United Community Bancorp
Form 10-K
September 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2016

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number: 000-54876

UNITED COMMUNITY BANCORP

(Exact Name of Registrant as Specified in Its Charter)

Indiana	**80-0694246**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
92 Walnut Street, Lawrenceburg, Indiana	**47025**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (812) 537-4822

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

Indicate by check mark whether the registrant (l) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer ¨ Accelerated Filer ¨

Non-accelerated Filer ¨ Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of December 31, 2015 was $55.9 million. The number of shares outstanding of the registrant’s common stock as of September 27, 2016 was 4,198,143.

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Note on Forward-Looking Statements

This report, like many written and oral communications presented by United Community Bancorp and our authorized officers, may contain certain forward-looking statements regarding our prospective performance and strategies within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of said safe harbor provisions.

Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "seek," "strive," "try," or future or conditional verbs such as "will," "would," "should," "could," "may," or similar expressions. Our ability to predict results or the actual effects of our plans or strategies is inherently uncertain. Accordingly, actual results may differ materially from anticipated results.

There are a number of factors, many of which are beyond our control, that could cause actual conditions, events, or results to differ significantly from those described in our forward-looking statements. These factors include, but are not limited to:

- *general economic conditions, either nationally or in some or all of the areas in which we and our customers conduct our respective businesses;*
- *conditions in the securities markets and real estate markets or the banking industry;*
- *changes in interest rates, which may affect our net income, prepayment penalty income, and other future cash flows, or the market value of our assets, including our investment securities;*
- *changes in deposit flows and wholesale borrowing facilities;*
- *changes in the demand for deposit, loan, and investment products and other financial services in the markets we serve;*
- *changes in our credit ratings or in our ability to access the capital markets;*

- *changes in our customer base or in the financial or operating performance of our customers' businesses;*
- *changes in real estate values, which could impact the quality of the assets securing the loans in our portfolio;*
- *changes in the quality or composition of our loan or securities portfolios;*
- *changes in competitive pressures among financial institutions or from non-financial institutions;*
- *the ability to successfully integrate any assets, liabilities, customers, systems, and management personnel of any banks we may acquire, into our operations, and our ability to realize related revenue synergies and cost savings within expected time frames;*
- *our ability to retain key members of management;*
- *our timely development of new lines of business and competitive products or services in a changing environment, and the acceptance of such products or services by our customers;*
- *any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems;*
- *any interruption in customer service due to circumstances beyond our control;*
- *potential exposure to unknown or contingent liabilities of companies we have acquired or target for acquisition;*

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- *the outcome of pending or threatened litigation, or of other matters before regulatory agencies, whether currently existing or commencing in the future;*

- *environmental conditions that exist or may exist on properties owned by, leased by, or mortgaged to the Company;*

- *operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent;*

- *changes in our estimates of future reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;*

- *changes in our capital management policies, including those regarding business combinations, dividends, and share repurchases, among others;*

- *changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and other changes pertaining to banking, securities, taxation, rent regulation and housing, environmental protection, and insurance; and the ability to comply with such changes in a timely manner;*

- *additional FDIC special assessments or required assessment prepayments;*

- *changes in accounting principles, policies, practices or guidelines;*

- *the ability to keep pace with, and implement on a timely basis, technological changes;*

- *changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System;*

- *war or terrorist activities; and*

- *other economic, competitive, governmental, regulatory, and geopolitical factors affecting our operations, pricing, and services.*

Additional factors that may affect our results are discussed in this Annual Report on Form 10-K under "Item 1A. Risk Factors." The Company wishes to caution readers not to place undue reliance on any such forward-looking *statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.*

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

PART I

Item 1. Business

United Community Bancorp. United Community Bancorp, Inc. is an Indiana corporation ("United Community Bancorp" or the "Company") that was incorporated in March 2011 to be the successor corporation to old United Community Bancorp ("Old United Community Bancorp"), the former stock holding company for United Community Bank (the "Bank"), upon completion of the mutual-to-stock conversion of United Community MHC, the former mutual holding company for United Community Bancorp. The mutual-to-stock conversion was completed on January 9, 2013. 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 resulting in 2,089,939 shares issued in the exchange without giving effect to cash distributed for fractional shares. In addition, a total of 3,060,058 shares of common stock were sold in the subscription and community offerings at the price of $8.00 per share, including 194,007 shares of common stock purchased by the United Community Bancorp Employee Stock Ownership Plan (the "ESOP"). As of June 30, 2016, United Community Bancorp had 4,198,143 shares outstanding. As a savings and loan holding company, United Community Bancorp is subject to the regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

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United Community Bancorp's business activities consist of the ownership of the Bank's capital stock and the management of the offering proceeds it retained. It does not own or lease any property. Instead, it uses the premises, equipment and other property of United Community Bank. Accordingly, the information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and related financial data, relates primarily to the Bank.

Financial information presented in this Annual Report on Form 10-K is derived in part from the consolidated financial statements of United Community Bancorp and subsidiaries on and after January 9, 2013 and from the consolidated financial statements of Old United Community Bancorp and subsidiaries prior to January 9, 2013.

United Community Bank. United Community Bank is a federally chartered savings bank and was created on April 12, 1999 through the merger of Perpetual Federal Savings and Loan Association and Progressive Federal Savings Bank, both located in Lawrenceburg, Indiana. On June 4, 2010, United Community Bank acquired three branches from Integra Bank National Association all of which are located in Ripley County, Indiana. At June 30, 2016, we had approximately $526.1 million in assets and $438.9 million in deposits. We operate as a community-oriented financial institution offering a wide menu of banking services and products to consumers and businesses in our market areas. Recent years have seen the expansion of services we offer from a traditional savings and loan product mix to those of a full-service financial institution servicing the needs of consumer and commercial customers. United Community Bank attracts deposits from the general public and local municipalities and uses those funds to originate one- to four-family real estate, multi-family real estate and nonresidential real estate, construction, commercial and consumer loans. Generally, fixed-rate one- to four-family residential conforming loans with terms of more than ten years that we originate are sold in the secondary market with the servicing retained. Such sales generate mortgage banking income. The remainder of our loan portfolio is originated for investment. United Community Bank also maintains an investment portfolio. United Community Bank is regulated by the Office of the Comptroller of the Currency (the "OCC") and its deposits are insured up to applicable legal limits by the Federal Deposit Insurance Corporation, referred to as the FDIC. United Community Bank is also a member of the Federal Home Loan Bank of Indianapolis.

UCB Real Estate Management Holdings, LLC. UCB Real Estate Management Holdings, LLC is a wholly-owned subsidiary of United Community Bank. The entity was formed for the purpose of holding real estate assets that are acquired by the Bank through, or in lieu of, foreclosure. Real estate assets held totaled $70,000 as of June 30, 2016.

UCB Financial Services, Inc. UCB Financial Services, Inc., a wholly owned subsidiary of the Bank, was formed for a variety of purposes, but was primarily being used for the collection of commissions from a wealth management partner. In addition to the collection of commissions, during the current fiscal year, the Bank applied for, and received approval from the OCC to allow UCB Financial Services, Inc. to own and manage a portion of the Bank's municipal bond portfolio.

Market Areas

We are headquartered in Lawrenceburg, Indiana, which is in the eastern part of Dearborn County, Indiana, along the Ohio River and part of the Greater Cincinnati MSA. We currently have five branches located in Dearborn County and three branches located in adjacent Ripley County. Dearborn and Ripley Counties represent our primary deposit markets. The primary sources of loan originations are existing customers, walk-in traffic, advertising, referrals from customers and other sources, and business development efforts. We advertise on television and radio and in newspapers that are widely circulated in Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. Accordingly, as our loan rates are competitive, we attract loans from throughout these counties. The economy of the region in which our current offices are located has historically been a mixture of light industrial enterprises and services. Since the mid-1990s, the economy in Lawrenceburg has been strengthened by the riverboat casino in Lawrenceburg whose presence has supported the development of retail centers and job growth as well as an increase in housing development. Located 20 miles from Cincinnati, Ohio, Dearborn and Ripley Counties have also benefited from the growth in and around Cincinnati and Northern Kentucky, as many residents commute to these areas for employment.

Dearborn and Ripley Counties' road system includes eight state highways and three U.S. highways. The counties have two rail lines and port facilities due to the proximity of the Ohio River.

Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions operating in our market areas and, to a lesser extent, from other financial service companies such as brokerage firms, credit unions and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2015, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation ("FDIC"), we held approximately 41.4% of the deposits held by FDIC-insured institutions in Dearborn County, which was the largest market share out of the eight financial institutions with offices in Dearborn County, and 10.6% of the deposits in Ripley County, which was the fifth largest market share out of the ten financial institutions with offices in Ripley County. In addition, banks owned by large out-of-state bank holding companies such as Fifth Third Bancorp, PNC Bank and U.S. Bancorp also operate in our market areas. These institutions are significantly larger than us and, therefore, have significantly greater resources.

Our competition for loans comes primarily from financial institutions in our market areas, and, to a lesser extent, from other financial service providers such as mortgage companies and mortgage brokers. Competition for loans also comes from non-depository financial service companies which have entered the mortgage market such as insurance companies, securities companies and specialty finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Competition for deposits and the origination of loans could limit our future growth. Nevertheless, while in recent years we have steadily decreased our reliance on municipal deposits, which decreased $3.0 million from June 30, 2015 to June 30, 2016, we continue to replace municipal deposits with core retail deposits, which increased $20.6 million during the same period.

Lending Activities

General. We originate loans primarily for investment purposes. Historically, our primary lending activity has been the origination of one- to four-family mortgage loans secured by homes in our local market area, particularly in Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. A significant portion of this historical lending activity has been the origination for retention in our portfolio of adjustable-rate mortgage (“ARM”) loans collateralized by one- to four-family residential real estate located within our primary market area. The low interest rate environment that has persisted over the last few years has required that we augment adjustable rate originations with 10-year fixed rate loan originations. In order to further complement our traditional emphasis of one- to four-family residential real estate lending, significant segments of our loan portfolio consist of nonresidential real estate and land loans, multi-family real estate loans, commercial loans, agricultural loans, and consumer loans. Between 2006 and 2010, we increased and diversified our lending efforts in the metropolitan Cincinnati market area and, to a lesser extent, in Northern Kentucky and the Indiana counties outside of our local market area, particularly with respect to nonresidential and multi-family real estate lending. In June 2010, we implemented a strategy to deemphasize the origination of nonresidential real estate and multi-family real estate loans, particularly outside of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. The strategy was implemented to address the fact that multi-family and nonresidential real estate loans, particularly those originated outside of the Bank’s traditional southeastern Indiana market area, experienced the most financial difficulty during the recent economic downturn, in turn causing the Bank to incur losses and devote an inordinate amount of management oversight to these relationships. Consequently, between June 2010 and the quarter ended December 31, 2013, our multifamily and nonresidential real estate lending origination activity outside, and to a lesser extent inside, of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties in Indiana had been limited to the renewal, refinancing and restructuring of these types of loans. During the quarter ended December 31, 2013 we reviewed the economic environment in our lending markets and implemented a controlled growth strategy to prudently increase commercial and commercial real estate lending, including in the Cincinnati and Northern Kentucky markets. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios.

For additional information regarding our strategy to deemphasize the origination of multi-family and nonresidential real estate loans, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Operating Strategy – Improving our asset quality," " – Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income" and " – Risk Management – Analysis of Nonperforming and Classified Assets."*

One- to Four-Family Residential Real Estate Loans**.** We offer mortgage loans to enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. We offer fixed-rate and adjustable-rate loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions. Most of our loan originations result from relationships with existing or past customers, members of our local community and referrals from realtors, attorneys and builders.

While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans. As a result of the continued low interest rate environment during the past several years, a greater percentage of our one- to four-family loan originations consisted of fixed-rate one- to four-family mortgage loans. Our practice in recent years has generally been to (i) sell in the secondary market newly originated conforming fixed-rate 15-, 20- and 30-year one- to four-family residential real estate loans on a servicing retained basis, without recourse to United Community Bank, and (ii) to hold in our portfolio fixed-rate loans with 10-year terms or less and adjustable-rate loans. While during a nine month period in the year ending June 30, 2015 we were holding 15-year fixed-rate loans; currently, we have no intention of changing our prior practice of selling our fixed-rate loan originations, although we may determine to change this practice in the future. Historically in higher interest rate environments consumer preference for adjustable rate mortgages has enabled us to originate such loans for our portfolio. Therefore, in a rising interest rate environment, we expect that a greater percentage of our loan originations will consist of adjustable-rate loans, which we generally retain in our portfolio. In the past, we have occasionally purchased loans and purchased participation interests in loans originated by other institutions to supplement our origination efforts. At June 30, 2016, loans serviced by United Community Bank for others totaled $68.9 million, resulting in $164,000 in servicing fee income during the year ended June 30, 2016. At June 30, 2015, loans serviced by United Community Bank for others totaled $64.9 million, resulting in $165,000 in servicing fee income during the year ended June 30, 2015. During the years ended June 30, 2016 and 2015, we sold $11.3 million and $6.3 million, respectively, of fixed-rate one- to four-family loans. As of June 30, 2016 and 2015, we had $783,000 and $160,000, respectively, of mortgage loans held for sale recorded at the lower of cost or fair value.

Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that ranges from one to ten years. Interest rates and payments on these adjustable-rate loans generally are based on the one-year constant maturity U.S. Treasury index (three-year constant maturity U.S. Treasury index in the case of three-year adjustable-rate loans) as published by the Federal Reserve Board in Statistical Release H.15. The maximum amount by which the interest rate may be increased is generally two percentage points per adjustment period and the lifetime interest rate cap ranges from five to six percentage points over the initial interest rate of the loan. Our adjustable-rate one- to four-family mortgage loans generally do not provide for a decrease in the rate paid below the initial contract rate. The inability of our residential real estate loans to adjust downward below the initial contract rate can contribute to increased income in periods of declining interest rates, and also assists us in our efforts to limit the risks to earnings and equity value resulting from changes in interest rates, subject to the risk that borrowers may refinance these loans during periods of declining interest rates.

ARM loans decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks. As interest rates increase, the required periodic payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the terms of the ARM loans, and therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. Decreasing interest rates could result in a downward adjustment of the contractual interest rates, subject to interest rate floor, resulting in lower interest income. At June 30, 2016, 36.1% of our loan portfolio consisted of one- to four-family residential loans with adjustable interest rates.

We generally do not make conventional one-to-four family real estate loans with loan-to-value ratios exceeding 80% without requiring private mortgage insurance We require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We generally require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance and flood insurance for loans on properties located in a flood zone before closing the loan.

We do not offer, and have not previously offered, subprime, Alt-A, low-doc, no-doc loans or loans with negative amortization and generally do not offer interest-only loans.

At June 30, 2016, we had $143.0 million in One-to four-family real estate loans outstanding, or 52.2% of total loans.

Multi-Family Real Estate Loans. We offer adjustable-rate mortgage loans secured by multi-family real estate. Our multi-family real estate loans are generally secured by apartment buildings within and outside our primary market area. At June 30, 2016, approximately 52.3% of our multi-family real estate loans were secured by properties located outside of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana, 100% of which were in the Cincinnati and Northern Kentucky markets. In June 2010, we implemented a strategy to deemphasize the origination of nonresidential real estate and multi-family real estate loans, particularly outside of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. The strategy was implemented to address the fact that multi-family and nonresidential real estate loans, particularly those originated outside of the Bank’s traditional southeastern Indiana market area, experienced significant financial difficulties during the recent economic downturn, which resulted in the Bank incurring losses and being required to devote a significant amount of management’s time and energy to overseeing these relationships. Consequently, between June 2010 and the quarter ended December 31, 2013, our multi-family and nonresidential real estate lending origination activity outside of, and to a lesser extent within, Dearborn, Ripley, Franklin, Ohio and Switzerland Counties in Indiana was limited to the renewal, refinancing and restructuring of these types of loans. As part of the strategy, we amended our loan policy to reduce our concentration limits for multi-family real estate loans to 75% of the sum of tier 1 risk-based capital plus our allowance for loan losses. During the quarter ended December 31, 2013 we reviewed the economic environment in our lending markets and implemented a controlled growth strategy to prudently increase multi-family and nonresidential real estate lending, including in the Cincinnati and Northern Kentucky markets. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios. At June 30, 2016, none of the nonperforming assets were multi-family residential real estate loans. For additional information regarding our troubled debt restructurings, controlled growth strategy and our multi-family residential lending, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Operating Strategy – Improving our asset quality," "–Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income"* and *" – Risk Management – Analysis of Nonperforming Assets."*

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These loans are typically repaid or the term is extended before maturity, in which case a new rate is negotiated to meet market conditions and an extension of the loan is executed for a new term with a new amortization schedule. Our portfolio primarily includes adjustable-rate multi-family real estate loans with terms up to 30 years. Amortization periods for loans originated since 2014 typically do not exceed 25 years. Interest rates and payments on most of these loans typically adjust annually after an initial fixed term of one to seven years, with the adjustable-rate generally being based on the prime interest rate as published in *The Wall Street Journal*, plus a spread, or the one, three, or five year US Treasury index as published by the Federal Reserve Board in Statistical Release H.15, plus a spread. The maximum amount by which the interest rate may be increased is generally two percentage points per adjustment period and the lifetime interest rate cap is six percentage points over the initial interest rate of the loan. Our adjustable-rate multi-family loans generally do not provide for a decrease in the rate paid below the initial contract rate. Loans are secured by first mortgages that generally do not exceed 80% of the lesser of the property's appraised value or the purchase price, the maximum amount of which is limited by our in-house loans to one borrower limit, which currently is $6.4 million. When the borrower is a corporation, partnership or other entity, we generally require that significant equity holders serve as co-borrowers or guarantors on the loan. Environmental reports are generally required for all multi-family loans.

Loans secured by multi-family real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. A primary concern in multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than one- to four-family residential real estate loans to adverse conditions in the real estate market or the economy. To monitor project and global cash flows on multi-family real estate loans, we typically require borrowers, co-borrowers, and guarantors to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family real estate loan, we consider the net operating income of the property, the borrower's character and expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x.

At June 30, 2016, we had $16.0 million in multi-family real estate loans outstanding, or 5.8% of total loans. The largest outstanding multi-family real estate loan at such date had an outstanding balance of $6.1 million and is secured by multiple apartment buildings. This loan was performing in accordance with its original contractual terms at June 30, 2016.

Nonresidential Real Estate and Land Loans. We offer adjustable-rate mortgage loans secured by owner-occupied and non-owner occupied nonresidential real estate. Our nonresidential real estate loans are generally secured by commercial buildings. These loans are typically repaid or the term is extended before maturity, in which case a new rate is negotiated to meet market conditions and an extension of the loan is executed for a new term with a new amortization schedule. We originate adjustable-rate nonresidential real estate loans with terms up to 30 years. Amortization periods for loans originated since 2014 typically do not exceed 20 years. Interest rates and payments on most of these loans typically adjust annually after an initial fixed term of one to seven years, with the adjustable-rate generally being based on the prime interest rate as published in *The Wall Street* Journal, plus a spread, or the one, three, or five year US Treasury index as published by the Federal Reserve Board in Statistical Release H.15, plus a spread. The maximum amount by which the interest rate may be increased is generally two percentage points per adjustment period and the lifetime interest rate cap is six percentage points over the initial interest rate of the loan. Loans are secured by first mortgages that generally do not exceed 80% of the property's appraised value or the purchase price (70% for improved land only loans and 50% for unimproved land only loans), the maximum amount of which is limited by our in-house loans to one borrower limit, which currently is $6.4 million. When the borrower is a corporation, partnership or other entity, we may require that significant equity holders serve as co-borrowers or as personal guarantors of the loan. As of June 30, 2016, approximately $1.1 million, or 36.1%, of our nonperforming assets were nonresidential real estate loans. In June 2010, we implemented a strategy to control the growth of our nonresidential real estate and multi-family real estate loan portfolios, particularly outside of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. The strategy was implemented to address the fact that multi-family and nonresidential real estate loans, particularly those originated outside of the Bank's traditional southeastern Indiana market area, experienced the most financial difficulty during the recent economic downturn, in turn causing the Bank to incur losses and devote an inordinate amount of management oversight to these relationships. Consequently, between June 2010 and the quarter ended December 31, 2013, our multi-family and nonresidential real estate lending origination activity outside of, and to a lesser extent within, Dearborn, Ripley, Franklin, Ohio and Switzerland Counties in Indiana was limited to the renewal, refinancing and restructuring of these types of loans. As part of the strategy, we amended our loan policy to reduce our concentration limits for nonresidential real estate loans to 100% of the sum of tier 1 risk-based capital plus our allowance for loan losses. During the quarter ended December 31, 2013 we reviewed the economic environment in our lending markets and implemented a controlled growth strategy to prudently increase multi-family and nonresidential real estate lending, including in the Cincinnati and Northern Kentucky markets. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios. For additional information regarding our troubled debt restructurings, controlled growth strategy and our nonresidential real estate and land loans, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Operating Strategy – Improving our asset quality," " – Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income" and " – Risk Management – Analysis of Nonperforming and Classified Assets."*

Loans secured by nonresidential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Our primary concern in nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project or business. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than one- to four-family residential real estate loans to adverse conditions in the real estate market or the economy. To monitor project, business and global cash flows on nonresidential real estate loans, we typically require borrowers, co-borrowers and loan guarantors to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a nonresidential real estate loan, we consider the net operating income of the property, the borrower's expertise and character, credit history and profitability and the value of the underlying property. In addition, with respect to rental properties, we will also consider the term of the leases and the credit quality of the tenants. We may require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental reports are generally required for nonresidential real estate loans.

We also originate loans secured by unimproved property, including lots for single-family homes and for mobile homes, raw land, commercial property and agricultural property. The rates of our land loans are typically higher than our nonresidential and multi-family real estate loans. Loans secured by undeveloped land or improved lots generally involve greater risks than one- to four-family residential mortgage lending because land loans are more difficult to evaluate. If the estimate of value proves to be inaccurate, in the event of default and foreclosure, we may be confronted with a property the value of which is insufficient to assure full repayment. Loan amounts generally do not exceed 70% and 50% of the lesser of the appraised value or the purchase price for improved and unimproved land loans, respectively.

At June 30, 2016, we had $59.0 million in nonresidential real estate loans outstanding, or 21.5% of total loans, and $2.2 million in land loans outstanding, or 0.8% of total loans. At June 30, 2016, the largest outstanding nonresidential real estate loan had an outstanding balance of $5.1 million and was performing in accordance with its original contractual terms at that date. At June 30, 2016, our largest land loan, which was performing in accordance with its original terms at that date, had an outstanding balance of $890,000 and was secured by a commercial land development.

Construction Loans. We originate adjustable-rate loans to individuals and, to a lesser extent, builders to finance the construction of residential dwellings. We also make construction loans for commercial development projects, including apartment buildings and nonresidential properties (owner occupied and non-owner occupied) used for businesses. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually nine months for residential properties and 12 months for commercial properties. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Loans generally can be made with a maximum loan to value ratio not to exceed 80% without private mortgage insurance on residential construction and 80% on commercial construction at the time the loan is originated. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also will typically require an inspection and title update of the property before disbursement of funds during the term of the construction loan.

At June 30, 2016, we had $8.6 million of construction loans, or 3.1% of total loans.

At June 30, 2016, our largest residential construction loan was for $336,000, of which the entire balance was outstanding. At June 30, 2016, our largest commercial construction loan relationship was for $2.5 million, of which the entire balance was outstanding.

Commercial Loans. We make commercial business loans to professionals, sole proprietorships and small businesses primarily in our market area. We extend commercial business loans on an unsecured basis and secured basis, the maximum amount of which is limited by our in-house loans to one borrower limit.

We originate secured and unsecured commercial lines of credit to finance the working capital needs of businesses to be repaid by seasonal cash flows. Commercial lines of credit are typically secured by business assets or nonresidential real estate and are adjustable-rate loans whose rates are based on the prime interest rate as published in *The Wall Street Journal*, plus a spread, and adjust monthly. Commercial lines of credit have maximum terms of one to five years, depending on the collateral. We also originate commercial lines of credit secured by marketable securities and unsecured lines of credit. Our commercial lines of credit typically require interest only payments to be paid on a monthly or quarterly basis.

We also originate secured and unsecured commercial loans. Secured commercial loans are generally collateralized by business assets, including accounts receivable, inventory, industrial/commercial machinery, equipment and furniture and fixtures, and also marketable securities. We originate both fixed-rate and adjustable-rate commercial loans with terms up to seven years for secured loans and up to three years for unsecured loans unless there is an adequate credit enhancement to the loans such as an SBA guarantee. Term limits for larger machinery and equipment may be extended to ten years. Terms assigned to a specific loan generally will not exceed the useful life of the collateral. Adjustable-rate loans are based on the prime interest rate as published in *The Wall Street Journal*, plus a spread, and adjust either monthly or annually. Where the borrower is a corporation, partnership or other entity, we generally require significant equity holders to be co-borrowers or guarantors on the loan.

When making commercial business loans, we consider the financial statements and/or tax returns of the borrower, the borrower's payment history of both corporate and personal debt, the debt service capabilities of the borrower, the projected cash flows of the business, the viability of the industry in which the customer operates and the value of the collateral.

At June 30, 2016, we had $4.5 million of commercial loans outstanding, or 1.6% of total loans.

At June 30, 2016, our largest commercial loan was a $486,000 loan which was secured primarily by customer utility accounts receivable. This loan was performing in accordance with its original contractual terms at June 30, 2016.

Consumer Loans. We offer a variety of consumer loans, primarily home equity loans and lines of credit, and, to a much lesser extent, loans secured by savings accounts or certificates of deposit (share loans), new farm and garden equipment, new and used automobiles, recreational vehicle loans and secured and unsecured personal loans.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

We generally offer home equity loans and lines of credit with a maximum combined loan to value ratio of 90%. Our lowest interest rates are generally offered to customers with a maximum combined loan to value ratio of 80% or less. Home equity lines of credit have adjustable-rates of interest that are based on the prime interest rate as published in *The Wall Street Journal*, plus a spread. Home equity lines of credit have terms up to 25 years and generally require that only interest be paid on a monthly basis during the 10 year draw period then converting to principal and interest payments over the remaining 15 years of the loan. Interest rates on these loans typically adjust monthly. We offer fixed-rate and adjustable-rate home equity loans. Home equity loans with fixed-rates have terms up to 10 years. Home equity loans with adjustable-rates have terms up to 30 years. Interest rates on these loans are based on the prime interest rate as published in *The Wall Street Journal*, plus a spread. We hold a first mortgage position on most of the homes that secure our home equity loans and home equity lines of credit.

We offer loans secured by new and used vehicles. These loans have fixed interest rates and generally have terms up to 72 months.

We offer loans secured by new and used boats, motor homes, campers and motorcycles. We offer fixed and adjustable-rate loans for new motor homes and boats with terms up to 10 years for adjustable-rate loans and up to 10 years for fixed-rate loans. We offer fixed-rate loans for all other new and used recreational vehicles with terms up to 10 years for campers and five years for motorcycles.

We offer secured consumer loans with fixed interest rates and terms up to 10 years and secured lines of credit with adjustable-rates based on the prime interest rate as published in *The Wall Street Journal* with terms up to 25 years. We also offer fixed-rate unsecured consumer loans with terms up to five years. For more information on our loan commitments, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations–Risk Management–Liquidity Management."* At June 30, 2016, we had $35.0 million of consumer loans outstanding, or 12.8% of total loans.

Agricultural Loans. Originally, our agricultural loans were acquired in connection with our acquisition of the Ripley County branch offices in 2010. We continue to grow the agricultural portfolio utilizing a loan officer who specializes in agricultural lending. Our agricultural loans generally consist of short and medium-term loans and lines of credit that are primarily used for crops, livestock, equipment and general operations. Agricultural loans are ordinarily secured by assets such as livestock, crops, equipment, or real estate and are repaid from the operations of the farm. Agricultural lines of credit generally have maturities of three years or less. At June 30, 2016, we had $6.0 million of agricultural loans outstanding, or 2.2% of total loans.

At June 30, 2016, our largest outstanding agricultural loan balance was $987,000, and is secured by real estate and a UCC filing on all business assets. This loan was performing in accordance with its original contractual terms at June 30, 2016.

Loan Underwriting Risks

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

Multi-Family and Nonresidential Real Estate and Land Loans. Loans secured by multi-family and nonresidential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project or business. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor project, business and global cash flows on multi-family and nonresidential real estate loans, we typically require borrowers, co-borrowers and loan guarantors to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family and nonresidential real estate loan, we consider the net operating income of the property or the repayment capacity of the business, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental reports are generally required for all multi-family and nonresidential real estate loans.

We underwrite all loan participations to our own underwriting standards and will not participate in a loan unless each participant has at least a 10% interest in the loan. In addition, we also consider the financial strength and reputation of the lead lender. To monitor cash flows on commercial loan participations, we require the lead lender to provide us with annual financial statements from the borrower. Generally, we also conduct an annual internal loan review for loan participations.

***Construction Loans*.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Commercial Loans. Unlike one- to four-family mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Consumer Loans. Consumer loans may entail greater risk than do one- to four-family mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Agricultural Loans. Payments on agricultural loans are typically dependent on the profitable operation or management of the related farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields, declines in market prices for agricultural products and the impact of government regulations. In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. For loan relationships greater than $250,000, crop insurance is required at a minimum of 70% of the loan amount when the crops are the Bank's primary collateral.

Loan Originations, Purchases and Sales. Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising, referrals from customers and other sources, and business development efforts. We advertise on television and on radio and in newspapers that are widely circulated in Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. Accordingly, when our rates are competitive, we attract loans from throughout Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. We occasionally purchase loans and participation interests in loans to supplement our origination efforts.

We generally originate loans for our portfolio, but our current practice is to sell to the secondary market almost all newly originated conforming fixed-rate, 15-, 20-, 25- and 30-year one- to four-family mortgage loans and to hold in our portfolio fixed-rate loans with 10-year terms or less and adjustable-rate loans. Our decision to sell loans is based on prevailing market interest rate conditions and interest rate risk management considerations. Loans are sold to either Freddie Mac or Federal Home Loan Bank of Indianapolis with servicing retained.

***Loan Approval Procedures and Authority*.** Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management.

The Board has granted individual and aggregate loan approval authority to the Management Loan Committee, consisting of the President, the Executive Vice President, the Senior Vice President of Lending and the Chief Credit Officer. The Board Loan Committee, consisting of the President and 3 to 4 Board members, may approve loans secured by either real estate or non-real estate assets up to $3.0 million and unsecured loans up to $1.5 million. The Management Loan Committee may approve loans secured by either real estate or non-real estate assets up to $1.5 million and unsecured loans up to $500,000. Through the Management Loan Committee, the Board has also granted authority to approve consumer loans to certain employees up to prescribed limits, depending on the officer's experience and tenure.

All loans in excess of these limits must be approved by the full Board of Directors.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities generally is limited, by regulation, to 15% of tier 1 risk-based capital plus our allowance for loan losses. At June 30, 2016, our general regulatory limit on loans to one borrower was $9.6 million. On June 30, 2016, our largest lending relationship was a $6.1 million multi-family real estate loan relationship. The loan that comprises this relationship was performing according to the terms of the loan at June 30, 2016. In 2014, to reduce the risk of loss to any one borrower, the Board established a loans to one borrower limit of 10% of tier 1 risk-based capital plus our allowance for loan losses. At June 30, 2016, this limit was $6.4 million. Any relationship in excess of 10% at the time of implementation of our in-house limit was grandfathered.

Loan Commitments. We issue commitments for fixed- and adjustable-rate mortgage, consumer, and commercial loans conditioned upon the occurrence of certain events. Commitments to originate mortgage, consumer, and commercial loans are legally binding agreements to lend to our customers. Generally, our loan commitments expire after 30 days.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, state and municipal governments, deposits at the Federal Home Loan Bank of Indianapolis and other financial institutions and certificates of deposit of federally insured institutions. We also are required to maintain an investment in Federal Home Loan Bank of Indianapolis stock. While we have the authority under applicable law to invest in derivative securities, our investment policy does not permit such investments. We had no investments in derivative securities at June 30, 2016.

At June 30, 2016, our investment portfolio totaled $193.2 million and consisted primarily of municipal bonds, agency backed mortgage-backed securities and guaranteed portions of Small Business Administration (SBA) pools.

At June 30, 2016, the investment portfolio contained approximately $60.7 million of callable municipal bonds. The securities generally contain a one-time call option or may be called at any time following the initial call date. Reinvestment risk is present with callable securities, particularly during periods of declining market interest rates when issuers have economic incentive to call the debt and reissue at a lower rate. The risk for the investor is needing to reinvest the proceeds from called securities into securities with lower rates.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of income when demand for loans is weak and to generate a favorable return. The Investment Committee is responsible for the implementation of the investment policy. The Management

Investment Committee, consisting of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Senior VP of Lending, and the Chief Risk Officer is responsible for monitoring our investment performance. Portfolio composition and performance are reviewed by our board of directors quarterly.

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

***Deposit Accounts*.** Substantially all of our depositors are residents of the State of Indiana. We attract deposits in our market area through advertising and through our website. We offer a broad selection of deposit instruments, including noninterest-bearing demand accounts (such as checking accounts), interest-bearing accounts (such as interest-bearing checking and money market accounts), regular savings accounts and certificates of deposit. Municipal deposits comprise a substantial portion of our total deposits. At June 30, 2016, $100.2 million, or 22.8% of our total deposits, were municipal deposits compared to 47.9% of total deposits at June 30, 2006. While we expect municipal deposits to continue to remain an important source of funding, we expect to continue to improve our funding mix by marketing lower cost core retail deposits, with the goal to reduce the portion of our deposit portfolio comprised of municipal deposits. Municipal deposits decreased $3.0 million from June 30, 2015 to June 30, 2016. During that same period core deposits increased $20.6 million. At June 30, 2016, we did not utilize brokered deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing as needed. Our current strategy is to offer competitive rates and to be in the middle of our market for rates on all types of deposit products.

Borrowings. We may utilize advances from the Federal Home Loan Bank of Indianapolis to supplement our supply of investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of Indianapolis and are authorized to apply for advances on the security of such stock and certain of our whole first mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness. At June 30, 2016, $12.0 million was advanced from the Federal Home Loan Bank at an average interest rate of 1.87%, and we had the ability to draw up to an additional $61.4 million from the Federal Home Loan Bank.

Personnel

As of June 30, 2016, we had 98 full-time employees and 22 part-time employees, none of which are represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

United Community Bank has two wholly-owned subsidiaries, which are United Community Bank Financial Services, Inc. and UCB Real Estate Management Holdings, LLC. United Community Bank Financial Services, Inc. collects commissions from a wealth management partner and also owns and manages a portion of the Bank's municipal bond portfolio. UCB Real Estate Management Holdings, LLC primarily manages the Bank's real estate acquired through foreclosure.

Regulation and Supervision

General

United Community Bancorp, as a savings and loan holding company, is subject to reporting to and regulation by the Federal Reserve Board. United Community Bank is subject to extensive regulation, examination and supervision by the OCC, as its primary federal regulator, and the FDIC, as the deposit insurer. United Community Bank is a member of the Federal Home Loan Bank System and, with respect to deposit insurance, of the Deposit Insurance Fund managed by the FDIC. United Community Bank must file reports with the OCC and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OCC and/or the FDIC conduct periodic examinations to test United Community Bank's safety and soundness and compliance with various regulatory requirements.

This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowance for loan losses for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Federal Reserve Board, the OCC, the FDIC or Congress, could have a material adverse impact on United Community Bancorp and United Community Bank and their operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes in the regulation of federal savings banks such as United Community Bank and their holding companies. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation of federal savings banks was transferred on July 21, 2011 to the OCC, the agency that is also primarily responsible for the regulation and supervision of national banks. Additionally, on that date, responsibility for the regulation and supervision of savings and loan holding companies was transferred to the Federal Reserve Board, which also supervises bank holding companies. The Dodd-Frank Act also created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve System. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as United Community Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their primary regulators.

United Community Bank completed its conversion from the mutual holding company form of organization to the stock holding company structure in January 2013. Applicable regulations provided, among other things, that for a period of three years following the date of the completion of the conversion, no person, acting singly or together with associates in a group of persons acting in concert, could directly or indirectly offer to acquire or acquire the beneficial ownership of more than 10% of a class of United Community Bancorp's equity securities without the prior written approval of the appropriate federal banking agency. Further, as part of the approval of the conversion, the OCC required United Community Bank to maintain a charter that subjects United Community Bank to the OCC's jurisdiction for three years following the completion of the conversion.

Certain regulatory requirements currently applicable to United Community Bancorp and United Community Bank are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth below and elsewhere in this document does not purport to be a complete description of such statutes and regulations and their effects on United Community Bancorp and United Community Bank and is qualified in its entirety by reference to the actual statutes and regulations.

Holding Company Regulation

General. As a savings and loan holding company, United Community Bancorp is subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations concerning its activities. In addition, the Federal Reserve Board has enforcement authority over United Community Bancorp and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to United Community Bank.

Pursuant to federal law and regulations and policy, a savings and loan holding company, such as United Community Bancorp, may engage in activities permitted for financial holding companies under Section 4(k) of the Bank Holding Company Act and certain other activities that have been authorized for savings and loan holding companies by regulation.

Federal law prohibits a savings and loan holding company from, directly or indirectly or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings association or savings and loan holding company, without prior written approval of the Federal Reserve Board or from acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary holding company or savings association. A savings and loan holding company is also prohibited from acquiring more than 5% of a company engaged in activities other than those authorized by federal law or acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve Board must consider, among other things, factors such as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings associations in more than one state, except: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings association in another state if the laws of the state of the target savings association specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital Requirements. Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. However, in July 2013, the Federal Reserve Board approved a new rule that implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule established consolidated capital requirements for many savings and loan holding companies, including United Community Bancorp. See *"— Federal Savings Institution Regulation—Capital Requirements."*

Source of Strength. The Dodd-Frank Act also extends the “source of strength” doctrine to savings and loan holding companies. The regulatory agencies must issue regulations implementing the "source of strength" policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Acquisition of Control. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company or savings association. Under certain circumstances, a change in control may occur, and prior notice is required, upon the acquisition of 10% or more of the outstanding voting stock of the company or institution, unless the Federal Reserve Board has found the acquisition will not result in a change in control. Under the Change in Control Act, the Federal Reserve Board has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Dividends. The Federal Reserve Board has the power to prohibit dividends by savings and loan holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which also applies to savings and loan holding companies and which expresses the Federal Reserve Board’s view that a holding company should pay cash dividends only to the extent that the company’s net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company’s capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Under the prompt corrective action regulations, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company’s bank subsidiary is classified as “undercapitalized.”

Federal Savings Institution Regulation

Business Activities. The activities of federal savings banks, such as United Community Bank, are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the business activities in which federal savings banks may engage. In particular, certain lending authority for federal savings institutions, *e.g.,* commercial, nonresidential real property loans and consumer loans, is limited to a specified percentage of the institution’s capital or assets.

Capital Requirements. On July 9, 2013, the federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision (“Basel III”) and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions and top-tier bank holding companies and top-tier savings and loan holding companies with total consolidated assets of $1 billion or more.

The rule includes new risk-based capital and leverage ratios, which became effective January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The minimum capital level requirements applicable to the Company and the Bank are: (1) a common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6%; (3) a total capital ratio of 8%; and (4) a Tier 1 leverage ratio of 4% for all institutions. In addition, the rule assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rule also eliminates the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. However, instruments issued prior to May 19, 2010 will be grandfathered for companies with consolidated assets of $15 billion or less. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be required to be deducted from capital, subject to a two-year transition period. Finally, Tier 1 capital will include accumulated other comprehensive income (which includes all unrealized gains and losses on available for sale debt and equity securities), subject to a two-year transition period.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019. The OCC also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At June 30, 2016, United Community Bank met each of its capital requirements.

Prompt Corrective Regulatory Action. Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept broker deposits. The OCC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OCC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. United Community Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Deposit insurance per account owner is currently $250,000. Under the FDIC's risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Assessment rates range from 2.5 to 45 basis points of total assets less tangible equity.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of United Community Bank cannot predict what insurance assessment rates will be in the future.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, a savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of tier 1 risk-based capital plus our allowance for loan losses. An additional amount may be lent, equal to 10% of tier 1 risk-based capital plus our allowance for loan losses, if secured by specified readily-marketable collateral.

QTL Test. Federal law requires savings institutions to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities but also including education loans, credit card loans and small business loans) in at least 9 months out of each 12-month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions. The Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in possible enforcement action for violation of law and imposes dividend limitations.

As of June 30, 2016, United Community Bank met the qualified thrift lender test.

Limitation on Capital Distributions. Federal Reserve Board and OCC regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, a notice must be filed with the Federal Reserve Board 30 days prior to declaring a dividend, with a notice to the OCC. The Federal Reserve Board may disapprove a dividend notice if the proposed dividend raises safety and soundness concerns, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OCC. In the event United Community Bank's capital fell below its regulatory requirements or the OCC notified it that it was in need of increased supervision, United Community Bank's ability to make capital distributions could be restricted. In addition, the Federal Reserve Board could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the Federal Reserve Board determines that such distribution would constitute an unsafe or unsound practice. Federal law further provides that no insured depository institution may pay a dividend that causes it to fall below any applicable regulatory capital requirement or if it is in default of its FDIC deposit insurance assessment.

***Transactions with Related Parties*.** United Community Bank's authority to engage in transactions with "affiliates" (*e.g.,* any entity that controls or is under common control with an institution, including United Community Bancorp and any non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. However, the law contains a specific exception for loans by United Community Bank to its executive officers and directors in compliance with federal banking laws. Under such laws, United Community Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. The law limits both the individual and aggregate amount of loans United Community Bank may make to insiders based, in part, on United Community Bank's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Enforcement. The OCC has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on an insured institution. Formal enforcement action may range from civil penalties, the issuance of a capital directive or cease and desist, order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. The FDIC has the authority to recommend to the Director of the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Federal Home Loan Bank System

United Community Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. United Community Bank, as a member of the Federal Home Loan Bank, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. United Community Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at June 30, 2016 of $3.5 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements, and general adverse operating results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, United Community Bank's net interest income would likely also be reduced.

Federal Reserve System

The Federal Reserve Board regulations require savings institutions to maintain noninterest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $110.2 million; a 10% reserve ratio is applied above $110.2 million. The first $15.2 million of otherwise reservable balances (subject to adjustment by the Federal Reserve Board) are exempted from the reserve requirements. The amounts are adjusted annually. United Community Bank complies with the foregoing requirements.

Other Regulations

United Community Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Truth in Savings Act; requiring certain disclosures to inform consumers about fees, annual percentage yield, interest rate, and other terms for deposit accounts. The regulation also includes requirements on the payment of interest, the methods of calculating the balance on which interest is paid, the calculation of the annual-percentage yield, and advertising.
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and

- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of United Community Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;

- The USA PATRIOT Act, which requires banks and savings institutions to, among other things, establish broadened anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement pre-existing compliance requirements that apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties and requires all financial institutions offering products or services to retail customers to provide such customers with the financial institution's privacy policy and allow such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Federal and State Taxation

Federal Income Taxation

General. United Community Bank reports its income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to United Community Bank in the same manner as to other corporations with some exceptions, including the reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to United Community Bank. United Community Bank's federal income tax returns have been either audited or closed under the statute of limitations through June 30, 2012. For its tax year ended June 30, 2016, United Community Bank's maximum federal income tax rate was 34%.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and require savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately $749,000 of United Community Bank's accumulated bad debt reserves would not be recaptured into taxable income unless United Community Bank makes a "non-dividend distribution" to United Community Bancorp as described below.

Distributions. If United Community Bank makes "non-dividend distributions" to United Community Bancorp, the distributions will be considered to have been made from United Community Bank's unrecaptured tax bad debt reserves, including the balance of its reserves as of December 31, 1987, to the extent of the “non-dividend distributions,” and then from United Community Bank’s supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in United Community Bank’s taxable income. Non-dividend distributions include distributions in excess of United Community Bank’s current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock and distributions in partial or complete liquidation. Dividends paid out of United Community Bank’s current or accumulated earnings and profits will not be so included in United Community Bank’s taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if United Community Bank makes a non-dividend distribution to United Community Bancorp, approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. United Community Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

State Taxation

Indiana Taxation. Prior to the fiscal year ended June 30, 2015 for the Company, Indiana imposed an 8.5% franchise tax based on a financial institution’s adjusted gross income as defined by statute. Starting in the fiscal year ended June 30, 2015, this tax rate was reduced 0.5% per year until reaching 6.5% in the fiscal year ending June 30, 2018. In computing adjusted gross income, deductions for municipal interest, U.S. Government interest, the bad debt deduction computed using the reserve method and pre-1990 net operating losses are disallowed. United Community Bank’s state franchise tax returns have not been audited for the past five tax years.

Item 1A. Risk Factors

An investment in shares of our common stock involves various risks. Before deciding to invest in our common stock, you should carefully consider the risks described below in conjunction with the other information in this Annual Report on Form 10-K, including the items included as exhibits. Our business, financial condition and results of operations could be harmed by any of the following risks or by other risks that have not been identified or that we may believe are immaterial or unlikely. The value or market price of our common stock could decline due to any of these risks. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Our nonperforming assets expose us to increased risk of loss.

Our nonperforming assets remained above historical levels primarily as a result of the continued effect of the recent economic recession. At June 30, 2016, we had total nonperforming loans of $2.9 million, or 0.55% of total assets, a $3.6 million decrease from $6.5 million at June 30, 2015. The decrease in nonperforming loans in fiscal year 2016 was primarily the result of $3.4 million in reductions due to loan payoffs, foreclosures, payments and movements of such loans to accruing status, partially offset by the addition of $168,000 in new nonperforming loans in the current year. Troubled debt restructurings are considered to be impaired loans. Our troubled debt restructurings decreased from $8.0 million at June 30, 2015 to $3.7 million at June 30, 2016, $1.4 million of which were on nonaccrual status and included in nonperforming loans. At June 30, 2015, $3.4 million of troubled debt restructurings were on nonaccrual status and included in nonperforming loans.

Our nonperforming assets adversely affect our net income in various ways. We do not accrue interest income on non-accrual loans and no interest income is recognized until the loan is performing and the value of the underlying collateral supports recording interest income on a cash basis. We must reserve for probable losses, which are established through a current period charge to income in the provision for loan losses, and from time to time, write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of nonperforming assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of United Community Bancorp. Finally, if our estimate of the allowance for loan losses is inaccurate, we will have to increase the allowance accordingly through earnings. At June 30, 2016, our allowance for loan losses was $4.9 million, or 1.8% of total loans and 169.2% of nonperforming loans, compared to $5.1 million, or 2.0% of total loans and 79.0% of nonperforming loans at June 30, 2015.

Our multi-family and nonresidential real estate loans expose us to increased credit risks.

At June 30, 2016, our nonresidential real estate and multi-family real estate loans totaled $59.0 million and $16.0 million, respectively, or 21.5% and 5.8%, respectively, of our total loans outstanding. Nonresidential and multi-family real estate loans represented 36.1% and 0%, respectively, of our total nonperforming assets of $3.0 million at June 30, 2016. Our current strategy is to control the growth of multi-family residential and nonresidential real estate loans, particularly those involving properties outside of our local market area. These types of loans generally expose a lender to greater risk of non-payment and loss than one- to four-family mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family mortgage loans. Also, some of our multi-family and nonresidential real estate and land borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family mortgage loan. During the year ended June 30, 2016, we experienced charge-offs of $192,000 on multi-family real estate loans offset by $4,000 of recoveries resulting in net charge-offs of $188,000. During the year ended June 30, 2016, we experienced charge offs of $561,000 on nonresidential real estate loans, offset by $223,000 of recoveries resulting in net charge-offs of $338,000.

We implemented a controlled loan growth strategy starting in 2014.

Prior to the quarter ended December 31, 2013, we deemphasized the origination of nonresidential and multi-family real estate loans as a strategic focus, particularly outside of Dearborn and Ripley Counties in Indiana. From June 30, 2006 through June 30, 2010, we experienced asset growth in excess of 38% in large part due to a determination to increase the size of our nonresidential and multi-family real estate portfolios and expand our lending efforts to southwestern Ohio and Northern Kentucky. While these lending areas are geographically proximate to the southeastern Indiana marketplace, the southwestern Ohio and Northern Kentucky real estate markets were more negatively impacted by the economic downturn. As a result, our loan relationships in these markets experienced disproportionate loan losses and required an extraordinary investment of managerial time to monitor in order to mitigate losses on these credits. In response, management elected to deemphasize multi-family and nonresidential lending in all markets until the economies in each of these markets materially improved and the level of our nonperforming assets in these segments of our loan portfolio materially declined. This strategy caused our one- to four-family residential mortgage loan portfolio and our investment securities portfolio to increase as a percentage of our interest-earning assets. At June 30, 2016, our nonresidential real estate and multi-family real estate loan portfolios totaled $75.0 million, or 14.3% of total assets, compared to $67.2 million, or 12.9% of total assets at June 30, 2015, and $124.3 million, or 25.3% of total assets, at June 30, 2010.

We reviewed the economic environment in our lending markets, including those in southwestern Ohio and Northern Kentucky, and the level of our nonperforming assets, and beginning in December 2013, we implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate loan portfolios to generate more interest income. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate portfolios.

A significant amount of our troubled debt restructurings are subject to balloon payments due in the next three years.

At June 30, 2016, troubled debt restructurings totaling $1.9 million were subject to balloon payments that must be repaid within the next three years. If the financial position of the borrowers of these loans is not sufficient to enable the borrowers to satisfy their balloon payments, we may have to further restructure the loans or foreclose on the loans and liquidate the collateral, which could result in an increase in non-accrual loans and/or additional provisions for loan losses.

Higher loan losses could require us to increase our allowance for loan losses through a charge to earnings.

When we loan money we incur the risk that our borrowers will not repay their loans. We reserve for loan losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of loan losses inherent in our loan portfolio. The process for determining the amount of the allowance is critical to our financial results and condition. It requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might underestimate the loan losses inherent in our loan portfolio and have loan losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable-rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to repay their loans, resulting in our charging off more loans and increasing our allowance. In addition, when real estate values decline, the potential severity of loss on a real estate-secured loan can increase significantly, especially in the case of loans with high combined loan-to-value ratios. The decline in the national economy and the local economies of the areas in which our loans are concentrated could result in an increase in loan delinquencies, foreclosures or repossessions, resulting in increased charge-off amounts and the need for additional loan loss provisions in future periods. In addition, our determination as to the amount of our allowance for loan losses is subject to review by our primary regulator, the Office of the Comptroller of the Currency referred to as the OCC, as part of its examination process, which may result in the establishment of an additional allowance based upon the judgment of the OCC after a review of the information available at the time of its examination. Our allowance for loan losses amounted to 1.8% of total loans and 169.2% of nonperforming loans at June 30, 2016.

Our emphasis on one- to four-family mortgage loans exposes us to credit risks.

At June 30, 2016, $143.0 million, or 52.2%, of our loan portfolio consisted of one- to four-family mortgage loans, and $32.1 million, or 11.72%, of our loan portfolio consisted of home equity loans and second mortgage loans. Recent economic conditions have resulted in a stabilization in real estate values in our market areas. If real estate values in our market area decline, real estate values could cause some of our mortgage and home equity loans to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral.

Our primary market area depends substantially on the gaming industry and a decline in that industry could hurt our business and our prospects.

Our business is concentrated in the Lawrenceburg, Indiana area. Since the mid-1990s, the economy in Lawrenceburg has been strengthened by the riverboat casinos in Lawrenceburg and nearby Rising Sun whose presence has supported the development of retail centers and job growth as well as an increase in housing development. Any event that negatively and materially impacts the gaming and tourism industry will adversely impact the Lawrenceburg economy.

Gaming revenue is vulnerable to fluctuations in the national economy. There has been a prolonged decline in the national economy; however, its impact on Lawrenceburg and its gaming industry has not been as significant as in other parts of the country. Tax revenue from the gaming industry has decreased in recent years.

A continued deterioration in economic conditions generally, and a slowdown in gaming and tourism activities in particular, could result in the following consequences, any of which could adversely affect our business, financial condition, results of operations and prospects and expose us to a greater risk of loss:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline; and
-

Collateral for loans made by us may decline in value, reducing the amount of money that our customers may borrow against the collateral, and reducing the value of assets and collateral associated with our loans.

The expansion of permissible gaming activities in other states, particularly in Ohio and/or Kentucky, has led to a decline, and may lead to further declines in gaming revenue in Lawrenceburg, Indiana, which could hurt our business and our prospects.

Lawrenceburg, Indiana competes with other areas of the country for gaming revenue. The expansion of gaming operations in other states, as a result of changes in laws or otherwise, has reduced gaming revenue in the Lawrenceburg area. In 2009, a vote in the State of Ohio approved casino gaming in several cities in the state, including one in downtown Cincinnati, Ohio which opened in March 2013. Casino gaming in Cincinnati and other areas has adversely affected, and could have a substantial adverse effect on, gaming revenue in Lawrenceburg, which would adversely affect the Lawrenceburg economy and could adversely affect our business.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of loans and, to a lesser extent, securities) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits and, to a lesser extent, wholesale borrowings).

The level of net interest income is a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are affected by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board referred to as the FOMC and market interest rates.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, the level of which is driven by the FOMC. However, the yields on our loans and securities are typically based on intermediate-term or long-term interest rates, which are set by the market and generally, vary daily. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result could be a reduction in net interest income and with it, a reduction in our earnings. Our net interest income and earnings would be similarly impacted were the interest rates on our interest-earning assets to decline more quickly than the interest rates on our interest-bearing liabilities.

In addition, such changes in interest rates could affect our ability to originate loans and attract and retain deposits, the fair value of our financial assets and liabilities, and the average life of our loan and securities portfolios.

Changes in interest rates could also have an effect on the slope of the yield curve. A flat to inverted yield curve could cause our net interest income and net interest margin to contract, which could have a material adverse effect on our net income and cash flows and the value of our assets.

Changes in interest rates particularly affect the value of our securities portfolio. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders’ equity. In addition, we invest in callable securities that expose us to reinvestment risk, particularly during periods of falling market interest rates when issuers of callable securities tend to call or redeem their securities. Reinvestment risk is the risk that we may have to reinvest the proceeds from called securities at lower rates of return than the rates earned on the called securities.

A majority of our real estate loans held for investment are adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable-rate mortgage loans, increasing the possibility of default. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits. At June 30, 2016, approximately 36.1% of our one-to-four family real estate loans had adjustable rates of interest.

Municipal deposits are an important source of funds for us and a reduced level of those deposits may hurt our profits. Securities we pledge as collateral for our municipal deposits may be subject to risk of loss.

Historically, municipal deposits, consisting primarily of tax revenues from the local river boat casino operations, have been a significant source of funds for our lending and investment activities. At June 30, 2016, $100.2 million, or 22.8% of our total deposits, consisted of municipal deposits. If our municipal deposits decrease to a level where we would need to resort to other sources of funds to support our lending and investment activities, such as borrowings from the Federal Home Loan Bank of Indianapolis, the interest expense associated with these other funding sources may be higher than the rates we pay on the municipal deposits, which would adversely affect our income. Since October 2011, we may be required to pledge collateral to the Indiana Board of Depositories up to 100% of the municipal deposits maintained at United Community Bank. The percentage that we are required to pledge as collateral will periodically vary based on a number of financial factors. This collateral is used to insure the municipal deposits of all institutions who receive deposits from Indiana municipalities, and, therefore, is subject to risk of loss if other such institutions fail and there are insufficient Federal Deposit Insurance funds available to cover the liabilities of such institutions. For the years ending June 30, 2016 and 2015, respectively, no pledge was required.

We are dependent upon the services of key executives.

We rely heavily on our President and Chief Executive Officer, Elmer G. McLaughlin, and on our Executive Vice President and Chief Operating Officer, W. Michael McLaughlin. The loss of either could have a material adverse impact on our operations because, as a small company, we have fewer management-level personnel that have the experience and expertise to readily replace these individuals. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition, and results of operations. We have employment agreements with Messrs. Elmer G. and W. Michael McLaughlin.

Strong competition within our market areas could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. As of June 30, 2015, the most recent date for which information is available, we held 41.4% of the deposits in Dearborn County and 10.6% of the deposits in Ripley County. Competition also makes it more difficult to hire and retain experienced employees. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market areas.

Our asset valuations may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.

We must use estimates, assumptions, and judgments when financial assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party sources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flows and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the then current financial environment. In such cases, certain asset valuations may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

New capital rules generally require insured depository institutions and their holding companies to hold more capital.

In July 2013, the Federal Reserve and the OCC adopted a final rule for the Basel III capital framework. These rules substantially amend the regulatory risk-based capital rules applicable to us. The rules phase in over time beginning in 2015 and will become fully effective in 2019. The rules currently apply to the Bank. Beginning in 2015, our minimum capital requirements will be (i) a common Tier 1 equity ratio of 4.5%, (ii) a Tier 1 capital (common Tier 1 capital plus Additional Tier 1 capital) of 6% and (iii) a total capital ratio of 8%. Our leverage ratio requirement will remain at the 4% level now required. Beginning in 2016, a capital conservation buffer will phase in over three years, ultimately resulting in a requirement of 2.5% on top of the common Tier 1, Tier 1 and total capital requirements, resulting in a required common Tier 1 equity ratio of 7%, a Tier 1 ratio of 8.5%, and a total capital ratio of 10.5%. Failure to satisfy any of these three capital requirements will result in limits on paying dividends, engaging in share repurchases and paying discretionary bonuses. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

Regulation of the financial services industry is undergoing major changes, and future legislation could increase our cost of doing business or harm our competitive position.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) enacted in 2010 has created a significant shift in the way financial institutions operate. The Dodd-Frank Act restructured the regulation of depository institutions by merging the Office of Thrift Supervision, which previously regulated the Bank, into the Office of the Comptroller of the Currency, and assigning the regulation of savings and loan holding companies, including the Company, to the Board of Governors of the Federal Reserve System.

The Dodd-Frank Act also created the Consumer Financial Protection Bureau which has broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10.0 billion in assets. Banks and savings institutions with $10.0 billion or less in assets continue to be examined by their applicable bank regulators.

As required by the Dodd-Frank Act, the federal banking regulators have adopted new consolidated capital requirements that will limit our ability to borrow at the holding company level and invest the proceeds from such borrowings as capital in the Bank that could be leveraged to support additional growth. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs.

Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or collateral for loans. Future legislative changes could require changes to business practices or force us to discontinue businesses and potentially expose us to additional costs, liabilities, enforcement action and reputational risk.

We are dependent on our information technology and telecommunications systems and third-party servicers; systems failures, interruptions or breaches of security could have a material adverse effect on us.

Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

Our third-party service providers may be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to expend significant additional resources to protect against the threat of such security breaches and computer viruses, or to alleviate problems caused by such security breaches or viruses. To the extent that the activities of our third-party service providers or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and that of our customers, suppliers and business partners; and personally identifiable information of our customers and employees. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such unauthorized access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties; disrupt our operations and the services we provide to customers; damage our reputation; and cause a loss of confidence in our products and services, all of which could adversely affect our business, revenues and competitive position. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “PATRIOT Act”) and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

We are subject to a variety of operational, environmental, legal and compliance risks, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action. Actual or alleged conduct by the Bank can also result in negative public opinion about our business.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table sets forth the location of the Company's office facilities at June 30, 2016, and certain other information relating to these properties at that date.

Location	Year Opened	Owned/ Leased	Net Book Value as of June 30, 2016
Full-Service Branch and Main Office:			
92 Walnut Street	2004	Owned	$ 1,146
Lawrenceburg, Indiana 47025			
Full-Service Branches:			
215 W. Eads Parkway	1914	Owned	481
Lawrenceburg, Indiana 47025			
19710 Stateline Road Lawrenceburg, Indiana 47025	2000	Owned	687
500 Green Blvd Aurora, Indiana 47001	2006	Owned	1,179
7600 Frey Road St. Leon, Indiana 47012	2007	Owned	1,113
106 Mill Street Milan, Indiana 47031	1990(1)	Owned	379
	1977(1)	Owned	798

510 South Buckeye Osgood, Indiana 47037			
111 East U.S. 50 Versailles, Indiana 47042	1983(1)	Owned	395
Other Properties:			
Corner of State Route 350 & State Route 101	Lot	Owned(2)	77
Milan, Indiana 47031			
Corner of 4th and Main Street Lawrenceburg, Indiana 47025	Lot	Owned(2)	135

(1) Acquired from Integra Bank National Association on June 4, 2010. "Year Opened" for these branches reflects the date the branch was originally opened (prior to being acquired by United Community Bank).

(2) Land only.

Item 3. 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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock, par value $0.01 per share, is traded on the Nasdaq Global Market under the symbol "UCBA." On June 30, 2016, there were 662 holders of record of the Company's common stock. The Company began paying quarterly dividends during the fourth quarter of fiscal year 2006. The Company's ability to pay dividends is dependent on dividends received from the Bank. See *"Business—Regulation and Supervision—Limitation on Capital Distributions"* for a discussion of the restrictions on the payment of cash dividends by the Company.

The following table sets forth the high and low sales prices for the common stock as reported on the Nasdaq Global Market and the cash dividends declared on the common stock.

Fiscal Year 2016:	High	Low	Dividends Declared
Fourth Quarter	$14.62	$13.65	$ 0.06
Third Quarter	15.00	13.05	0.06
Second Quarter	15.27	14.55	0.06
First Quarter	14.95	13.60	0.06

Fiscal Year 2015:	High	Low	Dividends Declared
Fourth Quarter	$14.25	$12.56	$ 0.06
Third Quarter	12.85	11.55	0.06
Second Quarter	12.45	11.27	0.06
First Quarter	12.58	11.43	0.06

Purchases of Equity Securities

Repurchases of the Company's common stock were as follows:

Fiscal Year 2016	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
Fourth Quarter	3,183	$ 14.420	-	-
Third Quarter	-	-	-	-
Second Quarter	329,156	14.990	130,614	-
First Quarter	80,357	14.015	80,357	130,614
Total	412,696	$ 14.796	210,971	

Fiscal Year 2015	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
Fourth Quarter	20,600	$ 13.845	20,600	210,971
Third Quarter	-	-	-	-
Second Quarter	67,611	11.870	67,611	-
First Quarter	257,623	11.820	257,623	67,611
Total	345,834	$ 11.951	345,834	

Item 6. Selected Financial Data

	At June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Financial Condition Data:					
Total assets	$526,089	$521,185	$530,465	$512,631	$495,903
Cash and cash equivalents	28,980	18,522	24,970	16,787	29,079
Securities held-to-maturity	40,763	40,653	337	417	493
Securities available-for-sale	77,725	60,873	39,965	32,013	21,275
Mortgage-backed securities available-for-sale	74,727	109,138	179,017	170,117	124,621
Loans receivable, net	267,138	253,828	244,384	254,578	283,154
Deposits	438,885	432,537	439,636	421,243	426,967
Advances from Federal Home Loan Bank	12,000	13,000	15,000	15,000	10,833
Stockholders' equity	70,454	71,437	72,930	73,543	54,988

	For the Years Ended June 30,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Operating Data:					
Interest income	$15,698	$15,232	$14,958	$15,887	$18,186
Interest expense	2,201	2,375	2,656	3,351	4,288
Net interest income	13,497	12,857	12,302	12,536	13,898
Provision for (recovery of) loan losses	187	(348)	(132)	(66)	3,662
Net interest income after provision for loan losses	13,310	13,205	12,434	12,602	10,236
Other income	4,639	3,374	3,697	4,489	4,977
Other expense	13,980	13,618	13,192	13,595	12,436
Income before income taxes	3,969	2,961	2,939	3,496	2,777
Provision for income taxes	541	425	659	929	788
Net income	$3,428	$2,536	$2,280	$2,567	$1,989
Per Share Data:					
Earnings per share basic	$0.83	$0.57	$0.47	$0.52	$0.40
Earnings per share diluted[1]	$0.82	$0.57	$0.47	$0.52	$0.40

(1) Earnings per share amounts for periods prior to January 9, 2013 have been restated retroactively to reflect the second step conversion at a conversion rate of 0.6573 to 1.

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	At or for the Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Performance Ratios:					
Return on average assets	0.66 %	0.49 %	0.43 %	0.50 %	0.41 %
Return on average equity	4.91	3.54	3.09	4.04	3.62
Interest rate spread (1)	2.77	2.65	2.50	2.58	3.05
Net interest margin (2)	2.81	2.68	2.55	2.64	3.10
Noninterest expense to average assets	2.70	2.62	2.53	2.66	2.57
Efficiency ratio (3)	77.08	83.92	82.46	79.85	65.89
Average interest-earning assets to average interest-bearing liabilities	108.28	107.71	108.42	107.23	105.27
Average equity to average assets	13.48	13.75	14.16	12.41	11.35
Dividend payout ratio (4)	28.62	44.83	48.86	91.78	68.58
United Community Bank Capital Ratios:					
Tangible capital	11.60	11.47	11.88	12.07	9.24
Core capital	11.60	11.47	11.88	12.07	9.24
Total risk-based capital	22.70	23.80	26.89	26.72	19.05
Asset Quality Ratios:					
Nonperforming loans as a percent of total loans	1.05	2.50	3.97	4.87	5.60
Nonperforming loans as a percent of total assets	0.55	1.25	1.88	2.48	3.26
Nonperforming assets as a percent of total assets	0.56	1.30	1.99	2.60	3.30
Allowance for loan losses as a percent of total loans	1.78	1.98	2.18	2.09	1.95
Allowance for loan losses as a percent of nonperforming loans	169.21	78.95	54.88	42.83	34.79
Net charge-offs (recoveries) to average outstanding loans during the period	0.16	(0.01)	(0.06)	0.04	1.19
Other Data:					
Number of:					
Real estate loans outstanding	2,726	2,727	2,466	2,491	1,806
Deposit accounts	34,390	33,886	33,090	32,526	33,248
Full-service offices	8	8	8	8	8

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(2) Represents net interest income as a percent of average interest-earning assets.
(3) Represents other expense divided by the sum of net interest income and other income.
(4) Represents dividends declared (excluding waived dividends) divided by net income. A summary of the dividends declared and waived (and thus not paid) dividends is set forth below:

For the Year Ended June 30,

	2016	2015	2014	2013	2012
	(In thousands)				
Dividends:					
Paid to minority stockholders	$981	$1,080	$1,114	$1,844	$1,364
Waived by United Community MHC	-	-	-	-	2,048
Paid to United Community MHC	-	-	-	512	-
Total dividend	$981	$1,080	$1,114	$2,356	$3,412

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and securities, and interest expense, which is the interest that we pay on our deposits and Federal Home Loan Bank of Indianapolis ("FHLB") borrowings. Other significant sources of pre-tax income are service charges on deposit accounts and other loan fees. We also recognize income or losses from the sale of loans and investments in years that we have such sales.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable credit losses inherent in the loan portfolio. The allowance is established through the provision for loan losses, which is charged to income. Management estimates the allowance balance required using past loan loss experience, the nature and value of the portfolio, information about specific borrower situations, and estimated collateral values, economic conditions, and other factors.

Expenses. The noninterest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy and equipment expenses, advertising and public relations expenses, regulatory fees and deposit insurance premiums and various other miscellaneous expenses.

Salaries and employee benefits consist primarily of salaries and wages paid to our employees, payroll taxes and expenses for health insurance and other employee benefits, and stock-based compensation.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, furniture and equipment expenses, maintenance, real estate taxes, insurance and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years.

Advertising and public relations expenses include expenses for print, radio and television advertisements, promotions, third-party marketing services and premium items.

Regulatory fees and deposit insurance premiums include fees paid to the OCC and payments we make to the FDIC for insurance of our deposit accounts.

Other expenses include expenses for supplies, telephone and postage, data processing, expenses related to other real estate owned by the Bank, director and committee fees, professional fees, insurance and surety bond premiums and other fees and expenses.

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: allowance for loan losses, deferred income taxes, mortgage servicing rights, and fair value measurements.

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 4 of the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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 June 30, 2016 and 2015. The Company recognized no interest and penalties on the underpayment of income taxes during fiscal years June 30, 2016 and 2015, and had no accrued interest and penalties on the balance sheet as of June 30, 2016 and 2015. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase with the next fiscal year. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years ending on or before June 30, 2012.

Fair Value Measurements. 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 Financial Condition 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, nonresidential 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 financial condition approximate fair value.

Deposits. The fair values of passbook accounts, interest bearing checking 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.

Operating Strategy

Our mission is to operate a profitable, independent community-oriented financial institution serving retail customers and small businesses in our market areas. We are focused on prudently increasing profitability and enhancing stockholder value. The following are key elements of our current business strategy:

Improving our asset quality

We recognize that high asset quality is a key to long-term financial success. We have sought to grow and diversify our loan portfolio, while maintaining a high level of asset quality and moderate credit risk, using underwriting standards that we believe are prudent. We also believe that we have implemented diligent monitoring and collection efforts. Historically we have not had significant losses in our lending operations. Beginning in the year ended June 30, 2008, we began to experience the adverse effects of the national recession and declining real estate values, negatively impacting both the ability of some of our borrowers to repay their loans and the value of the collateral securing those loans. The impact was particularly pronounced in our multi-family and nonresidential real estate loan portfolios, as multi-family and commercial properties suffered increases in vacancies and slowdowns in revenues, resulting in reduced cash flows as well as decreases in the market values of the underlying properties.

Our initial approach to resolving nonperforming loans focused on foreclosure and liquidations. This manner of troubled asset resolution proved lengthy and costly as a result of legal and other operating costs, as well as the depressed values of the collateral securing the loan. As a result, beginning in the latter part of the year ended June 30, 2009, management initiated a restructuring process with respect to certain nonperforming loans that provided for either restructuring the loan to the borrower in recognition of the lower available cash flows from the collateral properties or identification of stronger borrowers to purchase the property and refinance the loan. In evaluating whether to restructure a loan, we consider the borrower’s payment status and history, the borrower’s ability to pay upon a rate reset on an adjustable-rate mortgage as supported by a current cash flow analysis, size of payment increase upon a rate reset, period of time remaining before the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. Through these troubled debt restructurings, management believes they have provided the necessary valuation allowances or charge-offs to reflect the loans’ carrying amounts at fair value.

During the quarter ended March 31, 2011, management undertook an “A/B split note” strategy for certain nonperforming loans, restructuring them into a Note A/B format. While no amount of the original indebtedness of the borrower is forgiven when the loans are restructured in the Note A/B format, the full amount of Note B is charged-off at the time the loan is restructured. Note A is treated as any other troubled debt restructuring, and generally may return to accrual status after performing in accordance with the restructured terms for at least six consecutive months. The intended benefit of this strategy is that the restructuring and subsequent charge-off reduces the carrying value of the loan to an “as is” fair value, which enables the Company to liquidate delinquent loan balances without recording significant additional losses if the restructured loans experience further delinquency. Management believes that the loans that needed to be restructured in this manner represented a distinct identifiable pool of loans.

As a result of these efforts, total nonperforming loans have declined from $20.7 million at June 30, 2011 and $6.5 million at June 30, 2015 to $2.9 million at June 30, 2016. Troubled debt restructurings on nonaccrual status decreased from $3.4 million at June 30, 2015 to $1.4 million at June 30, 2016. The decrease in nonperforming restructured loans was the result of a payoff of one nonresidential loan, five mortgage loans moving to accruing status, and additional charge offs on two nonresidential properties. Total accruing restructured loans decreased from $4.6 million at June 30, 2015 to $2.3 million at June 30, 2016. The decrease in performing restructured loans was the result of a payoffs of a nonresidential loan and a multifamily loan, offset by five mortgage loans moving from nonaccrual to performing. At June 30, 2016 and 2015, respectively, there were no nonresidential and multi-family loans 60-89 days delinquent.

In 2010 and 2011, we also implemented more stringent underwriting standards for our lending programs and enhanced our document requirements and document review process. Residential real estate mortgage applicants are required to have a higher credit score than previously required. We have reduced the maximum loan-to-value ratio for real estate secured consumer loans from 100% to 90%. Commercial and nonresidential real estate loan customers are required to provide us with rent rolls and financial statements for evaluation on a more frequent basis, and members of our loan department are in more frequent contact with these customers. In addition, our internal loan review policy requires us to perform an annual review of all commercial loan relationships having an aggregate exposure of at least $750,000 and all loan relationships with an aggregate exposure of at least $1.5 million are also reviewed annually by an independent third party loan review auditor. As discussed below, we have implemented a strategy to control the growth of our nonresidential real estate and multi-family real estate loan portfolios. For additional information on this strategy, see "*—Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income.*"

Improving our funding mix by attracting lower cost core retail deposits

Core deposits include all deposit account types except certificates of deposit and municipal deposits. Core deposits are our least costly source of funds, which improves our interest rate spread, and represents our best opportunity to develop customer relationships that enable us to cross sell our full complement of products and services. Core deposits also contribute noninterest income from account-related fees and services and are generally less sensitive to withdrawal when interest rates fluctuate. At June 30, 2016, core deposits represented 49.9% of our total deposits compared to 45.9% at June 30, 2015, and 41.8% at June 30, 2014. Municipal deposits represent tax and other revenues from the local gaming industry. We have steadily reduced our reliance on municipal deposits as a percentage of total deposits. At June 30, 2016, municipal deposits represented 22.8% of total deposits, compared to 47.9% of total deposits at June 30, 2006. While municipal deposits decreased $3.0 million from June 30, 2015 to June 30, 2016, we continue to replace municipal deposits with core retail deposits, which increased $20.6 million during the same period. While we expect municipal deposits to continue to remain an important source of funding, we expect to continue our efforts to improve our funding mix by marketing lower cost core retail deposits.

We aggressively market core deposits through concentrated advertising and public relations. In recent years, we have significantly expanded and improved the products and services we offer our retail and business deposit customers who maintain core deposit accounts and have improved our infrastructure for critical electronic banking services, including online banking, bill pay, eStatements, merchant capture, and business online cash management tools that include ACH origination, direct deposit, payroll, federal tax payment, wire transfer capabilities. The deposit infrastructure we have established can accommodate significant increases in retail and business deposit accounts without additional capital expenditure.

Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income

Our primary lending activity is the origination of one- to four-family mortgage loans secured by homes in our local market area of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. Between 2006 and 2010, we expanded and diversified our lending activities by originating multi-family and nonresidential real estate loans secured by properties in the metropolitan Cincinnati market area and, to a lesser extent, in Northern Kentucky and the Indiana counties outside of our local market area. From June 30, 2006 until June 30, 2010, our multi-family real estate loans grew from $20.3 million, or 8.2% of the total loan portfolio, to $46.8 million, or 14.8% of our total loans outstanding. During the same period, our nonresidential real estate loans grew from $65.6 million, or 26.5% of total loans outstanding, to $77.6 million, or 24.6% of total loans outstanding. In the Cincinnati and Northern Kentucky markets, our multi-family loans grew from $15.5 million to $32.8 million and our nonresidential real estate loans increased from $21.7 million to $35.8 million.

As a result of the credit quality issues arising in our multi-family and nonresidential real estate loan portfolios as discussed under "*Improving our asset quality*" above, in June 2010, we implemented a strategy to de-emphasize the origination of our nonresidential real estate and multi-family real estate loans, particularly outside of five-county local market area. As part of this strategy, beginning in June 2010, we restricted the origination of new multi-family and nonresidential real estate loans to our local market area, and limited our multi-family and nonresidential real estate lending origination activity outside of our local market area to the renewal, refinancing and restructuring of existing loans. We also amended our loan policy to reduce our concentration limits for nonresidential real estate, multi-family real estate, construction and land loans, which limits were further reduced in August 2011. At June 30, 2015, we met each of these concentration limits.

Due to our prior strategy to deemphasize the origination of multi-family and nonresidential real estate loans, our multi-family and nonresidential loan portfolios declined from $46.3 million and $65.2 million at June 30, 2011, to $32.3 million and $51.9 million at June 30, 2013, respectively. We have reviewed the economic environment in our lending markets, including those in southwestern Ohio and Northern Kentucky, and the level of our nonperforming assets, and beginning in December 2013, we have implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate loan portfolios to generate more interest income. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolio. At June 30, 2016, our multi-family loans totaled $16.0 million, or 5.8% of our total loans outstanding and our nonresidential real estate loans totaled $59.0 million, or 21.5% of our total loans outstanding. At June 30, 2015, our multi-family loans were $19.3 million, or 7.4% of our total loans outstanding and our nonresidential real estate loans totaled $47.9 million, or 18.5% of our total loans outstanding.

We believe our existing infrastructure will enable us to replace existing loans as they are repaid and prudently grow our loan portfolio in accordance with this strategy and as economic conditions permit.

Continuing to increase noninterest income

Our earnings rely heavily on the spread between the interest earned on loans and securities and interest paid on deposits and other borrowings. Because of our prior strategy to de-emphasize the origination of nonresidential real estate and multi-family loan portfolios, we expect that our weighted average yield on interest-earning assets may decrease in future periods because of the low interest rate environment. As discussed above in *"—Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income"* we have determined to implement a controlled grown strategy to prudently increase nonresidential real estate and multi-family loans to generate more interest income. Additionally, in order to decrease our reliance on interest rate spread income, we have pursued initiatives to increase noninterest income. Our primary recurring source of noninterest income has been service charges on deposit products and other services. We have also implemented, and realize fee income from, an overdraft protection program and from customer use of debit cards. We also have a significant secondary mortgage operation, including loan servicing, and we continue to invest in personnel and systems in order to increase our ability to sell one- to four-family mortgages in the secondary market to increase fee income and reduce interest rate risk through the sale of conforming fixed-rate one- to four-family residential mortgage loans. To date, all loans have been sold without recourse but with servicing retained. The volume of loans sold totaled $11.3 million and $6.3 million for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, we recognized gains of $342,000 and $176,000, respectively, on the sale of loans. We intend to continue to originate loans for sale in the secondary market to grow our servicing portfolio and generate additional noninterest income. We continue to review programs to further enhance our service fee structure within the new regulatory environment.

Expanding our geographic footprint

We consider our primary deposit and lending market area to be Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. Since 2005, we have grown our community banking franchise organically through the addition of de novo branches in St. Leon and Aurora, Indiana, and through the strategic acquisition of three branch offices in Ripley County, Indiana. As a result, we have increased our branch network from four to eight offices. We plan to continue to seek opportunities to grow our business through a combination of *de novo* branching and complementary acquisitions in our existing market and contiguous markets. We will consider acquisition opportunities that expand our geographic reach in banking, insurance or other complementary financial service businesses, although we do not currently have any agreements or understandings regarding any specific acquisition.

Continuing our community-oriented focus

As a community-oriented financial institution, we emphasize providing exceptional customer service as a means to attract and retain customers. We deliver personalized service and respond with flexibility to customer needs. Our ability to succeed in our communities is enhanced by the stability of our senior management, who have an average tenure with the Bank of over 33 years. We believe that our community orientation is attractive to our customers and distinguishes us from the large banks that operate in our market area. At June 30, 2015, which is the most recent date for which data is available from the FDIC, we held 41.4% of the total deposits held by FDIC-insured institutions in Dearborn County, which was the largest market share out of the eight financial institutions with offices in Dearborn County, and 10.6% of the deposits in Ripley County, which was the fifth largest market share out of the 10 financial institutions with offices in Ripley County.

Balance Sheet Analysis

Total assets were $526.1 million at June 30, 2016, compared to $521.2 million at June 30, 2015. A $10.5 million increase in cash and cash equivalents and a $13.3 million increase in loans was partially offset by a $17.5 million decrease in investment securities. Loan growth was partially tempered by the repayment of $1.5 million of nonperforming commercial loans, $2.7 million of commercial loans classified as troubled debt restructurings and $4.4 million of commercial loans classified as “special mention” or “watch”. The investment securities balances decreased partially due to normal amortization and maturities during the period. There were also sales of investments totaling $16.3 million during the year ended June 30, 2016. The proceeds from the sales were used primarily to fund new loans, which is expected to enhance the Bank’s net interest margin as well as increase interest income in the future.

Total liabilities increased $5.9 million from $449.7 million at June 30, 2015 to $455.6 million at June 30, 2016 primarily due to a $6.3 million increase in deposits during the current year and a $539,000 increase in other liabilities, partially offset by a decrease in FHLB advances of $1.0 million.

Stockholders’ equity totaled $70.5 million as of June 30, 2016, which represented a decrease of $983,000 when compared to June 30, 2015. The decrease in stockholders’ equity was the net effect of net income of $3.4 million and a change in unrealized gain on available-for-sale securities of $1.9 million, offset by stock repurchases totaling $6.1 million and dividends paid totaling $981,000 for the year ended June 30, 2016. There were 4,198,143 and 4,610,839 outstanding shares of common stock at June 30, 2016 and 2015, respectively. For all periods presented, the Bank was considered “well-capitalized” under applicable regulatory requirements.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate one- to four-family residential loans, multi-family and nonresidential real estate loans and construction loans. To a lesser extent, we originate commercial and consumer loans. From time to time, as part of our loss mitigation process, loans may be renegotiated in a troubled debt restructuring when we determine that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. In determining whether a borrower is experiencing financial difficulty, we may consider the borrower’s payment status and history, the borrower’s ability to pay upon a rate reset on an adjustable-rate mortgage, the size of the payment increase upon a rate reset, the period of time remaining prior to the rate reset, and other relevant factors. We do not offer, and have not previously offered, subprime, Alt-A, low-doc, no-doc loans or loans with negative amortization and generally do not offer interest-only loans.

The largest segment of our loan portfolio is one- to four-family residential loans. At June 30, 2016, these loans totaled $143.0 million, or 52.2% of total gross loans, compared to $141.1 million, or 54.3% of total gross loans, at June 30, 2015.

Multi-family and nonresidential real estate loans totaled $75.0 million and represented 27.3% of total loans at June 30, 2016, compared to $67.2 million, or 25.9% of total loans, at June 30, 2015. While repayments and charge-offs have recently reduced these portfolios, they remain a substantial segment of our loan portfolio. However, as further discussed in "*Operating Strategy – Implementing a controlled growth strategy to originate multi-family and nonresidential real estate loans to improve interest income*," we have reviewed the economic environment in our lending markets, including those in southwestern Ohio and Northern Kentucky, and the level of our nonperforming assets, and beginning in December 2013, we implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate loan portfolios. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios.

Construction loans totaled $8.6 million, or 3.1% of total loans, at June 30, 2016, compared to $4.1 million, or 1.6% of total loans, at June 30, 2015.

Commercial business loans totaled $4.5 million, or 1.6% of total loans, at June 30, 2016, compared to $4.0 million, or 1.6% of total loans, at June 30, 2015.

Consumer loans totaled $35.0 million, or 12.8% of total loans, at June 30, 2016, compared to $34.9 million, or 13.4% of total loans, at June 30, 2015.

Agricultural loans totaled $6.0 million, or 2.2% of total loans, at June 30, 2016, compared to $5.2 million or 2.0% of total loans, at June 30, 2015.

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

	At June 30,									
	2016		2015		2014		2013		2012	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(Dollars in thousands)									
Residential real estate:										
One- to four-family	$143,043	52.2 %	$141,052	54.3 %	$129,484	51.6 %	$128,059	49.1 %	$139,522	48.4 %
Multi-family	16,032	5.8	19,296	7.4	23,645	9.4	32,306	12.4	42,325	14.7
Construction	8,555	3.1	4,078	1.6	2,880	1.1	2,200	0.8	1,189	0.4
Nonresidential real estate	58,981	21.5	47,929	18.5	48,769	19.5	51,902	19.9	59,123	20.5
Land	2,151	0.8	2,985	1.2	3,391	1.4	3,435	1.3	3,441	1.2
Commercial business	4,476	1.6	4,038	1.6	4,514	1.8	3,556	1.4	3,854	1.3
Agricultural	5,966	2.2	5,161	2.0	3,456	1.4	3,559	1.4	3,150	1.1
Consumer:										
Home equity	30,558	11.2	30,600	11.8	30,804	12.3	31,411	12.0	31,242	10.9
Auto	2,249	0.8	2,008	0.8	1,516	0.6	1,468	0.6	1,820	0.6
Share loans	932	0.3	893	0.3	1,088	0.4	1,625	0.6	1,200	0.4
Other	1,279	0.5	1,379	0.5	1,261	0.5	1,195	0.5	1,333	0.5
Total consumer loans	35,018	12.8	34,880	13.4	34,669	13.8	35,699	13.7	35,595	12.4

Total loans	274,222	100.0%	259,419	100.0%	250,808	100.0%	260,716	100.0%	288,199	100.0%
Less (plus):										
Deferred loan costs, net	(1,113)		(1,186)		(1,118)		(1,025)		(924)	
Undisbursed portion of loans in process	3,312		1,653		2,083		1,720		355	
Allowance for loan losses	4,885		5,124		5,459		5,443		5,614	
Loans, net	$267,138		$253,828		$244,384		$254,578		$283,154	

Loan Maturity

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

	Less Than One Year	**More Than One Year to Five Years**	**More Than Five Years**	**Total Loans**
	(In thousands)			
One- to four-family residential real estate	$8,226	$ 32,985	$ 101,832	$143,043
Multi-family real estate	519	3,429	12,084	16,032
Construction	4,171	685	3,699	8,555
Nonresidential real estate	6,386	18,914	33,681	58,981
Land	1,040	445	666	2,151
Commercial	1,083	2,363	1,030	4,476
Agricultural	2,328	2,273	1,365	5,966
Consumer	2,041	3,447	29,530	35,018
Total	$25,794	$ 64,541	$ 183,887	$274,222

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

	Fixed Rates	**Floating or Adjustable Rates**	Total
	(In thousands)		
One- to four-family residential real estate	$39,155	$ 95,662	$134,817
Multi-family real estate	6,976	8,537	15,513
Construction	-	4,384	4,384
Nonresidential real estate	8,285	44,310	52,595
Land	183	928	1,111
Commercial	1,867	1,526	3,393
Agricultural	2,885	753	3,638

Consumer	2,296	30,681	32,977
Total	$61,647	$ 186,781	$248,428

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Loans Originated

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

	Year Ended June 30,	
	2016	2015
	(In thousands)	
Total loans at beginning of period	$ 259,419	$ 250,808
Loans originated [(1)]:		
One- to four-family residential real estate	34,450	35,553
Multi-family residential real estate	977	2,098
Construction	10,103	3,555
Nonresidential real estate	20,194	10,151
Land	391	649
Commercial business	4,854	3,399
Consumer	7,597	3,274
Total loans originated	78,566	58,679
Deduct:		
Loan principal repayments	52,415	43,763
Loans disbursed for sale	11,348	6,305
Net loan activity	14,803	8,611
Total loans at end of period	$ 274,222	$ 259,419

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

After review of the economic environment in our lending markets during the quarter ended December 31, 2013, the Bank has implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate portfolios to generate more interest income. Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios. Additionally, an emphasis was placed on business development efforts bank-wide in order to increase the overall loan portfolio. As a result, loan originations increased 34% from fiscal year ending June 30, 2015 to fiscal year ending June 30, 2016.

Securities. The securities portfolio consists primarily of municipal bonds, agency backed mortgage-backed securities and guaranteed portions of Small Business Administration (SBA) pools. As of June 30, 2016, the investment securities portfolio totaled $193.2 million, a decrease of $17.5 million from the June 30, 2015 total of $210.7 million.

The decrease was caused by routine principal repayments as well as investment sales that were primarily used to fund loan growth.

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated.

	At June 30,			
	2016		2015	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
	(In thousands)			
Securities available-for-sale:				
Mortgage-backed securities	$74,198	$74,727	$109,793	$109,138
Municipal Bonds	33,512	34,790	37,631	37,619
U.S. Government Agency Bonds	—	—	2,000	2,015
Small Business Admin	7,651	7,872	8,224	8,213
Collateralized Mortgage Obligations	31,650	31,832	13,032	12,842
Certificates of Deposit	2,971	3,064	—	—
Other Equity Securities	210	167	210	184
Total	$150,192	$152,452	$170,890	$170,011
Securities held-to-maturity:				
Municipal bonds	$40,763	$43,201	$40,653	$40,045

At June 30, 2016 and 2015, we had no investments in a single company or entity (other than U.S. Government-sponsored agency securities) that had an aggregate book value in excess of 10% of our stockholders' equity.

The following table sets forth the stated maturities and weighted average yields of investment securities at June 30, 2016. Weighted average yields on tax-exempt securities are not presented on a tax equivalent basis as the difference would be immaterial. Certain mortgage-backed securities have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Our callable securities consist of U.S. government agency bonds and municipal bonds which contain either a one-time call option or may be callable any time after the first call date.

	One Year or Less	**More than One Year to Five Years**	**More than Five Years to Ten Years**	**More than Ten Years**	**Total**

	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)									
Securities available-for-sale:										
Mortgage-backed securities	$-	-%	$58,733	1.79 %	$15,994	2.30 %	$-	-%	$74,727	1.85 %
Municipal Bonds	235	1.82 %	9,975	2.49 %	10,546	4.00 %	14,034	3.95 %	34,790	3.51 %
Small Business Admin	-	-%	-	-%	7,872	2.50 %	-	-%	7,872	2.50 %
Collateralized Mtg Oblig	-	-%	31,832	1.73 %	-	-%	-	-%	31,832	1.73 %
Certificates of Deposit	-	-%	2,290	2.06 %	774	2.42 %	-	-%	3,064	2.15 %
Total	$235		$102,830		$35,186		$14,034		$152,285	
Securities held-to-maturity:										
Municipal bonds	$61	5.83 %	$434	3.99 %	$4,748	2.99 %	$35,520	4.30 %	$40,763	4.15 %

Mortgage-backed securities represent a participation interest in a pool of one- to four-family or multi-family real estate mortgages. The mortgage originators use intermediaries (generally U.S. Government agencies and government-sponsored enterprises) to pool and repackage the participation interests in the form of securities, with investors receiving the principal and interest payments on the mortgages. Such U.S. Government agencies and government-sponsored enterprises guarantee the payment of principal and interest to investors.

The mortgage-backed securities in the portfolio are all backed by an implied principal and interest guarantee from the U.S. government through its agencies (typically Federal Home Loan Bank, Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation). Neither United Community Bancorp nor United Community Bank has invested in subprime mortgage-backed securities or any private label mortgage-backed securities, which carry credit risk beyond that of the implied guarantee of the U.S. government agencies.

Mortgage-backed securities generally yield less than the loans which underlie such securities because of their payment guarantees or credit enhancements which offer nominal credit risk. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize our borrowings or other obligations. Mortgage-backed securities generally increase the quality of our assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of ours. At June 30, 2016, approximately $47.7 million of our mortgage-backed and investment securities were pledged to secure various obligations of United Community Bank.

The actual maturity of a mortgage-backed security is typically less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and increase or decrease its yield to maturity if the security was purchased at a discount or premium, respectively. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with accounting principles generally accepted in the United States of America, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, United Community Bank may be subject to reinvestment risk because to the extent that the mortgage-backed securities amortize or prepay faster than anticipated, United Community Bank may not be able to reinvest the proceeds of such repayments and prepayments at a comparable yield. During periods of rising interest rates, prepayment rates of the underlying mortgages generally slow down when the coupon rate of such mortgages is less than the prevailing market rate.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuers.

Marketable equity securities are evaluated for other-than-temporary impairments based on the severity and duration of the impairment and, if deemed to be other-than-temporary, the declines in fair value are reflected in earnings as realized losses. For debt securities, other-than-temporary impairment is required to be recognized (1) if we intend to sell the security; (2) if it is "more likely than not" that we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

Deposits**.** Our primary source of funds is our deposit accounts, which are comprised of noninterest-bearing accounts, interest-bearing checking accounts, money market accounts, passbook accounts and certificates of deposit. These deposits are provided primarily by individuals within our market areas. During the year ended June 30, 2016, our deposits increased $6.3 million primarily due to an increase in core deposits resulting from marketing initiatives to increase core deposits. During the year ended June 30, 2015, our deposits decreased $7.1 million primarily due to a decrease in municipal deposits resulting from normal business fluctuation in those deposits.

The following table sets forth the balances of our deposit products at the dates indicated.

	At June 30,	
	2016	**2015**
	(In thousands)	
Noninterest-bearing checking accounts	$35,981	$30,928
Interest-bearing checking accounts	119,881	113,824
Passbook accounts	117,102	113,368
Money market deposit accounts	23,204	20,648
Certificates of deposit	142,717	153,769
Total	$438,885 (1)	$432,537 (2)

(1) Includes $100.2 million in municipal deposits at June 30, 2016.
(2) Includes $103.2 million in municipal deposits at June 30, 2015.

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of June 30, 2016. Jumbo certificates of deposit require minimum deposits of $100,000. We did not have any brokered deposits as of June 30, 2016 and 2015.

Maturity Period	**Certificates of Deposit**
	(In thousands)
Three months or less	$ 11,162
Over three through six months	8,514
Over six through twelve months	21,934
Over twelve months	31,244
Total	$ 72,854

The following table sets forth time deposits classified by rate at the dates indicated.

	At June 30,	
	2016	**2015**
	(In thousands)	
0.00 - 1.00%	$96,170	$104,747
1.01 - 2.00	35,788	34,988
2.01 - 3.00	10,340	12,379

3.01 - 4.00	410	1,606
4.01 - 5.00	9	49
Total	$142,717	$153,769

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The following table sets forth the amount and maturities of time deposits classified by rates at June 30, 2016.

	Amount Due					**Total**	**Percent of Total Certificate of Deposit Accounts**
	Less Than One Year	**More Than One Year to Two Years**	**More Than Two Years to Three Years**	**More Than Three Years to Four Years**	**More Than Four Years**		
	(Dollars in thousands)						
0.00 – 1.00%	$71,694	$ 18,872	$ 5,593	$ 10	$ 1	$96,170	67.4 %
1.01 – 2.00	6,732	10,591	8,837	7,836	1,792	35,788	25.1
2.01 – 3.00	6,917	685	621	1,654	463	10,340	7.2
3.01 – 4.00	241	-	1	-	168	410	0.3
4.01 – 5.00	-	9	-	-	-	9	0.0
Total	$85,584	$ 30,157	$ 15,052	$ 9,500	$ 2,424	$142,717	100.0 %

The following table sets forth deposit activity for the periods indicated.

	Year Ended June 30,	
	2016	**2015**
	(In thousands)	
Beginning balance	$432,537	$439,636
Increase (decrease) before interest credited	4,382	(9,229)
Interest credited	1,966	2,130
Net increase (decrease) in deposits	6,348	(7,099)
Ending balance	$438,885	$432,537

Borrowings. We utilize borrowings from the FHLB to supplement our supply of funds for loans and investments. Borrowings were $12.0 million and $13.0 million at June 30, 2016 and 2015, respectively.

	Year Ended June 30, 2016			2015		
	(Dollars in thousands)					
Maximum amount of advances outstanding at any month end during the period:						
FHLB advances	$	13,000		$	15,000	
Average advances outstanding during the period:						
FHLB advances	$	12,764		$	14,077	
Weighted average interest rate during the period:						
FHLB advances		1.84	%		1.74	%
Balance outstanding at end of period:						
FHLB advances	$	12,000		$	13,000	
Weighted average interest rate at end of period:						
FHLB advances		1.87	%		1.80	%

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Results of Operations for the Years Ended June 30, 2016 and 2015

Overview.

	2016	2015	% Change 2016/2015
Net income	$3,428	$2,536	35.2 %
Return on average assets	0.66 %	0.49 %	34.7
Return on average equity	4.91 %	3.54 %	38.7
Average equity to average assets	13.48 %	13.75 %	(2.0)

Net income totaled $3.4 million for the year ended June 30, 2016, which represented an increase of $892,000, or 35.2%, when compared to the year ended June 30, 2015. The improvement in net income was primarily the result of improved net interest income. Increases in noninterest income, including the receipt of a life insurance death benefit from the passing of two directors (one previously retired), service charge income and gains on sales of securities, also contributed to the improvement in net income.

Net Interest Income.

Net interest income totaled $13.5 million, which represented an increase of $640,000, or 5.0%, when compared to the year ended June 30, 2015. The growth in the Company's core business resulted in an increase in interest income. Interest income increased by $466,000 primarily due to a $13.6 million increase in the average balance of loans as well as an increase in the average rate earned on investment securities to 2.13% for the year ended June 30, 2016 compared to 1.92% for the prior year, partially offset by a decrease in the average rate earned on loans to 4.40% for the year ended June 30, 2016 from 4.54% for the prior year, and a decrease in the average balance of investments to $190.4 million for the year ended June 30, 2016 compared to $201.8 million for the prior year. The decrease in investments was primarily related to the Company's use of the proceeds from the sale of investments to fund loan growth. The improvement in net income also reflected a decrease in interest expense which decreased by $174,000 year over year, primarily as a result of a three basis point decrease in the average interest rate paid on deposits to 0.46% for the year ended June 30, 2016 from 0.49% for the year ended June 30, 2015. The decrease in interest rates paid year over year was primarily due to the maturity of higher yielding certificates of deposit.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances have been calculated using month-end balances, and nonaccrual loans are included in average balances only. Management does not believe that the use of month-end balances instead of daily average balances has caused any material differences in the information presented. Loan fees are included in interest income on loans and are insignificant. Yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	Year Ended June 30, 2016 (Dollars in thousands)			2015		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Assets:						
Interest-earning assets:						
Loans	$263,435	$ 11,595	4.40 %	$249,851	$ 11,338	4.54 %
Investment securities	190,423	4,065	2.13	201,824	3,877	1.92
Other interest-earning assets	26,587	38	0.14	28,018	17	0.06
Total interest-earning assets	480,445	15,698	3.27	479,693	15,232	3.18
Noninterest-earning assets	37,146			40,564		
Total assets	$517,591			$520,257		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and money market deposit accounts	$171,981	262	0.15	$168,146	259	0.15
Passbook accounts	111,252	290	0.26	100,671	236	0.23
Certificates of deposit	147,698	1,414	0.96	162,447	1,635	1.01
Total interest-bearing deposits	430,931	1,966	0.46	431,264	2,130	0.49
FHLB advances	12,764	235	1.84	14,077	245	1.74
Total interest-bearing liabilities	443,695	2,201	0.50	445,341	2,375	0.53
Noninterest-bearing liabilities	4,119			3,378		
Total liabilities	447,814			448,719		
Total stockholders' equity	69,777			71,538		
Total liabilities and stockholders' equity	$517,591			$520,257		
Net interest income		$ 13,497			$ 12,857	
Interest rate spread			2.77 %			2.65 %
Net interest margin			2.81 %			2.68 %
Average interest-earning assets to average interest-bearing liabilities			108.28 %			107.71 %

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Year Ended June 30, 2016 Compared to 2015 Increase (Decrease) Due to		
	Volume	Rate	Net
	(In thousands)		
Interest and dividend income:			
Loans	$ 616	$ (359)	$ 257
Investment securities	(219)	407	188
Other interest-earning assets	(1)	22	21
Total interest-earning assets	396	70	466
Interest expense:			
Deposits	(2)	(162)	(164)
FHLB advances	(23)	13	(10)
Total interest-bearing liabilities	(25)	(149)	(174)
Net change in net interest income	$ 421	$ 219	$ 640

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Provision for Loan Losses.

The net provision for loan losses was $187,000 for the year ended June 30, 2016 compared to a net recovery of loan losses of $348,000 for the year ended June 30, 2015.

Reflective of continued improvement in our asset quality, nonperforming loans as a percentage of total loans decreased from 2.50% at June 30, 2015 to 1.05% at June 30, 2016, and nonperforming loans as a percentage of total assets decreased from 1.25% at June 30, 2015 to 0.55% at June 30, 2016.

All of the troubled debt restructurings in fiscal 2016 and 2015 represented loan relationships with long-time borrowers of the Company. In measuring impairment, management considered the results of independent property appraisals, together with estimated selling expenses, and/or detailed cash flow analyses. A detailed discussion of our most significant nonaccrual loans at June 30, 2016 and June 30, 2015 is set forth in the section below entitled "—*Analysis of Nonperforming and Classified Assets*."

Other Income. The following table shows the components of other income for the years ended June 30, 2016 and 2015.

	2016	2015	% Change 2016/2015
	(Dollars in thousands)		
Service charges	$2,968	$2,747	8.0 %
Gain on sale of loans	342	176	94.3
Gain (loss) on sale of investments	145	(432)	(133.6)
Gain on sale of other real estate owned	27	169	(84.0)
Loss on sale of fixed assets	-	(6)	(100.0)
Provision for loss on real estate owned	(60)	(22)	172.7
Income from bank-owned life insurance	773	529	46.1
Other	444	213	108.5
Total	$4,639	$3,374	37.5

Other income increased $1.3 million, or 37.5%, to $4.6 million for the year ended June 30, 2016 from $3.4 million for the year ended June 30, 2015. The increase was primarily due to a $244,000 increase in proceeds received from bank owned life insurance, a $221,000 increase in service charges on deposit accounts resulting primarily from an increase in the number of transaction accounts, a $166,000 increase on gain on sale of mortgage loans, and a $577,000 increase on gain on sale of investments.

Other Expense. The following table shows the components of noninterest expense for the years ended June 30, 2016 and 2015.

	2016	2015	% Change 2016/2015	
	(Dollars in thousands)			
Compensation and employee benefits	$8,347	$7,957	4.9	%
Premises and occupancy expense	1,139	1,187	(4.0	)
Deposit insurance premium	301	364	(17.3	)
Advertising expense	365	364	0.3	
Data processing expense	1,410	1,359	3.8	
Intangible amortization	117	118	(0.8	)
Professional fees	748	774	(3.4	)
Other operating expenses	1,553	1,495	3.9	
Total	$13,980	$13,618	2.7	

Noninterest expense totaled $14.0 million for the year ended June 30, 2016, which represented an increase of $362,000, or 2.7%, compared to the year ended June 30, 2015. The increase in noninterest expense was primarily the result of an increase of $390,000 in compensation expense, an increase of $51,000 in data processing expenses, and an increase of $58,000 in other operating expenses, partially offset by a decrease in premises and occupancy expense of $48,000, a decrease of $63,000 in deposit insurance, and a decrease of $26,000 in professional fees. The increase in compensation expense is primarily due to salary increases provided to employees in the normal course of business. The increase in data processing expense is primarily due to nonrecurring credit items in the prior period with no corresponding credit in the current period. The increase in other operating expense was primarily due to a $34,000 increase in 401(k) administrative fees, a $33,000 increase in correspondent bank fees, and an increase of $25,000 in debit card related expenses, partially offset by a $36,000 decrease in postage expense.

Income Taxes.

Income tax expense increased by $116,000 to $541,000 for the year ended June 30, 2016, compared to $425,000 for the year ended June 30, 2015. The effective tax rates for 2016 and 2015 were beneficially affected by tax exempt municipal bond income and income on bank-owned life insurance.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities, that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. In June 2010, we implemented a strategy to deemphasize the origination of multi-family and nonresidential real estate loans, restricting the new origination of nonresidential and multi-family residential loans to the southeastern Indiana Counties of Dearborn, Ripley, Franklin, Ohio and Switzerland. The intent of this strategy was to control the growth of our nonresidential real estate and multi-family real estate loan portfolios, particularly with respect to loans located outside of Dearborn, Ripley, Franklin, Ohio and Switzerland Counties, Indiana. This strategy also emphasized the origination of one- to four-family mortgage loans, which typically have lower default rates than other types of loans and are secured by collateral that had generally tended to appreciate in value. In March 2014, we amended our loan policies to reduce our concentration limits for multi-family and nonresidential real estate loans to 75% and 100%, respectively, of the sum of tier 1 risk-based capital plus our allowance for loan losses. The limits were reduced because United Community Bank identified multi-family and nonresidential real estate loans, especially those located outside our normal southeastern Indiana market area, as the loan types that had experienced the most financial difficulties, which resulted in United Community Bank incurring losses and management being required to devote an extraordinary amount of time to overseeing these relationships. As of June 30, 2016, these loans represented 25.1% and 92.2%, respectively, of the sum of tier 1 risk-based capital plus our allowance for loan losses. We have reviewed the economic environment in our lending markets, including those in southwestern Ohio and Northern Kentucky, and the level of our nonperforming assets, and beginning in December 2013, we have implemented a controlled growth strategy to prudently increase nonresidential real estate and multi-family real estate loan portfolios to generate more interest income Starting in 2014, we hired experienced commercial lenders and credit staff to enhance our capacity to implement this strategy of prudently growing the commercial and commercial real estate loan portfolios.

When a borrower fails to make a required loan payment, we take a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a late charge notice is generated and sent to the borrower and efforts are made to contact the borrower by the collections department or the relationship manager. If payment is not then received by the 30th day of delinquency, a further notification is sent to the borrower. If no successful workout can be achieved, after a loan becomes 120 days delinquent, we may commence foreclosure or other legal proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances in the form of a short sale or troubled debt restructuring.

Management reports to the Board of Directors monthly regarding the amount of loans delinquent more than 30 days and all foreclosed and repossessed property that we own.

Analysis of Nonperforming and Classified Assets. We consider foreclosed real estate, repossessed assets, nonaccrual loans, and troubled debt restructurings that are delinquent or have not been performing in accordance with their restructured terms for a reasonable amount of time to be nonperforming assets. Loans are generally placed on nonaccrual status when the collection of principal or interest is in doubt, or at the latest, when a loan becomes 90 days delinquent. When a loan is placed on nonaccrual status, the accrual of interest ceases and an allowance for any uncollectible accrued interest is established and charged against operations. All commercial loans that are placed on nonaccrual status are evaluated for impairment at the time the loans are placed on nonaccrual status and quarterly thereafter. Payments received on a nonaccrual loan are applied to the outstanding principal and interest on a cash basis only when United Community Bank has determined that all principal and interest will be collected. If there is doubt about future collection, United Community Bank records the entire payment against principal pursuant to the OCC regulations.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as a nonperforming asset until it is sold. When property is acquired, it is initially recorded at the lower of its cost or market, less estimate selling expenses. Holding costs and declines in fair value after acquisition of the property result in charges against income.

Prior to the recession, we had not incurred significant losses in our lending operations. Beginning in the year ended June 30, 2008, we began to experience the adverse effects of a significant national decline in real estate values. The consequences of this decline were generally evident in all portfolio types, but were more pronounced in multi-family and nonresidential real estate loans, particularly in markets outside of Dearborn and Ripley Counties. Our approach to resolving nonperforming loans focused on foreclosure and liquidations in the year ended June 30, 2008 and the greater part of the year ended June 30, 2009. This manner of troubled asset resolution proved lengthy and costly as a result of legal and other operating costs, as well as the depressed values of the collateral securing the loan.

As a result, beginning in the latter part of the year ended June 30, 2009, management initiated a restructuring process with respect to certain nonperforming loans that provided for either restructuring the loan to the borrower in recognition of the lower available cash flows from the collateral properties or identification of stronger borrowers to purchase the property and refinance the loan. In evaluating whether to restructure a loan, we consider the borrower's payment status and history, the borrower's ability to pay upon a rate reset on an adjustable-rate mortgage as supported by a current cash flow analysis, size of the payment increase upon a rate reset, period of time remaining before the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. Through these troubled debt restructurings, management believes they have provided the necessary valuation allowances or charge-offs to reflect the loans' carrying amounts at fair value.

Loan workouts and modifications are handled by the President and Chief Executive Officer, the Executive Vice President and Chief Operating Officer, the Senior Vice President of Lending, and the Chief Credit Officer. Management ascertains the value of the underlying collateral, depending on whether the loan is "collateral dependent" or "cash-flow" dependent. If a loan is determined to be "collateral dependent," the value of the underlying collateral is determined through an independent appraisal. If the loan is determined to be "cash-flow dependent," the value of the underlying collateral is determined through an in-house cash flow analysis of the property with the cash flows discounted at the loan's original effective interest rate. Once the value of collateral is established, management will either establish a specific allocation to reduce the loan's carrying value to its fair value measured using the present value of cash flows or a charge-off for collateral dependent loans in an amount equal to the shortfall between the collateral value and the outstanding principal loan balance. Management will then develop and pursue a workout plan. Once a workout plan is established and implemented, management will, at a minimum, monitor the monthly performance of the loan until it is removed from nonaccrual status. On at least an annual basis, management will conduct property inspections and review financial information of the borrowers and any guarantors. In situations where a collateral shortfall (*i.e.,* the value of the underlying collateral of the loan is less than the outstanding principal balance of the loan) is discovered, typically through an updated independent appraisal, evaluation, or collateral inspection, management will seek to obtain additional collateral and/or a personal guaranty at that time. If no additional collateral is available, management will work with the borrower on a suitable workout arrangement that may include a troubled debt restructuring, or management may determine to foreclose on the property. To determine the best outcome for United Community Bank, management reviews the financial condition of the borrower, the cash flow of the property and the value of the loan's collateral.

If United Community Bank obtains an additional guaranty during the workout process, the strength and value of the guaranty is measured by the Bank prior to the loan closing and is re-evaluated at least annually. The strength of each guaranty is determined by evaluating the guarantor's net worth, liquid net worth, debt-to-income ratio and credit score. In certain circumstances, the Bank may deem it appropriate not to enforce a guaranty, such as when we determine enforcing a guaranty could be detrimental to the overall banking relationship.

After the restructuring is completed, if the borrower continues to experience payment difficulties, or if there is an additional decline in the collateral value identified in the annual property inspection or updated appraisal, management may impair the loan further, restructure the loan again, or foreclose on the collateral property. At this point, management considers all of the same factors it did when the initial restructuring occurred, and attempts to resolve the situation so as to achieve the best outcome for the Bank.

Troubled debt restructurings are considered to be impaired and are initially treated as nonperforming. Troubled debt restructurings that are originally restructured at a market rate of interest and have a history of performance (generally a minimum of 12 consecutive months of performance at a market rate of interest) may be excluded from being reported as TDRs in periods subsequent to meeting this requirement. At June 30, 2016, 27 loans were considered to be troubled debt restructurings (with an aggregate balance of $3.7 million) of which 11 loans (with an aggregate balance of $1.4 million) were included in nonperforming assets. At June 30, 2015, 32 loans were considered to be troubled debt restructurings (with an aggregate balance of $8.0 million) of which 19 loans (with an aggregate balance of $3.4 million) were included in nonperforming assets.

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

	At June 30,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Nonaccrual loans:					
One- to four-family residential real estate	$1,011	$1,721	$1,788	$1,876	$2,412
Multi-family real estate	-	-	—	1,861	2,034
Nonresidential real estate and land	88	926	3,136	918	1,106
Commercial	-	-	—	—	240
Consumer	398	458	633	535	508
Total nonaccrual loans	1,497	3,105	5,557	5,190	6,300
Nonaccrual restructured loans:					
One- to four-family residential real estate	324	948	1,552	2,554	2,601
Multi-family real estate	-	-	1,200	2,263	4,251
Nonresidential real estate and land	1,066	2,437	1,639	2,701	2,987
Total nonaccrual restructured loans	1,390	3,385	4,391	7,518	9,839
Total nonperforming loans	2,887	6,490	9,948	12,708	16,139
Real estate owned	70	286	598	618	197
Total nonperforming assets	$2,957	$6,776	$10,546	$13,326	$16,336
Accruing restructured loans	2,330	4,589	5,618	11,543	13,211
Accruing restructured loans and nonperforming assets	$5,287	$11,365	$16,164	$24,869	$29,547
Total nonperforming loans to total loans	1.05 %	2.50 %	3.97 %	4.87 %	5.60 %
Total nonperforming loans to total assets	0.55	1.25	1.88	2.48	3.26
Total nonperforming assets to total assets	0.56	1.30	1.99	2.60	3.30

Interest income that would have been recorded for the years ended June 30, 2016 and 2015 had nonaccruing loans been current according to their original terms was $368,000 and $479,000, respectively. Interest recognized on the cash basis with regard to nonaccrual restructured loans was $18,000 and $24,000 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016, the percentage of nonperforming assets to total assets decreased to 0.56% from 1.30% at June 30, 2015, a decrease of 74 basis points, or 56.8%. 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 nonaccrual (nonperforming) loans totaled $19.5 million, and the amount of accruing TDR loans totaled $7.0 million. As of June 30, 2015, the amount of nonaccrual (nonperforming) loans decreased to $6.5 million and the amount of accruing TDR loans decreased to 4.6 million. As of June 30, 2016, the amount of nonaccrual (nonperforming) loans further decreased to $2.9 million and the amount of accruing TDR loans further decreased to $2.3 million.

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

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- 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 June 30, 2016:

- The largest commercial real estate nonaccrual loans having a carrying value of at least $250,000 are related to loans in Loan Relationship M.
- The largest commercial real estate loan charge-offs of at least $250,000 are related to loans in Loan Relationships F, H, M and O. There are a total of 10 loans in these four Loan Relationships.
- The largest accruing TDRs having a carrying value of at least $250,000 are related to a loan in Loan Relationship O. There are a total of three loans in this Loan Relationship.

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.

- <u>Loan Relationship F</u>. At June 30, 2016 and June 30, 2015, Loan Relationship F was comprised of two loans, a Note A loan and a Note B loan, having an aggregate carrying value of $414,000 and $424,000, at June 30, 2016 and June 30, 2015, 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. In the “Credit Risk Profile by Internally Assigned Grade” table, the Note A loan is classified as “Multi-family real estate, Watch” at June 30, 2016 and June 30, 2015. As of June 30, 2014, Note A loan 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. Additionally, recent appraisals obtained for the properties securing the loan indicated that the loan to value ratio of the loan complied with the Bank’s underwriting standards, and the cash flow analysis performed on the loan from updated financial information indicated that the debt service coverage ratio complied with the Bank’s underwriting standards. The Note A loan in Loan Relationship F was performing in accordance with its terms at June 30, 2016. A more detailed history of Loan Relationship F follows.

The original loan was initially restructured using the Note A/B split note strategy in June 2010 based on an 80% loan-to-value ratio derived from an April 2010 independent appraisal. The first loan (Note A loan) had a balance of $631,000 with a market interest rate of 5.50%, for a 25-year term, based on a 3/1 ARM. This loan was put on nonaccrual and classified as substandard. The second loan (a Note B loan) had a balance of $216,800 and there was a specific reserve established for the entire amount of the loan. The borrower was a corporate entity, with two principals, each of whom individually was a co-borrower of the loans. At December 31, 2010, the first loan was 160 days delinquent. The delinquency was a result of personal problems between the borrowers affecting their ability to manage the multi-family residential real estate and the single-family real estate. The personal problems between the borrowers also resulted in the borrowers' inability to make the required personal cash infusions. In the latter part of 2010 and into early 2011, one of the borrowers effectively took control of the multi-family residential real estate and the single-family real estate, and brought the business current with respect to property taxes, deposit refunds to former tenants, and made required monthly loan payments in January and February 2011. Other than the January and February 2011 loan payments, the borrowers were unable to make payments to bring the loan current. Based upon those developments, management completed a detailed analysis of the total lending relationship with the borrowers. As a result of this analysis, these loans were again restructured, using the Note A/B split note strategy in March 2011. The terms of the first loan (a Note A loan) were calculated using the borrowers' then current financial information to yield a payment having a debt service coverage ratio of approximately 1.5x, which was more stringent than the Bank's normal underwriting standards. A restructuring fee of $7,000 was charged and included in the second loan (a Note B loan) at March 31, 2011. After the restructuring in March 2011, the Note A loan had a balance of $475,000, was put on nonaccrual, classified as substandard and reported as a TDR. The Note B loan had a balance of $405,000. The full amount of the Note B loan was charged-off in the quarter ended March 31, 2011, inclusive of the previous specific reserve of $216,800 from December 31, 2010.

A two-year balloon payment was due in March 31, 2013 on the loans unless the borrower refinanced the loans to a market rate loan at that time. During the quarter ended December 31, 2012, as a result of the continued personal problems of the co-borrowers, the two loans were modified with one of the borrowers who had taken control of the two properties in early 2011. The other borrower relinquished all of its interest in the two properties. However, in addition to the one borrower retained on the loan, two other borrowers were added to the loans to provide managerial strength to the relationship and increase the property's income potential. The Bank had been reviewing the cash flow of the property on a monthly basis and determined that the cash flows had improved due to the borrowers' enhanced managerial ability. An independent appraisal was ordered to provide the "as is" value of the properties. The Bank obtained the appraisal in December 2012, and the appraised value of the properties had decreased to $730,000 from $774,000 in February 2011. During the quarter ended December 31, 2012, the two loans were modified, again using the Note A/B split note strategy, with both loans having three year balloon payments. The Note A loan was modified to a market interest rate of 5.50%, with no increase in the principal balance ($453,000). The term of the loan was also reduced to 324 months from the remaining term of 339 months. Even with the higher market interest rate and the shorter term of the loan, the debt service coverage ratio was above 1.20x, which complied with the Bank's current loan underwriting standards. This loan remained on accrual (because of its sufficient payment history since the September 30, 2011 quarter), classified as substandard, and reported as a TDR. There was no increase in the principal balance ($405,000) of the Note B loan from that loan's prior restructuring in March 2011, and therefore, the charge-off amount ($405,000) remained the same as in March 2011. However, the interest rate was reduced to 0%, as the loan had been charged-off.

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

- <u>Loan Relationship H.</u> At June 30, 2016 and June 30, 2015, Loan Relationship H was comprised of three loans having an aggregate carrying value of $901,000 and $941,000, respectively. At June 30, 2016, two of the loans, a Note A loan (Loan H-1) and a Note B loan, had an aggregate carrying value of $696,000 and $710,000, 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. At June 30, 2016 and June 30, 2015, Loan H-1 was classified as "Multi-family residential real estate, Watch" in the "Credit Risk Profile by Internally Assigned Grade" table. As of June 30, 2014, Loan H-1 was no longer reported as a TDR loan because the loan was current and there were more than 12 consecutive market rate monthly payments made on time. Also, recent appraisals indicated that the loan to value was adequate and the cash flows from updated financial information of the properties securing the loan indicated that the debt service coverage ratio was adequate.

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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 June 30, 2016 and June 30, 2015, the balance of Loan H-2 was $206,000 and $232,000, 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 June 30, 2016 and June 30, 2015, 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 June 30, 2016, Loan H-1 was performing in accordance with its terms and Loan H-2 was performing in accordance with its original terms. A more detailed history of the Note A loan (Loan H-1) and the Note B loan follows.

During the quarter ended December 31, 2008, the Note A loan (Loan H-1) and the Note B loan were comprised of one loan with a carrying value of $1.3 million and classified as special mention. In the quarter ended June 30, 2009, the co-borrowers approached the Bank and advised that the only co-borrower who was employed had experienced a substantial salary reduction. The borrowers requested an interest rate reduction to 3% and interest only payments for three years. Independent appraisals were ordered and received and reflected that the properties on which the Bank had a first lien position had an aggregate value of $1.0 million. The loan was classified as substandard, placed on nonaccrual, and reported as a TDR. Due to the reduced interest rate, a specific valuation of $123,000 was established for the loan through a charge-off to the general allowance. Under the loan's modified terms, the interest rate was to reset to 5.75% on June 1, 2012. In June 2012, the co-borrowers approached the Bank and advised that the properties' cash flow could not service the increase in interest rate. Independent appraisals were ordered and received in June 2012 and reflected that the properties on which the Bank had a first lien position had decreased to $978,000 from $1.0 million in June 2009. As a result, the Bank recorded a charge-off of $481,000, (inclusive of the $123,000 specific allocation established) to reflect the carrying value of the loan at $744,000. The one loan performed in accordance with its restructured terms until the September 30, 2012 quarter, when the co-borrowers again approached the Bank and advised that the properties' cash flow could not service the loan. Therefore, the one loan was restructured using the Note A/B split note strategy. The Note A loan (Loan H-1) was for $748,000, with a market rate of interest of 5.00%, for a 30-year term and a three year balloon payment. The carrying value of this loan was placed on nonaccrual, classified as substandard, and reported as a TDR. The Note B loan was for $515,000 (inclusive of the $481,000 that was charged-off in the June 30, 2012 quarter) and was charged-off. The interest rate was reduced to 0% as the loan had been charged-off.

During the September 2015 quarter, the balloon payment from the September 2012 renewal became due. As a result of the upcoming balloon payment, the Bank ordered new appraisals on the 18-unit apartment complex and the single-family rental dwelling. The Bank received new appraisals on the 18 unit apartment complex and the single-family rental dwelling in September 2015. In addition, the Bank used the June 2014 value of the 6.3 acre tract of land. The total appraised value of the three properties increased to $1,048,000 as compared to the $978,000 total appraised value in June 2012. The Bank also reviewed the cash flow from updated financials of the borrower and co-borrowers. After this review and based on the increase in value of the properties, the Bank extended the two loans, again using the Note A/B split note strategy, with both loans having three year balloon payments. The Note A loan

(Loan H-1) was renewed at the market interest rate of 5.00%, using a 1/1 ARM, with a 5% floor rate, and with no increase in the principal balance ($710,000). The term of the loan was renewed at 324 months. This loan was put on accrual (because of its sufficient payment history) and classified as watch. There was no increase in the principal balance ($515,000) of the Note B loan from that loan's prior restructuring in September 2012, and therefore, the charge-off amount ($515,000) remained the same as in September 2012. The interest rate remained at 0%, as the loan had been charged-off.

- Loan Relationship M. At June 30, 2016 and June 30, 2015, Loan Relationship M was comprised of two loans having an aggregate carrying value of $1.1 million and $1.7 million, respectively. At June 30, 2016 and June 30, 2015, Loan M-1 had an aggregate carrying value of $571,000 and $884,000, respectively. At June 30, 2016 and June 30, 2015, Loan M-2 had an aggregate carrying value of $495,000 and $798,000, respectively. Originally Loans M-1 and M-2 were both secured by the two golf courses, including a club house on each, in the greater Cincinnati area, an approximately 25 acre tract of land, and a second mortgage on the principal residence of two of the individual co-borrowers. The borrower of Loans M-1 and M-2 is a corporate entity, each of whose principals, a husband and wife, has individually signed as a co-borrower, as have the father and stepmother of one of the co-borrowers. At June 30, 2016 and June 30, 2015, Loans M-1 and M-2 are included in the table in "Nonaccrual, Nonresidential Real Estate" and classified as "Nonresidential Real Estate, Substandard" in the "Credit Risk Profile by Internally Assigned Grade" table. During the June 30, 2015 quarter, the Bank entered into a forbearance agreement with the borrower and co-borrowers, pursuant to which full principal, interest and escrow payments will be made for the months of May through October of each year, beginning in 2015. The maturity date for these loans is now October 1, 2018. Loans M-1 and M-2 were performing in accordance with their restructured terms at June 30, 2016. A more detailed history of Loan Relationship M follows.

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

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

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

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

Loan Relationship N. At June 30, 2016 and June 30, 2015, Loan Relationship N was comprised of four loans having an aggregate carrying value of $334,000 and $680,000 respectively. At June 30, 2016 and June 30, 2015, Loan N-1 had an aggregate carrying value of $13,000 and $252,000 respectively. Loan N-1 was secured by a single family, non-owner occupied property located on 13 acres, and by another single family, non-owner occupied property on a .52 acre lot. During the June 30, 2016 quarter, both of the single family, non-owner occupied properties were sold with the net proceeds applied to the principal balance of Loan N-1. Loan N-1 is still secured by a single family, non-owner occupied property and 12 acres out of the original 13 acres on which the property is located. At June 30, 2016 and June 30, 2015, Loan N-2 had an aggregate carrying value of $76,000 and $135,000 respectively. During the June 30, 2016 quarter, three lots were sold with the net proceeds applied to the principal balance of Loan N-2. Loan N-2 is secured by land, on which there is, as of June 30, 2016, a 13 lot residential development. At June 30, 2016 and June 30, 2015, Loan N-3 had an aggregate carrying value of $222,000. At June 30, 2016 and June 30, 2015, Loan N-4 had an aggregate carrying value of $23,000 and $72,000 respectively. Loan N-3 and Loan N-4 are secured by a single family non-owner occupied property, located on 51 acres, with Loan N-3 being the first mortgage on this property and Loan N-4 being a home equity line of credit secured by a second mortgage on this property. The borrower of Loan N-1 is a corporate entity, each of whose principals, along with their spouses, have individually signed as a co-borrower. The borrower of Loan N-2 is a corporate entity, with the principal individually signed as a co-borrower, together with his wife and parents. The borrowers of Loans N-3 and N-4 are a husband and wife who are also co-borrowers on Loans N-1 and N-2. Loans N-1 and N-3 are included in the table in “Nonaccrual, one- to-four Family, Non-owner Occupied” Loans as of June 30, 2016 and June 30, 2015. Loan N-2 is included in the table in “Nonaccrual, Land loans” as of June 30, 2016 and June 30, 2015. Loan N-4 is included in the table in “Nonaccrual, Consumer loans” as of June 30, 2016 and June 30, 2015. In the “Credit Risk Profile by Internally Assigned Grade” table, Loans N-1 and N-3 are classified as “One-to-Four Family, Non-owner Occupied, Substandard” at June 30, 2016and June 30, 2015. Loan N-2 is classified as “Land, Substandard” at June 30, 2016 and June 30, 2015. Loan N-4 is classified as “Consumer, Substandard” at June 30, 2016 and June 30, 2015. These loans were not performing in accordance with their original terms at June 30, 2016. A more detailed history of Loan Relationship N follows.

Loan N-1 originated in March 2009 to purchase a 13 acre tract of land on which there was a single family residence. This loan was secured by this property and an additional single family residence on a one acre lot. The house and one acre of the 13 acre tract, on which the house was located, was to be sold, with the remaining 12 acres utilized for residential development. The original appraised value of the house and 13 acres was $283,000. The additional single family residence on a one acre tract was destroyed by fire in December 2013. Before its destruction, the appraised value of that collateral was $105,000. A separate single-family residence on a .52 acre tract of land was substituted as collateral for the destroyed property. This replacement property was owned by one of the Loan N-1 principal borrowers and his father. The value of this replacement property was $135,000 based on an appraisal dated February 2014. This loan had a market rate of interest with monthly interest only payments and an original term of one year. The loan was renewed for an additional five years in 2010, with a maturity date of March 2015. Before the March 2015 maturity date, because of market conditions, the borrower was unable to sell the single family residence and one acre lot, and was also unable to develop the additional 12 acres for residential development. In the December 2014 quarter, the borrower was not able to make the monthly payments due to difficulties with other business ventures of the co-borrowers with which the Bank is not involved, and the loan became more than 90 days delinquent. Because the loan became 90 days delinquent in the December 2014 quarter, the Bank reappraised all of the properties securing Loan N-1 in December 2014. The appraised value of all properties totaled $352,500, compared to the original appraised aggregate value of $418,000. The Bank is in regular contact with the borrower and co-borrowers of Loan N-1, and the borrower continues to try to sell the properties. However, in October 2015 a foreclosure action was filed due to the ongoing delinquency and continued nonpayment of this loan. A sheriff sale date had been scheduled for

April 2016. However, subsequent to the end of the March 31, 2016 quarter, because the borrowers in this Loan Relationship had signed purchase agreements on several properties in this Loan Relationship, the Bank agreed to delay the sheriff sale so that these properties could be sold. As stated above, during the June 30, 2016 quarter, the borrowers were able to sell the two single family, non-owner occupied properties, with the net proceeds applied to the principal balance of loan N-1.

Loan N-2 originated in November 2012 to refinance two existing loans the Bank made that were secured by a 19 lot residential development. This loan had a market rate of interest with monthly interest only payments. The original term of this loan was three years, with a maturity date of December 2015. Proceeds from the sale of the lots were to be used to repay the loan. This property appraised for $483,000 in 2012. From 2012 until 2014, the borrower was able to sell two of the 19 lots. The Bank obtained an updated appraisal of the remaining 17 lots in December 2014. The updated appraised value was $300,000. In the June 30, 2015 quarter, the borrower sold another lot and the Bank applied the net proceeds to the loan balance. An updated appraisal on the remaining 16 lots was received in July 2015. The updated appraised value was $274,000. Because of market conditions, the borrower was not able to sell the lots in a timely manner. In the December 2014 quarter, the borrower was not able to make the monthly payments due to other business ventures of the co-borrowers with which the Bank is not involved, and the loan became more than 90 days delinquent. The Bank is in regular contact with the borrower and co-borrowers of Loan N-2 and the borrower continues to try to sell the properties. However, in October 2015 a foreclosure action was filed due to the ongoing delinquency and continued nonpayment of this loan. A sheriff sale date had been scheduled for April 2016. However, subsequent to the end of the March 31, 2016 quarter, because the borrowers in this Loan Relationship had signed purchase agreements on several properties in this Loan Relationship, the Bank agreed to delay the sheriff sale so that these properties could be sold. During the June 30, 2016 quarter, the borrower sold three lots and the Bank applied the net proceeds to the loan balance. Subsequent to the end of the June 30, 2016 quarter, the borrower sold another lot and the Bank applied the net proceeds to the loan balance. After this sale, there are 12 lots remaining.

Loan N-3 and Loan N-4 were originated in April 2007 and June 2008, respectively. The purpose of Loan N-3 was to refinance and purchase an additional 33 acres of adjoining property. Loan N-4, an equity line of credit, was used to buy a single family rental property. Loans N-3 and N-4 are secured by the same property, a single family, non-owner occupied residence and 50.57 acres of land. This property appraised for $405,000 in March 2007 and $406,000 in February 2008. In the December 2014 quarter, the borrowers were not able to make the monthly payments, mainly because of other business ventures of the borrowers with which the Bank is not involved, and the loan became more than 90 days delinquent. Because the loan went 90 days delinquent in the December 2014 quarter, the Bank updated the appraisal on this property. The updated appraised value was $378,000 compared to the $406,000 appraised value in February 2008. The Bank is in regular contact with the borrowers of Loans N-3 and N-4 and the borrowers continue to try to sell the property. However, in October 2015 a foreclosure action was filed due to the ongoing delinquency and continued nonpayment of this loan. A sheriff sale date had been scheduled for April 2016. However, subsequent to the end of the March 31, 2016 quarter, because the borrowers in this Loan Relationship had signed purchase agreements on several properties in this Loan Relationship, the Bank agreed to delay the sheriff sale so that these properties could be sold. During the June 30, 2016 quarter, the borrowers of Loans N-3 and N-4 sold their principal residence. The Bank did not have a lending relationship on the principal residence but the borrower applied $25,000 of the net proceeds of that sale to the principal balance of Loan N-4. Also, the borrowers and their family moved into the single family property that serves as collateral for Loans N-3 and N-4. During the June 30, 2016 quarter, the Bank determined to update the appraisal on the single family property. The updated appraisal, received in June 2016, had a value of $288,000. This was a decrease in value of $90,000 when compared to the $378,000 value assessed in the December 2014 quarter. Therefore, the Bank determined that an impairment was needed for this property and a charge-off of $24,000 was established for Loan N-4, through a charge-off to the general allowance.

As of the filing of this report, the Bank has agreed to continue to delay the sheriff sales for Loans N-1, N-2, N-3 and N-4 because the borrowers and co-borrowers in relationship N continue to be able to sell properties and reduce the principal balances of the loans in this relationship.

Loan Relationship N will not be included in the loan narratives going forward due to the fact that the net carrying value of the commercial loans is now less than the $250,000 balance for nonaccrual commercial loans criteria stated above.

- Loan Relationship O. At June 30, 2016 and June 30, 2015, this Loan Relationship consisted of three loans having an aggregate carrying value of $1.6 million. Two of the loans, a Note A loan (Loan O-1) and a Note B loan, had an aggregate carrying value of $721,000 and $734,000, respectively. Loan O-1 is secured by a first lien on a nonresidential retail strip center. The borrower is a limited liability company and the two co-borrowers are the principals of the limited liability company. At June 30, 2016 and June 30, 2015, Loan O-1 is included in the table as "Accruing Restructured Loans", and classified as "Nonresidential Real Estate, Substandard" in the "Credit Risk Profile by Internally Assigned Grade" table. As of September 30, 2011, Loan O-1 was put on accrual because of its sufficient payment history, but was still considered a TDR and thus continued to be classified as substandard. At June 30, 2016 and June 30 2015, the balance of Loan O-2 was $890,000 and $911,000, respectively. Loan O-2 is secured by a nonresidential, eight bay, retail strip center. Loan O-2 is not included in the table as "Accruing Restructured Loans" at June 30, 2016 and June 30, 2015. At June 30, 2016 and June 30, 2015, Loan O-2 was classified as "Nonresidential

Real Estate, Watch" in the "Credit Risk Profile by Internally Assigned Grade" table. This loan was originated in December 2004, for the purchase of the land (which was an Other Real Estate Owned property of the Bank) and the construction of the eight bay, retail strip center. The original loan amount was $1,080,000 at a market rate of interest, based on a 3/3 ARM, for a 30 year term. In August 2013, the original loan was refinanced for $965,000, at a market rate of interest, based on a 5/1 ARM, for a 22 year term. The borrower, for the original loan and the refinanced loan, is a limited liability company and the four co-borrowers are the principals of the limited liability company. Three of the spouses of the four co-borrowers are also signed on the loan. On both the original loan and the refinanced loan, all seven co-borrowers were and are signed. Two of the co-borrowers of the loan O-2 are principals of the limited liability company for Loan O-1 described above. Loan O-2, both the original loan and the refinanced loan, did and has performed in accordance with its terms. A more detailed history of Note A loan (Loan O-1) and the Note B loan follows.

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

The following table summarizes all Note A/B format loans at June 30, 2016 and 2015:

At June 30, 2016	Loan Balances			Number of Loans	
	Note A	Note B	Total	Note A	Note B
	(Dollars in thousands)				
Nonresidential real estate	$1,078	$482	$1,560	2	2
Multi-family residential real estate	1,109	920	2,029	2	2
One- to four-family residential real estate	89	20	109	1	1
Total (1)	$2,276	$1,422	$3,698	5	5

At June 30, 2015	Loan Balances			Number of Loans	
	Note A	Note B	Total	Note A	Note B
	(Dollars in thousands)				
Nonresidential real estate	$1,851	$2,778	$4,629	3	3
Multi-family residential real estate	1,858	1,335	3,193	3	3
One- to four-family residential real estate	93	21	114	1	1
Total	$3,802	$4,134	$7,936	7	7

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

Primarily based on an assessment of our loans receivable greater than 30 days past due and accruing in the multi-family residential real estate and nonresidential real estate portfolios of $0 at June 30, 2016, management does not believe there are any other large concentrations of credit risk that are not performing under the original terms or modified terms, as applicable.

The following tables provide information with respect to all of our loans that are classified as troubled debt restructurings. Troubled debt restructurings are considered to be impaired, except for those that have established a sufficient performance history under the terms for the restructured loan. For additional information regarding troubled debt restructurings on nonaccrual status, see the table of nonperforming assets above.

	At June 30, 2016		
	Loan Status	Related	Recorded

	Accrual	Nonaccrual	Total Unpaid Principal Balance	Allowance	Investment
	(Dollars in thousands)				
One- to four-family residential real estate	$1,609	$ 324	$ 1,933	$ -	$ 1,933
Multi-family residential real estate	-	-	-	-	-
Nonresidential real estate	721	1,066	1,787	-	1,787
Total	$2,330	$ 1,390	$ 3,720	$ -	$ 3,720
Number of loans	16	11			

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	At June 30, 2015				
	Loan Status		Total Unpaid Principal	Related	Recorded
	Accrual	Nonaccrual	Balance	Allowance	Investment
	(Dollars in thousands)				
One- to four-family residential real estate	$1,148	$ 948	$ 2,096	$ -	$ 2,096
Multi-family residential real estate	724	-	724	-	724
Nonresidential real estate	2,717	2,437	5,154	120	5,034
Total	$4,589	$ 3,385	$ 7,974	$ 120	$ 7,854
Number of loans	13	19			

	At June 30, 2014				
	Loan Status		Total Unpaid Principal	Related	Recorded
	Accrual	Nonaccrual	Balance	Allowance	Investment
	(Dollars in thousands)				
One- to four-family residential real estate	$947	$ 1,552	$ 2,499	$ -	$ 2,499
Multi-family residential real estate	1,663	1,200	2,863	-	2,863
Nonresidential real estate	3,008	1,639	4,647	120	4,527
Total	$5,618	$ 4,391	$ 10,009	$ 120	$ 9,889
Number of loans	13	26			

	At June 30, 2013				
	Loan Status		Total Unpaid Principal	Related	Recorded
	Accrual	Nonaccrual	Balance	Allowance	Investment
	(Dollars in thousands)				
One- to four-family residential real estate	$2,061	$ 2,554	$ 4,615	$ 7	$ 4,608
Multi-family residential real estate	5,827	2,263	8,090	20	8,070
Nonresidential real estate	3,656	2,701	6,357	120	6,237
Total	$11,544	$ 7,518	$ 19,062	$ 147	$ 18,915
Number of loans	21	31			

	At June 30, 2012				
	Loan Status			Related	Recorded

	Accrual	Nonaccrual	Total Unpaid Principal Balance	Allowance	Investment
	(Dollars in thousands)				
One- to four-family residential real estate	$2,374	$ 2,601	$ 4,975	$ 26	$ 4,949
Multi-family residential real estate	7,715	4,251	11,966	165	11,801
Nonresidential real estate	3,122	2,987	6,109	465	5,644
Total	$13,211	$ 9,839	$ 23,050	$ 656	$ 22,394
Number of loans	14	34			

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Loans that were included in troubled debt restructurings at June 30, 2016 and 2015 were generally given concessions of interest rate reductions and/or terms. Many 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 June 30, 2016, there were 21 loans that required payments of principal and interest, and one loan that required interest payments only. At June 30, 2015, there were 23 loans that required payments of principal and interest, and two loans that required interest payments only. The economic trends during the year ended June 30, 2016 were generally stable in our primary market area, Dearborn and Ripley Counties in Indiana.

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 evaluate the need to establish a specific allocation for the asset at that time or charge off a portion of the loan if there is a known loss.

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

	At June 30,	
	2016	**2015**
	(In thousands)	
Special mention assets	$5,150	$4,086
Substandard assets	5,625	11,588
Total classified assets	$10,775	$15,674

At June 30, 2016: **Credit Risk Profile by Internally Assigned Grade**

One- to Four-Family Owner-Occupied	**Consumer**	**One- to Four-Family Non-Owner-**	**Multi-Family**	**Nonresidential Real estate**	**Construction**	**Land**	**Commercial and Agricultural**	**Total**

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

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At June 30, 2015: **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	Nonresidential Real estate	Construction	Land	Commercial and Agricultural	Total
	(In thousands)								
Grade:									
Pass	$118,671	$33,016	$7,352	$16,167	$33,913	$3,060	$1,867	$7,442	$221,488
Watch	4,371	1,219	5,479	2,405	5,931	1,018	77	1,757	22,257
Special mention	805	187	142	-	2,062	-	890	-	4,086
Substandard	3,237	458	995	724	6,023	-	151	-	11,588
Total	$127,084	$34,880	$13,968	$19,296	$47,929	$4,078	$2,985	$9,199	$259,419

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

	At June 30, 2016		2015		2014	
	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due
	(In thousands)					
Residential real estate:						
One- to four-family	$689	$582	$828	$560	$1,894	$974
Multi-family	-	-	-	-	342	
Nonresidential real estate and land	14	-	-	-	161	243
Consumer and other loans	109	49	241	187	187	119
Total	$812	$631	$1,069	$747	$2,584	$1,336

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable credit losses in the loan portfolio. We evaluate the need to establish allowances against losses on loans no less than quarterly. When additional allowances are necessary, a provision for loan losses is charged to earnings. The changes for increases or decreases to the allowance are presented by management to the Board of Directors. Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allocation on identified impaired loans; and (2) a general valuation allowance on the remainder of the loan portfolio.

Allowance Required for Identified Impaired Loans. We establish a specific allocation of the general allowance or a charge off on certain identified impaired loans based on such factors as: (1) the strength of the property's or the business' cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency.

General Valuation Allowance on the Remainder of the Loan Portfolio. We establish a general allowance for homogenous loans and loans that are not 90 days delinquent to recognize the inherent losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning historical loss percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in existing general economic and business conditions affecting our primary lending areas and the national economy, staff lending experience, recent loss experience in particular segments of the portfolio, specific reserve and classified asset trends, delinquency trends and risk rating trends. These loss factors are subject to ongoing evaluation to ensure their relevance in the current economic environment.

As a result of our systematic analysis of the adequacy of the allowance for loan losses, the loss factors we presently use to determine the reserve level are based on various risk factors such as trends in underperforming loans, trends and concentrations in loans and loan volume, economic trends in our market area.

We also identify loans that may need to be charged-off as a loss by reviewing all delinquent loans, classified loans and other loans that management may have concerns about collectability. On a quarterly basis, management reviews all substandard commercial loans and all loans that are more than 90 days delinquent. On a quarterly basis, management reviews all classified assets and at least on an annual basis, management reviews all major lending relationships (relationships greater than $750,000). The review of major lending relationships includes completing an updated property inspection, and obtaining current tax returns and financial information about the borrowers, guarantors and the property. When collateral dependent impaired loans are identified, management will reduce the loan to fair value and charge-off the difference between the outstanding balance and fair value to the allowance for loan losses. Impaired loans measuring fair value under the present value of cash flows are allocated a portion of the general allowance using a charge off to reduce the loans' carrying value to the present value of estimated cash flows. No less than quarterly, management will review the allowance for loan losses based upon the criteria discussed above and make adjustments to the allowance accordingly.

Any commercial loan that is included in classified loans or other loans about which management may have concerns is individually reviewed for impairment on a quarterly basis. For individually reviewed loans, the borrowers' inability to make payments under the terms of these loans, or the existence of a shortfall in the collateral value relating to these loans, could result in our allocating a portion of the allowance to the loans that were impaired.

At June 30, 2016, our allowance for loan losses represented 1.8% of total loans and 169.2% of nonperforming loans and amounted to $4.9 million. At June 30, 2015, our allowance for loan losses represented 2.0% of total loans and 79.0% of nonperforming loans and amounted to $5.1 million. At June 30, 2014, our allowance for loan losses represented 2.18% of total loans and 54.88% of nonperforming loans and amounted to $5.5 million.

From June 30, 2015 to June 30, 2016, the loan portfolio experienced decreases of $3.6 million in nonperforming loans, $3.8 million in nonperforming assets, and no new troubled debt restructurings. Classified assets decreased $4.9 million. The fiscal 2016 decreases in nonperforming loans, nonperforming assets, and troubled debt restructurings were the result of troubled debt restructuring loans making payments in accordance with their restructured terms for sufficient periods of time to allow the loans to be placed on accruing status, combined with loan payoffs, foreclosures, payments and movements of such loans to accruing status. For more information on the Note A/B split note strategy and the related charge-offs, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Operating Strategy – Improving our asset quality*." When a loan first becomes a troubled debt restructuring, it is included in nonaccrual loans until a history of at least six consecutive monthly payments can be established. Troubled debt restructurings are also classified as substandard assets as long as the loan is considered a troubled debt restructuring.

The net provision for loan losses was $187,000 for the year ended June 30, 2016 compared to a net recovery of loan losses of $348,000 for the year ended June 30, 2015.

Reflective of continued improvement in our asset quality, nonperforming loans as a percentage of total loans decreased from 2.50% at June 30, 2015 to 1.05% at June 30, 2016, and nonperforming loans as a percentage of total assets decreased from 1.25% at June 30, 2015 to 0.55% at June 30, 2016.

The ratio of the allowance for loan losses to nonperforming loans (coverage ratio) increased from 79.0% to 169.2% from June 30, 2015 to June 30, 2016. This increase was a result of nonperforming loans performing in accordance with their terms, payoffs and loans eligible to be removed nonaccrual classification. At June 30, 2016 and 2015, nonperforming troubled debt restructurings were 48.2% and 52.2% of nonperforming loans, respectively. Troubled debt restructurings have generally been charged off or written down to their fair value at the time of the restructuring. The fair value at the time of restructuring is determined by a recent independent appraisal or cash flow analysis of the underlying collateral. As a result of the recent fair value determinations of a majority of the loans that are included in nonperforming loans, the allowance for loan losses as a percentage of nonperforming loans increased from June 30, 2015 to June 30, 2016.

The following table illustrates the changes to the allowance for loan losses for the year ended June 30, 2016:

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

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

	At June 30, 2016			2015			2014		
	Amount	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	**Amount**	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	**Amount**	**% of Allowance to Total Allowance**	**% of Loans in Categor to Total Loans**
	(Dollars in thousands)								
One- to four-family residential real estate	$1,343	27.5 %	52.2 %	$1,478	28.8 %	54.3 %	$1,397	25.6 %	51.6 %
Multi-family real estate	275	5.6	5.8	474	9.2	7.4	929	17.0	9.4
Nonresidential real estate	2,577	52.8	21.5	2,586	50.5	18.5	2,508	46.0	19.5
Land	10	0.2	0.8	16	0.3	1.2	19	0.3	1.4
Agricultural	95	1.9	2.2	-	-	2.0	-	-	1.4
Commercial	27	0.6	1.6	49	1.0	1.6	37	0.7	1.8
Consumer	426	8.7	12.8	517	10.1	13.4	564	10.3	13.8
Construction	132	2.7	3.1	4	0.1	1.6	5	0.1	1.1
Total allowance for loan losses	$4,885	100.0%	100.0%	$5,124	100.0%	100.0%	$5,459	100.0%	100.0%
Total loans	$274,222			$259,419			$250,808		

	At June 30, 2013			2012		
	Amount	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	**Amount**	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**
	(Dollars in Thousands)					
One- to four-family residential real estate	$1,157	21.3 %	49.1 %	$902	16.1 %	48.4 %
Multi-family real estate	1,286	23.6	12.4	1,915	34.1	14.7
Nonresidential real estate and land	2,386	43.8	19.9	2,282	40.6	20.5

Land	17	0.3	1.3	11	0.2	1.2
Agricultural	-	-	1.4	-	-	1.1
Commercial	34	0.6	1.4	24	0.4	1.3
Consumer	553	10.2	13.7	477	8.5	12.4
Construction	10	0.2	0.8	3	0.1	0.4
Total allowance for loan losses	$5,443	100.0 %	100.0 %	$5,614	100.0 %	100.0 %
Total loans	$260,716			$288,199		

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. generally accepted accounting principles, there can be no assurance that the OCC, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. The OCC may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Year Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
	(Dollars in thousands)				
Allowance at beginning of period	$5,124	$5,459	$5,443	$5,614	$5,335
Provision for (recovery of) loan losses	187	(348)	(132)	(66)	3,662
Charge-offs:					
One- to four-family residential real estate	135	50	606	322	529
Land	-	-	15	-	8
Nonresidential real estate	561	467	30	457	1,804
Multi-family real estate	192	-	430	-	1,233
Consumer and other loans	157	162	163	165	325
Total charge-offs	1,045	679	1,244	944	3,899
Recoveries:					
One- to four-family residential real estate	113	141	439	97	135
Nonresidential real estate and land	223	434	53	4	4
Multi-family real estate	4	-	644	660	256
Consumer and other loans	279	117	136	78	121
Total recoveries	619	692	1,272	839	516
Net recoveries (charge-offs)	(426)	15	28	(105)	(3,383)
Loss on restructuring of loans and other adjustments	-	-	120	-	-
Allowance at end of period	$4,885	$5,124	$5,459	$5,443	$5,614
Allowance to nonperforming loans	169.20%	78.96%	54.88%	42.83%	34.79 %
Allowance to total loans outstanding at the end of the period	1.78 %	1.98 %	2.18 %	2.09 %	1.95 %
Net (recoveries) charge-offs to average loans outstanding during the period	0.16 %	(0.01)%	(0.06)%	0.04 %	1.19 %

The charge-offs in the year ended June 30, 2016 were primarily the result of charge-offs totaling $460,000 on a nonresidential loan relationship and a $192,000 charge-off on a multifamily loan.

The net recoveries in the year ended June 30, 2015 were primarily the result of the recovery of two non-residential loans totaling $422,000.

The net recoveries in the year ended June 30, 2014 was due to a $379,000 multifamily loan recovery and a $124,000 recovery from two one- to four-family loans and is also reflective of overall improvement in asset quality.

The charge-offs in the year ended June 30, 2013 reflect overall improvement in asset quality and were also reduced as a result of a $651,000 recovery of a multi-family loan which had previously been charged off and which was paid off during the year ended June 30, 2013.

The charge-offs in the year ended June 30, 2012 were primarily the result of reductions in the appraised values of collateral related to nonperforming loans.

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; and generally selling in the secondary market newly originated conforming fixed-rate 15-, 20- and 30-year one- to four-family residential real estate loans and available-for-sale securities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of Board members, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Economic Value of Equity Analysis. We use an economic value of equity analysis prepared by a consulting firm to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net economic value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Economic value of equity represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 400 basis point increase or a 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, these analyses are not performed for decreases of more than 100 basis points.

The following table presents the change in our net economic value of equity at June 30, 2016 that would occur in the event of an immediate change in interest rates, with no effect given to any steps that we might take to counteract that change.

	Economic Value of Equity (Dollars in Thousands)			Economic Value of Equity as % of Economic Value of Total Assets
Basis Point ("bp")	**Amount**	**Change**	**% Change**	

Change in Rates					**Economic Value Ratio**	
400	$67,326	$(16,453)	(19.64	)%	14.33	%
300	76,552	(7,227)	(8.63	)	15.79	
200	80,962	(2,817)	(3.36	)	16.19	
100	83,798	19	0.02		16.26	
0	83,779	-	-		15.79	
(100)	78,193	(5,586)	(6.67	)	14.38	

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

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled $29.0 million at June 30, 2016. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled $120.5 million at June 30, 2016. Total securities classified as available-for-sale were $152.5 million at June 30, 2016.

In addition, we had the ability to borrow a total of approximately $61.4 million from the Federal Home Loan Bank of Indianapolis at June 30, 2016.

At June 30, 2016, United Community Bank's total commitment to extend credit at variable rates was $36.5 million. The amount of fixed-rate commitments was approximately $9.5 million at June 30, 2016. The fixed-rate loan commitments at June 30, 2016 have interest rates ranging from 3.25% to 21.0%. The Bank had no letters of credit outstanding at June 30, 2016. Certificates of deposit due within one year of June 30, 2016 totaled $85.6 million. This represented 60.0% of certificates of deposit at June 30, 2016. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long 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 funds, 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 June 30, 2016. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The following table presents certain of our contractual obligations as of June 30, 2016.

Contractual Obligations	Total	Payments Due By Period Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
	(Dollars in Thousands)				
Long-term debt obligations	$12,000	$3,167	$ 3,666	$ 3,167	$ 2,000
Operating lease obligations	83	30	48	5	-
Total	$12,083	$3,197	$ 3,714	$ 3,172	$ 2,000

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

The following table presents our primary investing and financing activities during the periods indicated.

	Year Ended June 30,	
	2016	**2015**
	(Dollars in thousands)	
Investing activities:		
Loans disbursed or closed	$(78,566)	$(58,679)
Loan principal repayments	52,415	43,763
Proceeds from maturities and principal repayments of securities	20,739	29,516
Proceeds from sales of securities available-for-sale	56,058	49,872
Purchases of securities	(57,938)	(72,736)
Proceeds from sale of other real estate owned	212	702
Proceeds from bank owned life insurance death benefit	1,008	-
Capital expenditures	(256)	(326)
Financing activities:		
Increase (decrease) in deposits	6,348	(7,099)
Borrowings from Federal Home Loan Bank	17,000	2,000
Repayments of Federal Home Loan Bank advances	(18,000)	(4,000)

Dividends paid to stockholders	(981)	(1,080)
Repurchases of common stock	(6,108)	(4,186)

Capital Management. United Community Bank is subject to various regulatory capital requirements administered by the OCC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2016, we exceeded all of our regulatory capital requirements. We are considered "well capitalized" under regulatory guidelines. See *"Regulation and Supervision—Federal Institution Regulation—Capital Requirements,"* and Note 15 to the consolidated financial statements included in Item 8 to this Annual Report on Form 10-K.

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. For information about our loan commitments and unused lines of credit, see Note 13 to the consolidated financial statements included in Item 8 to this Annual Report on Form 10-K. We currently have no plans to engage in hedging activities in the future.

For the year ended June 30, 2016, 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.

Effect of Inflation and Changing Prices

The financial statements and related financial data presented in this report have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is incorporated herein by reference to the section captioned “*Risk Management*” in Item 7 of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Management’s Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting as of June 30, 2016, utilizing the framework established in Internal Control – Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, management determined that the Company's internal control over financial reporting as of June 30, 2016 was effective.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

September 27, 2016

Report of Independent Registered

Public Accounting Firm

To the Board of Directors of

United Community Bancorp:

We have audited the accompanying consolidated statements of financial condition of United Community Bancorp as of June 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended June 30, 2016. United Community Bancorp's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Community Bancorp as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio

September 27, 2016

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	June 30, 2016	June 30, 2015
Assets		
Cash and due from banks	$ 2,253	$ 2,137
Interest-earning deposits in other financial institutions	26,727	16,385
Cash and cash equivalents	28,980	18,522
Investment securities:		
Securities available for sale - at estimated market value	77,725	60,873
Securities held to maturity - at amortized cost	40,763	40,653
Mortgage-backed securities available for sale - at estimated market value	74,727	109,138
Investment securities	193,215	210,664
Loans receivable, net	267,138	253,828
Loans available for sale	783	160
Property and equipment, net	6,877	7,016
Federal Home Loan Bank stock, at cost	3,527	3,527
Accrued interest receivable:		
Loans	872	828
Investments and mortgage-backed securities	1,010	994
Other real estate owned, net	70	286
Cash surrender value of life insurance policies	17,241	17,456
Deferred income taxes	2,073	3,268
Prepaid expenses and other assets	1,469	1,685
Goodwill	2,522	2,522
Intangible asset	312	429
Total assets	$ 526,089	$ 521,185
Liabilities and Stockholders' Equity		
Deposits	$ 438,885	432,537
Advances from FHLB	12,000	13,000
Accrued interest on deposits	12	10
Accrued interest on FHLB advance	10	10

Advances from borrowers for payment of insurance and taxes	608	386
Accrued expenses and other liabilities	4,120	3,805
Total liabilities	455,635	449,748
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value; 25,000,000 shares authorized, 5,149,564 shares issued at June 30, 2016 and June 30, 2015; 4,198,143 and 4,610,839 shares outstanding at June 30, 2016 and June 30, 2015, respectively	51	51
Additional paid-in capital	51,320	51,145
Retained earnings	32,484	30,037
Less shares purchased for stock plans	(2,335)	(2,923)
Treasury Stock, at cost - 951,421 and 538,725 shares at June 30, 2016 and June 30, 2015, respectively	(12,445)	(6,337)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale, net of income taxes	1,379	(536)
Total stockholders' equity	70,454	71,437
Total liabilities and stockholders' equity	$ 526,089	$ 521,185

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 June 30, 2016	2015	For the Year Ended June 30, 2016	2015
Interest income:				
Loans	$ 2,940	$ 2,843	$ 11,595	$ 11,338
Investments and mortgage-backed securities	1,026	1,039	4,103	3,894
Total interest income	3,966	3,882	15,698	15,232
Interest expense:				
Deposits	487	499	1,966	2,130
Borrowed funds	57	59	235	245
Total interest expense	544	558	2,201	2,375
Net interest income	3,422	3,324	13,497	12,857
Provision for (recovery of) loan losses	46	(104)	187	(348)
Net interest income after provision for loan losses	3,376	3,428	13,310	13,205
Noninterest income:				
Service charges	756	723	2,968	2,747
Gain on sale of loans	123	75	342	176
Gain (loss) on sale of investments	21	(122)	145	(432)
Gain on sale of other real estate owned	-	22	27	169
Loss on sale of fixed assets	-	(6)	-	(6)
Provision for loss on real estate owned	-	(22)	(60)	(22)
Income from bank owned life insurance	120	129	773	529
Other	78	35	444	213
Total noninterest income	1,098	834	4,639	3,374
Noninterest expense:				
Compensation and employee benefits	2,093	2,185	8,347	7,957
Premises and occupancy expense	315	265	1,139	1,187
Deposit insurance premium	65	87	301	364
Advertising expense	103	75	365	364
Data processing expense	407	310	1,410	1,359
Intangible amortization	27	28	117	118
Professional fees	161	165	748	774
Other operating expenses	426	330	1,553	1,495

Total noninterest expense	3,597	3,445	13,980	13,618
Income before income taxes	877	817	3,969	2,961
Income tax provision	67	122	541	425
Net income	$ 810	$ 695	$ 3,428	$ 2,536
Basic earnings per share	$ 0.20	$ 0.16	$ 0.83	$ 0.57
Diluted earnings per share	$ 0.20	$ 0.16	$ 0.82	$ 0.57

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

	For the Year Ended June 30, 2016	2015
Net income	$ 3,428	$ 2,536
Other comprehensive income, net of tax		
Net unrealized gain on available for sale securities net of taxes of $1,281 and $185 for the years ended June 30, 2016 and 2015, respectively.	2,003	289
Reclassification adjustment for the net realized (gain) loss on sale of available for sale securities included in net income, net of taxes of $(57) and $170 for the years ended June 30, 2016 and 2015, respectively.	(88)	266
Comprehensive income	$ 5,343	$ 3,091
Accumulated comprehensive income (loss)	$ 1,379	$ (536)

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

(In thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Shares Purchased for Stock plans	Treasury Stock	Unrealized Gain (Loss) on Securities Available for Sale	Total
Balance at June 30, 2014	$ 51	$ 51,044	$ 28,581	$ (3,504)	$ (2,151)	$ (1,091)	$ 72,930
Net income	-	-	2,536	-	-	-	2,536
Cash dividends of $0.06 per share	-	-	(1,080)	-	-	-	(1,080)
Shares repurchased	-	-	-	-	(4,186)	-	(4,186)
Amortization of ESOP shares	-	18	-	395	-	-	413
Restricted stock award	-	(8)	-	186	-	-	178
Stock option expense	-	84	-	-	-	-	84
Restricted stock windfall APIC adjustment	-	7	-	-	-	-	7
Unrealized gain on investments: Net change during the period, net of deferred taxes of $355	-	-	-	-	-	555	555
Balance at June 30, 2015	$ 51	$ 51,145	$ 30,037	$ (2,923)	$ (6,337)	$ (536)	$ 71,437
Net income	-	-	3,428	-	-	-	3,428
Cash dividends of $0.06 per share	-	-	(981)	-	-	-	(981)
Shares repurchased	-	-	-	-	(6,108)	-	(6,108)
Amortization of ESOP shares	-	72	-	382	-	-	454

Restricted stock award	-	(9)	-	206	-	-	197
Stock option expense	-	93	-	-	-	-	93
Restricted stock windfall APIC adjustment	-	19	-	-	-	-	19
Unrealized gain on investments: Net change during the period, net of deferred taxes of $1,224	-	-	-	-	-	1,915	1,915
Balance at June 30, 2016	$ 51	$ 51,320	$ 32,484	$ (2,335)	$ (12,445)	$ 1,379	$ 70,454

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)	For the Year Ended June 30, 2016	2015
Operating activities:		
Net income	$3,428	$2,536
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	395	419
Provision for (recovery of) loan losses	187	(348)
Deferred loan origination costs	73	(68)
Amortization of premium on investments	1,874	2,573
Proceeds from sale of loans	11,067	6,458
Loans disbursed for sale in the secondary market	(11,348)	(6,304)
Gain on sale of loans	(342)	(176)
Amortization of intangible asset	117	118
Amortization of acquisition-related loan yield adjustment	(159)	(215)
Loss (gain) on sale of investment securities	(145)	432
Loss on sale of fixed assets	-	6
Provision for loss on real estate owned	60	22
Gain on sale of other real estate owned	(27)	(169)
Gain recognized from death benefit on bank owned life insurance	(298)	-
Increase in cash surrender value of life insurance	(495)	(529)
Stock-based compensation	290	262
Amortization of ESOP shares	454	413
Deferred income taxes	(29)	(115)
Effects of change in operating assets and liabilities:		
Accrued interest receivable	(60)	(188)
Prepaid expenses and other assets	216	528
Accrued interest payable	2	(5)
Accrued expenses and other	334	1,166
Net cash provided by operating activities	5,594	6,816
Investing activities:		
Proceeds from maturity of available for sale investment securities	265	90
Proceeds from sale of available for sale investment securities	16,251	1,065
Proceeds from maturity of held to maturity securities	56	86
Proceeds from repayment of mortgage-backed securities and collateralized mortgage obligations available for sale	20,418	29,340

Proceeds from sale of mortgage-backed securities available for sale	39,807	48,717
Proceeds from sale of other real estate owned	212	702
Purchases of available for sale investment securities	(41,569)	(9,155)
Purchases of held to maturity investment securities	(388)	(40,482)
Purchases of mortgage-backed securities available for sale	(15,981)	(23,099)
Proceeds from sale of Federal Home Loan Bank stock	-	3,061
Proceeds from bank owned life insurance death benefit	1,008	-
Net increase in loans	(13,440)	(9,056)
Capital expenditures	(256)	(326)
Net cash provided by investing activities	6,383	943
Financing activities:		
Net increase (decrease) in deposits	6,348	(7,099)
Borrowings from Federal Home Loan Bank	17,000	2,000
Repayments of Federal Home Loan Bank advances	(18,000)	(4,000)
Dividends paid to stockholders	(981)	(1,080)
Repurchases of common stock	(6,108)	(4,186)
Net increase in advances from borrowers for payment of insurance and taxes	222	158
Net cash used in financing activities	(1,519)	(14,207)
Net increase (decrease) in cash and cash equivalents	10,458	(6,448)
Cash and cash equivalents at beginning of period	18,522	24,970
Cash and cash equivalents at end of period	$28,980	$18,522

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

United Community Bancorp, a federal corporation ("old United Community Bancorp") completed its 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 resulting in 2,089,939 shares issued in the exchange without giving effect to cash distributed for fractional shares. In addition, a total of 3,060,058 shares of common stock were sold in the subscription and community offerings at the price of $8.00 per share, including 194,007 shares of common stock purchased by the ESOP. The completion of new United Community Bancorp's public offering raised $24.4 million in gross proceeds, which after payment of $2.8 million in offering expenses, resulted in net proceeds of $21.6 million.

The information in this report as of or for periods prior to the conversion date of January 9, 2013 refers to old United Community Bancorp, except share and per share information which have been restated to give retroactive recognition to the conversion ratio of 0.6573.

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 Holdings, LLC, a wholly-owned subsidiary of the Bank, was formed for the purpose of holding and operating real estate assets that are acquired by the Bank through, or in lieu of, foreclosure. UCB Financial Services, Inc., a wholly-owned subsidiary of the Bank, was formed for a variety of purposes, but was primarily being used for the collection of commissions from a wealth management partner. In addition to the collection of commissions, during the current fiscal year, the Bank applied for, and received approval from the OCC to allow UCB Financial Services, Inc. to own and manage a portion of the Bank's municipal bond portfolio.

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

PRINCIPLES OF CONSOLIDATION – The consolidated financial statements include the accounts of the Company, the Bank, and its fully owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In preparing consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates and assumptions in the Company's financial statements are recorded in the allowances for loan and other real estate losses and deferred income taxes. Actual results could differ significantly from those estimates.

CASH AND CASH EQUIVALENTS – For purposes of reporting cash flows, cash and cash equivalents include cash and interest-bearing deposits in other financial institutions with original maturities of less than ninety days.

INVESTMENT SECURITIES – Investment and mortgage-backed securities are classified upon acquisition into one of three categories: held to maturity, trading, and available for sale, in accordance with FASB Accounting Standards Codification (ASC) Topic 320, *Investments.* Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling in the near-term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. The Bank had no trading securities at June 30, 2016 or 2015. Debt and equity securities not classified as either held to maturity securities or trading securities are classified as available for sale securities and reported at fair value, with unrealized gains or losses excluded from earnings and reported as a separate component of stockholders' equity, net of deferred taxes.

Interest income on securities is recorded net of applicable premium amortization or discount accretion. Generally, premiums on municipal bonds are amortized to the call date if a call is expected based upon the prevailing level of market interest rates. Discounts on municipal bonds are accreted to the maturity date unless a call is expected based upon the prevailing level of market interest rates.

Generally, premiums and discounts on mortgage-backed securities, collateralized mortgage obligations, and other securities with embedded call options are amortized or accreted as an adjustment to interest income based on the expected average life of the security using the interest method.

Gains and losses realized on the sale of investment securities are accounted for on the trade date using the specific identification method.

LOANS RECEIVABLE - Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation allocations and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans held for sale are recorded at lower of cost or market, determined in the aggregate. Loans are designated for sale as a part of the Bank’s asset/liability management strategy. Market value is determined based on expected volatility in interest rates and the anticipated holding period before the loan is sold. Due to the holding period being short term, the market value and cost of the loan are approximately the same. The Bank had $783,000 and $160,000 in loans held for sale at June 30, 2016 and 2015, respectively.

The Bank defers all loan origination fees, net of certain direct loan origination costs, and amortizes them over the contractual life of the loan as an adjustment of yield in accordance with ASC 310-20, *Receivables – Nonrefundable Fees and Other Costs.*

The Bank retains the servicing on loans sold and agrees to remit to the investor loan principal and interest at agreed-upon rates. These rates can differ from the loan’s contractual interest rate resulting in a “yield differential.” In addition to previously deferred loan origination fees and cash gains, gains on the sale of loans can represent the present value of the future yield differential less normal servicing fees, capitalized over the estimated life of the loans sold. Normal servicing fees are determined by reference to the stipulated minimum servicing fee set forth by the government agencies to which the loans are sold. Such servicing fees are amortized to operations over the life of the loans using the interest method. If prepayments are higher than expected, an immediate charge to operations is made. If prepayments are lower than original estimates, then the related adjustments are made prospectively.

During the fiscal year ended June 30, 2014, the Company changed its accounting method for mortgage servicing rights from the amortization method to the fair value method, as permitted in accordance with FASB ASC 860-50, “Servicing Assets and Liabilities.” The mortgage servicing right asset is measured at fair value at each reporting date with changes in the fair value of the servicing asset recorded in earnings in the period in which the changes occur. For purposes of measuring fair value, loans with similar characteristics are pooled together and evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize. Earnings are projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows and costs to service the loans. The present value of future earnings is the estimated market value for the pool based upon assumptions that a third party purchaser would utilize in evaluating the potential acquisition of the servicing rights.

The allowance for loan and lease losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management’s evaluation, which occurs no less than quarterly, of the adequacy of the allowance is based on the Bank’s past loan loss experience, known and inherent losses such as amount of loan, type of loan, concentrations, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, present value of expected future cash flows to support the loan, and current economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management.

Although Management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Bank's control.

The Bank's internal asset review committee reviews each loan with three or more delinquent payments, and each loan ninety days or more past due as to principal or interest, and decides whether the circumstances involved give reason to place the loan on nonaccrual status. The Board of Directors reviews this information as determined by the internal asset review committee each month. While a loan is classified as nonaccrual, cash receipts are applied in accordance with its contractual terms unless full payment of principal is not expected, in which case cash receipts, whether designated as principal or interest, are applied as a reduction in the carrying value of the loan. A nonaccrual loan is generally returned to accrual status when payments are current, full collectability of principal and interest is reasonably assured and a consistent record of performance has been demonstrated. Interest income is generally recognized on a cash basis.

A loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Bank considers its investment in one- to four-family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Bank's investment in multi-family and nonresidential loans, such loans are determined to be cash flow dependent or collateral dependent. Collateral dependent loans, as a practical expedient, are carried at the lower of cost or fair value based upon the most recent real estate appraisals. Cash flow dependent loans are carried at lower of cost or fair value based on the present value of expected future cash flows. Loans which are more than ninety days delinquent and are considered to constitute more than a minimum delay in repayment are evaluated for impairment at that time. It is the Bank's policy to charge off unsecured credits that are one hundred and twenty days or more delinquent.

From time to time, as part of our loss mitigation strategy, loans may be renegotiated in a troubled debt restructuring ("TDR") when we determine that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. We may consider the borrower's payment status and history, the borrower's ability to pay upon a rate reset on an adjustable rate mortgage, size of the payment increase upon a rate reset, period of time remaining prior to the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. TDRs are accounted for as set forth in ASC 310, *Receivables*. 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 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 and management determines that principal under the new terms is fully collectible.

Existing performing loan customers who request a loan modification ("non-TDR") 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. 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.

CONCENTRATION OF CREDIT RISK - The Bank has residential and commercial loans to customers in local counties in Southeastern Indiana, Northern Kentucky, and Southwestern Ohio. Although the Bank has a diversified loan portfolio, the ability of a substantial portion of its debtors to honor their contracts is dependent upon the local economy. Management maintains deposit accounts with financial institutions in excess of federal deposit insurance limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

OTHER REAL ESTATE OWNED - Real estate properties acquired through, or in lieu of, foreclosure are initially recorded at lower of cost or market, with fair value based on the value of the underlying collateral at the date of foreclosure, and are transferred to the Bank’s wholly-owned subsidiary, UCB Real Estate Management Holdings, LLC. Holding costs, including losses from operations, are expensed when incurred. Valuations are periodically performed, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated net realizable value.

PROPERTY AND EQUIPMENT - Property and equipment is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Land improvements	7 - 15	years
Buildings	15 - 39	years
Furniture and equipment	3 - 10	years

Significant renewals and betterments are charged to the property and equipment account. Maintenance and repairs are charged to operations in the period incurred.

INCOME TAXES – The Company accounts for income taxes in accordance with ASC 740-10-50. Pursuant to the provisions of ASC 740-10-50, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible or taxable temporary differences or carry forward attributes may be utilized against current period earnings, carried back against prior years’ earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management’s estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carry forward attributes exceeds management’s estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future. The Company applies a more likely than not recognition threshold for all tax uncertainties.

The Company’s principal temporary differences between pretax financial income and taxable income result primarily from timing differences for certain components of compensation and post-retirement expense, book and tax bad debt deductions, depreciation and amortization of goodwill and other intangible assets.

The determination of current and deferred income taxes is an accounting estimate which is based on the analyses of many factors including interpretation of federal and state income tax laws, the evaluation of uncertain tax positions, differences between the tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts due or owed such as the timing of reversal of temporary differences and current financial accounting standards. Actual results could differ from the estimates and tax law interpretations used in determining the current and deferred income tax liabilities.

EMPLOYEE STOCK OWNERSHIP PLAN - The Company accounts for the United Community Bank Employee Stock Ownership Plan ("ESOP") in accordance with ASC 718-40, *Compensation – Stock Compensation – Employee Stock Ownership Plans*. ESOP shares pledged as collateral are reported as unearned ESOP shares in stockholders' equity. As shares are committed to be released from collateral, the Bank will record compensation expense equal to the current market price of the shares. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is recorded to stockholders' equity as an adjustment to capital. Additionally, the shares become outstanding for basic net income per share computations.

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.

EARNINGS PER SHARE – 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 earnings per share ("EPS") is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effects of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method.

For each of the years ended June 30, 2016 and 2015, outstanding options to purchase 547,705 were excluded from the computations of diluted earnings per share as their effect would have been anti-dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

	June 30, 2016	2015
Basic weighted average outstanding shares	4,136,244	4,463,912
Effect of dilutive stock options	39,991	12,272
Diluted weighted average outstanding shares	4,176,235	4,476,184

COMPREHENSIVE INCOME – The Company presents in the consolidated statement of comprehensive income (loss) those amounts from transactions and other events which currently are excluded from the consolidated statement of income and are recorded directly to stockholders' equity.

GOODWILL – In June 2010, the Company 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.

Goodwill is not amortized but is tested for impairment when indicators of impairment exist, or at least annually, to determine the reasonableness of the recorded amount. During the year ended June 30, 2013, the Company adopted the provisions of FASB ASC 2011-08, *Intangibles – Goodwill and Other (Topic 350)*, which provides the option to first qualitatively assess whether current events or changes in circumstances lead to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying amount. Absent such determination, the Company does not need to apply the traditional two-step goodwill impairment test. If the Company does need to proceed to the two-step goodwill impairment test, an impairment loss is recognized in earnings only when the carrying amount of goodwill is less than its implied fair value.

For the years ended June 30, 2016, and 2015, no Goodwill impairment charges were determined to be warranted.

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

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

<u>Cash and cash equivalents</u>

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

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

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

<u>Loans receivable</u>

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.

<u>Federal Home Loan Bank stock</u>

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

Advance from Federal Home Loan Bank

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

Off-balance sheet items

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

ADVERTISING - The Company expenses advertising costs as incurred. Advertising costs consist primarily of television, radio, newspaper and billboard advertising.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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NOTE 2 – INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Mortgage-backed securities	$74,198	$ 619	$ 90	$74,727
Municipal Bonds	33,512	1,278	—	34,790
U.S. Government Agency Bonds	—	—	—	—
Small Business Admin	7,651	221	—	7,872
Collateralized Mortgage Obligations	31,650	182	—	31,832
Certificates of Deposit	2,971	93	—	3,064
Other Equity Securities	210	—	43	167
Total	$150,192	$ 2,393	$ 133	$152,452

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Municipal bonds	$40,763	$ 2,438	$ —	$ 43,201

Investment securities available for sale at June 30, 2015 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Mortgage-backed securities	$109,793	$ 170	$ 825	$109,138
Municipal Bonds	37,631	438	450	37,619
U.S. Government Agency Bonds	2,000	15	—	2,015
Small Business Admin	8,224	18	29	8,213

Collateralized Mortgage Obligations	13,032	9	199	12,842
Other equity securities	210	—	26	184
Total	$170,890	$ 650	$ 1,529	$170,011

Investment securities held to maturity at June 30, 2015 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Municipal bonds	$40,653	$ 52	$ 660	$ 40,045

Gross proceeds on the sale of investment and mortgage-backed securities were approximately $56,058,000 and $49,872,000 for the years ended June 30, 2016 and 2015, respectively. Gross realized gains for the years ended June 30, 2016 and 2015 were approximately $492,000 and $396,000, respectively. Gross realized losses for the years ended June 30, 2016 and 2015 were approximately $347,000 and $828,000, respectively.

The amount of investment securities pledged as security for advances from the FHLB totaled $47.7 million and $97.3 million as of June 30, 2016 and 2015, respectively. There were no pledged securities for municipal deposits as of June 30, 2016 and June 30, 2015. The Bank was notified on July 8, 2016 that it would not be required to pledge securities for municipal deposits during the September 2016 quarter.

The mortgage-backed securities, municipal bonds, small business admin, collateralized mortgage obligations, certificates of deposit, and U.S. government agency bonds available for sale have the following maturities at June 30, 2016:

	Amortized cost	Estimated market value
	(In thousands)	
Due or callable in one year or less	$235	$ 235
Due or callable in 1 - 5 years	102,255	102,831
Due or callable in 5 - 10 years	33,973	35,185
Due or callable in greater than 10 years	13,519	14,034
Total debt securities	$149,982	$ 152,285

All other securities available for sale at June 30, 2016 are saleable within one year. The Company held $40,763,000 and $40,653,000 in investment securities that are being held to maturity at June 30, 2016 and 2015, respectively. The investment securities held to maturity have annual returns of principal and will be fully matured between 2016 and 2036.

The expected returns of principal of investments held to maturity are as follows as of June 30, 2016 (in thousands):

2017	61
2018	65
2019	69
2020	—
2021	300
Thereafter	40,268
	$40,763

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at June 30, 2016 and 2015:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
June 30, 2016						
Municipal Bonds	$—	$ —	$ —	$ —	$—	$ —
Mortgage-backed securities	5,664	30	20,009	60	25,673	90
U.S. Government Agency Bonds	—	—	—	—	—	—
Small Business Admin	—	—	—	—	—	—
Collateralized Mortgage Obligations	—	—	—	—	—	—
Other equity securities	—	—	167	43	167	43
	$5,664	$ 30	$ 20,176	$ 103	$25,840	$ 133
Number of investments	2		8		10	
June 30, 2015						
Municipal Bonds	$44,626	$ 1,000	$ 2,910	$ 110	$47,536	$ 1,110
Mortgage-backed securities	38,317	194	40,120	631	78,437	825
U.S. Government Agency Bonds	—	—	—	—	—	—
Small Business Admin	4,959	29			4,959	29
Collateralized Mortgage Obligations	11,658	199			11,658	199
Other equity securities	—	—	184	26	184	26
	$99,560	$ 1,422	$ 43,214	$ 767	$142,774	$ 2,189
Number of investments	121		21		142	

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.

The detail of interest and dividends on investment securities is as follows:

	For the year ended June 30,	
	2016	2015
	(In thousands)	
Taxable interest income	$ 2,071	$ 2,226
Nontaxable interest income	1,877	1,414
Dividends	155	254
Total	$ 4,103	$ 3,894

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Mortgage-backed securities available for sale at June 30, 2016 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
FNMA	$ 64,273	$ 578	$ 90	$ 64,761
FHLMC	2,393	1	—	