the expiration of temporary monthly credits and an increase in fraud prevention services, which serve to protect the Bank and its customers. These increases were partially offset by a $113,000 decrease in FDIC insurance expense, which is the result of a change to the FDIC insurance assessment rate and a $181,000 decrease in other non-interest expenses. Other non-interest expenses decreased primarily as a result of a $195,000 decrease in loan closing costs associated with a closing cost promotion. Prior to July 1, 2016, the Company charged certain loan closing costs immediately to expense. Pursuant to ASC 310-20, the Company is deferring a portion of these closing costs associated with new loans and amortizing those costs over the life of the loan.

Income Taxes. The provision for income taxes totaled $219,000 for the quarter ended March 31, 2017, which represents a decrease of $40,000 when compared to the prior year quarter. The decrease was primarily due to a decrease in income before taxes during the period.

The provision for income taxes totaled $642,000 for the nine months ended March 31, 2017, which represents an increase of $168,000 when compared to the prior year period. The increase was primarily due to a provision of $125,000 related to the expiration of stock options granted in 2006 as well as an increase in income before taxes during the current year period.

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 March 31, 2017 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 March 31, 2017, 19 loans were considered to be TDRs (with a recorded investment of $2.7 million) of which six loans (with a recorded investment of $1.4 million) were included in nonperforming assets.

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

	At March 31, 2017		At June 30, 2016	
(Dollars in thousands)				
Nonaccrual loans:				
One- to four-family residential real estate	$ 673		$ 1,011	
Non-Residential real estate and land	649		88	
Consumer	390		398	
Total nonaccrual loans	1,712		1,497	
One- to four-family residential real estate	215		324	
Non-Residential real estate and land	1,159		1,066	
Total nonaccrual restructured loans	1,374		1,390	
Total nonperforming loans	3,086		2,887	
Real estate owned	15		70	
Total nonperforming assets	$ 3,101		$ 2,957	
Accruing restructured loans	1,305		2,330	
Accruing restructured loans and nonperforming assets	$ 4,406		$ 5,287	
Total nonperforming loans to total loans	1.07	%	1.05	%
Total nonperforming loans to total assets	0.57		0.55	
Total nonperforming assets to total assets	0.57		0.56	

Interest income that would have been recorded for the three and nine months ended March 31, 2017 had nonaccruing loans been current according to their original terms was $80,000, and $218,000, respectively. Interest recognized on the cash basis with regard to nonaccrual restructured loans was $0 and $9,000, respectively, for the three and nine month periods ended March 31, 2017.

Nonperforming assets as a percentage of total assets decreased from 0.75% at March 31, 2016 to 0.57% at March 31, 2017 , but increased slightly from 0.53% at December 31, 2016. Nonperforming loans as a percentage of total loans decreased from 1.31% at March 31, 2016 to 1.07% at March 31, 2017, but increased slightly from 0.96% at December 31, 2016. The increase from December 31, 2016 was due to the addition to nonperforming loans of a land loan with a net value of $600,000. The Company remains focused on improving asset quality and continues to review all available options to decrease nonperforming assets. Beginning with the disclosure in the Company’s Form 10-Q for the quarter ended March 31, 2011, the Company included "Loan Relationship" narratives regarding its five largest nonaccrual (nonperforming) loans and loans having the five largest charge-offs, all of which were commercial real estate loans. As of March 31, 2011, the amount of all nonaccrual (nonperforming) loans totaled $19.5 million, and the amount of all accruing TDR loans totaled $7.0 million. As of March 31, 2017, the amount of all nonaccrual (nonperforming) loans decreased to $3.1 million and the amount of all accruing TDR loans decreased to $1.3 million.

Because of the decrease in the aggregate amount of nonaccrual (nonperforming) loans and the aggregate amount of accruing TDR loans over the last six years, the Loan Relationship narratives since December 31, 2015 have focused on commercial Loan Relationships with the following loans:

- The largest nonaccruing commercial real estate loans (including nonaccrual TDRs) having a carrying value of at least $250,000, plus any related commercial or retail loans;
- The largest commercial real estate loan charge-offs having a charge-off of at least $250,000 that are related to commercial real estate loans in a Loan Relationship, whether accruing or not, plus any related commercial or retail loans; and
- The largest accruing TDR commercial loans having a carrying value of at least $250,000 plus any related commercial or retail loans.

If a commercial loan falls into one of the three categories listed above, then a narrative is composed for that commercial loan and any related commercial or retail loans.

At March 31, 2017:

- The largest commercial real estate nonaccrual loans having a carrying value of at least $250,000 are related to loans in Loan Relationships M, O and R. There are a total of five loans in these three Loan Relationships.
- The largest commercial real estate loan charge-offs of at least $250,000 are related to loans in Loan Relationships F, H, M, O and R. There are a total of 10 loans in these five Loan Relationships.
- There are no accruing TDRs having a carrying value of at least $250,000.

As discussed 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 unless otherwise agreed to by the Bank. For purposes of the narratives, loans that have a carrying value are identified by a Loan number within each Loan Relationship, such as “Loan A-1” and “Loan A-2”. However, the Note B loans are identified as a “Note B loan” because these loans have no carrying value because they have been charged-off.

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 F. At March 31, 2017 and June 30, 2016, Loan Relationship F was comprised of two loans, a Note A loan (Loan F-1) and a Note B loan, having an aggregate carrying value of $405,000 and $414,000, 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. Loan F-1 is not included in any nonaccrual table because in the September 30, 2011 quarter, Loan F-1 was put on accrual because of sufficient payment history. At March 31, 2017 and June 30, 2016, Loan F-1 was classified as “Multi-family real estate, Watch” in the “Credit Risk Profile by Internally Assigned Grade” table. As of June 30, 2014, Loan F-1was no longer reported as a TDR, or classified as substandard, because the loan was current and there were more than 12 consecutive monthly payments made on time. Additionally, recent appraisals obtained for the properties securing the loan indicated that the loan to value ratio of the loan complied with the Bank’s underwriting standards, and the cash flow analysis performed on the loan from updated financial information indicated that the debt service coverage ratio complied with the Bank’s underwriting standards. Loan F-1 was performing in accordance with its terms at March 31, 2017. 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 loan) 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 the 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 a 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 the 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 was above 1.20x, which complied with the Bank's current loan underwriting standards. This loan remained on accrual (because of its sufficient payment history since the September 30, 2011 quarter), 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.

During the December 2015 quarter, the balloon payment from the December 2012 renewal became due. Due to the upcoming balloon payment, the Bank ordered new appraisals on the two properties. The Bank received the appraisals in October 2015, and the appraised value of the properties increased to $773,000 from $730,000 in December 2012. The Bank also reviewed the cash flow from updated financials of the borrowers and co-borrowers. After this review and based on the increase in value of the properties, the Bank extended the two loans, again using the Note A/B split note strategy, with both loans having three year balloon payments. The Note A Loan was renewed at the market interest rate of 5.50%, with no increase in the principal balance ($421,000). The term of the loan was renewed at 288 months, the remaining term of the loan. This loan remained on accrual (because of its sufficient payment history) and classified as watch. There was no increase in the principal balance ($405,000) of the Note B loan from that loan's prior restructuring in December 2012, and therefore, the charge-off amount ($405,000) remained the same as in December 2012. The interest rate remained at 0% as the loan had been charged-off.

- <u>Loan Relationship H.</u> At March 31, 2017 and June 30, 2016, Loan Relationship H was comprised of three loans having an aggregate carrying value of $868,000 and $901,000, respectively. At March 31, 2017 and June 30, 2016, two of the loans, a Note A loan (Loan H-1) and a Note B loan, had an aggregate carrying value of $684,000 and $696,000, respectively. Loan H-1 is secured by a first lien on an 18-unit apartment complex, a single-family rental 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 company and the two co-borrowers are the principals of the limited liability company. Loan H-1 is not included in any nonaccrual table because in the June 30, 2013 quarter, Loan H-1 was put on accrual because of sufficient payment history. At March 31, 2017 and June 30, 2016, Loan H-1 was classified as "Multi-family residential real estate, Watch" in the "Credit Risk Profile by Internally Assigned Grade" table. As of June 30, 2014, Loan H-1 was no longer reported as a TDR loan because the loan was current and there were more than 12 consecutive market rate 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 March 31, 2017 and June 30, 2016, the balance of Loan H-2 was $183,000 and $206,000, respectively. Loan H-2 is secured by a first lien on the single-family owner occupied dwelling on 11.36 acres mentioned above. The borrowers are a husband and wife who are the principals in the limited liability company mentioned above. At March 31, 2017 and June 30, 2016, Loan H-2 was classified as "One- to Four-Family Owner-Occupied Mortgage, Watch" in the "Credit Risk Profile by Internally Assigned Grade" table.

At March 31, 2017, Loan H-1 and Loan H-2 were performing in accordance with their terms. A more detailed history of the Note A loan (Loan H-1) and the Note B loan follows.

During the quarter ended December 31, 2008, the Note A loan (Loan H-1) and the Note B loan were comprised of one loan with a carrying value of $1.3 million and classified as special mention. In the quarter ended June 30, 2009, the co-borrowers approached the Bank and advised that the only co-borrower who was employed had experienced a substantial salary reduction. The borrowers requested an interest rate reduction to 3% and interest only payments for three years. Independent appraisals were ordered and received and reflected that the properties on which the Bank had a first lien position had an aggregate value of $1.0 million. The loan was classified as substandard, placed on nonaccrual, and reported as a TDR. Due to the reduced interest rate, a specific valuation of $123,000 was established for the loan through a charge-off to the general allowance. Under the loan's modified terms, the interest rate was to reset to 5.75% on June 1, 2012. In June 2012, the co-borrowers approached the Bank and advised that the properties' cash flow could not service the increase in interest rate. Independent appraisals were ordered and received in June 2012 and reflected that the properties on which the Bank had a first lien position had decreased to $978,000 from $1.0 million in June 2009. As a result, the Bank recorded a charge-off of $481,000, (inclusive of the $123,000 specific allocation established) to reflect the carrying value of the loan at $744,000. The one loan performed in accordance with its restructured terms until the September 30, 2012 quarter, when the co-borrowers again approached the Bank and advised that the properties' cash flow could not service the loan. Therefore, the one loan was restructured using the Note A/B split note strategy. The Note A loan (Loan H-1) 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 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.

During the September 2015 quarter, the balloon payment from the September 2012 renewal became due. As a result of the upcoming balloon payment, the Bank ordered new appraisals on the 18-unit apartment complex and the single-family rental dwelling. The Bank received new appraisals on the 18 unit apartment complex and the single-family rental dwelling in September 2015. In addition, the Bank used the June 2014 value of the 6.3 acre tract of land. The total appraised value of the three properties increased to $1,048,000 as compared to the $978,000 total appraised value in June 2012. The Bank also reviewed the cash flow from updated financials of the borrower and co-borrowers. After this review and based on the increase in value of the properties, the Bank extended the two loans, again using the Note A/B split note strategy, with both loans having three year balloon payments. The Note A loan (Loan H-1) was renewed at the market interest rate of 5.00%, using a 1/1 ARM, with a 5% floor rate, and with no increase in the principal balance ($710,000). The term of the loan was renewed at 324 months. This loan was put on accrual (because of its sufficient payment history) and classified as watch. Also, as stated above, the loan was not reported as a TDR. There was no increase in the principal balance ($515,000) of the Note B loan from that loan's prior restructuring in September 2012, and therefore, the charge-off amount ($515,000) remained the same as in September 2012. The interest rate remained at 0% as the loan had been charged-off.

- Loan Relationship M. At March 31, 2017 and June 30, 2016, Loan Relationship M was comprised of two loans having an aggregate carrying value of $624,000 and $1.1 million, respectively. At March 31, 2017 and June 30, 2016, Loan M-1 had an aggregate carrying value of $185,000 and $571,000, respectively. At December 31, 2016 and June 30, 2016, Loan M-2 had an aggregate carrying value of $439,000 and $495,000, respectively. Originally Loans M-1 and M-2 were both secured by the 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 had, originally, the father and stepmother of one of the co-borrowers. At March 31, 2017 and June 30, 2016, Loans M-1 and M-2 are included in the table in “Nonaccrual, Nonresidential Real Estate” and classified as “Nonresidential Real Estate, Substandard” in the “Credit Risk Profile by Internally Assigned Grade” table. During the June 30, 2015 quarter, the Bank entered into a forbearance agreement with the borrower and co-borrowers pursuant to which full principal, interest and escrow payments will be made for the months of May through October of each year beginning in 2015. The maturity date for these loans is now October 1, 2018. Loans M-1 and M-2 were performing in accordance with their restructured terms at March 31, 2017. 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 were due from April through December of each year; no payments were 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, the borrowers were unable to make the November and December 2013 payments that the borrowers had stated would be paid in February and March 2014, and were unable to make the real estate tax payment due during the period ended March 31, 2014. As a result of the failure to make the November and December 2013 payments 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 then due, 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 further impairment was needed on either Loan M-1 or Loan M-2.

At September 30, 2014, the borrowers had successfully complied with the revised payment plan agreement from March 31, 2014 and both loans were current. Additionally, 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 had not been paid. At December 31, 2014, due to cash flow issues caused by inclement weather during the quarter, the real estate taxes that were due in July 2014 were still not paid, and the loan payments due for October, November, and December 2014 were not paid. The Bank met with the husband and wife co-borrowers during the December 31, 2014 quarter. The co-borrowers advised the Bank that they would not be able to make the past due payments and the past due real estate taxes because of the inclement weather during the quarter until the golf season opened in the spring of 2015. Because of these developments, the Bank performed another impairment analysis of these two loans. While the appraisals of the properties showed no need for an impairment, the Bank further analyzed the cash flow of the golf courses. After this analysis, the Bank determined that an additional impairment of $466,000 was needed for this loan relationship, and an additional charge-off of $233,000 was established for each of the two loans in this loan relationship, through a charge-off to the general allowance. During the quarter ended March 31, 2015, the Bank entered into further discussions with the co-borrowers about another revised payment plan. As stated above, during the June 30, 2015 quarter, the Bank entered into a forbearance agreement with the borrower and co-borrowers. An impairment analysis was performed for the quarter ended June 30, 2015. The impairment analysis showed that no further impairment was needed on either Loan M-1 or M-2. For the quarter ended December 31, 2015, because there was still the partial escrow payment due for the October 2015 escrow payment, the Bank performed another impairment analysis. Even though the partial escrow payment was paid subsequent to the December 31, 2015 quarter and the appraisals of the properties indicated no further impairment was needed, the Bank reviewed the observable market price of the properties and determined that an additional impairment of $250,000 was needed for this loan relationship, and an additional charge-off of $125,000 was established for each of the two loans in this loan relationship through a charge-off to the general allowance.

During the March 31, 2016 quarter, because there had not been an updated appraisal since the March 2014 quarter, the Bank ordered and received new appraisals on all of the collateral securing this Loan Relationship. The new appraisal on one of the golf courses decreased to $1.1 million from $1.2 million. The new appraisal on the other golf course decreased to $1.4 million from $1.6 million. The new appraisal on the approximately 25 acre tract of land increased to $100,000 from $95,000. The new appraisal for the principal residence of two of the individual co-borrowers increased to $165,000 from $150,000. Also during the March 2016 quarter, the husband and wife principals of the two corporate entities informed the Bank that they were not going to open the golf course that appraised for $1.1 million for the 2016 golf season and that they are going to attempt to sell the property as a land development project. Subsequent to the end of the March 2016 quarter, the Bank was informed that one of the co-borrowers had passed. She was the wife of one of the co-borrowers and the stepmother of one of the other co-borrowers who is one of the two principals of the corporate entities.

During the June 30, 2016 quarter, the borrowers entered into a purchase agreement to sell the golf course that was not opened. As part of this purchase, the Bank agreed to release the nonoperational golf course, the 25 acre tract of land, and the co-borrower who was the father of one of the principals. In connection with the transaction, the Bank secured the first mortgage, instead of a second mortgage, on the principal residence of two of the individual co-borrowers. However, based on this purchase agreement, the Bank determined that an additional impairment of $210,000 was needed for this loan relationship, and an additional charge-off of $105,000 was established for each of the two loans in the loan relationship through a charge-off to the general allowance. The nonoperational golf course was sold subsequent to the end of the June 30, 2016 quarter. After the sale and subsequent reduction of the principal balance of Loan M-1, the Bank determined that no further impairment was needed. Also, subsequent to the June 30, 2016 quarter, the Bank entered into an amended forbearance agreement with the borrower and co-borrowers, reflecting the reduced principal balances for Loans M-1 and M-2. The maturity date for these loans remained at October 1, 2018. The Bank will monitor the cash flow of the remaining golf course each quarter and determine if any further impairment is necessary. For the March 31, 2017 quarter, the impairment analysis showed that no further impairment is necessary.

- Loan Relationship O. At March 31, 2017 and June 30, 2016, this Loan Relationship consisted of two loans and three loans, having an aggregate carrying value of $535,000 and $1.6 million, respectively. At March 31, 2017 and June 30, 2016, two of the loans, a Note A loan (Loan O-1) and a Note B loan, had an aggregate carrying value of $535,000 and $721,000, respectively. Loan O-1 is secured by a first lien on a nonresidential retail strip center. The borrower is a limited liability company and the two co-borrowers are the principals of the limited liability company. At March 31, 2017 and June 30, 2016, Loan O-1 is included in the table as "Nonaccrual, Nonresidential Real Estate" and "Accruing Restructured Loans", respectively. At March 31, 2017, and June 30, 2016, Loan O-1 was classified as "Nonresidential Real Estate, Substandard" in the "Credit Risk Profile by Internally Assigned Grade" table. As of September 30, 2011, Loan O-1 was put on accrual because of its sufficient payment history, but was still considered a TDR and thus continued to be classified as substandard. However, after the December 31, 2016 quarterly impairment analysis was completed, it was determined that an impairment of $175,000 was needed, and an impairment in the amount of $175,000 was established through a charge-off to the general allowance. Therefore, this loan was put back on nonaccrual and remained classified as substandard and continued to be reported as a TDR. In the December 31, 2016 quarter the other loan in this relationship, Loan O-2, was paid in full with no loss experienced by the Bank. At March 31, 2017 and June 30, 2016, the balance eof Loan O-2 was $0 and $890,000, respectively. When the balloon payment became due in the March 2017 quarter, the co-borrowers did not sell the property, nor did they refinance the loan with another lender. Therefore, subsequent to the end of the March 31, 2017 quarter, the Bank filed a complaint for foreclosure. An impairment analysis was performed at March 31, 2017, and no further impairment was required. A more detailed history of the Note A loan (Loan O-1) and the Note B loan follows.

In June 2006, Loan O-1 was originated and comprised of one loan for $1.1 million. In the June 2010 quarter, the co-borrowers approached the Bank and advised that the anchor tenant was vacating the retail strip center. Independent appraisals were ordered and received, and reflected the value of the property had decreased to a value of $900,000 from the value of $1.4 million in June 2006. A specific valuation allowance was established for $360,000 to reduce the net carrying value down to $720,000, or 80% loan to value. In the March 2011 quarter, the co-borrowers again approached the Bank and advised that even though they had been able to replace the anchor tenant, the lease amount that they were receiving was 20% less than the previous tenant. A new appraisal was ordered and received in the March 2011 quarter, and reflected the value of the property had decreased to a value of $828,000 from the value of $900,000 in June 2010. The Bank reviewed the present value of future cash flow of this property and the one loan was restructured using the Note A/B split note strategy. Based on the present value of future cash flow of the property, the Note A loan (Loan O-1) was for $810,000, with a below market rate of interest of 2%, for a 30 year term, and a two year balloon payment. The carrying value of the Loan O-1 continued on nonaccrual and a classification of substandard, but was also reported as a TDR. The Note B loan was for $360,000 (inclusive of the $360,000 specific valuation allowance established in June 2010) and was charged-off. In September 2011, because there were six consecutive payments made and the cash flow of the property from updated financial information indicated that the debt service coverage ratio was adequate, the loan was placed on accrual. However, because of the below market interest rate, an impairment of $28,750 was established. During the March 2013 quarter, the balloon payment from the March 2011 loan became due. As a result of the upcoming balloon payment, the Bank ordered and received a new appraisal on the property. The new appraisal dated March 2013 showed a value of $825,000, a decrease of $3,000 from the value of $828,000 in the March 2011 quarter. The Bank reviewed the present value of the future cash flow of this property from updated financial information of the borrower and co-borrowers. After this review, the Bank extended the two loans, again using the Note A/B split note strategy, with both loans having three year balloon payments. The loan amount for the Note A loan (Loan O-1) was decreased to $761,000. The Note A loan (Loan O-1) was renewed at a market rate of interest of 5.5%, for a 30 year term, and a three year balloon payment. This loan was placed on accrual (because of its sufficient payment history). However, the classification remained substandard and the loan was still reported as a TDR. Also, because this loan now had a market rate of interest, the impairment amount of $28,750 was removed. The Note B loan was for $376,000 (inclusive of the $366,000 charge-off from March 2011) and was charged-off. During the March 31, 2016 quarter, the balloon payment from the March 2013 loan became due. As a result of the upcoming balloon payment, the Bank ordered and received a new appraisal on the property. The new appraisal dated February 2016 showed a value of $870,000, an increase of $45,000 from the value of $825,000 in the March 2013 quarter. The Bank reviewed the present value of the future cash flow of this property from updated financial information of the borrower and co-borrowers. After this review, the Bank extended the two loans, again using the Note A/B split note strategy, with both loans having a one year balloon payment. At this time, the Bank advised the co-borrowers that there would be no further renewal of the loan. The loan amount for the Note A loan (Loan O-1) had decreased to $723,000. The Note A loan (Loan O-1) was renewed at a market rate of interest of 5.5%, for a 27 year term, and a one year balloon payment. This loan was placed on accrual because of its sufficient payment history. However, the classification remained substandard and the loan was still reported as TDR. There was no increase in the principal balance ($376,000) of the Note B loan from that loan's prior restructuring in March 2013, and therefore, the charge-off amount ($376,000) remained the same as in March 2013. The interest rate remained at 0%, as the loan had been charged-off.

- Loan Relationship R. At March 31, 2017 and June 30, 2016, Loan Relationship R was comprised of one loan, having a carrying value of $601,000 and $890,000, respectively. This loan is, and has always been, an interest only loan. This loan is secured by 48.54 acres of land, of which 12.54 acres is in the right of way of an Ohio highway, and is located in southwestern Ohio. The borrower is a “subchapter S” Corporation. The co-borrowers, who were individually signed, were originally a husband and wife who were 100% owners of the corporation. The husband passed away in 2015; the wife is the only remaining borrower, still individually signed, and owns 100% of the corporation. At March 31, 2017, the Loan R carrying value is included in the table for “Nonaccrual, Land”, and at June 30, 2016, the carrying value of Loan R was not included in the table for “Nonaccrual, Land”. In the “Credit Risk Profile by Internally Assigned Grade” table, Loan R is classified as substandard at March 31, 2017, and as special mention at June 30, 2016.

Loan R is performing in accordance with its renewed terms at March 31, 2017. A more detailed history of Loan Relationship R follows.

The land was purchased by the co-borrowers in 1997 as an investment for future development. The Bank originated Loan R on the land in November 2003. Since the Bank made the original loan in 2003, this loan has been renewed three times. The loan was set to renew again in March 2017. The Bank ordered an appraisal during the March 2017 quarter. The Bank also analyzed the cash flow and the liquid assets of the remaining co-borrower. After this analysis, the Bank ordered an appraisal based on the market value and the liquidation value of the property. The market value of the property was $1,940,000 and the liquidation value of the property was $1,070,000. Because of the results of the financial analysis performed on the co-borrower, and the fact that the property had not been sold, the Bank completed an impairment analysis of the property using the liquidation value. After the impairment analysis was completed, it was determined that an impairment of $255,000 was needed. An impairment in the amount of $255,000 was established through a charge-off to the general allowance. The remaining balance of $601,000 was put on nonaccrual as stated above. This loan was renewed in March 2017, but only for one year (new maturity date is March 2018). The borrower has confirmed her intent to have the property sold by the date. If the property is not sold by this date, the Bank will review all of the options available to it, including foreclosure action.

The following table summarizes customer balances of all Note A/B format loans at March 31, 2017:

(Dollars in thousands)	Loan Balances			Number of Loans	
	Note A	Note B	Total	Note A	Note B
One- to four-family residential real estate	$85	$20	$105	1	1
Non-Residential real estate	888	482	1,370	2	2
Multi-family residential real estate	1,089	920	2,009	2	2
Total (1)	$2,062	$1,422	$3,484	5	5

(1) Included in this total are an aggregate of $1.8 million comprised of Note A loans and $1.3 million comprised of Note B loans that are included in the discussion of Loan Relationships F, H and O.

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 March 31, 2017						
	Loan Status		Total Unpaid Principal	Related	Recorded	Number of	Average Recorded
(In thousands)	Accrual	Nonaccrual	Balance	Allowance	Investment	Loans	Investment
One- to Four-Family residential real estate	$1,305	$215	$ 1,520	$ —	$ 1,520	16	$ 1,737
Non-Residential real estate	—	1,159	1,159	—	1,159	3	1,231
Total	$1,305	$I, 374	$ 2,679	$ —	$ 2,679	19	$ 2,968

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

	Three months ended March 31, 2017		Nine months ended March 31, 2017	
	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans
(Dollar amounts in thousands)				
Beginning balance	$ 2,941	21	$ 3,720	22
Additions to TDR	—	—	—	—
Charge-offs	—	—	(175)	—
Removal of TDRs	(172)	(1)	(300)	(2)
Impairment Reversal	—	—	—	—
Payments	(90)	(1)	(566)	(1)
Ending balance	$ 2,679	19	$ 2,679	19

Loans that were included in TDRs at March 31, 2017 and June 30, 2016 were generally given concessions of interest rate reductions of between 25 and 300 basis points, and/or structured as interest only payment loans for periods of one to three years. Some of these loans also have balloon payments due at the end of their lowered rate period, requiring the borrower to refinance at market rates at that time. At March 31, 2017 and June 30, 2016, all loans classified as TDRs required principal and interest payments.

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

	At March 31,	
	2017	2016
	(In thousands)	
Special mention assets	$1,446	$3,616
Substandard assets	4,685	6,374
Total classified assets	$6,131	$9,990

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b) at March 31, 2017 and at June 30, 2016.

At March 31, 2017:

	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 Residential Real Estate**	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
	(In thousands)								
Grade:									
Pass	$ 128,255	$ 32,348	$ 6,363	$ 13,780	$ 63,347	$ 9,409	$ 2,209	$ 9,175	$ 264,886
Watch	2,813	529	3,791	2,063	5,997	2,519	66	665	18,443
Special mention	46	171	85	-	1,144	—	—	—	1,446
Substandard	1,936	390	465	-	1,245	—	649	—	4,685
Total	$ 133,050	$ 33,438	$ 10,704	$ 15,843	$ 71,733	$ 11,928	$ 2,924	$ 9,840	$ 289,460

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At June 30, 2016:

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

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

	At March 31, 2017		At June 30, 2016	
	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 owner-occupied mortgage	$744	$ 57	$ 594	$ 552
Consumer	158	—	109	49
One- to four-family non-owner occupied mortgage	—	—	95	30
Multi-family residential real estate	—	—	—	—
Non-Residential real estate mortgage	535	—	—	—
Construction	—	—	—	—
Land	—	—	14	—
Commercial and agricultural	—	—	—	—
Total	$1,437	$ 57	$ 812	$ 631

The following table illustrates the changes to the allowance for loan losses for the three and nine months ended March 31, 2017:

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-Family Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, January 1, 2017:	$ 1,230	$ 421	$ 68	$ 393	$ 2,170	$ 112	$ 20	$ 169	$ 4,583
Charge offs	(38)	(36)	(7)	—	—	—	(255)	—	(336)
Recoveries	32	26	—	5	2	—	—	—	65
Provision (credit)	(109)	(77)	4	(82)	(68)	34	356	(47)	11
Ending Balance:	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Allowance for Credit Losses:									
Balance, July 1, 2016:	$ 1,235	$ 426	$ 108	$ 275	$ 2,577	$ 132	$ 10	$ 122	$ 4,885
Charge offs	(47)	(174)	(7)	—	(600)	—	(255)	—	(1,083)
Recoveries	62	158	—	11	247	—	—	—	478
Provision (credit)	(135)	(76)	(36)	30	(120)	14	366	—	43
Ending Balance:	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Balance, Individually Evaluated	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Balance, Collectively Evaluated	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Financing receivables:									
Ending balance	$ 133,050	$ 33,438	$ 10,704	$ 15,843	$ 71,733	$ 11,928	$ 2,924	$ 9,840	$ 289,460
Ending Balance: individually evaluated for	$ 1,936	$ 390	$ 257	$ —	$ 1,159	$ —	$ 649	$ —	$ 4,391

impairment									
Ending Balance: collectively evaluated for impairment	$ 126,498	$ 30,785	$ 10,284	$ 15,843	$ 70,478	$ 11,928	$ 2,275	$ 9,833	$ 277,924
Ending Balance: loans acquired at fair value	$ 4,616	$ 2,263	$ 163	$ —	$ 96	$ —	$—	$ 7	$ 7,145

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

	At March 31, 2017			At June 30, 2016		
	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	$1,180	27.3 %	49.7 %	$1,343	27.5 %	52.2 %
Multi-family residential real estate	316	7.3	5.5	275	5.6	5.8
Non-Residential real estate	2,104	48.6	24.8	2,577	52.8	21.5
Land	121	2.8	1.0	10	0.2	0.8
Agricultural	59	1.4	1.5	95	1.9	2.2
Commercial	63	1.5	1.9	27	0.6	1.6
Consumer	334	7.7	11.5	426	8.7	12.8
Construction	146	3.4	4.1	132	2.7	3.1
Total allowance for loan losses	$4,323	100.0 %	100.0 %	$4,885	100.0 %	100.0 %
Total loans	$289,460			$274,222		

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. 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 demand; (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 $35.5 million at March 31, 2017 and $29.0 million at June 30, 2016. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled $36.1 million at March 31, 2017. Total securities classified as available-for-sale were $151.1 million at March 31, 2017.

In addition, at March 31, 2017, we had the ability to borrow a total of approximately $64.5 million from the Federal Home Loan Bank of Indianapolis.

At March 31, 2017, we had $43.7 million in loan commitments outstanding, consisting of $7.2 million in mortgage loan commitments, $27.6 million in unused home equity lines of credit, $8.5 million in commercial lines of credit and $388,000 in other loan commitments. Certificates of deposit due within one year of March 31, 2017 totaled $73.3 million. This represented 55.0% of certificates of deposit at March 31, 2017. 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 March 31, 2017. However, based on past experience, we believe that a significant portion of our certificates of deposit will remain with us either by rolling the certificates into new maturities or by allowing the funds to be placed into checking or savings accounts. 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 investment 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 several risk-based capital measures. 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 March 31, 2017, 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 15 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 27, 2016.

The following table summarizes the Bank's capital amounts and the ratios required at March 31, 2017:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2017 (unaudited)	(dollars in thousands)					
Common equity tier 1 risk-based capital	$59,646	20.69%	$ 12,974	4.5 %	$ 18,740	6.5 %
Tier 1 risk-based capital	59,646	20.69	17,298	6.0	23,064	8.0
Total risk-based capital	63,261	21.94	23,064	8.0	28,830	10.0
Tier 1 leverage	59,646	11.23	21,387	4.0	26,734	5.0

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 and nine months ended March 31, 2017, 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 27, 2016. The main components of market risk for the Company are interest rate risk and liquidity risk. We manage the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts generally react more quickly to changes in market interest rates than loans due to the volume of non-maturing deposits in combination with shorter maturities of deposits. As a result, sharp and sustained increases in interest rates may adversely affect our earnings while decreases in interest may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have simulated our earnings and our economic value of equity under a variety of interest rate scenarios in order to quantify an estimate of the effect of various rising rate and declining rate scenarios. These simulations are performed quarterly and involve a detailed review of all loans and deposits at the account level. Simulations are performed using both ramped changes to interest rates and immediate shocks in order to quantify the risk of rapidly changing interest rates. In addition, simulations are run using both parallel and non-parallel shifts in the yield curve in order to quantify the risk of changes to the shape of the yield curve. Critical assumptions including loan prepayment expectations, deposit decay rates and repricing beta factors were derived from historical studies and in some cases may be adjusted based upon management's expectations involving customer behavior, the competitive and economic environments and other factors. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; and generally, selling in the secondary market newly originated conforming fixed-rate 15-, 20- and 30-year one-to four-family residential real estate loans and available-for-sale securities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of Board members, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors 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.

We use an economic value of equity analysis prepared by a consulting firm to review our level of long-term 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 an estimate of the market value of portolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items, where appropriate. These analyses assess the risk of loss in market risk-sensivite instruments in the event of a sustained 100 to 400 basis increase or a 100 basis point decrease in market interest rates with no effect given to steps that we might take to counter the effects of that interest rate movement. Due to the overall historically low level of interest rates, an analysis of decreasing market interest rates of more than 100 basis points is not performed.

The following table presents the change in our net economic value of equity at December 31, 2016, 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.

	Economic Value of Equity (Dollars in Thousands)			Economic Value of Equity as % of Economic Value of Total Assets
Basis Point ("bp") Change in Rates	Amount	Change	% Change	Economic Value Ratio
400	$81,356	$(7,287)	(8.22)%	17.53%
300	89,061	418	0.47%	18.50%
200	90,521	1,878	2.12%	18.24%
100	90,460	1,817	2.05%	17.69%
0	88,643	—	—%	16.81%
(100)	79,977	(8,666)	(9.78)%	14.77%

The model uses various assumptions in assessing interest rate risk. The most critical assumptions in the model relate to loan prepayment speeds, deposit decay rates and deposit repricing beta factors. As with any method of measuring interest rate risk involving forecasting, certain shortcomings are inherent in the calculations. Borrower and depositor behavior in the future is unknown. Historical data has been compiled, where available, to allow the Company to see the impact of customer behavior in prior interest rate cycles. However, the future behavior is inherently unknown. For example, although certain assets and liabilities may have similar maturities or repricing dates, 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, increasing or decreasing interest rates could have a significant impact on the prepayment speeds of our earning assets that in turn could affect the rate sensitivity position. When market interest rates increase, prepayments tend to slow. When market interest rates decrease, prepayments tend to rise. While the Company believes the assumptions used in the model to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security or loan prepayment 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 March 31, 2017, 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, 2016, 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

During the quarter ended March 31, 2017, repurchases of the Company's common stock were as follows:

	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
January 1 to January 31, 2017	1,700	$16.150	1,700	196,215
February 1 to February 28, 2017	1,000	$17.300	1,000	195,215
March 1 to March 31, 2017	—	—	—	195,215
Total	2,700	$16.576	2,700	

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 March 31, 2017, 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:	May 15, 2017	By:	/s/ Elmer G. McLaughlin
			Elmer G. McLaughlin
			President and Chief Executive Officer
Date:	May 15, 2017	By:	/s/ David Z. Rosen
			David Z. Rosen
			Chief Financial Officer