

United Community Bancorp
Form 10-Q
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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)

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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

As of May 8, 2018, there were 4,217,619 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 March 31, 2018	June 30, 2017
<u>Assets</u>		
Cash and due from banks	\$1,352	\$2,029
Interest-earning deposits in other financial institutions	38,384	24,856
Cash and cash equivalents	39,736	26,885
Investment securities:		
Securities available for sale - at estimated market value	76,999	79,188
Securities held to maturity - at amortized cost	41,644	41,954
Mortgage-backed securities available for sale - at estimated market value	59,344	68,374
Investment securities	177,987	189,516
Loans receivable, net	296,811	282,477
Loans available for sale	561	1,005
Property and equipment, net	6,281	6,603
Federal Home Loan Bank stock, at cost	3,527	3,527
Accrued interest receivable:		
Loans	936	865
Investments and mortgage-backed securities	984	1,137
Other real estate owned, net	77	93
Cash surrender value of life insurance policies	17,363	17,023
Deferred income taxes	3,128	3,266
Prepaid expenses and other assets	1,441	1,817
Goodwill	2,522	2,522
Intangible asset	105	195
Total assets	\$551,459	\$536,931

Liabilities and Stockholders' Equity

Deposits	\$470,074	\$453,655
Advances from FHLB	6,833	8,833
Accrued interest on deposits	16	13
Accrued interest on FHLB advance	7	8
Advances from borrowers for payment of insurance and taxes	1,024	571
Accrued expenses and other liabilities	2,330	2,560
Total liabilities	480,284	465,640
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, 2018 and June 30, 2017; 4,217,619 and 4,205,980 shares outstanding at March 31, 2018 and June 30, 2017, respectively.	51	51
Additional paid-in capital	51,881	51,517
Retained earnings	35,921	34,839
Less shares purchased for stock plans	(1,627)	(1,860)
Treasury Stock, at cost - 931,945 and 943,584 shares at March 31, 2018 and June 30, 2017, respectively.	(12,243)	(12,397)
Accumulated other comprehensive income:		
Unrealized loss on securities available for sale, net of income taxes	(2,808)	(859)
Total stockholders' equity	71,175	71,291
Total liabilities and stockholders' equity	\$551,459	\$536,931

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share data)	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2018	2017	2018	2017
Interest income:				
Loans	\$3,182	\$2,960	\$9,531	\$8,788
Investments and mortgage-backed securities	1,251	1,123	3,623	3,186
Total interest income	4,433	4,083	13,154	11,974
Interest expense:				
Deposits	532	484	1,667	1,546
Borrowed funds	43	49	142	162
Total interest expense	575	533	1,809	1,708
Net interest income	3,858	3,550	11,345	10,266
Provision for loan losses	7	11	30	43
Net interest income after provision for loan losses	3,851	3,539	11,315	10,223
Noninterest income:				
Service charges	764	739	2,390	2,322
Gain on sale of loans	75	130	229	549
Gain on sale of investments	-	-	9	79
Gain (loss) on sale of other real estate owned	-	(13)	72	(13)
Loss on sale of fixed assets	(29)	-	(60)	-
Income from bank owned life insurance	110	117	340	402
Other	182	62	359	281
Total noninterest income	1,102	1,035	3,339	3,620
Noninterest expense:				
Compensation and employee benefits	2,328	2,145	6,708	6,632
Premises and occupancy expense	265	251	820	779
Deposit insurance premium	43	41	126	123
Advertising expense	71	83	285	295
Data processing expense	473	451	1,407	1,362
Merger expenses	650	-	650	-
Intangible amortization	30	30	90	90
Professional fees	73	90	439	514

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Other operating expenses	287	326	942	946
Total noninterest expense	4,220	3,417	11,467	10,741
Income before income taxes	733	1,157	3,187	3,102
Income tax provision	22	219	1,117	642
Net income	\$711	\$938	\$2,070	\$2,460
Basic earnings per share	\$0.17	\$0.23	\$0.51	\$0.61
Diluted earnings per share	\$0.17	\$0.23	\$0.50	\$0.60

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2018	2017	2018	2017
Net income	\$711	\$938	\$2,070	\$2,460
Other comprehensive income, net of tax				
Net unrealized gain (loss) on available for sale securities net of benefit of (\$253) and \$120 for the three months ended March 31, 2018 and 2017, respectively and (\$373) and (\$1,723) for the nine months ended March 31, 2018 and 2017, respectively	(1,672)	188	(1,943)	(2,696)
Reclassification adjustment for the net realized gain on sale of available for sale securities included in net income, net of taxes of (\$0) and (\$0) for the three months ended March 31, 2018 and 2017, respectively and (\$3) and (\$31) for the nine months ended March 31, 2018 and 2017, respectively	-	-	(6)	(48)
Comprehensive income	\$(961)	\$1,126	\$121	\$(284)

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)	For the Nine Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	\$2,070	\$2,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	272	312
Provision for loan losses	30	43
Deferred loan origination costs	(68)	(62)
Amortization of premium on investments	1,146	1,363
Proceeds from sale of loans	8,587	21,586
Loans disbursed for sale in the secondary market	(7,914)	(21,249)
Gain on sale of loans	(229)	(549)
Amortization of intangible asset	90	90
Amortization of acquisition-related loan yield adjustment	(85)	(92)
Gain on sale of investment securities	(9)	(79)
Loss on sale of fixed assets	60	-
Gain on sale of other real estate owned	(72)	13
Gain recognized from death benefit on bank owned life insurance	-	(45)
Increase in cash surrender value of life insurance	(340)	(357)
Stock-based compensation	203	180
Amortization of ESOP shares	328	343
Deferred income taxes	730	249
Effects of change in operating assets and liabilities:		
Accrued interest receivable	82	-
Prepaid expenses and other assets	376	150
Accrued interest payable	2	(1)
Accrued expenses and other	(196)	(1,457)
Net cash provided by operating activities	5,063	2,898
Investing activities:		
Proceeds from maturity of available for sale investment securities	670	530
Proceeds from maturity of held to maturity securities	134	61
Proceeds from sale of available for sale investment securities	596	6,935
Proceeds from repayment of mortgage-backed securities and collateralized mortgage obligations available for sale	13,726	14,770
Proceeds from sale of mortgage-backed securities available for sale	-	11,087

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Proceeds from sale of other real estate owned	232	71
Purchases of available for sale investment securities	(7,053)	(21,938)
Purchases of mortgage-backed securities available for sale	-	(15,690)
Proceeds from bank owned life insurance death benefit	-	419
Net increase in loans	(14,355)	(13,214)
Capital expenditures	(10)	(90)
Net cash used in investing activities	(6,060)	(17,059)
Financing activities:		
Net increase in deposits	16,419	24,417
Repayments of Federal Home Loan Bank advances	(2,000)	(3,167)
Dividends paid to stockholders	(1,210)	(713)
Repurchases of common stock	-	(238)
Proceeds from exercise of stock options	186	243
Net increase in advances from borrowers for payment of insurance and taxes	453	174
Net cash provided by financing activities	13,848	20,716
Net increase in cash and cash equivalents	12,851	6,555
Cash and cash equivalents at beginning of period	26,885	28,980
Cash and cash equivalents at end of period	\$39,736	\$35,535

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure. UCB Financial Services, Inc., a wholly-owned subsidiary of the Bank, was formed for a variety of purposes, but primarily owns and manages a portion of the Bank’s municipal bond portfolio and collects commissions from a wealth management partner.

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, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2018. 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, 2017, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 26, 2017.

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, 2018 the ESOP owned 118,771 shares of the Company’s common stock. At June 30, 2017, the ESOP owned 142,371 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, 2018 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		Nine Months Ended	
	March 31, 2018	2017	March 31, 2018	2017
Basic weighted average outstanding shares	4,090,320	4,056,993	4,069,769	4,036,066
Effect of dilutive stock options	65,489	46,272	51,001	42,009
Diluted weighted average outstanding shares	4,155,809	4,103,265	4,120,770	4,078,075

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 \$72,000 and \$73,000 for the three months ended March 31, 2018 and 2017, respectively. Stock-based compensation was \$203,000 and \$180,000 for the nine months ended March 31, 2018 and 2017, respectively. No stock-based compensation awards were granted during the three months ended March 31, 2018 and 2017. In September 2017, 18,570 restricted shares and 53,506 stock options were awarded from the United Community Bancorp 2014 Equity Incentive Plan. No stock-based compensation awards were granted during the nine months ended March 31, 2017.

5. **DIVIDENDS** – On August 10, 2017, November 9, 2017, and February 8 2018, the Board of Directors of the Company declared cash dividends on the Company’s outstanding shares of stock of \$0.10 per share for each period. The dividends, totaling \$1.2 million, were paid during the nine months ended March 31, 2018.

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.

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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 were being conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. A total of 14,692 shares were purchased at a total cost of \$238,000. The repurchase plan terminated pursuant to its terms on August 15, 2017.

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended March 31, 2018 2017 (Dollars in thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes, net	\$410	\$96
Interest	\$1,807	\$1,709
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	\$(1,727)	\$(2,744)
Transfers of loans to other real estate owned	\$144	\$29
Option exercise and restricted stock windfall	\$34	\$--
Other comprehensive income reclassification due to early adoption of ASU 2018-02	\$(222)	\$--

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

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

Cash and cash equivalents

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

Investments and mortgage-backed securities

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

Loans receivable

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

Federal Home Loan Bank stock

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

Deposits

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

Advances from Federal Home Loan Bank

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

Off-balance sheet items

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

The estimated fair values of the Company's financial instruments at March 31, 2018 and June 30, 2017 are as follows:

	March 31, 2018		June 30, 2017	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and interest-bearing deposits	\$39,736	\$39,736	\$26,885	\$26,885
Investment securities available for sale	76,999	76,999	79,188	79,188
Investment securities held to maturity	41,644	41,746	41,954	42,711
Mortgage-backed securities	59,344	59,344	68,374	68,374
Loans receivable and loans receivable held for sale	297,372	297,658	283,482	283,342
Accrued interest receivable	1,920	1,920	2,002	2,002
Investment in FHLB stock	3,527	3,527	3,527	3,527
Financial liabilities:				
Deposits	470,074	470,539	453,655	454,302

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Accrued interest payable	23	23	21	21
FHLB advances	6,833	6,799	8,833	8,953
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.

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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, 2018:				
Mortgage-backed securities	\$59,344	\$ --	\$ 59,344	\$ --
Municipal bonds	35,851	--	35,851	--
Small Business Administration	8,810	--	8,810	--
Collateralized Mortgage Obligations	29,187	--	29,187	--
Certificates of Deposit	2,945	--	2,945	--
Other equity securities	206	206	--	--
Mortgage servicing rights	867	--	867	--
June 30, 2017				
Mortgage-backed securities	\$68,374	\$ --	\$ 68,374	\$ --
Municipal bonds	36,941	--	36,941	--
Small Business Administration	9,743	--	9,743	--
Collateralized Mortgage Obligations	29,305	--	29,305	--
Certificates of Deposit	3,000	--	3,000	--
Other equity securities	199	199	--	--
Mortgage servicing rights	766	--	766	--

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, 2018:				
Other real estate owned	\$77	\$ --	\$ 77	\$ --

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Loans held for sale	561	--	561	--
June 30, 2017:				
Other real estate owned	\$93	\$ --	\$ 93	\$ --
Loans held for sale	1,005	--	1,005	--

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

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

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
March 31, 2018:				
Financial assets:				
Cash and interest-bearing deposits	\$39,736	\$ 39,736	\$ --	\$ --
Investment securities held to maturity	41,746	--	41,746	--
Loans receivable and loans held for sale	297,658	--	297,658	--
Accrued interest receivable	1,920	--	1,920	--
Investment in FHLB stock	3,527	--	3,527	--
Financial liabilities:				
Deposits	470,539	--	470,539	--
Accrued interest payable	23	--	23	--
FHLB advances	6,799	--	6,799	--
June 30, 2017:				
Financial assets:				
Cash and interest-bearing deposits	\$26,885	\$ 26,885	\$ --	\$ --
Investment securities held to maturity	42,711	--	42,711	--
Loans receivable and loans held for sale	283,342	--	283,342	--
Accrued interest receivable	2,002	--	2,002	--
Investment in FHLB stock	3,527	--	3,527	--
Financial liabilities:				
Deposits	454,302	--	454,302	--
Accrued interest payable	21	--	21	--
FHLB advances	8,953	--	8,953	--

9. INVESTMENT SECURITIES

Investment securities available for sale at March 31, 2018 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	\$ 61,254	\$ --	\$ 1,910	\$ 59,344

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Municipal bonds	36,415	184	748	35,851
Small Business Administration	8,995	--	185	8,810
Collateralized Mortgage Obligations	30,225	--	1,038	29,187
Certificates of Deposit	2,971	--	26	2,945
Other equity securities	210	--	4	206
	\$ 140,070	\$ 184	\$ 3,911	\$ 136,343

Investment securities held to maturity at March 31, 2018 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	\$ 41,644	\$ 272	\$ 170	\$ 41,746

Investment securities available for sale at June 30, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	\$ 69,335	\$ 83	\$ 1,044	\$ 68,374
Municipal bonds	36,990	548	597	36,941
Small Business Administration	9,799	--	56	9,743
Collateralized Mortgage Obligations	29,664	1	360	29,305
Certificates of Deposit	2,971	29	--	3,000
Other equity securities	210	--	11	199
	\$ 148,969	\$ 661	\$ 2,068	\$ 147,562

Investment securities held to maturity at June 30, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	\$ 41,954	\$ 792	\$ 35	\$ 42,711

The mortgage-backed securities, small business administration, collateralized mortgage obligations, certificates of deposit, and municipal bonds have the following maturities at March 31, 2018:

	Available for Sale		Held to Maturity	
	Amortized cost	Estimated market value	Amortized cost	Estimated market value
Due or callable in one year or less	\$ 2,686	\$ 2,685	\$ 105	\$ 105
Due or callable in 1 - 5 years	84,183	82,174	4,124	4,100
Due or callable in 5 - 10 years	33,009	31,950	7,795	7,780
Due or callable in greater than 10 years	19,981	19,328	29,620	29,761
Total debt securities	\$ 139,859	\$ 136,137	\$ 41,644	\$ 41,746

All other securities available for sale at March 31, 2018 are saleable within one year.

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Gross proceeds on the sale of investments and mortgage-backed securities were \$0 and \$0 for the three months ended March 31, 2018 and 2017, respectively. Gross proceeds on the sale of investments and mortgage-backed securities were \$596,000 and \$18.0 million for the nine months ended March 31, 2018 and 2017, respectively. Gross realized gains for the three month periods ended March 31, 2018 and 2017 were \$0 and \$0, respectively. Gross realized gains for the nine-month periods ended March 31, 2018 and 2017 were \$9,000 and \$110,000, respectively. Gross realized losses for the three month periods ended March 31, 2018 and 2017 were \$0 and \$0, respectively. Gross realized losses for the nine-month periods ended March 31, 2018 and 2017 were \$0 and \$31,000, 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, 2018 and June 30, 2017:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>March 31, 2018</u> (In thousands)						
Municipal bonds	\$31,306	\$ 284	\$12,515	\$ 634	\$43,821	\$ 918
Mortgage-backed securities	25,125	386	34,219	1,524	59,344	1,910
Small Business Administration	5,027	117	3,782	68	8,809	185
Collateralized Mortgage Obligations	14,450	490	14,736	548	29,186	1,038
Certificates of Deposit	2,945	26	--	--	2,945	26
Other equity securities	206	4	--	--	206	4
	\$79,059	\$ 1,307	\$65,252	\$ 2,774	\$144,311	\$ 4,081
Number of investments		116		52		168

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>June 30, 2017</u> (In thousands)						
Municipal bonds	\$19,230	\$ 632	\$--	\$ --	\$19,230	\$ 632
Mortgage-backed securities	38,566	812	13,223	232	51,789	1,044
Small Business Administration	9,743	56	--	--	9,743	56
Collateralized Mortgage Obligations	28,129	360	--	--	28,129	360
Other equity securities	--	--	199	11	199	11
	\$95,668	\$ 1,860	\$13,422	\$ 243	\$109,090	\$ 2,103
Number of investments		73		7		80

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, 2018:

	Core Deposit Intangible (In thousands)	Goodwill
Balance at June 30, 2017	\$ 195	\$ 2,522
Amortization	90	--
Balance at March 31, 2018	\$ 105	\$ 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 December 31, 2017:

April 1, 2018 through June 30, 2018	\$27
2019	78
	\$105

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, 2018 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four- Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	and	Commercial and Agricultural	Total
Allowance for Credit Losses: Balance, January 1, 2018:	\$ 1,106	\$ 353	\$ 54	\$ 303	\$ 1,856	\$ 27	\$ 412	\$ 63	\$ 4,174
Charge offs	(149)	(17)	--	--	--	--	--	(300)	(466)
Recoveries	1	41	--	3	--	--	35	--	80
Provision (credit)	(111)	(84)	(10)	(136)	(64)	138	(155)	429	7
Ending Balance:	\$ 847	\$ 293	\$ 44	\$ 170	\$ 1,792	\$ 165	\$ 292	\$ 192	\$ 3,795
Allowance for Credit Losses: Balance, July 1, 2017:	\$ 1,093	\$ 347	\$ 60	\$ 289	\$ 2,171	\$ 117	\$ 127	\$ 90	\$ 4,294
Charge offs	(219)	(125)	--	--	(136)	--	(181)	(300)	(961)
Recoveries	64	121	--	40	172	--	35	--	432
Provision (credit)	(91)	(50)	(16)	(159)	(415)	48	311	402	30
Ending Balance:	\$ 847	\$ 293	\$ 44	\$ 170	\$ 1,792	\$ 165	\$ 292	\$ 192	\$ 3,795
Balance, Individually Evaluated	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Balance, Collectively	\$ 847	\$ 293	\$ 44	\$ 170	\$ 1,792	\$ 165	\$ 292	\$ 192	\$ 3,795

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Evaluated

Financing
receivables:

Ending balance	\$ 139,423	\$ 32,437	\$ 9,937	\$ 14,720	\$ 79,821	\$ 8,069	\$ 4,035	\$ 10,912	\$ 299,354
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Ending
Balance:

individually evaluated for impairment	\$ 1,377	\$ 178	\$ 121	\$ --	\$ --	\$ --	\$ 4	\$ --	\$ 1,680
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Ending
Balance:

collectively evaluated for impairment	\$ 134,559	\$ 30,294	\$ 9,662	\$ 14,720	\$ 79,755	\$ 8,069	\$ 4,031	\$ 10,905	\$ 291,995
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Ending
Balance: loans
acquired at fair
value

	\$ 3,487	\$ 1,965	\$ 154	\$ --	\$ 66	\$ --	\$ --	\$ 7	\$ 5,679
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For the year ended June 30, 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 Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Beginning balance:	\$ 1,235	\$ 426	\$ 108	\$ 275	\$ 2,577	\$ 132	\$ 10	\$ 122	\$ 4,885
Charge offs	(83)	(210)	(9)	--	(600)	--	(255)	--	(1,157)
Recoveries	68	177	--	17	248	--	--	1	511
Provision (credit)	(127)	(46)	(39)	(3)	(54)	(15)	372	(33)	55
Ending Balance:	\$ 1,093	\$ 347	\$ 60	\$ 289	\$ 2,171	\$ 117	\$ 127	\$ 90	\$ 4,294
Balance, Individually Evaluated	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--
Balance, Collectively Evaluated	\$ 1,093	\$ 347	\$ 60	\$ 289	\$ 2,171	\$ 117	\$ 127	\$ 90	\$ 4,294
Financing receivables:									
Ending Balance	\$ 133,667	\$ 33,633	\$ 10,667	\$ 15,401	\$ 74,791	\$ 5,145	\$ 3,026	\$ 9,257	\$ 285,587
Ending Balance: individually evaluated for impairment	\$ 1,887	\$ 370	\$ 235	\$--	\$ 1,136	\$--	\$ 594	\$--	\$ 4,222
Ending Balance: collectively evaluated for impairment	\$ 127,304	\$ 31,049	\$ 10,271	\$ 15,401	\$ 73,566	\$ 5,145	\$ 2,432	\$ 9,250	\$ 274,418
Ending Balance: loans acquired at fair value	\$ 4,476	\$ 2,214	\$ 161	\$--	\$ 89	\$--	\$--	\$ 7	\$ 6,947

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, 2018

(in thousands)

Grade:	One- to Four- Family Owner-Occupied Mortgage	Consumer Non-owner Occupied Mortgage	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction and	Commercial and Agricultural	Total	
Pass	\$ 135,142	\$ 31,406	\$ 6,371	\$ 13,073	\$ 73,595	\$ 5,885	\$ 3,410	\$ 8,860	\$ 277,742
Watch	2,792	853	3,445	1,647	5,873	2,184	620	2,052	19,466
Special mention	112	--	--	--	--	--	--	--	112
Substandard	1,377	178	121	--	353	--	5	--	2,034
Total:	\$ 139,423	\$ 32,437	\$ 9,937	\$ 14,720	\$ 79,821	\$ 8,069	\$ 4,035	\$ 10,912	\$ 299,354

Credit Risk Profile by Internally Assigned Grade

At June 30, 2017

(in thousands)

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Grade:	One- to Four- Family Owner-Occupied Mortgage	Consumer Non-owner Occupied Mortgage	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Pass	\$ 129,053	\$ 32,547	\$ 6,404	\$ 13,355	\$ 65,031	\$ 4,817	\$ 2,379	\$ 8,495	\$ 262,081
Watch	2,283	509	3,741	2,046	7,405	328	53	762	17,127
Special mention	444	207	82	--	1,134	--	--	--	1,867
Substandard	1,887	370	440	--	1,221	--	594	--	4,512
Total:	\$ 133,667	\$ 33,633	\$ 10,667	\$ 15,401	\$ 74,791	\$ 5,145	\$ 3,026	\$ 9,257	\$ 285,587

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, 2018

(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Mortgage - Owner-Occupied	\$ 740	\$ 81	\$ 161	\$ 982	\$ 138,441	\$ 139,423
Consumer	141	--	16	157	32,280	32,437
One- to Four- Family Mortgage - Non-Owner Occupied	--	--	--	--	9,937	9,937
Multi-family Mortgage	--	--	--	--	14,720	14,720
Nonresidential Real Estate – commercial and office buildings	120	--	--	120	79,701	79,821
Construction	--	--	--	--	8,069	8,069
Land	13	--	--	13	4,022	4,035
Commercial and Agricultural	90	--	--	90	10,822	10,912
Total	\$ 1,104	\$ 81	\$ 177	\$ 1,362	\$ 297,992	\$ 299,354

Age Analysis of Past Due Loans Receivable

At June 30, 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 Mortgage - Owner-Occupied	\$ 345	\$ 579	\$ 382	\$ 1,306	\$ 132,361	\$ 133,667
Consumer	93	57	23	173	33,460	33,633
One- to Four- Family Mortgage - Non-Owner-Occupied	--	--	235	235	10,432	10,667
Multi-family Mortgage	--	--	--	--	15,401	15,401
Nonresidential Real Estate – commercial and office buildings	--	--	535	535	74,256	74,791
Construction	--	--	--	--	5,145	5,145
Land	--	--	--	--	3,026	3,026

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Commercial and Agricultural	118	--	--	118	9,139	9,257
Total	\$556	\$636	\$1,175	\$2,367	\$283,220	\$285,587

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

Impaired Loans at March 31, 2018

(in thousands)

	Recorded investment	Unpaid principal balance	Specific allowance	Interest income recognized	For the three months ended March 31, 2018 Average Recorded investment	Interest income recognized	For the nine months ended March 31, 2018 Average Recorded investment
Mortgage One- to Four- Family - Owner-Occupied	\$ 1,377	\$ 1,652	\$ --	\$ 18	\$ 1,393	\$ 53	\$ 1,523
Consumer	178	349	--	--	196	--	248
One- to Four- Family Non-Owner Occupied Mortgage	121	121	--	--	123	--	208
Multifamily Residential Real Estate Mortgage	--	920	--	--	--	--	-
Non-Residential Real Estate	--	--	--	--	--	--	431
Construction	--	--	--	--	--	--	-
Land	4	12	--	--	193	--	390
Commercial and Agricultural	--	306	--	--	--	--	-
Total	\$ 1,680	\$ 3,360	\$ --	\$ 18	\$ 1,905	\$ 53	\$ 2,800

Impaired Loans at June 30, 2017

(in thousands)

	Recorded investment	Unpaid principal balance	Specific allowance	Interest income recognized	For the year ended June 30, 2017 Average Recorded investment
Mortgage One- to Four- Family - Owner-Occupied	\$ 1,887	\$ 2,144	\$ -	\$ 59	\$ 2,169
Consumer	370	653	-	3	391

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One- to Four- Family Non-Owner Occupied Mortgage	235	235	-	4	349
Multifamily Residential Real Estate Mortgage	-	920	-	-	-
Non-Residential Real Estate	1,136	2,719	-	20	1,468
Construction	-	-	-	-	-
Land	594	857	-	-	286
Commercial and Agricultural	-	6	-	-	-
Total	\$ 4,222	\$ 7,534	\$ -	\$86	\$ 4,663

The Bank did not have any investments in subprime loans at March 31, 2018. Impaired loans at March 31, 2018 included troubled debt restructurings (“TDR”) with an aggregate principal balance of \$1.3 million and a recorded investment of \$1.3 million. See Note 12 for a discussion on TDRs.

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

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

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

At March 31, 2018

(In thousands)	Loan Status		Total	Related	Recorded	Number	Average
	Accrual	Nonaccrual	Unpaid Principal Balance				
One- to Four-Family residential real estate	\$1,059	\$193	\$ 1,252	\$ --	\$ 1,252	13	\$ 1,345
Nonresidential real estate	--	--	--	--	--	--	431
Total	\$1,059	\$193	\$ 1,252	\$ --	\$ 1,252	13	\$ 1,776

At June 30, 2017

(In thousands)	Loan Status		Total	Related	Recorded	Number	Average
	Accrual	Nonaccrual	Unpaid Principal Balance				
One- to Four-Family residential real Estate	\$1,297	\$213	\$ 1,510	\$ --	\$ 1,510	16	\$ 1,680
Nonresidential real estate	--	1,136	1,136	--	1,136	3	1,207
Total	\$1,297	\$1,349	\$ 2,646	\$ --	\$ 2,646	19	\$ 2,887

Interest income recognized on TDRs is as follows:

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	For the three months ended March 31, 2018		For the nine months ended March 31, 2017	
One-to-Four Family residential real estate	\$ 13	\$ 13	\$ 39	\$ 44
Multi-family residential real estate	--	--	--	--
Nonresidential real estate	--	--	--	18
Commercial	--	--	--	--
Consumer	--	--	--	--
Total	\$ 13	\$ 13	\$ 39	\$ 62

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At March 31, 2018, the Bank had 13 loans totaling \$1.3 million that were reported as TDRs, and had established an allowance for losses on these loans of \$0. With respect to the \$1.3 million in TDRs, the Bank charged-off \$940,000 at the time the loans were restructured into the Note A/B split note format. At June 30, 2017, the Bank had 19 loans totaling \$2.6 million that were reported as TDRs, and had an allowance for losses on these loans of \$0. With respect to the \$2.6 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, 2018, 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, 2018 and June 30, 2017 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, 2018 and June 30, 2017, 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, 2018		Nine Months Ended March 31, 2018	
	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans
(Dollar amounts in thousands)				
Beginning balance	\$ 1,263	13	\$ 2,646	19
Additions to TDR	--	--	--	--
Charge-offs	--	--	(136)	--
Removal of TDRs	--	--	(83)	(1)
Impairment Reversal	--	--	-	--
Payments	(11)	--	(1,175)	(5)
Ending balance	\$ 1,252	13	\$ 1,252	13

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Reclassification out of accumulated other comprehensive income during the three and nine months ended March 31, 2018 and 2017 and the affected line items in the consolidated statements of income are as follows (in thousands):

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	Three Months Ended March 31,		Nine Months Ended March 31,		Affected Line Item in the Consolidated Statements of Income
	2018	2017	2018	2017	
Realized gain on sale of securities	\$ --	\$ --	\$ 9	\$ 79	Gain on sale of investments
Less provision for income taxes	--	--	3	31	Income tax provision
Reclassification adjustment, net of taxes	\$ --	\$ --	\$ 6	\$ 48	

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14. INCOME TAXES

The Company's earnings for the nine-month period ended March 31, 2018 were negatively impacted by a one-time adjustment to the net deferred tax asset in the amount of \$683,000 due to the effect of the tax law changes established by the Tax Cuts and Jobs Act (the "Act"), which was signed into law by the President on December 22, 2017. The Act reduced the federal corporate tax rate to 21%. This change required the Company to revalue its net deferred tax asset, which represents corporate tax benefits anticipated to be realized in the future. The reduction in the federal corporate tax rate reduces the tax benefits of the net deferred tax asset. While the one-time adjustment caused a reduction in after-tax net income for the nine-month period ended March 31, 2018, the reduction of the corporate income tax rate from 34% to 21% is expected to be favorable to the Company in future periods.

The rate reconciliation is as follows:

	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2018	
	(In thousands)		
Federal income taxes at statutory rate	\$ 174	\$ 849	
State taxes, net of federal benefit	20	108	
Increase (decrease) in taxes resulting primarily from:			
Non-taxable income on bank-owned life insurance	(31)	(94)	
Tax exempt income	(137)	(411)	
Federal tax rate change	--	683	
Other	(4)	(18)	
	\$ 22	\$ 1,117	
Effective tax rate	3.47 %	36.18 %	

15. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update 2018-02 was issued in February 2018 and allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company has early adopted this amendment and the \$222,000 reclassification is reflected in the consolidated financial statements for the nine months ending March 31, 2018.

In March 2017, the FASB issued ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20). ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. ASU 2017-08 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Bank amortizes premiums to the earlier of the call date or maturity date, therefore the Bank expects no impact to the financial statements based on the adoption of this standard.

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 affected 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. 2016-08, 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.

16. MERGER AGREEMENT

On March 11, 2018, the Company, United Community Bank, Civista Bancshares, Inc. (“Civista”) and Civista Bank entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which the Company will merge with and into Civista (the “Merger”). Immediately following the Merger, United Community Bank will merge with and into Civista Bank. Under the terms of the Merger Agreement, each outstanding share of the Company’s common stock will be converted into the right to receive 1.027 shares of Civista’s common stock and \$2.54 in cash. At the effective time of the Merger, each share of unvested Company common stock will fully vest and will be converted into the right to receive the merger consideration. In addition, at the effective time of the Merger, each option to acquire shares of the Company’s common stock will automatically vest and be cancelled and converted into the right to receive in cash from United Community Bank the amount by which the sum of \$2.54 and the “effective time value” per share exceeds the exercise or strike price of such stock option, subject to receipt of Civista of executed stock option surrender agreements in a form acceptable to Civista and United Community. If the exercise price of a stock option equals or exceeds the sum of \$2.54 and the effective time value, such stock option will be cancelled without any payment in exchange. United Community will be entitled to deduct and withhold from any amounts payable in respect of any United Community stock option all such amounts as United Community is required to deduct and withhold under the Code or any provisions of state, local, or foreign tax law. “Effective time value” means the product of (A) the average of the per share closing price of a Civista common share on the Nasdaq Capital Market during the five (5) consecutive full trading days ending on the trading day prior to the effective time of the Merger and (B) the exchange ratio. The transaction is expected to close in the third calendar quarter of 2018, subject to the satisfaction of customary closing conditions, including the receipt of all required regulatory approvals and the approval of the shareholders of both the Company and Civista. Merger expenses totaled \$650,000 during the three and nine months ended March 31, 2018.

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 predict 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 affect our business, such as those changes caused by the Tax Cuts and Jobs Act, 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, and the ability to complete the previously announced merger with Civista Bancshares, Inc. within the expected timeframe. Additionally, other risks and uncertainties may be described in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 26, 2017, 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 26, 2017.

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, 2018 and June 30, 2017. The Company recognized no interest and penalties on the underpayment of income taxes during the three-month periods ended March 31, 2018 and 2017 and had no accrued interest and penalties on the balance sheet as of March 31, 2018 and June 30, 2017. 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, 2018 and June 30, 2017

Balance Sheet Analysis

Total assets were \$551.5 million at March 31, 2018, compared to \$536.9 million at June 30, 2017. Total assets increased during the period primarily due to loan growth of \$14.3 million and an increase in cash and cash equivalents of \$12.9 million. These increases were partially offset by an \$11.5 million decrease in investment securities.

In addition to the loan growth achieved during the nine months ended March 31, 2018, the Company had approximately \$20.1 million in undisbursed construction loans as of March 31, 2018. While these were not on the Company's balance sheet as of March 31, 2018 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 were \$480.3 million at March 31, 2018, compared to \$465.6 million at June 30, 2017. The increase was primarily due to a \$16.4 million increase in deposits during the period, partially offset by a \$2.0 million decrease in FHLB borrowings.

Stockholders' equity totaled \$71.2 million as of March 31, 2018, which represented a decrease of \$116,000 when compared to June 30, 2017. The decrease was primarily due to a \$1.9 million decrease in accumulated other comprehensive income and dividends declared totaling \$1.2 million. These were partially offset by net income of \$2.1 million. The decrease in accumulated other comprehensive income was 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, 2018, 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, 2018, one- to four- family residential loans totaled \$149.4 million, or 49.9% of total gross loans at December 31, 2017, compared to \$144.3 million, or 50.5% of total gross loans, at June 30, 2017.

Multi-family and nonresidential real estate loans totaled \$94.5 million, or 31.6% of total loans at March 31, 2018 compared to \$90.2 million, or 31.6% of total loans, at June 30, 2017.

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Construction loans totaled \$8.1 million, or 2.7% of total loans, at March 31, 2018, compared to \$5.1 million, or 1.8% of total loans, at June 30, 2017.

Land loans totaled \$4.0 million, or 1.4% of total loans at March 31, 2018, compared to \$3.0 million, or 1.1% of total loans at June 30, 2017.

Commercial business loans totaled \$7.6 million, or 2.5% of total loans at March 31, 2018, compared to \$5.4 million, or 1.9% of total loans at June 30, 2017.

Agricultural loans totaled \$3.3 million, or 1.1% of total loans at March 31, 2018, compared to \$3.9 million, or 1.3% of total loans at June 30, 2017.

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Consumer loans totaled \$32.4 million, or 10.8% of total loans at March 31, 2018, compared to \$33.6 million or 11.8% of total loans at June 30, 2017.

	At March 31, 2018		At June 30, 2017		
	Amount	Percent	Amount	Percent	
	(Dollars in thousands)				
Residential real estate:					
One- to four-family	\$ 149,360	49.9 %	\$ 144,334	50.5 %	
Multi-family	14,720	4.9	15,401	5.4	
Construction	8,069	2.7	5,145	1.8	
Nonresidential real estate	79,821	26.7	74,791	26.2	
Land	4,035	1.4	3,026	1.1	
Commercial business	7,602	2.5	5,383	1.9	
Agricultural	3,310	1.1	3,874	1.3	
Consumer:					
Home equity	27,489	9.2	28,992	10.2	
Auto	2,444	0.8	2,208	0.8	
Share loans	849	0.3	945	0.3	
Other	1,655	0.5	1,488	0.5	
Total consumer loans	32,437	10.8	33,633	11.8	
Total loans	\$299,354	100.0 %	\$285,587	100.0 %	
Less (plus):					
Deferred loan costs, net	(1,252)		(1,184)		
Allowance for loan losses	3,795		4,294		
Loans, net	\$296,811		\$282,477		

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

Loan Maturity

The following table sets forth certain information at March 31, 2018 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.

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	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	\$8,602	\$ 34,480	\$ 106,278	\$ 149,360
Multi-family real estate	1,529	2,128	11,063	14,720
Construction	733	240	7,096	8,069
Nonresidential real estate	5,298	18,285	56,238	79,821
Land	2,027	1,034	974	4,035
Commercial	1,636	3,515	2,451	7,602
Agricultural	675	1,371	1,264	3,310
Consumer	1,705	3,907	26,825	32,437
Total	\$22,205	\$ 64,960	\$ 212,189	\$ 299,354

The following table sets forth the dollar amount of all loans at March 31, 2018 due after March 31, 2019 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	\$40,741	\$ 100,017	\$ 140,758
Multi-family real estate	490	12,701	13,191
Construction	3,418	3,918	7,336
Nonresidential real estate	18,620	55,903	74,523
Land	88	1,920	2,008
Commercial	3,020	2,946	5,966
Agricultural	1,428	1,207	2,635
Consumer	2,673	28,059	30,732
Total	\$70,478	\$ 206,671	\$277,149

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,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Total loans at beginning of period	\$294,490	\$277,729	\$285,587	\$270,910
Loans originated (1):				
One- to four-family residential real estate	10,515	10,539	30,585	41,586
Multi-family residential real estate	5,042	--	9,741	8,645
Construction	274	10	1,047	1,449
Nonresidential real estate	6,957	9,861	11,660	18,978
Land	--	579	1,844	1,527
Commercial and agricultural	1,744	811	3,908	1,917
Consumer	1,042	2,265	5,664	6,759
Total loans originated	25,574	24,065	64,449	80,861
Deduct:				
Loan principal repayments	18,031	13,157	42,768	47,018
Loans originated for sale	2,679	5,055	7,914	21,171
Net loan activity	4,864	5,853	13,767	12,672

Total loans at end of period	\$299,354	\$283,582	\$299,354	\$283,582
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(1) Includes loan renewals, loan refinancings and restructured loans.

Results of Operations for the Three and Nine Months Ended March 31, 2018 and 2017

Overview. Net income totaled \$711,000 for the quarter ended March 31, 2018, which represented a decrease of \$227,000, or 24.2%, when compared to the quarter ended March 31, 2017.

As was announced by the Company in a joint press release with Civista Bancshares, Inc. on March 12, 2018, the Company's Board of Directors signed a definitive agreement with Civista Bancshares, Inc. to merge with and into Civista Bancshares, Inc. The merger is pending customary regulatory and shareholder approvals. The Company incurred approximately \$650,000 in pre-tax merger related expenses during the quarter ended March 31, 2018, which negatively impacted the Company's net income.

The Company's net income for the nine-month period ended March 31, 2018 was also impacted negatively by a one-time adjustment to the net deferred tax asset in the amount of \$683,000 due to the effect of the tax law changes established by the Tax Cuts and Jobs Act (the "Act"), which was signed into law by the President on December 22, 2017. The Act reduced the federal corporate tax rate to 21%. This change required the Company to revalue its net deferred tax asset, which represents corporate tax benefits anticipated to be realized in the future. The reduction in the federal corporate tax rate reduces the tax benefits of the net deferred tax asset. While the one-time adjustment caused a reduction in after-tax net income during the current fiscal year, the reduction of the corporate income tax rate from 34% to 21% is expected to be favorable to the Company in future periods.

Net Interest Income. The following table summarizes changes in interest income and interest expense for the three and nine months ended March 31, 2018 and 2017.

	Three Months Ended March 31,			Nine Months Ended March 31,			
	2018	2017	% Change	2018	2017	% Change	
(Dollars in thousands)							
Interest income:							
Loans	\$3,182	\$2,960	7.5	% \$9,531	\$8,788	8.5	%
Investment and mortgage backed securities	1,182	1,067	10.8	3,424	3,074	11.4	
Other interest-earning assets	69	56	23.2	199	112	77.7	
Total interest income	4,433	4,083	8.6	13,154	11,974	9.9	
Interest expense:							
NOW and money market deposit accounts	140	86	62.8	% 511	319	60.2	%

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Passbook accounts	85	84	1.2	257	234	9.8
Certificates of deposit	307	314	(2.2)	899	993	(9.5)
Total interest-bearing deposits	532	484	9.9	1,667	1,546	7.8
FHLB advances	43	49	(12.2)	142	162	(12.3)
Total interest expense	575	533	7.9	1,809	1,708	5.9
Net interest income	\$3,858	\$3,550	8.7	\$11,345	10,266	10.5

Net interest income totaled \$3.9 million for the quarter ended March 31, 2018, which represents an increase of \$308,000, or 8.7%, when compared to the quarter ended March 31, 2017. The growth in the Company's core business was the result of an increase in interest income of \$350,000 partially offset by an increase in interest expense of \$42,000. Interest income increased due to a \$14.1 million increase in the average balance of loans, an increase in the average rate earned on loans from 4.26% in the prior year quarter to 4.36% in the current year quarter, and an increase in the average rate earned on investment securities from 2.30% in the prior year quarter to 2.61% in the current year quarter, partially offset by a \$4.8 million decrease in the average balance of investment securities. The increase in loan balances is primarily the result of the continued execution of our controlled growth strategy in mortgage and commercial lending. Interest expense increased due to a \$13.7 million increase in the average balance of deposits and an increase in the average rate paid on deposits from 0.43% in the prior year quarter to 0.46% in the current year quarter.

Net interest income totaled \$11.3 million for the nine months ended March 31, 2018, which represents an increase of \$1.1 million, or 10.5%, when compared to the prior year period. The growth in the Company's core business was due to a \$1.2 million increase in interest income, partially offset by a \$101,000 increase in interest expense. Interest income increased primarily due to a \$14.2 million increase in the average balance of loans, an increase in the average rate earned on loans from 4.28% in the prior year period to 4.41% in the current year period, and an increase in the average rate earned on investment securities from 2.19% in the prior year period to 2.47% in the current year period. Interest expense increased primarily as a result of a \$14.5 million increase in the average balance of deposits and an increase in the average rate paid on deposits from 0.46% in the prior year period to 0.48% in the current year period.

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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, 2018 and 2017. 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, 2018			2017			Nine Months Ended March 31, 2018			2017		
	Average Balance (Dollars in thousands)	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance		
Assets:												
Interest-earning assets:												
Loans	\$291,757	\$3,182	4.36	% \$277,633	\$2,960	4.26	% \$288,168	\$9,531	4.41	% \$273,946		
Investment and mortgage backed securities	181,127	1,182	2.61	185,886	1,067	2.30	184,958	3,424	2.47	187,473		
Other interest-earning assets	39,214	69	0.70	32,815	56	0.68	34,900	199	0.76	31,735		
	512,097	4,433	3.46	496,334	4,083	3.29	508,025	13,154	3.45	493,154		
Noninterest-earning assets	36,647			38,096			36,996			37,915		
Total assets	\$548,744			\$534,430			\$545,021			\$531,069		
Liabilities and stockholders' equity:												
Interest-bearing liabilities:												
NOW and money market deposit accounts (1)	218,494	140	0.26	193,710	86	0.18	213,150	511	0.32	190,475		
Passbook accounts (1)	127,445	85	0.27	124,368	84	0.27	126,930	257	0.27	118,741		
Certificates of deposit (1)	120,648	307	1.02	134,774	314	0.93	121,578	899	0.99	137,923		
Total interest-bearing deposits	466,587	532	0.46	452,852	484	0.43	461,658	1,667	0.48	447,139		
FHLB advances	7,333	43	2.35	9,208	49	2.13	8,233	142	2.30	10,550		
Total interest-bearing liabilities	473,920	575	0.49	462,060	533	0.46	469,891	1,809	0.51	457,689		
	3,543			3,074			3,398			3,431		

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Noninterest bearing liabilities, commitments and contingencies							
Total liabilities, commitments and contingencies	477,463		465,134		473,289		461,120
Stockholders' equity	71,281		69,296		71,732		69,949
Total liabilities and stockholders' equity	\$548,744		\$534,430		\$545,021		\$531,069
Net interest income	\$3,858		\$3,550		\$11,345		
Interest rate spread		2.97 %		2.83 %		2.94 %	
Net interest margin (annualized)		3.01 %		2.86 %		2.98 %	
Average interest-earning assets to average interest-bearing liabilities		108.06 %		107.42 %		108.12 %	

Provision for Loan Losses. The provision for loan losses was \$7,000 for the quarter ended March 31, 2018, which represents a decrease of \$4,000 compared to the quarter ended March 31, 2017. The provision for loan losses was \$30,000 for the six months ended March 31, 2018, which represents a decrease of \$13,000 compared to the prior year period.

Nonperforming assets as a percentage of total assets decreased from 0.56% at June 30, 2017 to 0.13% at March 31, 2018. Nonperforming loans as a percentage of total loans decreased from 1.02% at June 30, 2017 to 0.21% at March 31, 2018. The Company remains focused on improving asset quality and continues to review all available options to decrease nonperforming assets.

Noninterest Income. The following table shows the components of noninterest income and the percentages changes for the three and nine months ended March 31, 2018 and 2017.

	Three Months Ended March 31,			Nine Months Ended March 31,			
	2018	2017	% Change	2018	2017	% Change	
	<i>(Dollars in thousands)</i>						
Service charges	\$764	\$739	3.4 %	\$2,390	\$2,322	2.9 %	
Gain on sale of loans	75	130	(42.3)	229	549	(58.3)	
Gain on sale of investments	--	--	--	9	79	(88.6)	
Gain (loss) on sale of other real estate owned	--	(13)	(100.0)	72	(13)	(653.8)	
Loss on sale of fixed assets	(29)	--	(100.0)	(60)	--	(100.0)	
Income from Bank Owned Life Insurance	110	117	(6.0)	340	402	(15.4)	
Other	182	62	(193.5)	359	281	27.8	
Total	\$1,102	\$1,035	6.5	\$3,339	\$3,620	(7.8)	

Noninterest income totaled \$1.1 million for the quarter ended March 31, 2018, which represents an increase of \$67,000, or 6.5%, when compared to the prior year quarter. The increase was primarily due to a \$77,000 increase in the market value of mortgage servicing rights during the quarter, which compares to a \$25,000 decrease in the prior year quarter for a net change of \$102,000. The increase is also partially due to a \$25,000 increase in service charge income on deposit accounts. These increases were partially offset by a \$55,000 decrease in gain on the sale of mortgage loans due to a decrease in sales volume.

Noninterest income totaled \$3.3 million for the nine months ended March 31, 2018, which represents a decrease of \$281,000, or 7.8%, compared to the prior year period. The decrease was primarily due to a \$320,000 decrease in gain

on the sale of mortgage loans, resulting from a decrease in sales volume, and a \$70,000 decrease in gain on the sale of investment securities. These decreases were partially offset by a \$72,000 gain on the sale of other real estate owned and a \$68,000 increase in service charge income on deposit accounts.

Noninterest Expense. The following table shows the components of noninterest expense and the percentage changes for the three and nine months ended March 31, 2018 and 2017.

	Three Months Ended March 31,			Nine Months Ended March 31,			
	2018	2017	% Change	2018	2017	% Change	
	(Dollars in thousands)						
Compensation and employee benefits	\$2,328	\$2,145	8.5	% \$6,708	\$6,632	1.1	%
Premises and occupancy expense	265	251	5.6	820	779	5.3	
Deposit insurance premium	43	41	4.9	126	123	2.4	
Advertising expense	71	83	(14.5)	285	295	(3.4)	
Data processing expense	473	451	4.9	1,407	1,362	3.3	
Merger expenses	650	--	100.0	650	--	100.0	
Intangible amortization	30	30	0.0	90	90	0.0	
Professional fees	73	90	(18.9)	439	514	(14.6)	
Other operating expenses	287	326	(12.0)	942	946	(0.4)	
Total	\$4,220	\$3,417	23.5	\$11,467	\$10,741	6.8	

Noninterest expense totaled \$4.2 million for the quarter ended March 31, 2018, which represents an increase of \$803,000, or 23.5%, when compared to the prior year quarter. The increase was primarily due to \$650,000 in merger related expenses incurred during the quarter with no such corresponding event in the prior year quarter, and a \$183,000 increase in compensation and employee benefits expense.

Noninterest expense totaled \$11.5 million for the nine months ended March 31, 2018, which represented an increase of \$726,000, or 6.8%, compared to the prior year period. The increase in noninterest expense was primarily the result of \$650,000 in pre-tax merger related expenses incurred during the period with no such corresponding expense in the prior year period, and a \$76,000 increase in compensation expense. These increases were partially offset by a \$75,000 decrease in professional fees.

Income Taxes. The provision for income taxes totaled \$22,000, which represents a decrease of \$197,000 when compared to the prior year quarter. The decrease is primarily due to the aforementioned merger related expenses, which reduced taxable income when compared to the prior year quarter, and a decrease in the statutory tax rate in the current year quarter as compared to the prior year quarter.

The provision for income taxes totaled \$1.1 million for the nine months ended March 31, 2018, which represented an increase of \$475,000 when compared to the prior year period. The increase was primarily due to the aforementioned

one-time adjustment of \$683,000 to the net deferred tax asset, which was recorded in the quarter ended December 31, 2017.

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, 2018 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, 2018, 13 loans were considered to be TDRs (with a recorded investment of \$1.3 million) of which three loans (with a recorded investment of \$193,000) were included in nonperforming assets.

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

	At March 31, 2018	At June 30, 2017
(Dollars in thousands)		
Nonaccrual loans:		
One- to four-family residential real estate	\$ 246	\$612
Nonresidential real estate and land	4	594
Consumer	178	370
Total nonaccrual loans	428	1,576
One- to four-family residential real estate	193	213
Nonresidential real estate and land	--	1,136
Total nonaccrual restructured loans	193	1,349
Total nonperforming loans	621	2,925
Real estate owned	77	93
Total nonperforming assets	\$ 698	\$3,018
Accruing restructured loans	1,059	1,297
Accruing restructured loans and nonperforming assets	\$ 1,757	\$4,315
Total nonperforming loans to total loans	0.21	% 1.02 %
Total nonperforming loans to total assets	0.11	0.54
Total nonperforming assets to total assets	0.13	0.56

Interest income that would have been recorded for the three and nine months ended March 31, 2018 had nonaccruing loans been current according to their original terms was \$14,000, and \$98,000, respectively. Interest recognized on the cash basis with regard to nonaccrual restructured loans was \$0 for both the three and nine month periods ended March 31, 2018.

Nonperforming assets as a percentage of total assets decreased to 0.13% at March 31, 2018, from 0.57% at March 31, 2017 and from 0.56% at June 30, 2017. Nonperforming loans as a percentage of total loans decreased to 0.21% at March 31, 2018 from 1.07% at March 31, 2017 and from 1.02% at June 30, 2017. 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, 2018, the amount of all nonaccrual (nonperforming) loans decreased to \$700,000 and the amount of all accruing TDR loans decreased to \$1.1 million.

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Because of the decrease in nonaccrual (nonperforming) loans and accruing TDR loans over the last five 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, 2018:

There are no nonaccruing commercial real estate loans (including nonaccrual TDRs) having a carrying value of at least \$250,000 as of March 31, 2018.

The largest commercial real estate loan charge-offs of at least \$250,000 are related to loans in Loan Relationships F and H. There are a total of five loans in these two Loan Relationships.

There are no accruing TDRs having a carrying value of at least \$250,000 as of March 31, 2018.

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, 2018 and June 30, 2017, 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 \$394,000 and \$402,000, 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, 2018 and June 30, 2017, 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-1 was 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. Appraisals from 2015, totaling \$775,000, 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. The annual cash flow analysis performed from the

2016 tax returns on this property, showed that the debt service coverage ratio was below 1.00x. However, Loan F-1 was performing in accordance with its terms at March 31, 2018. Also, the loans mature in December 2018. 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 \$775,000 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.

Loan Relationship H. At March 31, 2018 and June 30, 2017, Loan Relationship H was comprised of three loans having an aggregate carrying value of \$828,000 and \$860,000, respectively. At March 31, 2018 and June 30, 2017, two of the loans, a Note A loan (Loan H-1) and a Note B loan, had an aggregate carrying value of \$670,000 and \$681,000, 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, 2018 and June 30, 2017, 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. Appraisals from 2014 and 2015 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. The annual cash flow analysis from the 2016 tax returns on the rental properties showed that the debt service coverage ratio was 1.13x.

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, 2018 and June 30, 2017, the balance of Loan H-2 was \$158,000 and \$179,000, 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, 2018 and June 30, 2017, 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, 2018, Loan H-1 and Loan H-2 were performing in accordance with their terms. Also, Loan H-1 and the Note B loan mature in September 2018. 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

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(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 R. At March 31, 2018 and June 30, 2017, Loan Relationship R was comprised of one loan, having a carrying value of \$0 and \$586,000, respectively. During the March 31, 2018 quarter, this property was sold to a third party, and the Bank did not experience any additional loss. This loan was, and had always been, an interest only loan. This loan was 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 was 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 was the only remaining borrower, that was still individually signed, and owns 100% of the corporation. At March 31, 2018, Loan R was not included in the table for “NonAccrual, Land”. At June 30, 2017, Loan R was included in the table for “NonAccrual, Land”. In the “Credit Risk Profile by Internally Assigned Grade” table, Loan R was not classified as substandard at March 31, 2018, but, at June 30, 2017, was classified as substandard. An impairment analysis was performed during the December 31, 2017 quarter and it was determined that an additional impairment of \$181,000 was needed. An impairment in the amount of \$181,000 was added to the current \$255,000 impairment through a charge-off to the general allowance.

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 for one year in March 2017 with the new maturity date being in March 2018. The borrower has confirmed her intent to have the property sold by the date. As stated above, the property was sold during the March 31, 2018 quarter, at which time the loan was totally paid off and the Bank experienced no further loss. Loan Relationship R will no longer be reported in the narrative section.

The following table summarizes customer balances of all Note A/B format loans at March 31, 2018:

(Dollars in thousands)	Loan Balances			Number of Loans	
	Note A	Note B	Total	Note A	Note B
One- to four-family residential real estate	\$81	\$20	\$101	1	1
Multi-family residential real estate	1,063	920	1,983	2	2
Total (1)	\$1,144	\$940	\$2,084	3	3

(1) Included in this total are an aggregate of \$1.1 million comprised of Note A loans and \$0.9 million comprised of Note B loans that are included in the discussion of Loan Relationships F and H.

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.

(In thousands)	At March 31, 2018		Total Unpaid Principal Balance	Related Allowance	Recorded Investment	Number of Loans	Average Recorded Investment
	Accrual	Nonaccrual					
One- to Four-Family residential real estate	\$1,059	\$ 193	\$ 1,252	\$ --	\$ 1,252	13	\$ 1,345
Nonresidential real estate	--	--	--	--	--	--	431
Total	\$1,059	\$ 193	\$ 1,252	\$ --	\$ 1,252	13	\$ 1,776

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

	Three Months Ended March 31, 2018		Nine Months Ended March 31, 2018	
	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans
(Dollar amounts in thousands)				
Beginning balance	\$1,263	13	\$2,646	19
Additions to TDR	--	--	--	--
Charge-offs	--	--	(136)	--
Removal of TDRs	--	--	(83)	(1)
Impairment Reversal	--	--	--	--
Payments	(11)	--	(1,175)	(5)
Ending balance	\$1,252	13	\$1,252	13

Loans that were included in TDRs at March 31, 2018 and June 30, 2017 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, 2018 and June 30, 2017, 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,	
	2018	2017
	(In thousands)	
Special mention assets	\$112	\$1,446
Substandard assets	2,034	4,685
Total classified assets	\$2,146	\$6,131

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b) at March 31, 2018 and at June 30, 2017.

At March 31, 2018:

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Credit Risk Profile by Internally Assigned Grade

	One- to Four- Family Owner- Occupied Mortgage	Consumer	One- to Four- Family Non- Owner Occupied Mortgage	Multi- family Non- Owner- Occupied Mortgage	Non- Residential Real estate	Construction	Land	Commercial and Agricultural	Total
(In thousands)									
Grade:									
Pass	\$ 135,142	\$ 31,406	\$ 6,371	\$ 13,073	\$ 73,595	\$ 5,885	\$ 3,410	\$ 8,860	\$ 277,742
Watch	2,792	853	3,445	1,647	5,873	2,184	620	2,052	19,466
Special mention	112	--	--	--	--	--	--	--	112
Substandard	1,377	178	121	--	353	--	5	--	2,034
Total	\$ 139,423	\$ 32,437	\$ 9,937	\$ 14,720	\$ 79,821	\$ 8,069	\$ 4,035	\$ 10,912	\$ 299,354

At June 30, 2017:

Credit Risk Profile by Internally Assigned Grade									
Grade:	One- to Four- Family Owner- Occupied Mortgage	Consumer	One- to Four- Family Non- Owner Occupied Mortgage	Multi- family Non- Owner- Occupied Mortgage	Non- Residential Real estate	Construction	Land	Commercial and Agricultural	Total
	(In thousands)								
Pass	\$ 129,053	\$ 32,547	\$ 6,404	\$ 13,355	\$ 65,031	\$ 4,817	\$ 2,379	\$ 8,495	\$ 262,081
Watch	2,283	509	3,741	2,046	7,405	328	53	762	17,127
Special mention	444	207	82	--	1,134	--	--	--	1,867
Substandard	1,887	370	440	--	1,221	--	594	--	4,512
Total	\$ 133,667	\$ 33,633	\$ 10,667	\$ 15,401	\$ 74,791	\$ 5,145	\$ 3,026	\$ 9,257	\$ 285,587

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

	At March 31, 2018		At June 30, 2017	
	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due
One- to four-family mortgage – owner-occupied	\$ 740	\$ 81	\$ 345	\$ 579
Consumer	141	--	93	57
One- to four-family mortgage – nonowner-occupied	--	--	--	--
Multi-family mortgage	--	--	--	--
Nonresidential real estate mortgage – commercial and office buildings	120	--	--	--
Construction	--	--	--	--
Land	13	--	--	--
Commercial and agricultural	90	--	118	--
Total	\$ 1,104	\$ 81	\$ 556	\$ 636

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The following table illustrates the changes to the allowance for loan losses for the three and nine months ended March 31, 2018:

	One- to Four- Family Owner- Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non- Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, January 1, 2018:	\$ 1,106	\$ 353	\$ 54	\$ 303	\$ 1,856	\$ 27	\$ 412	\$ 63	\$ 4,174
Charge offs	(149)	(17)	--	--	--	--	--	(300)	(466)
Recoveries	1	41	--	3	--	--	35	--	80
Provision (credit)	(13)	(84)	(10)	(136)	(64)	138	(155)	429	7
Ending Balance:	\$ 847	\$ 293	\$ 44	\$ 170	\$ 1,792	\$ 165	\$ 292	\$ 192	\$ 3,795
Allowance for Credit Losses:									
Balance, July 1, 2017:	\$ 1,093	\$ 347	\$ 60	\$ 289	\$ 2,171	\$ 117	\$ 127	\$ 90	\$ 4,294
Charge offs	(219)	(125)	--	--	(136)	--	(181)	(300)	(961)
Recoveries	64	121	--	40	172	--	35	--	432
Provision (credit)	(91)	(50)	(16)	(159)	(415)	48	311	402	30
Ending Balance:	\$ 847	\$ 293	\$ 44	\$ 170	\$ 1,792	\$ 165	\$ 292	\$ 192	\$ 3,795
Balance, Individually Evaluated	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Balance, Collectively Evaluated	\$ 847	\$ 293	\$ 44	\$ 170	\$ 1,792	\$ 165	\$ 292	\$ 192	\$ 3,795
Financing receivables:									
Ending balance	\$ 139,423	\$ 32,437	\$ 9,937	\$ 14,720	\$ 79,821	\$ 8,069	\$ 4,035	\$ 10,912	\$ 299,354
Ending Balance: individually evaluated for impairment	\$ 1,377	\$ 178	\$ 121	\$ --	\$ --	\$ --	\$ 4	\$ --	\$ 1,680
Ending Balance: collectively evaluated for impairment	\$ 134,559	\$ 30,294	\$ 9,662	\$ 14,720	\$ 79,755	\$ 8,069	\$ 4,031	\$ 10,905	\$ 291,995
	\$ 3,487	\$ 1,965	\$ 154	\$ --	\$ 66	\$ --	\$ --	\$ 7	\$ 5,679

Ending Balance:
loans acquired at
fair value

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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, 2018			At June 30, 2017		
	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	\$891	23.5	% 49.9	% \$1,153	26.9	% 50.5
Multi-family real estate	170	4.5	4.9	289	6.7	5.4
Nonresidential real estate	1,792	47.2	26.7	2,171	50.5	26.2
Land	292	7.7	1.4	127	3.0	1.1
Agricultural	130	3.4	1.1	40	0.9	1.3
Commercial	62	1.6	2.5	50	1.2	1.9
Consumer	293	7.7	10.8	347	8.1	11.8
Construction	165	4.4	2.7	117	2.7	1.8
Total allowance for loan losses	\$3,795	100.0	% 100.0	% \$4,294	100.0	% 100.0
Total loans	\$299,354			\$285,587		

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 \$37.9 million at March 31, 2018 and \$26.9 million at June 30, 2017. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled \$10.1 million at March 31, 2018. Total securities classified as available-for-sale were \$136.3 million at March 31, 2018.

In addition, at March 31, 2018, we had the ability to borrow a total of approximately \$66.5 million from the Federal Home Loan Bank of Indianapolis.

At March 31, 2018, we had \$72.3 million in loan commitments outstanding, consisting of \$13.9 million in mortgage loan commitments, \$27.0 million in unused home equity lines of credit, \$6.5 million in commercial lines of credit and \$24.9 million in other loan commitments. Certificates of deposit due within one year of March 31, 2018 totaled \$62.3 million. This represented 51.6% of certificates of deposit at March 31, 2018. 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, 2018. 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, 2018, 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 26, 2017.

The following table summarizes the Bank’s capital amounts and the ratios required at March 31, 2018:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective Action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017 (unaudited)	(dollars in thousands)					
Common equity tier 1 risk-based capital	\$60,590	20.04%	\$13,603	4.5%	\$19,649	6.5%
Tier 1 risk-based capital	60,590	20.04	18,137	6.0	24,183	8.0
Total risk-based capital	64,368	21.29	24,183	8.0	30,229	10.0
Tier 1 leverage	60,590	11.13	21,771	4.0	27,214	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, 2018, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the Company's asset and liability management policies as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 26, 2017. 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. 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 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 portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items, where appropriate. These analyses assess the risk of loss in market risk-sensitive 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 low level of interest rates, an analysis of decreasing market interest rates of more than 100 basis points is not typically reviewed.

The following table presents the change in our net economic value of equity at December 31, 2017, the most recently completed date, that would occur in the event of an immediate change in interest rates, with no effect given to any steps that we might take to counteract that change.

Basis Point (“bp”)	Economic Value of Equity (Dollars in Thousands)				Economic Value of Equity as % of Economic Value of Total Assets	
	Amount	Change	% Change		Economic Value Ratio	
Change in Rates						
400	\$105,487	\$(8,697)	(7.62))%	21.80	%
300	112,899	(1,285)	(1.13))%	22.55	%
200	115,635	1,451	1.27	%	22.38	%
100	116,612	2,428	2.13	%	21.89	%
0	114,184	--	--	%	20.84	%
(100)	106,142	(8,042)	(7.04))%	18.91	%

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, 2018, 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, 2017, 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

There were no repurchases of the Company’s common stock during the quarter ended March 31, 2018.

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
10.1 Amended and Restated United Community Bank Employee Severance Compensation Plan *

Exhibit
31.1 Certification of Chief Executive Officer

Exhibit
31.2 Certification of Chief Financial Officer

Exhibit
32 Section 1350 Certifications

Exhibit
101.0 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, 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.

*Management contract or compensation plan or arrangement.

(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)

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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 11, 2018 By: /s/ Elmer G. McLaughlin
Elmer G. McLaughlin
President and Chief Executive Officer

Date: May 11, 2018 By: /s/ David Z. Rosen
David Z. Rosen
Chief Financial Officer