

United Community Bancorp  
Form 10-Q  
February 12, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **0-54876**

**United Community Bancorp**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of incorporation or organization)

**80-0694246**

(I.R.S. Employer Identification No.)

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

**(812) 537-4822**

(Registrant's telephone number, including area code)

**N/A**

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

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

Yes  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  No

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

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

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

Yes  No

As of February 12 2016, there were 4,201,326 shares of the registrant's common stock outstanding.



**UNITED COMMUNITY BANCORP**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

## Consolidated Statements of Financial Condition

(In thousands, except share amounts)	Unaudited December 31, 2015	June 30, 2015
Assets		
Cash and due from banks	\$ 1,990	\$ 2,137
Interest-earning deposits in other financial institutions	21,466	16,385
Cash and cash equivalents	23,456	18,522
Investment securities:		
Securities available for sale - at estimated market value	62,249	60,873
Securities held to maturity - at amortized cost	40,903	40,653
Mortgage-backed securities available for sale - at estimated market value	83,511	109,138
Investment securities	186,663	210,664
Loans receivable, net	263,327	253,828
Loans available for sale	-	160
Property and equipment, net	6,839	7,016
Federal Home Loan Bank stock, at cost	3,527	3,527
Accrued interest receivable:		
Loans	882	828
Investments and mortgage-backed securities	987	994
Other real estate owned, net	228	286
Cash surrender value of life insurance policies	16,999	17,456
Deferred income taxes	3,031	3,268
Prepaid expenses and other assets	1,350	1,685
Goodwill	2,522	2,522
Intangible asset	369	429
Total assets	\$ 510,180	\$ 521,185
Liabilities and Stockholders' Equity		
Deposits	\$ 427,086	432,537

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Advances from FHLB	13,000	13,000
Accrued interest on deposits	7	10
Accrued interest on FHLB advance	10	10
Advances from borrowers for payment of insurance and taxes	534	386
Accrued expenses and other liabilities	2,239	3,805
Total liabilities	442,876	449,748
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, 4,201,326 shares outstanding at December 31, 2015	51	51
Additional paid-in capital	51,326	51,145
Retained earnings	31,232	30,037
Less shares purchased for stock plans	(2,705	) (2,923 )
Treasury Stock, at cost - 948,238 and 538,725 shares at December 31, 2015 and June 30, 2015, respectively	(12,400	) (6,337 )
Accumulated other comprehensive income (loss):		
Unrealized loss on securities available for sale, net of income taxes	(200	) (536 )
Total stockholders' equity	67,304	71,437
Total liabilities and stockholders' equity	\$ 510,180	\$ 521,185

See accompanying notes to the consolidated financial statements.

## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

### Consolidated Statements of Income

*unaudited*

(In thousands, except per share data)	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2015	2014	2015	2014
<b>Interest income:</b>				
Loans	\$ 2,890	\$ 2,857	\$ 5,777	\$ 5,706
Investments and mortgage-backed securities	993	950	2,064	1,862
Total interest income	3,883	3,807	7,841	7,568
<b>Interest expense:</b>				
Deposits	466	520	1,007	1,134
Borrowed funds	60	63	120	126
Total interest expense	526	583	1,127	1,260
Net interest income	3,357	3,224	6,714	6,308
Provision for loan losses	45	36	89	45
Net interest income after provision for loan losses	3,312	3,188	6,625	6,263
<b>Non interest income:</b>				
Service charges	750	710	1,493	1,381
Gain on sale of loans	66	33	156	60
Gain (loss) on sale of investments	54	(32)	60	(53)
Gain on sale of other real estate owned	27	52	27	71
Write down of other real estate owned	(17)	-	(41)	-
Income from bank owned life insurance	345	135	531	269
Other	128	75	194	129
Total other income	1,353	973	2,420	1,857
<b>Non interest expense:</b>				
Compensation and employee benefits	2,122	1,914	4,282	3,730
Premises and occupancy expense	264	284	526	623
Deposit insurance premium	86	89	168	188
Advertising expense	95	111	186	213
Data processing expense	336	417	655	756
Intangible amortization	30	30	60	60
Professional fees	172	159	459	473



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Other operating expenses	423	408	817	775
Total other expense	3,528	3,412	7,153	6,818
Income before income taxes	1,137	749	1,892	1,302
Income tax provision	159	81	215	155
Net income	\$ 978	\$ 668	\$ 1,677	\$ 1,147
Basic earnings per share	\$ 0.24	\$ 0.15	\$ 0.40	\$ 0.25
Diluted earnings per share	\$ 0.24	\$ 0.15	\$ 0.39	\$ 0.25

See accompanying notes to the consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

## Consolidated Statements of Comprehensive Income

*unaudited**(In thousands)*

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2015	2014	2015	2014
Net income	\$ 978	\$ 668	\$ 1,677	\$ 1,147
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities available for sale	(94 )	657	373	720
Reclassification adjustment for (gains) losses on securities available for sale included in income, net of tax	(33 )	20	(37 )	33
Comprehensive income	\$ 851	\$ 1,345	\$ 2,013	\$ 1,900

See accompanying notes to consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

*unaudited*

(In thousands)	For the Six Months Ended December 31,	
	2015	2014
Operating activities:		
Net income	\$ 1,677	\$ 1,147
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	194	217
Provision for loan losses	89	45
Deferred loan origination costs	31	(63 )
Amortization of premium on investments	965	1,411
Proceeds from sale of loans	5,923	1,735
Loans disbursed for sale in the secondary market	(5,607 )	(1,671 )
Gain on sale of loans	(156 )	(60 )
Amortization of intangible asset	60	60
Amortization of acquisition-related loan yield adjustment	(85 )	(116 )
Loss (gain) on sale of investment securities	(60 )	53
Real estate owned write down	41	-
Gain on sale of other real estate owned	(27 )	(71 )
Gain recognized from death benefit on bank owned life insurance	(298 )	-
Increase in cash surrender value of life insurance	(253 )	(269 )
Stock-based compensation	141	135
Amortization of ESOP shares	258	268
Deferred income taxes	25	74
Effects of change in operating assets and liabilities:		
Accrued interest receivable	(47 )	(79 )
Prepaid expenses and other assets	335	255
Accrued interest	(3 )	(4 )
Accrued expenses and other	(1,566 )	(376 )
Net cash provided by operating activities	1,637	2,691
Investing activities:		
Proceeds from maturity of available for sale investment securities	45	45
Proceeds from sale of available for sale investment securities	11,300	-
Proceeds from maturity of held to maturity securities	27	26
	10,684	16,389

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Proceeds from repayment of mortgage-backed securities and collateralized mortgage obligations available for sale		
Proceeds from sale of mortgage-backed securities available for sale	23,749	31,162
Proceeds from sale of other real estate owned	73	164
Purchases of available for sale investment securities	(19,421 )	(791 )
Purchases of held to maturity investment securities	(388 )	(21,316 )
Purchases of mortgage-backed securities available for sale	(2,352 )	(4,654 )
Proceeds from sale of Federal Home Loan Bank stock	-	1,249
Proceeds from bank owned life insurance death benefit	1,008	-
Net Increase in loans	(9,563 )	(5,295 )
Capital expenditures	(17 )	(172 )
Net cash provided by investing activities	15,145	16,807
Financing activities:		
Net decrease in deposits	(5,451 )	(19,084 )
Borrowings from Federal Home Loan Bank	-	5,000
Repayments of Federal Home Loan Bank advances	-	(5,000 )
Dividends paid to stockholders	(482 )	(581 )
Repurchases of common stock	(6,063 )	(3,860 )
Net increase in advances from borrowers for payment of insurance and taxes	148	73
Net cash used in financing activities	(11,848 )	(23,452 )
Net increase (decrease) in cash and cash equivalents	4,934	(3,954 )
Cash and cash equivalents at beginning of period	18,522	24,970
Cash and cash equivalents at end of period	\$ 23,456	\$ 21,016

See accompanying notes to consolidated financial statements.

## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure. UCB Financial Services, Inc., a wholly-owned subsidiary of the Bank, was formed for the purpose of collecting commissions on referrals to a third party wealth management company.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2015, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2015.

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

2. EMPLOYEE STOCK OWNERSHIP PLAN (“ESOP”) – As of December 31, 2015 the ESOP owned 173,894 shares of the Company’s common stock. At June 30, 2015, the ESOP owned 205,748 shares of the Company’s common stock. The shares owned by the ESOP are held in a suspense account until released for allocation to participants.

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

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Basic weighted average outstanding shares	4,120,938	4,421,455	4,245,039	4,502,524
Effect of dilutive stock options	35,301	—	30,552	—
Diluted weighted average outstanding shares	4,156,239	4,421,455	4,275,591	4,502,524

4. **STOCK-BASED COMPENSATION** – The Company applies the provisions of ASC 718, *Compensation – Stock Compensation*, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on a straight-line basis pursuant to ASC 718. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant. Stock-based compensation expense was \$98,000 and \$65,000 for the three months ended December 31, 2015 and 2014, respectively. Stock-based compensation was \$141,000 and \$135,000 for the six months ended December 31, 2015 and 2014, respectively. No stock-based compensation awards were granted during the three and six months ended December 31, 2015 and 2014.

5. **DIVIDENDS** – On August 13, 2015 and November 10, 2015 the Board of Directors of the Company declared cash dividends on the Company’s outstanding shares of stock of \$0.06 per share for each period. The dividends, totaling \$482,000, were paid during the six months ended December 31, 2015.

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

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

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

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Sellers for an aggregate purchase price of \$4,781,340, or \$15.00 per share. The repurchase was funded with cash on hand and completed the 5% repurchase program mentioned above. Following the repurchase transaction, the Company had 4,201,326 shares of common stock outstanding. There were no other repurchases after this date and therefore at December 31, 2015, there were 4,201,326 shares of common stock outstanding.



## 7. SUPPLEMENTAL CASH FLOW INFORMATION

Six Months Ended  
December 31,  
2015      2014  
(Dollars in thousands)

Supplemental disclosure of cash flow information is as follows:

Cash paid during the period for:

Income taxes, net	\$ 225	\$ 32
Interest	\$ 1,130	\$ 1,264

Supplemental disclosure of non-cash investing and financing activities is as follows:

Unrealized gains on securities designated as available for sale, net of tax	\$ 336	\$ 753
Transfers of loans to other real estate owned	\$ 29	\$ 202

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

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

Cash and cash equivalents

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

Investments and mortgage-backed securities

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

Loans receivable

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

Federal Home Loan Bank stock

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

Deposits

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

Advances from Federal Home Loan Bank

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

Off-balance sheet items

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

The estimated fair values of the Company's financial instruments at December 31, 2015 and June 30, 2015 are as follows:

	December 31, 2015		June 30, 2015	
	Carrying	Fair	Carrying	Fair
	Amounts	Value	Amounts	Value
	(In thousands)			
Financial assets:				
Cash and interest-bearing deposits	\$23,456	\$23,456	\$18,522	\$18,522
Investment securities available for sale	62,249	62,249	60,873	60,873
Investment securities held to maturity	40,903	41,819	40,653	40,045
Mortgage-backed securities	83,511	83,511	109,138	109,138
Loans receivable and loans receivable held for sale	263,327	263,407	253,988	254,944
Accrued interest receivable	1,869	1,869	1,822	1,822
Investment in FHLB stock	3,527	3,527	3,527	3,527

Financial liabilities:

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Deposits	427,086	427,996	432,537	433,479
Accrued interest payable	17	17	20	20
FHLB advances	13,000	13,105	13,000	13,114
Off-balance sheet items	\$—	\$—	\$—	\$—

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

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

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

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

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

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

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
(In thousands)				
December 31, 2015:				
Mortgage-backed securities	\$83,511	\$ —	\$ 83,511	\$ —
Municipal bonds	31,711	—	31,711	—
Small Business Administration	7,914	—	7,914	—
Collateralized Mortgage Obligations	19,467	—	19,467	—
Certificates of Deposit	2,969	—	2,969	—
Other equity securities	188	188	—	—
Mortgage servicing rights	548	—	548	—
June 30, 2015:				
Mortgage-backed securities	\$109,138	\$ —	\$ 109,138	\$ —
Municipal bonds	37,619	—	37,619	—
U.S. Government agency bonds	2,015	—	2,015	—
Small Business Administration	8,213	—	8,213	—
Collateralized Mortgage Obligations	12,842	—	12,842	—
Other equity securities	184	184	—	—
Mortgage servicing rights	517	—	517	—

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

Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs	Significant other unobservable inputs
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				<u>(Level 2)</u>		<u>(Level 3)</u>
	(In thousands)					
December 31, 2015:						
Other real estate owned	\$228	\$	—	\$ 228	\$	—
Impaired loans	8,814		—	8,814		—
June 30, 2015:						
Other real estate owned	\$286	\$	—	\$ 286	\$	—
Loans held for sale	160		—	160		—
Impaired loans	11,079		—	11,079		—

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

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

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
December 31, 2015:				
Financial assets:				
Cash and interest-bearing deposits	\$23,456	\$ 23,456	\$—	\$ —
Investment securities held to maturity	41,819	—	41,819	—
Loans receivable and loans held for sale	263,407	—	263,407	—
Accrued interest receivable	1,869	—	1,869	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	427,996	—	427,996	—
Accrued interest payable	17	—	17	—
FHLB advances	13,105	—	13,105	—
June 30, 2015:				
Financial assets:				
Cash and interest-bearing deposits	\$18,522	\$ 18,522	\$—	\$ —
Investment securities held to maturity	40,045	—	40,045	—
Loans receivable and loans held for sale	254,944	—	254,944	—
Accrued interest receivable	1,822	—	1,822	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	433,479	—	433,479	—
Accrued interest payable	20	—	20	—
FHLB advances	13,114	—	13,114	—

## 9. INVESTMENT SECURITIES

Investment securities available for sale at December 31, 2015 consisted of the following:

Amortized Cost	Gross Unrealized	Gross Unrealized	Estimated Market
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		Gains	Losses	Value
Mortgage-backed securities	\$ 84,149	\$ 30	\$ 668	\$83,511
Municipal bonds	31,215	579	83	31,711
Small Business Administration	7,946	2	34	7,914
Collateralized Mortgage Obligations	19,599	—	132	19,467
Certificates of Deposit	2,971	—	2	2,969
Other equity securities	210	—	22	188
	\$ 146,090	\$ 611	\$ 941	\$ 145,760

Investment securities held to maturity at December 31, 2015 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	\$ 40,903	\$ 944	\$ 28	\$ 41,819



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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
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 Administration	8,224	18	29	8,213
Collateralized Mortgage Obligations	13,032	9	199	12,842
Other equity securities	210	—	26	184
	\$ 170,890	\$ 650	\$ 1,529	\$ 170,011

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	\$ 40,653	\$ 52	\$ 660	\$ 40,045

The mortgage-backed securities, callable bonds, small business administration, collateralized mortgage obligations, and municipal bonds have the following maturities at December 31, 2015:

	Available for Sale		Held to Maturity	
	Amortized cost	Estimated market value	Amortized cost	Estimated market value
Due or callable in one year or less	\$411	\$412	\$59	\$ 59
Due or callable in 1 - 5 years	106,709	106,081	165	172
Due or callable in 5 - 10 years	32,349	32,532	5,058	5,143
Due or callable in greater than 10 years	6,411	6,547	35,621	36,445
Total debt securities	\$ 145,880	\$ 145,572	\$ 40,903	\$ 41,819

All other securities available for sale at December 31, 2015 are saleable within one year.

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Gross proceeds on the sale of investments and mortgage-backed securities were \$26.4 million and \$4.3 million for the three months ended December 31, 2015 and 2014, respectively. Gross proceeds on the sale of investments and mortgage-backed securities were \$35.0 million and \$31.2 million for the six months ended December 31, 2015 and 2014, respectively. Gross realized gains for the three month periods ended December 31, 2015 and 2014 were \$287,000 and \$11,000, respectively. Gross realized gains for the six-month periods ended December 31, 2015 and 2014 were \$365,000 and \$260,000, respectively. Gross realized losses for the three months periods ended December 31, 2015 and 2014 were \$233,000 and \$43,000, respectively. Gross realized losses for the six-month periods ended December 31, 2015 and 2014 were \$305,000 and \$313,000, respectively.

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at December 31, 2015:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Municipal bonds	\$9,654	\$ 65	\$ 2,877	\$ 46	\$12,531	\$ 111
Mortgage-backed securities	43,121	272	27,411	396	70,532	668
Small Business Administration	4,826	34	—	—	4,826	34
Collateralized Mortgage Obligations	11,745	132	—	—	11,745	132
Certificates of deposit	1,481	2	—	—	1,481	2
Other equity securities	—	—	188	22	188	22
	\$70,827	\$ 505	\$ 30,476	\$ 464	\$101,303	\$ 969
Number of investments		50		17		67

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

## 10. GOODWILL AND INTANGIBLE ASSET

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

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Company in connection with its acquisition relates to the inherent value in the business acquired and this value is dependent upon the Company’s ability to provide quality, cost-effective

services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods.

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

The following table indicates changes to the core deposit intangible asset and goodwill balances for the six months ended December 31, 2015:

	Core Deposit Intangible (In thousands)	Goodwill
Balance at June 30, 2015	\$429	\$ 2,522
Amortization	60	—
Balance at December 31, 2015	\$369	\$ 2,522

The core deposit intangible is being amortized using the double declining balance method over its estimated useful life of 8.75 years. Remaining amortization of the core deposit intangible is as follows (dollars in thousands) as of December 31, 2015:

January 1, 2016 through June 30, 2016	\$ 57
2017	117
2018	117
2019	78
	\$ 369

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

The following tables illustrate certain disclosures required by ASC 310-10-50-11B(c), (g) and (h), the changes to the allowance for loan losses, for the three and six months ended December 31, 2015 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four- Family Owner- Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi- family Non- owner Occupied Mortgage	Non- Residential Real estate	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:								
Balance, October 1, 2015:	\$ 1,304	\$ 448	\$ 121	\$ 441	\$ 2,772	\$ 16	\$ 49	