United Community Bancorp
Form 10-Q
November 15, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

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: 0-51800

**United Community Bancorp**

(Exact name of registrant as specified in its charter)

| **United States of America** | **36-4587081** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 92 Walnut Street, Lawrenceburg, Indiana | 47025 |
| (Address of principal executive offices) | (Zip Code) |

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

**N/A**
(Former name, former address and former fiscal year, if changed since last report)

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

| Large accelerated filer ¨ | Accelerated filer ¨ | Non-accelerated filer ¨ | Smaller Reporting Company x |
|---|---|---|---|

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

Yes ¨ No x

As of November 9, 2012, there were 7,834,782 shares of the registrant's common stock outstanding, of which 4,655,200 shares were held by United Community MHC.

**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) | September 30, 2012 | June 30, 2012 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 1,677 | $ 1,872 |
| Interest-earning deposits in other financial institutions | 29,594 | 27,207 |
| Cash and cash equivalents | 31,271 | 29,079 |
| Investment securities: | | |
| Securities available for sale - at estimated market value | 25,355 | 21,275 |
| Securities held to maturity - at amortized cost | 471 | 493 |
| Mortgage-backed securities available for sale - at estimated market value | 135,600 | 124,621 |
| Loans receivable, net | 272,076 | 283,154 |
| Loans available for sale | 802 | 393 |
| Property and equipment, net | 6,943 | 7,062 |
| Federal Home Loan Bank stock, at cost | 6,588 | 6,588 |
| Accrued interest receivable: | | |
| Loans | 1,213 | 1,137 |
| Investments and mortgage-backed securities | 678 | 585 |
| Other real estate owned, net | 763 | 197 |
| Cash surrender value of life insurance policies | 9,963 | 10,010 |
| Deferred income taxes | 2,491 | 3,004 |
| Prepaid expenses and other assets | 4,587 | 4,913 |
| Goodwill | 2,522 | 2,522 |
| Intangible asset | 830 | 870 |
| Total assets | 502,153 | $ 495,903 |
| Liabilities and Stockholders' Equity | | |
| Deposits | $ 433,059 | 426,967 |
| Advances from FHLB | 10,583 | 10,833 |
| Accrued interest on deposits | 31 | 33 |

| | | |
|---|---|---|
| Accrued interest on FHLB advance | 8 | 8 |
| Advances from borrowers for payment of insurance and taxes | 528 | 325 |
| Accrued expenses and other liabilities | 2,647 | 2,749 |
| Total liabilities | 446,856 | 440,915 |
| | | |
| Stockholders' equity | | |
| Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued | - | - |
| Common stock, $0.01 par value; 19,000,000 shares authorized, 8,464,000 shares issued at September 30, 2012 and June 30, 2012; 7,834,782 shares outstanding at September 30, 2012 and June 30, 2012 | 36 | 36 |
| Additional paid-in capital | 36,928 | 36,958 |
| Retained earnings | 26,693 | 27,060 |
| Less shares purchased for stock plans | (2,343) | (2,416) |
| Treasury Stock, at cost - 629,218 shares at September 30, 2012 and June 30, 2012 | (7,122) | (7,122) |
| Accumulated other comprehensive income: | | |
| Unrealized gain on securities available for sale, net of income taxes | 1,105 | 472 |
| | | |
| Total stockholders' equity | 55,297 | 54,988 |
| | | |
| Total liabilities and stockholders' equity | $ 502,153 | $ 495,903 |

See accompanying notes to the consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

Consolidated Statements of Income

*(In thousands, except share amounts)*

| (In thousands, except per share data) | For the three months ended September 30, 2012 | 2011 |
|---|---|---|
| Interest income: | | |
| Loans | $ 3,450 | $ 3,898 |
| Investments and mortgage-backed securities | 775 | 789 |
| Total interest income | 4,225 | 4,687 |
| Interest expense: | | |
| Deposits | 956 | 1,138 |
| Borrowed funds | 47 | 14 |
| Total interest expense | 1,003 | 1,152 |
| Net interest income | 3,222 | 3,535 |
| Provision for loan losses | 250 | 898 |
| Net interest income after provision for loan losses | 2,972 | 2,637 |
| Other income: | | |
| Service charges | 621 | 639 |
| Gain on sale of loans | 248 | 83 |
| Gain on sale of investments | - | 236 |
| Gain on sale of other real estate owned | 7 | - |
| Income from bank owned life insurance | 135 | 67 |
| Other | 56 | 101 |
| Total other income | 1,067 | 1,126 |
| Other expense: | | |
| Compensation and employee benefits | 1,809 | 1,736 |
| Premises and occupancy expense | 339 | 328 |
| Deposit insurance premium | 177 | 137 |
| Advertising expense | 96 | 93 |
| Data processing expense | 373 | 305 |
| Intangible amortization | 40 | 39 |
| Professional fees | 302 | 198 |
| Other operating expenses | 281 | 313 |
| Total other expense | 3,417 | 3,149 |

| | | |
|---|---|---|
| Income before income taxes | 622 | 614 |
| Income tax provision | 128 | 138 |
| Net income | $ 494 | $ 476 |
| Basic and diluted earnings per share | $ 0.06 | $ 0.06 |

See accompanying notes to the consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income

*(In thousands)*

| | For the three months ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| Net income | $ 494 | $ 476 |
| Other comprehensive income, net of tax | | |
| Unrealized gain on securities available for sale | 633 | 946 |
| Reclassification adjustment for gains on securities available for sale included in income | - | (236) |
| Total comprehensive income | $ 1,127 | $ 1,186 |

See accompanying notes to the consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

| (In thousands) | For the three months ended September 30, 2012 | 2011 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 494 | $ 476 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 131 | 144 |
| Provision for loan losses | 250 | 898 |
| Deferred loan origination costs | (36) | (22) |
| Amortization of premium on investments | 681 | 530 |
| Proceeds from sale of loans | 6,378 | 5,422 |
| Loans disbursed for sale in the secondary market | (6,539) | (5,840) |
| Gain on sale of loans | (248) | (83) |
| Amortization of intangible asset | 40 | 39 |
| Amortization of acquisition-related loan yield adjustment | (61) | - |
| Amortization of acquisition-related CD yield adjustment | (4) | (9) |
| Gain on sale of investment securities | - | (236) |
| Gain on sale of other real estate owned | (7) | - |
| Increase in cash surrender value of life insurance | (135) | (67) |
| ESOP shares committed to be released | 42 | 42 |
| Stock-based compensation expense | - | 24 |
| Deferred income taxes | 110 | (156) |
| Effects of change in operating assets and liabilities: | | |
| Accrued interest receivable | (169) | 137 |
| Prepaid expenses and other assets | 326 | 578 |
| Accrued interest | (2) | (3) |
| Accrued expenses and other | (102) | (76) |
| Net cash provided by operating activities | 1,149 | 1,798 |
| Investing activities: | | |
| Proceeds from maturity of available for sale investment securities | - | 6,000 |
| Proceeds from sale of available for sale investment securities | - | 11,362 |
| Proceeds from maturity of held to maturity securities | 22 | 21 |
| Proceeds from repayment of mortgage-backed securities available for sale | 6,506 | 5,187 |
| Proceeds from sale of mortgage-backed securities available for sale | - | 14,193 |
| Proceeds from sale of other real estate owned | 41 | - |
| Purchases of available for sale investment securities | (3,934) | (860) |
| Purchases of mortgage-backed securities available for sale | (17,274) | (42,151) |

| | | |
|---|---|---|
| Purchases of Federal Home Loan Bank stock | - | (4,081) |
| Net decrease in loans | 10,325 | 1,483 |
| Proceeds from (purchase of) bank owned life insurance | 182 | (1,999) |
| Capital expenditures | (12) | (56) |
| Net cash used in investing activities | (4,144) | (10,901) |
| Financing activities: | | |
| Net increase in deposits | 6,096 | 2,262 |
| Repayments of Federal Home Loan Bank advances | (250) | (250) |
| Dividends paid to stockholders | (862) | (372) |
| Net increase in advances from borrowers for payment of insurance and taxes | 203 | 182 |
| Net cash provided by financing activities | 5,187 | 1,822 |
| Net increase (decrease) in cash and cash equivalents | 2,192 | (7,281) |
| Cash and cash equivalents at beginning of period | 29,079 | 31,159 |
| Cash and cash equivalents at end of period | $ 31,271 | $ 23,878 |

See accompanying notes to consolidated financial statements.

**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1. BASIS OF PRESENTATION- The Company, a Federally-chartered corporation, is the mid-tier holding company for United Community Bank (the "Bank"), which is a Federally-chartered, FDIC-insured savings bank. The Company was organized in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure on March 30, 2006. United Community MHC (the "MHC"), a Federally-chartered corporation, is the mutual holding company parent of the Company. At September 30, 2012, the MHC owned approximately 59.4% of the Company and must always own at least a majority of the voting stock of the Company. 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 United Community Bank, was formed for the purpose of collecting commissions on investments referred to Lincoln Financial Group.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three-month period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013. 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, 2012, which are included on the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 7, 2012.

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. PLAN OF CONVERSION AND REORGANIZATION – The Boards of Directors of the MHC and the Company adopted a Plan of Conversion and Reorganization (the "Plan") on March 10, 2011 as amended and restated on May 12, 2011 and September 6, 2012. Pursuant to the Plan, the MHC will convert from the mutual holding company form of organization to the fully public form. The MHC will be merged into the Company, and the MHC will no longer exist. The Company will merge into a new Indiana corporation named United Community Bancorp. As part of the conversion, the MHC's ownership interest of the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represents the remaining ownership interest in the Company, will be exchanged for new shares of common stock of United Community Bancorp, the new Indiana corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public shareholders of the Company will own the same aggregate percentage of United Community Bancorp common stock that they owned

immediately prior to that time (excluding shares purchased in the stock offering and cash received in lieu of fractional shares). When the conversion and public offering are completed, all of the capital stock of United Community Bank will be owned by United Community Bancorp, the Indiana corporation.

The Plan provides for the establishment, upon the completion of the conversion, of special "liquidation accounts" for the benefit of certain depositors of United Community Bank in an amount equal to the greater of the MHC's ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus or the retained earnings of United Community Bank at the time it reorganized into the MHC. Following the completion of the conversion, under the rules of the Office of the Comptroller of the Currency ("OCC"), United Community Bank will not be permitted to pay dividends on its capital stock to United Community Bancorp, its sole shareholder, if United Community Bank's shareholder's equity would be reduced below the amount of the liquidation accounts. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation accounts.

Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. If the conversion and public offering are not completed, all costs will be charged to expense in the period in which the public offering is terminated. Costs of $557,000 had been incurred and capitalized related to the conversion during the fiscal year ended June 30, 2011. Additional costs of $712,000 had been incurred and capitalized related to the conversion during the fiscal year ended June 30, 2012. Additional costs of $101,000 have been incurred and capitalized related to the conversion during the three months ended September 30, 2012.

3. EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP") – As of September 30, 2012 and June 30, 2012, the ESOP owned 151,632 shares of the Company's common stock, which were held in a suspense account until released for allocation to participants.

4. EARNINGS PER SHARE ("EPS") – 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 were exercised or converted into common stock or resulted in the issuance of common stock. For each of the three month periods ended September 30, 2012 and 2011, outstanding options to purchase 346,304 shares were excluded from the computations of diluted earnings per share as their effect would have not been dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| Basic weighted average outstanding shares | 7,683,150 | 7,638,321 |
| Effect of dilutive stock options | — | — |
| Diluted weighted average outstanding shares | 7,683,150 | 7,638,321 |

5. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718-10-35-2, *Compensation-Stock Compensation*, to stock-based 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 an accelerated basis pursuant to ASC 718-10-35-8. 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. No stock-based compensation awards were granted during the three-month periods ended September 30, 2012 and 2011.

6. DIVIDENDS – On July 26, 2012, the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of $0.11 per share. The dividend, totaling $862,000 was paid on August 31, 2012.

7. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three Months Ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| | (Dollars in thousands) | |
| Supplemental disclosure of cash flow information is as follows: | | |
| Cash paid during the period for: | | |
| Income taxes | $ 33 | $ — |
| Interest | $ 1,005 | $ 1,155 |
| | | |
| Supplemental disclosure of non-cash investing and financing activities is as follows: | | |
| Unrealized gains on securities designated as available for sale, net of tax | $ 633 | $ 710 |
| Transfers of loans to other real estate owned | $ 600 | $ 237 |

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

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

Cash and cash equivalents

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

Investments and mortgage-backed securities

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

Loans receivable

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

Federal Home Loan Bank stock

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

Deposits

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

Advance from Federal Home Loan Bank

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

Off-balance sheet items

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

The estimated fair values of the Company's financial instruments at September 30, 2012 and June 30, 2012 are as follows:

| | September 30, 2012 | | June 30, 2012 | |
|---|---|---|---|---|
| | Carrying Amounts | Fair Value | Carrying Amounts | Fair Value |
| | (In thousands) | | | |
| Financial assets: | | | | |
| Cash and due from banks | $31,271 | $31,271 | $29,079 | $29,079 |
| Investment securities available for sale | 25,355 | 25,355 | 21,275 | 21,275 |
| Investment securities held to maturity | 471 | 471 | 493 | 493 |
| Mortgage-backed securities | 135,600 | 135,600 | 124,621 | 124,621 |
| Loans receivable and loans receivable held for sale | 272,878 | 270,642 | 283,547 | 280,244 |
| Accrued interest receivable | 1,891 | 1,891 | 1,722 | 1,722 |
| Investment in FHLB stock | 6,588 | 6,588 | 6,588 | 6,588 |
| | | | | |
| Financial liabilities: | | | | |
| Deposits | 433,059 | 435,172 | 426,967 | 429,208 |
| Accrued interest payable | 39 | 39 | 33 | 33 |
| FHLB advance | 10,583 | 10,833 | 10,883 | 10,911 |
| | | | | |
| Off-balance sheet items | $— | $— | $— | $— |

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

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

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

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

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

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

| | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant other unobservable inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| September 30, 2012: | | | | |
| Mortgage-backed securities | $135,600 | $ — | $ 135,600 | $ — |
| Municipal bonds | 25,228 | — | 25,228 | — |
| Other equity securities | 127 | 127 | — | — |
| | | | | |
| June 30, 2012: | | | | |
| Mortgage-backed securities | $124,621 | $ — | $ 124,621 | $ — |
| Municipal bonds | 21,148 | — | 21,148 | — |
| Other equity securities | 127 | 127 | — | — |

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

| | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant other unobservable inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| September 30, 2012: | | | | |
| Other real estate owned | $763 | $ — | $ 763 | $ — |
| Loans held for sale | 802 | — | 802 | — |
| Impaired loans | 26,746 | — | 26,746 | — |
| | | | | |
| June 30, 2012: | | | | |
| Other real estate owned | $197 | $ — | $ 197 | $ — |
| Loans held for sale | 393 | — | 393 | — |
| Impaired loans | 28,190 | — | 28,190 | — |

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

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9. INVESTMENT SECURITIES

Investment securities available for sale at September 30, 2012 consist of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Mortgage-backed securities | $ 134,458 | $ 1,467 | $ 325 | $ 135,600 |
| Municipal bonds | 24,465 | 831 | 68 | 25,228 |
| Other equity securities | 210 | — | 83 | 127 |
| | $ 159,133 | $ 2,298 | $ 476 | $ 160,955 |

Investment securities held to maturity at September 30, 2012 consist of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Municipal Bonds | $ 471 | $ — | $ — | $ 471 |

Investment securities available for sale at June 30, 2012 consist of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Mortgage-backed securities | $ 124,354 | $ 566 | $ 299 | $ 124,621 |
| Municipal bonds | 20,548 | 693 | 93 | 21,148 |
| Other equity securities | 210 | — | 83 | 127 |
| | $ 145,112 | $ 1,259 | $ 475 | $ 145,896 |

Investment securities held to maturity at June 30, 2012 consist of the following:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Municipal Bonds | $ 493 | $ — | $ — | $ 493 |

The mortgage-backed securities, callable bonds and municipal bonds available for sale have the following maturities at September 30, 2012:

| | Amortized cost | Estimated market value |
|---|---|---|
| Due or callable in one year or less | $ - | $ - |
| Due or callable in 1 - 5 years | 85,353 | 86,339 |
| Due or callable in 5 - 10 years | 59,552 | 60,121 |
| Due or callable in greater than 10 years | 14,018 | 14,368 |
| Total debt securities | $ 158,923 | $ 160,828 |

All other securities available for sale at September 30, 2012 are saleable within one year. The Bank held $471,000 and $493,000 in investment securities that are being held to maturity at September 30, 2012 and June 30, 2012, respectively. The investment securities held to maturity have annual returns of principal and will be fully matured between 2014 and 2019.

The expected returns of principal of investments held to maturity are as follows as of September 30, 2012

(dollars in thousands):

| | |
|---|---|
| October 1, 2012 through June 30, 2013 | $24 |
| 2014 | 49 |
| 2015 | 147 |
| 2016 | 56 |
| 2017 and thereafter | 195 |
| | $471 |

Gross proceeds on the sale of investment and mortgage-backed securities were $-0- and $25.6 million for the three-month periods ended September 30, 2012 and 2011, respectively. Gross realized gains for the three-month periods ended September 30, 2012 and 2011 were $-0- and $236,000, respectively. There were no gross realized losses for the three months ended September 30, 2012 and 2011.

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at September 30, 2012:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Mortgage-backed securities | $39,680 | $ 291 | $ 2,652 | $ 34 | $42,332 | $ 325 |
| Municipal bonds | 6,869 | 68 | - | - | 6,869 | 68 |
| Other equity securities | - | - | 127 | 83 | 127 | 83 |
| | $46,549 | $ 359 | $ 2,779 | $ 117 | $49,328 | $ 476 |
| Number of investments | 22 | | 2 | | 24 | |

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, 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. Potential goodwill impairment exists when the fair value of the reporting unit (as defined by U.S. GAAP) is less than its carrying value. An impairment loss is recognized in earnings only when the carrying amount of goodwill is less than its implied fair value.

The following table indicates changes to the core deposit intangible asset and goodwill balances for the three month period ended September 30, 2012:

| | Core Deposit Intangible | Goodwill |
|---|---|---|
| | ( in thousands) | |
| Balance at June 30, 2012 | $870 | $ 2,522 |
| Amortization | (40 ) | - |
| Balance at September 30, 2012 | $830 | $ 2,522 |

The core deposit intangible is being amortized using the double declining balance method over its estimated useful life of 8.75 years. Remaining amortization of the core deposit intangible is as follows (dollars in thousands) as of September 30, 2012:

| | |
|---|---|
| October 1, 2012 through June 30, 2013 | $140 |
| 2014 | 143 |
| 2015 | 118 |
| 2016 | 117 |
| 2017 | 117 |
| 2018 and thereafter | 195 |
| | $830 |

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

The following tables illustrate certain disclosures required by ASC 310-10-50-11B(c), (g) and (h), the changes to the allowance for loan losses, for the three months ended September 30, 2012 (in thousands):

| | One- to Four- Family Owner-Occupied Mortgage | Consumer | One- to Four-family Non-owner Occupied Mortgage | Multi-family Non-owner Occupied Mortgage | Non-Residential Real estate | Construction | Land | Commercial and Agricultural | Total |
|---|---|---|---|---|---|---|---|---|---|
| Allowance for Credit Losses: | | | | | | | | | |
| Balance, July 1, 2012: | $ 666 | $ 477 | $ 236 | $ 1,915 | $ 2,282 | $ 3 | $ 11 | $ 24 | $ 5,614 |
| Charge offs | (59) | (50) | - | - | (100) | - | - | - | (209) |
| Recoveries | 5 | 13 | (1) | 9 | 1 | - | - | 1 | 28 |
| Provision | 323 | 111 | 22 | (253) | 38 | 3 | 8 | (2) | 250 |
| Ending Balance: | $ 935 | $ 551 | $ 257 | $ 1,671 | $ 2,221 | $ 6 | $ 19 | $ 23 | $ 5,683 |
| Balance, Individually Evaluated | $ 17 | $ - | $ 6 | $ 448 | $ 435 | $ - | $ - | $ - | $ 906 |
| Balance, Collectively Evaluated | $ 918 | $ 551 | $ 251 | $ 1,223 | $ 1,786 | $ 6 | $ 19 | $ 23 | $ 4,777 |
| Financing receivables: | | | | | | | | | |
| Ending balance | $ 119,524 | $ 35,519 | $ 18,329 | $ 35,424 | $ 55,547 | $ 1,386 | $ 3,665 | $ 7,775 | $ 277,169 |
| Ending Balance: individually evaluated for impairment | $ 4,903 | $ 1,619 | $ 1,976 | $ 13,547 | $ 6,047 | $ - | $ 27 | $ 236 | $ 28,355 |
| Ending Balance: collectively evaluated for impairment | $ 101,429 | $ 28,873 | $ 15,621 | $ 21,497 | $ 45,034 | $ 1,386 | $ 3,556 | $ 6,577 | $ 223,973 |
| Ending Balance: loans acquired | $ 13,192 | $ 5,027 | $ 732 | $ 380 | $ 4,466 | $ - | $ 82 | $ 962 | $ 24,841 |

with
deteriorated
credit quality

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Allowance for Credit Losses and Recorded Investment in Loans Receivable

For the year ended June 30, 2012 (in thousands):

| | One- to Four-Family Owner-Occupied Mortgage | Consumer | One- to Four-family Non-owner Occupied Mortgage | Multi-family Non-owner Occupied Mortgage | Non-Residential Real estate | Construction | Land | Commercial and Agricultural | Total |
|---|---|---|---|---|---|---|---|---|---|
| Allowance for Credit Losses: | | | | | | | | | |
| Beginning balance: | $ 800 | $ 310 | $ 112 | $ 2,610 | $ 1,462 | $ 3 | $ 12 | $ 26 | $ 5,335 |
| Charge offs | (529) | (302) | - | (1,233) | (1,804) | - | (8) | (23) | (3,899) |
| Recoveries | 135 | 105 | - | 256 | 4 | - | - | 16 | 516 |
| Provision | 260 | 364 | 124 | 282 | 2,620 | - | 7 | 5 | 3,662 |
| Ending Balance: | $ 666 | $ 477 | $ 236 | $ 1,915 | $ 2,282 | $ 3 | $ 11 | $ 24 | $ 5,614 |
| Balance, Individually Evaluated | $ 17 | $ - | $ 9 | $ 487 | $ 562 | $ - | $ - | $ - | $ 1,075 |
| Balance, Collectively Evaluated | $ 649 | $ 477 | $ 227 | $ 1,428 | $ 1,720 | $ 3 | $ 11 | $ 24 | $ 4,539 |
| Financing receivables: | | | | | | | | | |
| Ending balance | $ 121,701 | $ 35,595 | $ 17,821 | $ 42,325 | $ 59,123 | $ 1,189 | $ 3,441 | $ 7,004 | $ 288,199 |
| Ending Balance: individually evaluated for impairment | $ 5,992 | $ 1,652 | $ 1,051 | $ 14,000 | $ 7,177 | $ - | $ 28 | $ 240 | $ 30,140 |
| Ending Balance: collectively evaluated for impairment | $ 102,175 | $ 28,561 | $ 16,019 | $ 27,914 | $ 47,307 | $ 1,189 | $ 3,330 | $ 5,616 | $ 232,111 |
| Ending Balance: loans acquired with deteriorated credit quality | $ 13,534 | $ 5,382 | $ 751 | $ 411 | $ 4,639 | $ - | $ 83 | $ 1,148 | $ 25,948 |

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

Credit Risk Profile by Internally Assigned Grade

At September 30, 2012

*(in thousands)*

| | One- to Four-Family Owner-Occupied Mortgage | Consumer | One- to Four-family Non-owner Occupied Mortgage | Multi-family Non-owner Occupied Mortgage | Non-Residential Real estate | Construction | Land | Commercial and Agricultural | Total |
|---|---|---|---|---|---|---|---|---|---|
| Grade: | | | | | | | | | |
| Pass | $105,945 | $33,961 | $12,080 | $16,203 | $30,256 | $ 707 | $2,673 | $ 6,441 | $208,266 |
| Watch | 7,279 | 1,004 | 3,945 | 3,006 | 11,554 | 479 | 965 | 639 | 28,871 |
| Special mention | 526 | 22 | 823 | 344 | 7,623 | — | — | 46 | 9,384 |
| Substandard | 5,774 | 532 | 1,481 | 15,871 | 6,114 | 200 | 27 | 649 | 30,648 |
| Total: | $119,524 | $35,519 | $18,329 | $35,424 | $55,547 | $ 1,386 | $3,665 | $ 7,775 | $277,169 |

Credit Risk Profile by Internally Assigned Grade

At June 30, 2012

*(in thousands)*

| | One- to Four-Family Owner-Occupied Mortgage | Consumer | One- to Four-family Non-owner Occupied Mortgage | Multi-family Non-owner Occupied Mortgage | Non-Residential Real estate | Construction | Land | Commercial and Agricultural | Total |
|---|---|---|---|---|---|---|---|---|---|
| Grade: | | | | | | | | | |
| Pass | $108,642 | $34,380 | $11,836 | $15,423 | $30,379 | $ 510 | $2,577 | $ 6,015 | $209,762 |
| Watch | 6,503 | 683 | 4,059 | 10,223 | 11,250 | 479 | 836 | 615 | 34,648 |
| Special mention | 268 | 24 | 827 | 347 | 10,249 | — | — | — | 11,715 |
| Substandard | 6,288 | 508 | 1,099 | 16,332 | 7,245 | 200 | 28 | 374 | 32,074 |
| Total: | $121,701 | $35,595 | $17,821 | $42,325 | $59,123 | $ 1,189 | $3,441 | $ 7,004 | $288,199 |

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

Age Analysis of Past Due Loans Receivable

At September 30, 2012

| | (in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 days past due | 60-89 days past due | Greater than 90 days | Total past due | Total current | Total loans receivable |
| Mortgage One- to Four- Family - Owner-Occupied | $1,000 | $ 218 | $ 1,213 | $2,431 | $117,093 | $ 119,524 |
| Consumer | 296 | 3 | 102 | 401 | 35,118 | 35,519 |
| One- to Four- Family Non-Owner Occupied Mortgage | 1,251 | - | 56 | 1,307 | 17,022 | 18,329 |
| Multi-family Residential Real Estate Mortgage | 488 | - | 2,405 | 2,893 | 32,531 | 35,424 |
| Non-Residential Real Estate | 41 | - | - | 41 | 55,506 | 55,547 |
| Construction | - | - | - | - | 1,386 | 1,386 |
| Land | 50 | - | - | 50 | 3,615 | 3,665 |
| Commercial and Agricultural | 6 | 46 | - | 52 | 7,723 | 7,775 |
| Total | $3,132 | $ 267 | $ 3,776 | $7,175 | $269,994 | $ 277,169 |

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Age Analysis of Past Due Loans Receivable

At June 30, 2012

*(in thousands)*

| | 30-59 days past due | 60-89 days past due | Greater than 90 days | Total past due | Total current | Total loans receivable |
|---|---|---|---|---|---|---|
| Mortgage One- to Four- Family - Owner-Occupied | $ 1,764 | $ 355 | $ 993 | $3,112 | $118,589 | $ 121,701 |
| Consumer | 195 | 15 | 274 | 484 | 35,111 | 35,595 |
| One- to Four- Family Non-Owner-Occupied Mortgage | 947 | — | 53 | 1,000 | 16,821 | 17,821 |
| Multi-family Residential Real Estate Mortgage | 489 | — | — | 489 | 41,836 | 42,325 |
| Nonresidential Real Estate | 207 | 306 | 698 | 1,211 | 57,912 | 59,123 |
| Construction | — | — | — | — | 1,189 | 1,189 |
| Land | — | — | — | — | 3,441 | 3,441 |
| Commercial and Agricultural | 246 | — | — | 246 | 6,758 | 7,004 |
| Total | $ 3,848 | $ 676 | $ 2,018 | $6,542 | $281.657 | $ 288,199 |

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

Impaired Loans

| | For the three months ended September 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Specific allowance | Interest income recognized | Average recorded investment |
| | (in thousands) | | | | |
| With a related allowance recorded: | | | | | |
| Mortgage One- to Four- Family - Owner-Occupied | $ 39 | $ 68 | $ 17 | $ - | $ 39 |
| Consumer | 341 | 347 | 6 | 5 | 409 |
| One- to Four- Family Non-Owner Occupied Mortgage | 4,237 | 4,685 | 448 | 20 | 4,252 |
| Multi-family Residential Real Estate Mortgage | 4,287 | 5,847 | 435 | 16 | 4,601 |
| Nonresidential Real Estate | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Land | - | - | - | - | - |
| Commercial and Agricultural | - | - | - | - | - |
| Total | $ 8,904 | $ 10,947 | $ 906 | $ 41 | $ 9,301 |

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Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the three months ended September 30, 2012 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| With no related allowance recorded: | | | | | |
| Mortgage One- to Four- Family - Owner-Occupied | $5,717 | $6,503 | $ - | $ 16 | $ 6,097 |
| Consumer | 532 | 1,226 | - | 5 | 520 |
| One- to Four- Family Non-Owner Occupied Mortgage | 1,136 | 1,256 | - | 6 | 710 |
| Multi-family Residential Real Estate Mortgage | 8,862 | 12,572 | - | 66 | 9,054 |
| Nonresidential Real Estate | 1,333 | 3,839 | - | 5 | 1,521 |
| Construction | - | - | - | - | - |
| Land | 27 | 49 | - | - | 28 |
| Commercial and Agricultural | 235 | 244 | - | 5 | 238 |
| Total | $17,842 | $25,689 | $ - | $ 103 | $ 18,168 |

Impaired Loans

| | Recorded investment | Unpaid principal balance | Specific allowance | For the three months ended September 30, 2012 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Total: | | | | | |
| Mortgage One- to Four- Family - Owner-Occupied | $5,756 | $6,571 | $ 17 | $ 16 | $ 6,136 |
| Consumer | 873 | 1,573 | 6 | 10 | 929 |
| One- to Four- Family Non-Owner Occupied Mortgage | 5,373 | 5,941 | 448 | 26 | 4,962 |
| Multi-family Residential Real Estate Mortgage | 13,149 | 18,419 | 435 | 82 | 13,655 |
| Nonresidential Real Estate | 1,333 | 3,839 | - | 5 | 1,521 |
| Construction | - | - | - | - | - |
| Land | 27 | 49 | - | - | 28 |
| Commercial and Agricultural | 235 | 244 | - | 5 | 238 |
| Total | $26,746 | $36,636 | $ 906 | $ 144 | $ 27,469 |

| | Recorded investment | Unpaid principal balance | Specific allowance | For the year ended June 30, 2012 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| With an allowance recorded: | | | | | |
| One- to Four- Family - Owner-Occupied | $40 | $ 70 | $ (17) | — | $ 33 |
| Consumer | — | — | — | — | — |
| One- to Four- Family Non-Owner Occupied Mortgage | 476 | 485 | (9) | 14 | 238 |
| Multi-family Residential Real Estate Mortgage | 4,266 | 4,754 | (487) | 119 | 5,375 |
| Nonresidential Real Estate | 4,915 | 6,661 | (562) | 61 | 2,457 |
| Construction | — | — | — | — | — |
| Land | — | — | — | — | — |
| Commercial and Agricultural | — | — | — | — | — |
| Total | $9,697 | $ 11,970 | $ (1,075) | $ 194 | $ 8,103 |

| | Recorded investment | Unpaid principal balance | Specific allowance | For the year ended June 30, 2012 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Without an allowance recorded: | | | | | |
| Mortgage One- to Four- Family - Owner-Occupied | $6,476 | $ 7,353 | $ — | $ 96 | $ 6,293 |
| Consumer | 508 | 1,168 | — | 40 | 254 |
| One- to Four- Family Non-Owner Occupied Mortgage | 285 | 403 | — | 2 | 260 |
| Multi-family Residential Real Estate Mortgage | 9,247 | 12,923 | — | 230 | 7,865 |
| Non-residential Real Estate | 1,709 | 4,216 | — | 39 | 4,510 |
| Construction | — | — | — | — | — |
| Land | 28 | 49 | — | — | 14 |
| Commercial and Agricultural | 240 | 249 | — | 13 | 120 |
| Total | $18,493 | $ 26,361 | $ — | $ 420 | $ 19,316 |

| | Recorded investment | Unpaid principal balance | Specific allowance | For the year ended June 30, 2012 Interest income recognized | Average recorded investment |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Total: | | | | | |
| Mortgage One- to Four- Family - Owner-Occupied | $6,516 | $7,423 | $ (17) | $ 96 | $ 6,326 |
| Consumer | 508 | 1,168 | — | 40 | 254 |
| One- to Four- Family Non-Owner-Occupied Mortgage | 761 | 888 | (9) | 16 | 498 |
| Multifamily Residential Real Estate Mortgage | 13,513 | 17,677 | (487) | 349 | 13,240 |
| Nonresidential Real Estate | 6,624 | 10,877 | (562) | 100 | 6,967 |
| Construction | — | — | — | — | — |
| Land | 28 | 49 | — | — | 14 |
| Commercial and Agricultural | 240 | 249 | — | 13 | 120 |
| Total | $28,190 | $38,331 | $ (1,075) | $ 614 | $ 27,419 |

The Bank did not have any investments in subprime loans at September 30, 2012. Impaired loans at September 30, 2012 included troubled debt restructurings with an aggregate principal balance of $22.4 million and a recorded investment of $21.8 million. See Note 12 for more discussion on troubled debt restructurings.

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

Existing performing loan customers who request a loan (non-TDR) modification and who meet the Bank’s underwriting standards may, usually for a fee, modify their original loan terms to terms currently offered. The modified terms of these loans are similar to the terms offered to new customers with similar credit risk. The fee assessed for modifying the loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time

of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

During the quarter ended March 31, 2011, we began restructuring loans into a split note or Note A/Note B format. With respect to a particular loan relationship, upon performing a global analysis of the relationship with the borrower, the terms of Note A are calculated using current financial information to determine the amount of payment at which the borrower would have a debt service coverage ratio of 1.5x or better. The resulting payment is calculated based upon a 30-year amortization period, then fixed for two years, with the loan maturing at the end of the two year period. The amount for Note B is the difference between Note A and the original amount to be refinanced, plus all other expenses necessary to restructure the loans. The Note B bears the same interest rate and balloon term as Note A, but no principal or interest payments are due until maturity. While no amount of the original indebtedness of the borrower is forgiven through this process, the full amount of Note B is charged-off at the time of issuance of the Note B. Note A is treated as any other troubled debt restructuring and initially is placed on non-accrual. Generally, Note A may return to accrual status after a history of performance in accordance with the restructured terms of at least six consecutive months is established.

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

| | At September 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loan Status | | Total Unpaid Principal | Related | Recorded | Number of | Average Recorded |
| (In thousands) | Accrual | Nonaccrual | Balance | Allowance | Investment | Loans | Investment |
| One- to Four-Family residential real estate | $2,095 | $ 2,693 | $4,788 | $ 23 | $ 4,765 | 26 | $ 4,858 |
| Multi-family residential real estate | 7,377 | 4,179 | 11,556 | 160 | 11,396 | 12 | 11,598 |
| Nonresidential real estate | 3,111 | 2,926 | 6,037 | 435 | 5,602 | 8 | 5,623 |
| Total | $12,583 | $ 9,798 | $22,381 | $ 618 | $ 21,763 | 46 | $ 22,079 |

| | At June 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loan Status | | Total Unpaid Principal | Related | Recorded | Number of | Average Recorded |
| (In thousands) | Accrual | Nonaccrual | Balance | Allowance | Investment | Loans | Investment |
| One- to Four-Family residential real estate | $2,374 | $ 2,601 | $4,975 | 26 | $ 4,949 | 28 | $ 5,365 |
| Multi-family residential real estate | 7,715 | 4,251 | 11,966 | 165 | 11,801 | 12 | 11,514 |
| Nonresidential real estate | 3,122 | 2,987 | 6,109 | 465 | 5,644 | 8 | 6,194 |
| Total | $13,211 | $ 9,839 | $23,050 | $ 656 | $ 22,394 | 48 | $ 23,073 |

Interest income recognized on TDRs is as follows:

| | For the three months ended September 30, 2012 |
|---|---|
| One-to Four-Family residential real estate | $ 17 |
| Multi-family residential real estate | 86 |
| Nonresidential real estate | 20 |
| Construction | - |
| Commercial | - |
| Consumer | - |
| Total | $ 123 |

At September 30, 2012, the Bank had 46 loans with a recorded investment totaling $21.8 million that qualified as TDRs, and has reserved an aggregate of $618,000 for losses on these loans. At September 30, 2012, TDRs with no related allowance totaled $14.6 million and TDRs with a related allowance totaled $7.2 million. At September 30, 2012, the Bank had no other commitments to lend on its TDRs. At June 30, 2012, the Bank had 48 loans totaling $23.1 million that qualified as TDRs, and has established an allowance for losses on these loans of $656,000. At June 30, 2012, TDRs with no related allowance totaled $17.4 million and TDRs with a related allowance totaled $5.7 million. Management continues to monitor the performance of loans classified as TDRs.

Loans that were included in TDRs at September 30, 2012 and June 30, 2012 were generally given concessions of interest rate reductions of between 25 and 300 basis points, and/or structured as interest only payment loans for periods of one to three years. Many of these loans also have balloon payments due at the end of their lowered interest rate period, requiring the borrower to refinance at market rates at that time. At September 30, 2012, there were 38 loans with required principal and interest payments, and eight loans with required interest only payments. At June 30, 2012, there were 39 loans with required principal and interest payments, and nine loans with required interest only payments.

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

| | Three Months Ended September 30, 2012 | |
|---|---|---|
| | Recorded Investment | Number of Loans |
| (Dollar amounts in thousands) | | |
| Beginning balance | $ 22,394 | 48 |
| Additions to TDRs | 156 | - |
| Removal of TDRs[1] | (146) | (2) |
| Payments | (641) | - |
| Ending balance | $ 21,763 | 46 |

[1] One TDR was foreclosed on during the period and transferred to REO in the amount of $146,000. At June 30, 2012, one customer had two TDRs that were restructured during the quarter ended September 30, 2012 into one loan.

Two loans that were recorded as TDRs at June 30, 2012 were restructured during the quarter ended September 30, 2012 upon the end of the original restructured terms. The restructuring increased the recorded investment in these loans by $156,000 and the loans continue to be carried as TDRs.

No new loans were restructured during the quarter ended September 30, 2012.

13. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The ASU became effective for the Company during the quarter ended September 30, 2012. The adoption of this ASU does not impact the way the Company reports comprehensive income, and did not have an impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The ASU became effective for the Company during the quarter ended September 30, 2012. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

In July 2012 the FASB issued ASU 2012-02, *Intangibles - goodwill and other (Topic 350)*. The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. Effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued.

In August 2012 the FASB issued ASU 2012-03, *Technical Amendments and Corrections to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22*. Because the amendments in this ASU reflect only guidance modifications that the SEC had previously issued, the amendments have no incremental impact on the reporting entity.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The amendments in this update clarify the Codification or corrects unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. For public entities, amendments subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012.

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

**Forward-Looking Statements**

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. The Company’s ability to predic results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets, changes in deposit flows, and changes in the quality or composition of the Company’s loan or investment portfolios. Additionally, other risks and uncertainties may be described in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 7, 2012, which is available through the SEC’s website at www.sec.gov. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake the responsibility, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

**Critical Accounting Policies**

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

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; and value of collateral. Inherent loss 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 on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary

if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of the Comptroller of the Currency ("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 11 and 12 of the Notes to the Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 7, 2012.

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. The Company applies the provisions of ASC 275-10-50-8 to account for uncertainty in income taxes. The Company had no unrecognized tax benefits as of September 30, 2012 and June 30, 2012. The Company recognized no interest and penalties on the underpayment of income taxes during the three month periods ended September 30, 2012 and 2011, and had no accrued interest and penalties on the balance sheet as of September 30, 2012 and June 30, 2012. 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 twelve months. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before the fiscal year ended June 30, 2009.

**Comparison of Financial Condition at September 30, 2012 and June 30, 2012**

**Balance Sheet Analysis**

Total assets were $502.2 million at September 30, 2012, compared to $495.9 million at June 30, 2012. Total assets increased $6.3 million, or 1.3%, primarily as a result of a $15.0 million increase in investment securities, partially offset by an $11.1 million decrease in loans. Our investment securities increased as a result of an increase in deposits and a decrease in loans. The increase in investment securities was primarily related to purchases of both mortgage-backed securities and municipal bonds. The decrease in loans was primarily the result of payoffs aggregating $5.8 million for three performing commercial real estate loans as described below.

Total liabilities were $446.9 million at September 30, 2012, compared to $440.9 million at June 30, 2012. The increase of $6.0 million was primarily the result of a $6.1 million increase in deposits which reflected a $3.8 million net increase in municipal deposits and a $2.3 million increase in retail customer deposits. The increase in municipal deposits consisted of an increase in demand deposits totaling $5.0 million, partially offset by a decrease in savings accounts totaling $1.2 million. The increase in retail deposits consisted of increases in demand deposit accounts of $1.0 million and savings accounts of $2.7 million, partially offset by declines in certificate of deposit of $1.4 million.

Total stockholders' equity was $55.3 million at September 30, 2012, compared to $55.0 million at June 30, 2012. The increase was primarily the result of net income of $494,000 and a $633,000 increase in net unrealized gains on investments, partially offset by dividends paid of $862,000. As previously announced, the Company suspended the payment of dividends as a result of the cost and uncertainty associated with United Community MHC's ability to waive receipt of the Company's dividends. This cost and uncertainty was due to the Federal Reserve Board requirement that a "grandfathered" mutual holding company, like United Community MHC, obtain member (depositor) approval and comply with other procedural requirements prior to waiving dividends, which would make dividend waivers impracticable. Accordingly, on August 31, 2012, the Company paid a cash dividend to all stockholders, including United Community MHC, for the quarter ended June 30, 2012, which totalled $862,000, including $512,000 paid to United Community MHC.

***Loans.*** At September 30, 2012, one- to four- family residential loans totaled $137.9 million, or 49.7% of total gross loans, compared to $139.5 million, or 48.4% of total gross loans, at June 30, 2012. The reduction in the one- to four-family residential portfolio during the 2012 period was primarily due principal repayments coupled with our strategy of selling in the secondary market newly-originated fixed-rate loans with terms longer than 10 years.

Multi-family and nonresidential real estate and land loans totaled $91.0 million and represented 32.8% of total loans at September 30, 2012, compared to $101.4 million, or 35.2% of total loans, at June 30, 2012. The decrease was

primarily attributable to the repayment of one nonresidential real estate loan totaling $1.8 million and two multi-family real estate loans totaling $4.0 million.

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

| | At September 30, 2012 | | At June 30, 2012 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | |
| Residential real estate: | | | | |
| One- to four-family | $137,853 | 49.7 % | $139,522 | 48.4 % |
| Multi-family | 35,424 | 12.8 | 42,325 | 14.7 |
| Construction | 1,386 | 0.5 | 1,189 | 0.4 |
| Nonresidential real estate | 55,547 | 20.0 | 59,123 | 20.5 |
| Land | 3,665 | 1.3 | 3,441 | 1.2 |
| Commercial business | 4,278 | 1.6 | 3,854 | 1.3 |
| Agricultural | 3,497 | 1.3 | 3,150 | 1.1 |
| Consumer: | | | | |
| Home equity | 31,338 | 11.3 | 31,242 | 10.9 |
| Auto | 1,991 | 0.7 | 1,820 | 0.6 |
| Share loans | 1,143 | 0.4 | 1,200 | 0.4 |
| Other | 1,047 | 0.4 | 1,333 | 0.5 |
| Total consumer loans | 35,519 | 12.8 | 35,595 | 12.4 |
| Total loans | $277,169 | 100.0 % | $288,199 | 100.0 % |
| Less (plus): | | | | |
| Deferred loan costs, net | (960) | | (924) | |
| Undisbursed portion of loans in process | 370 | | 355 | |
| Allowance for loan losses | 5,683 | | 5,614 | |
| Loans, net | 272,076 | | $283,154 | |

**Loan Maturity**

The following table sets forth certain information at September 30, 2012 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 | $2,253 | $ 31,905 | $ 103,695 | $137,853 |
| Multi-family real estate | 231 | 11,212 | 23,981 | 35,424 |

| | | | | |
|---|---|---|---|---|
| Construction | 884 | 244 | 258 | 1,386 |
| Nonresidential real estate | 2,527 | 20,745 | 32,275 | 55,547 |
| Land | 231 | 2,153 | 1,281 | 3,665 |
| Commercial | 156 | 2,651 | 1,471 | 4,278 |
| Agricultural | 78 | 1,306 | 2,113 | 3,497 |
| Consumer | 5,424 | 2,755 | 27,340 | 35,519 |
| Total | $11,784 | $ 72,971 | $ 192,414 | $277,169 |

The following table sets forth the dollar amount of all loans at September 30, 2012 due after September 30, 2013 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 | $42,933 | $ 92,667 | $135,600 |
| Multi-family real estate | 4,248 | 30,945 | 35,193 |
| Construction | 225 | 277 | 502 |
| Nonresidential real estate | 7,381 | 45,639 | 53,020 |
| Land | 1,235 | 2,199 | 3,434 |
| Commercial | 1,404 | 2,718 | 4,122 |
| Agricultural | 728 | 2,691 | 3,419 |
| Consumer | 2,281 | 27,814 | 30,095 |
| Total | $60,435 | $ 204,950 | $265,385 |

**Loan Activity**

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| | (in thousands) | |
| Total loans at beginning of period | $288,199 | $290,834 |
| Loans originated (1): | | |
| One- to four-family residential real estate | 9,636 | 2,606 |
| Multi-family residential real estate | — | — |
| Construction | 471 | 351 |
| Nonresidential real estate | 52 | — |
| Land | — | 58 |
| Commercial business | 391 | 25 |
| Consumer | 3,132 | 549 |
| Total loans originated | 13,682 | 3,589 |
| Deduct: | | |
| Loan principal repayments | 18,173 | 2,765 |
| Loans originated for sale | 6,539 | 3,459 |
| Net loan activity | (11,030 ) | (2,635 ) |
| Total loans at end of period | $277,169 | $288,199 |

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

**Results of Operations for the Three Months Ended September 30, 2012 and 2011**

***Overview.*** Net income for the three months ended September 30, 2012 was $494,000, compared to net income of $476,000 for the three months ended September 30, 2011. A $648,000 decrease in the provision for loan losses was partially offset by a $313,000 decrease in net interest income and $268,000 increase in noninterest expense.

***Net Interest Income.*** Net interest income decreased $313,000, or 8.9%, to $3.2 million for the quarter ended September 30, 2012 as compared to $3.5 million for the quarter ended September 30, 2011. A decrease of $462,000 in interest income was partially offset by a $149,000 decrease in interest expense. The decrease in interest income was principally the result of a decrease in the average rate earned on loans from 5.48% to 4.99%, and a decrease in the average interest rate earned on investments from 2.40% to 2.01%. The impact of a $7.8 million decrease in average loans was largely offset by a $23.0 million increase in average investments. The decrease in interest expense was primarily the result of a decrease in the average interest rate paid on deposits from 1.10% to 0.89%, partially offset by a $15.4 million increase in average outstanding deposits. Changes in interest rates are reflective of decreases in overall market rates. Net interest margin for the quarter ended September 30, 2012 was 2.79%, a decrease of 17 basis points from the quarter ended June 30, 2012 and a decrease of 43 basis points from the quarter ended September 30, 2011.

***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.

| | Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | | Average Balance | Interest and Dividends | Yield/ Cost | |
| | (Dollars in thousands) | | | | | | | |
| Assets: | | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Loans | $276,830 | $ 3,450 | 4.99 | % | $284,642 | $ 3,898 | 5.48 | % |
| Investment securities | 154,006 | 772 | 2.01 | | 131,011 | 786 | 2.40 | |
| Other interest-earning assets | 30,972 | 3 | 0.04 | | 23,413 | 3 | 0.05 | |
| Total interest-earning assets | 461,808 | 4,225 | 3.66 | | 439,066 | 4,687 | 4.27 | |
| Noninterest-earning assets | 36,451 | | | | 34,375 | | | |
| Total assets | $498,259 | | | | $473,441 | | | |
| Liabilities and equity: | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| NOW and money market deposit accounts | $156,988 | 127 | 0.32 | % | 146,058 | 175 | 0.48 | |
| Passbook accounts | 81,200 | 104 | 0.51 | | 70,557 | 68 | 0.39 | |
| Certificates of deposit | 190,678 | 725 | 1.52 | | 196,827 | 895 | 1.82 | |
| Total interest-bearing deposits | 428,866 | 956 | 0.89 | | 413,442 | 1,138 | 1.10 | |
| FHLB advances | 10,708 | 47 | 1.76 | | 1,708 | 14 | 3.28 | |
| Total interest-bearing liabilities | 439,574 | 1,003 | 0.91 | | 415,150 | 1,152 | 1.11 | |
| Noninterest-bearing liabilities | 3,509 | | | | 3,790 | | | |
| Total liabilities | 443,083 | | | | 418,940 | | | |
| Total stockholders' equity | 55,176 | | | | 54,501 | | | |
| Total liabilities and stockholders' equity | $498,259 | | | | $473,441 | | | |
| Net interest income | | $ 3,222 | | | | $ 3,535 | | |
| Interest rate spread | | | 2.75 | % | | | 3.16 | % |
| Net interest margin | | | 2.79 | % | | | 3.22 | % |
| Average interest-earning assets to average interest-bearing liabilities | | | 105.06 | % | | | 105.76 | % |

***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.

| | Three Months Ended September 30, 2012 Compared to 2011 Increase (Decrease) Due to | | |
|---|---|---|---|
| | Volume | Rate | Net |
| | (In thousands) | | |
| Interest and dividend income: | | | |
| Loans | $(107) | $(341) | $(448) |
| Investment securities | 138 | (152) | (14) |
| Other interest-earning assets | 1 | (1) | — |
| Total interest-earning assets | 32 | (494) | (462) |
| | | | |
| Interest expense: | | | |
| Deposits | 42 | (224) | (182) |
| FHLB advances | 74 | (41) | 33 |
| Total interest-bearing liabilities | 116 | (265) | (149) |
| Net change in net interest income | $(84) | $(229) | $(313) |

***Provision for Loan Losses.*** The provision for loan losses was $250,000 for the quarter ended September 30, 2012, compared to $898,000 for the same quarter in the prior year. The decrease in the loan loss provision was primarily due to a decrease in the loan portfolio of approximately $11.1 million combined with a decrease in nonperforming loans from June 30, 2012 of approximately $1.0 million.

***Other Income.*** The following table summarizes other income for the three months ended September 30, 2012 and 2011.

| | Three Months Ended September 30, | | % |
|---|---|---|---|
| | 2012 | 2011 | Change |
| | (Dollars in thousands) | | |
| Service charges | $621 | $639 | (2.8) |

| | | | |
|---|---|---|---|
| Gain on sale of loans | 248 | 83 | 198.8 |
| Gain on sale of investments | — | 236 | (100.0 ) |
| Gain on sale of other real estate owned | 7 | — | 100.0 |
| Income from bank-owned life insurance | 135 | 67 | 101.5 |
| Other | 56 | 101 | (44.6 ) |
| Total other income | $1,067 | $1,126 | (5.2 ) |

Other income remained flat at $1.1 million in the quarters ended September 30, 2012 and 2011. Increases of $165,000 in gain on sale of loans and $68,000 in income from bank owned life insurance during the quarter ended September 30, 2012 were offset by a $236,000 decrease in gain on sale of investments. The increase in the gain on sale of loans was the result of an increase in loan sales to Freddie Mac in the September 30, 2012 quarter when compared to the same quarter in the prior year, primarily due to an increase in refinancing activity as a result of the continued low interest rate environment. The increase in income from bank owned life insurance was the result of the purchase of additional bank owned life insurance during the latter part of the fiscal year ended June 30, 2012. The decrease in gain on sale of investments was the result of no sales of mortgage-backed securities and other available for sale investment securities during the current year quarter as compared to the prior year quarter.

***Noninterest Expense.*** The following table shows the components of noninterest expense and the percentage changes for the three months ended September 30, 2012 and 2011.

| | Three Months Ended September 30, | | % | |
|---|---|---|---|---|
| | 2012 | 2011 | Change | |
| | (Dollars in thousands) | | | |
| Compensation and employee benefits | $1,809 | $1,736 | 4.2 | % |
| Premises and occupancy expense | 339 | 328 | 3.4 | |
| Deposit insurance premium | 177 | 137 | 29.2 | |
| Advertising expense | 96 | 93 | 3.2 | |
| Data processing expense | 373 | 305 | 22.3 | |
| Intangible amortization | 40 | 39 | 2.6 | |
| Professional fees | 302 | 198 | 52.5 | |
| Other operating expenses | 281 | 313 | (10.2 | ) |
| Total noninterest expense | $3,417 | $3,149 | 8.5 | % |

Noninterest expense increased $268,000, or 8.5%, from $3.1 million for the quarter ended September 30, 2011 to $3.4 million for the quarter ended September 30, 2012. The increase is primarily due to increases of $104,000 in professional fees, $73,000 in compensation and employee benefits, and $68,000 in data processing expenses. The increase in professional fees was primarily due to an increase in audit, legal and consulting expenses related to annual reporting requirements. The increase in compensation and employee benefits expense was primarily due to the addition of employees in the accounting and collections departments and annual wage increases. The increase in data processing expense was primarily due to the implementation of a new branch network communication system.

***Income Taxes.*** Income tax expense for the three months ended September 30, 2012 was $128,000, compared to an expense of $138,000 for the three months ended September 30, 2011.

***Analysis of Nonperforming Assets.*** We consider foreclosed real estate, repossessed assets, nonaccrual loans, and TDRs that are delinquent or have not been performing in accordance with their restructured terms for a specified period of time to be nonperforming assets.

All of the TDRs at September 30, 2012 represented loan relationships with long-time borrowers. In measuring impairment, management considered the results of independent property appraisals, together with estimated selling expenses, and/or detailed cash flow analyses. At September 30, 2012, 46 loans were considered to be TDRs (with an aggregate balance of $21.8 million) of which 23 loans (with an aggregate balance of $9.8 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.

| (Dollars in thousands) | At September 30, 2012 (Unaudited) | At June 30, 2012 |
|---|---|---|
| Nonaccrual loans: | | |
| One- to four-family residential real estate | $ 2,467 | $ 2,412 |
| Multi-family real estate | 1,991 | 2,034 |
| Nonresidential real estate and land | 46 | 1,106 |
| Commercial | 236 | 240 |
| Consumer | 532 | 508 |
| Total nonaccrual loans | 5,272 | 6,300 |
| Nonaccrual restructured loans: | | |
| One- to four-family residential real estate | 2,693 | 2,601 |
| Multi-family real estate | 4,179 | 4,251 |
| Nonresidential real estate and land | 2,926 | 2,987 |
| Total nonaccrual restructured loans | 9,798 | 9,839 |
| Total nonperforming loans | 15,070 | 16,139 |
| Real estate owned | 763 | 197 |
| Total nonperforming assets | 15,833 | 16,336 |
| Accruing restructured loans | 12,583 | 13,211 |
| Accruing restructured loans and nonperforming assets | $ 28,416 | $ 29,547 |
| Total nonperforming loans to total loans | 5.44 % | 5.60 % |
| Total nonperforming loans to total assets | 3.00 % | 3.26 % |
| Total nonperforming assets to total assets | 3.15 % | 3.30 % |
| Total number of nonperforming loans | 79 | 74 |

The decrease in nonperforming loans is primarily due to a payoff of approximately $300,000 of a nonresidential real estate loan and the acquisition through foreclosure of a nonresidential real estate loan with a carrying value of $600,000.

Interest income that would have been recorded for the three months ended September 30, 2012 had nonaccruing loans been current according to their original terms was $80,000. Interest recognized on the cash basis with regard to nonaccrual restructured loans was $21,000 for the three months ended September 30, 2012.

A discussion of our most significant nonaccrual loans follows. At September 30, 2012, these loans comprised $13.8 million. The five largest nonaccrual loans at September 30, 2012 were comprised of: loans A-1 and A-3 of Loan Relationship A, and the loans in Loan Relationships B, G, H and I. Loan A-2 (within Loan Relationship A), and the loans in Loan Relationships C, E and F, which were reported as “accruing restructured loans” at June 30, 2012, have been performing in accordance with their restructured terms for a sufficiently long period of time and are reported as

“accruing restructured loans” at September 30, 2012.

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Loan Relationship A. The loans comprising this loan relationship (with Loan A-3 using the split note strategy) had a net carrying value of $5.1 million at September 30, 2012. Three loans, all included in one loan relationship, with a carrying value of $6.4 million prior to its restructuring in the third quarter of the year ended June 30, 2011. One loan (A-1) is secured by a first mortgage on an apartment complex near a college campus, another (A-2) is secured by a first mortgage on two mobile home parks, and the last (A-3) is secured by the first mortgage on another apartment complex. At September 30, 2012 and June 30, 2012, Loan A-1 and Loan A-3 are included in the above table in "Nonaccrual restructured loans, Multi-family real estate." Loan A-2 is included in "Accruing restructured loans." In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, Loans A-1, A-2, and A-3 were classified as Multi-Family Residential Real Estate, Substandard, at September 30, 2012 and June 30, 2012. The loans comprising Loan Relationship A were originally restructured in October and November, 2010. At the time of the first restructuring in 2010, Loan A-1, with a carrying value of $3.0 million, was 180 days delinquent, and Loans A-2 and A-3 were performing. Management performed a global analysis of the borrowers and restructured each of the three loans by reducing the original loan rates by 125 to 225 basis points to a rate that was 25 basis points below market rate. Foregone interest income amounted to $51,000 on the two performing loans that were restructured. The borrowers paid a loan modification fee of $3,000 for this restructuring. At June 30, 2010, after the effect of restating the June 30, 2010 financial statements, management established a specific allocation on these three loans through a charge-off to the general allowance for loan losses of $1.1 million. On each of the three loans, one of the borrowers is a corporate entity. Also, on the three loans, each of the principals of the corporate borrowers individually signed as co-borrowers. At the time of the restructuring, the Bank analyzed the personal net worth, liquid net worth, debt to income ratios and credit scores of the co-borrowers. While the co-borrowers were not expected to cover a total loss on the loans, management believed the co-borrowers would mitigate the amount of the potential future losses. In March 2011, Loan A-3 was again restructured through a troubled debt restructuring as a result of the borrower experiencing cash flow problems during the quarter ended March 31, 2011. The cash flow problems experienced were the combined effect of decreased rental income and the failure to pay real estate property taxes. However, due to certain financial difficulties experienced by the co-borrowers, including the cash flow problems of the subject properties and a decrease in other outside sources of income, the co-borrowers were unable to mitigate the losses on the loan. Based upon a cash flow analysis of the properties performed by management, $651,000 of the $6.4 million in loans was charged-off during the restructuring using the split note strategy. This split was done for one loan that had a balance of $1.6 million before the split. After the split, Note A had a balance of $994,000 and Note B had a balance of $651,000. Prior to the loan being restructured in March, 2011, the restructured loan carried a $650,000 specific reserve as restated on the Company's Form 10-K, as amended, for the year ended June 30, 2011 filed with the SEC on March 28, 2012 that was included in Note B and charged-off. The split note loans have an interest rate that is 275 basis points below their original restructured rate for a period of two years, and 475 basis points below their original rates. At the end of the two year period, balloon payments are due, unless the borrower refinances into a market rate loan at that time. This relationship was performing in accordance with its restructured terms at September 30, 2012. The property securing Loan A-3 was sold in April 2012 for $2.2 million. The buyer made a down payment of $50,000 and pays a monthly principal and interest payment, based on a 5% interest rate and a 30-year term. This land contract has a balloon payment in April 2014. The buyer has made all scheduled payments as of September 30, 2012.

- Loan Relationship B. The loans comprising Loan Relationship B, using the split note strategy, had a net carrying value of $1.5 million at September 30, 2012. The loans comprising Loan Relationship B were originally restructured in June, 2010, with an aggregate carrying value of $4.1 million until their restructuring in the quarter ended March 31, 2011. These loans are secured by a first mortgage on two separate retail strip shopping centers and a single purpose commercial use property. The loans are included in the above table as "Nonaccrual restructured loans, Nonresidential real estate" at September 30, 2012 and June 30, 2012. In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, these loans were classified as "Nonresidential real estate, Substandard" at September 30, 2012 and June 30, 2012. At the time of the original restructuring, the property value was based primarily on the collateral's cash flow, including required personal cash infusions from the co-borrowers. Management believed that the lower debt service would improve the borrowers' cash flow, and in turn, the performance of the loans. One of the borrowers is a corporate entity. The principals of the corporate borrower are also co-borrowers on the note. At the time of the restructuring, the Bank analyzed the personal net worth, liquid net worth, debt to income ratios and credit scores of the co-borrowers. While the co-borrowers were not expected to cover a total loss on the loans, management believed the co-borrowers would mitigate the amount of potential future losses. The restructured loans were considered impaired at June 30, 2010 with an allowance for loan loss of $600,000 to reflect the reduction in carrying value resulting from the exclusion of the required personal cash infusions from the co-borrowers from the calculation of the carrying value. In March, 2011, the loans comprising Loan Relationship B again were experiencing cash flow problems. The cash flow problems experienced were the combined effect of the level of the required monthly loan payments, decreases in rental revenue from the properties, and failure to pay real estate property taxes. Due to certain financial difficulties experienced by the co-borrowers, including the cash flow problems of the subject properties and a decrease in other outside sources of income, the co-borrowers were unable to mitigate the losses on the loan. Therefore, in March 2011, the two loans secured by the two separate retail strip shopping centers were combined and refinanced into two loans, using the split note strategy. The first loan was for $2.4 million and was classified as substandard and was a troubled debt restructuring because of a below market interest rate. The second loan was for $1.3 million and was charged-off. In March 2011, the loan secured by the single purpose commercial use property was also refinanced into two loans, using the split note strategy. The first loan was for $238,000 and was classified as substandard and was a troubled debt restructuring because of a below market interest rate. The second loan was for $169,000 and was charged-off. The restructured loans have an interest rate that is 275 basis points lower than the 2010 restructured rate for a period of two years, and 500 basis points below their original rates. The loan secured by the two retail strip shopping centers was classified as substandard and the loan secured by the single purpose commercial use property was classified as substandard, were both included in "Nonaccrual restructured loans, Nonresidential real estate" as of June 30, 2012. At the end of the two year period, balloon payments are due, unless the borrower refinances the loans into a market rate loan at that time. In May 2012, the loan secured by the two retail strip shopping centers experienced the loss of a major tenant. As a result of the decrease in cash flow, the Bank had the two retail strip shopping centers appraised in June 2012. The appraisal reflected that the value of the properties declined to $1.45 million from the previous appraisal of $2.95 million in February 2011. Management has determined that this loan will ultimately be settled through the sale of the property. A charge-off in the amount of $956,000 was established in the quarter ended June 30, 2012 based on the most recent appraisal indicating a known loss, and an additional impairment of $189,000 was established based on the Bank's experience in settling foreclosed property. The carrying value of this loan is classified as substandard, and this loan is a troubled debt restructuring. The Bank also appraised the single purpose commercial use property in June 2012. The value of this property declined to $225,000 from $325,000 in February 2011 due to decreased cash flow from the current tenant. Management decided that this loan would also be settled from the sale of the

property. A charge-off in the amount of $22,000 was established based on the most recent appraisal indicating a known loss, and an additional impairment of $29,000 was established based on the Bank's experience in settling foreclosed property. The carrying value of this loan is classified as substandard, and this loan is a troubled debt restructuring. The loans were performing in accordance with their restructured terms at September 30, 2012.

Loan Relationship C. The loans comprising this relationship, using the split note strategy, had a net carrying value of $1.5 million at September 30, 2012. The original two loans included in this relationship had an aggregate value of $2.1 million prior to being restructured in the quarter ended March 31, 2011. One of the original loans was secured by a first mortgage on a single-family home. The other original loan was secured by a 24-unit apartment complex, six one- to four-family residential properties and ten residential building lots. In March 2011, these two loans were restructured into two loans, using the split note strategy. The two loans using the split note strategy had an aggregate carrying value of $1.51 million at September 30, 2012 and $ 1.52 million at June 30, 2012. The Note A loan is included in the above table in “Accruing restructured loans” at September 30, 2012 and at June 30, 2012. In the “Credit Risk Profile by Internally Assigned Grade” table on page 15, the Note A loan is classified as “Multi-family real estate, Substandard” at September 30, 2012 and June 30, 2012, respectively. The loans comprising Loan Relationship C were originally restructured in August 2009. At the time of the first restructuring, management established a specific reserve through a charge-off to the general allowance for loan losses of $29,000. In August 2009, the loans were originally restructured by reducing the interest rates on the loans by a range of 400 to 600 basis points to a rate that was 300 basis points below market rate. These loans were performing at the initial time of the restructuring in August 2009, but the borrowers were beginning to experience cash flow difficulties. Management believed that the lower debt service would improve the borrowers’ cash flow, and in turn, the performance of the loans. At the time the loans were initially restructured, independent appraisals were performed on each piece of underlying collateral. These appraisals supported the aggregate $2.1 million carrying value of the two loans. One of the borrowers is a corporate entity, with one principal who has personally signed on the loan. At the time of the restructuring, we analyzed the personal net worth, liquid net worth, debt to income ratios and credit scores of the co-borrower and determined that the co-borrower was not expected to cover a total loss, but would mitigate the amount of potential future losses. Based on the restatement of the June 30, 2010 audited consolidated financial statements, these loans were considered impaired at June 30, 2010, with an allowance for loan losses of $675,000 established to reflect the reduction in the carrying value resulting from the exclusion of the required personal cash infusions from the calculation of the carrying value. During the quarter ended March 2011, the borrower again began to experience cash flow difficulties and these loans were refinanced through a troubled debt restructuring. The cash flow problems contributed to the combined effect of the failure to pay required monthly loan payments, the failure to pay association dues, and the failure to pay real estate property taxes. Due to certain financial difficulties experienced by the co-borrower, including the cash flow problems of the subject properties and a decrease in other outside sources of income, the co-borrower was unable to mitigate the losses on the loan. As stated above, based upon a cash flow analysis of the properties performed by management, the loans were restructured during the quarter ended March 31, 2011, utilizing the split note strategy. After the restructuring, the previous aggregate balance of $2.1 million was split into two notes with Note A having a balance of $1.5 million which was classified as substandard, and Note B having a balance of $626,000 which was charged-off. A restructuring fee of $14,000 was charged and included in Note B at March 31, 2011. The restructured loans have an interest rate that is 275 basis points lower than the 2010 restructured rate for a period of two years, and 675 to 875 basis points below the original rates. At the end of the two year period, balloon payments are due, unless the borrower refinances into a market rate loan at that time. This relationship was performing in accordance with its restructured terms at September 30, 2012, and no further impairments have been recorded since the most recent restructuring. Also, United Community Bank is in the negotiations with this borrower to take over these properties. Based on the appraisals, the Bank does not expect any additional losses as a result of repossessing the properties.

- Loan Relationship D. The loan comprising this loan relationship had a net carrying value of $1.3 million at September 30, 2012. The loan comprising Loan Relationship D was originally restructured in December 2008. The loan is secured by a first mortgage on a 62-unit apartment complex near a college campus. The loan was made in 2008 to a seasoned property manager who made major improvements to the property. The property was purchased in December 2008 from a Bank borrower who was delinquent at the time of acquisition. At the time the loan was

acquired from the delinquent borrower in 2008, it was restructured with a new borrower, in lieu of foreclosure, pursuant to which the Bank loaned the borrower funds to purchase and renovate the property. At the time of the restructuring, management established a specific reserve through a charge-off to the general allowance for loan losses of $113,000. We have no personal guarantee or co-borrower on this loan. The loan required interest only payments through December 2011. In January, 2012, the interest rate on the loan was adjusted to the prime interest rate as published by *The Wall Street Journal*, plus a spread. At the time of the acquisition, management believed that the new borrower would be able to renovate the property with a view toward improving the property's cash flow, and in turn, the performance of the loan. After the closing of the loan, the borrower completed renovations to the property and the cash flow of the property has improved. At the time the loan was made, an independent appraisal was performed on the collateral underlying the loan. This appraisal supported the $1.6 million carrying value of the loan. In November 2011, the borrower approached the Bank and expressed concern about being able to pay the principal and interest payment that would go into effect in January 2012. The internal cash flow analysis completed by the Bank indicated that the payment could be made based on the higher monthly occupancy rates after the renovations were completed. An appraisal was ordered to provide the "as is" value of the property. The Bank obtained the appraisal in December 2011, and the appraised value of the property had decreased to $1.4 million. Therefore, this loan was restructured into two loans using the split note strategy. Based on the cash flows supported by the property, the first loan was originated for $1.3 million at a market interest rate. This loan was put on nonaccrual, classified as substandard, and reported as a troubled debt restructuring. The second loan was originated for $393,000 and was charged-off in December 2011. At September 30, 2012, the carrying value of the first loan was $1.29 million. At June 30, 2012, this loan had performed in accordance with its restructured terms for six months. Therefore, as of September 30, 2012 and June 30, 2012 this loan is included in "Accruing restructured loans" in the above table. In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, the carrying value of Loan A was classified as "Multi-family residential real estate, Substandard," at September 30, 2012 and at June 30 2012. At September 30, 2012, this loan was performing in accordance with its restructured terms.

Loan Relationship E. Two loans (which consisted of one note prior to the use of the split note strategy) with an aggregate carrying value of $532,000 at September 30, 2012, secured by nonresidential real estate. Note A is included in the above table in "Accruing restructured loans" at September 30, 2012 and at June 30, 2012. In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, these loans were classified in "Nonresidential real estate, Substandard" at September 30, 2012 and at June 30, 2012, respectively. The loan was structured in April, 2010, and a new appraisal was obtained. At June 30, 2010, the charge-off to the general allowance for loan losses, based upon the appraisal, was $308,000. The restructured loan had payments deferred for one year, while accruing interest at a market rate. This loan was scheduled to undergo an interest rate and payment reset in February, 2011, pursuant to the terms of the note. We have no personal guarantee or co-borrower on this loan. During the loan adjustment period, it became apparent the borrower was going to struggle to make the required monthly payments beginning in February, 2011. As a result, management completed a detailed analysis of this loan and determined to again restructure the loan utilizing the split note strategy in March, 2011. The terms of Note A were calculated using current financial information to determine the amount of the payment at which the borrower would have a debt service coverage ratio of approximately 1.5x, which is more stringent than our normal underwriting standards. A restructuring fee of $9,000 was charged and included in Note B at March 31, 2011. After the restructuring in March, 2011, Note A was in the amount of $569,000 and Note B was in the amount of $508,000, all of which was charged-off in the quarter ended March 31, 2011 inclusive of the previous specific reserve of $308,000. At the end of the two year period, balloon payments are due, unless the borrower refinances into a market rate loan at that time. At September 30, 2012, no further impairments have been recorded since the most recent restructuring. This relationship was performing in accordance with its restructured terms at September 30, 2012.

- Loan Relationship F. This relationship consists of two loans (based on the split note strategy) with an aggregate carrying value of $453,000 at September 30, 2012. These loans are secured by single-family and multi-family residential real estate. Note A is included in the above table as "Accruing restructured loans, at September 30, 2012 and at June 30, 2012. In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, the A loan was classified as "Multi-family real estate, Substandard" at September 30 and June 30, 2012, respectively. The original loan was initially restructured using the split note strategy in June, 2010 based on an 80% loan-to-value ratio derived from an April, 2010 appraisal. The loans were considered impaired at June 30, 2010 with an additional increase in the allowance for loan losses of $117,000 to reflect the reduction in carrying value resulting from the exclusion of the required personal cash infusions from the co-borrower from the calculation of the carrying value. At December 31, 2010, the 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, 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 bring the loan current under their current cash flow. 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 split note strategy in March, 2011. The terms of Note A were calculated using current financial information to determine the amount of the payment at which the borrowers would have a debt service coverage ratio of approximately 1.5x, which is more stringent than our current underwriting standards. A restructuring fee of $7,000 was charged and included in Note B at March 31, 2011. The borrower is a corporate entity, with two principals, who also individually signed the loan as co-borrowers. After the restructuring in March, 2011, Note A was for $475,000 and Note B in the amount of $405,000 was charged-off in the quarter ended March 31, 2011, including $188,000 that was charged-off against the general allowance for loan losses. At the end of the two year period, a balloon payment is due, unless the borrower refinances into a market rate loan at that time. The loan has performed in accordance with its restructured

terms at September 30, 2012, and no further impairments have been recorded since the most recent restructuring.

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Loan Relationship G. A loan which is secured by a 93-pad mobile home park, and an 87-pad mobile home park, is included in the above table in "Nonaccrual Loans, Multi-family real estate" as of September 30, 2012 and as of June 30, 2012. In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, this is classified as Multi-family residential real estate, Substandard, at September 30, 2012 and at June 30, 2012. The borrowers are two limited liability corporations and the two co-borrowers are the principals of the corporations. This loan is a participation loan with another financial institution. The Bank is the lead lender and has a 79% interest in the loan. The borrowers approached the Bank in May, 2011 and stated they were having cash flow problems even though the loan was current. The Bank received updated financial information following this conversation. The financial information showed there were cash flow problems, but that the co-borrowers had been infusing their personal funds. Based on the cash flow of the properties, the Bank established an impairment in the amount of $400,000, effective June 30, 2011, based on the information available when the June 30, 2011, financial statements were issued. At June 30, 2011, the Bank's portion of the loan balance was $2.14 million, and the carrying value of the Bank's portion of the loan was $1.74 million. At January 31, 2012, the loan was 39 days delinquent. The Bank was still not receiving current financial information; therefore, new appraisals were ordered. The appraisals were received in March 2012, in the total amount of $2.8 million. The borrower was able to bring the loan current by June 30, 2012. At September 30, 2012, United Community Bancorp's portion of the loan balance was $2.0 million. At September 30, 2012, the loan was performing in accordance with its restructured terms.

- Loan Relationship H. As of September 30, 2012, this loan relationship consists of two loans with a net carrying value of $744,000. As stated in the June 30, 2012 narrative, this relationship was restructured using the split note strategy in the September 30, 2012 quarter. Both of the loans in the "Split Note Strategy" have the same security and priority as the one loan discussed in the June 30, 2012 narrative. The collateral value is $978,000 on properties for which United Community Bank has a first lien. No additional loss was incurred when the loan was restructured using the split note strategy in the September, 2012 quarter. As of June 30, 2012, this relationship consisted of one loan which was secured by a first lien on an 18-unit apartment complex, a single-family dwelling and a 6.3 acre tract of land, and a second lien on a single-family owner occupied dwelling on 11.36 acres. This loan is included in the above table, as "Nonaccrual Loans, Multi-family Real Estate" as of June 30, 2012, in the "Credit Risk Profile by Internally Assigned Grade" table on page 15, this relationship is classified as "Multi-family Residential Real Estate, Substandard" at June 30, 2012. The "A" loan of the split note strategy is included in the above table as "Nonaccrual Loans, Multi-family Real Estate" as of September 30, 2012. Also, in the "Credit Risk Profile by Internally Assigned Grade" table on page 15, the "A" loan is classified as "Multi-Family Residential Real Estate, Substandard" at September 30, 2012. The "B" loan of the split note strategy is charged off.

- Loan Relationship I. This relationship is comprised of one loan which is secured by an industrial/office nonresidential property and is included in the above table, in "Nonaccrual loans nonresidential real estate" as of September 30, 2012 and as of June 30, 2012. In the "Credit Risk Profile by Internally Assigned Grade" table on page 15, this is classified as "Nonresidential real estate, Substandard" at September 30, 2012 and at June 30, 2012. The borrower is a limited liability corporation and the two co-borrowers are principals of the limited liability corporation. The borrower approached United Community Bank in March 2012, indicating that a major tenant was not going to renew its lease in November 2012. However, the tenant would remain in the property until its lease expired. United Community Bank ordered an appraisal based on this information. The appraisal was received in March 2012 and reflected a value of $900,000. At March 31, 2012, the carrying value of the loan was reduced by $177,000 to $819,000. After the 2011 tax returns were received late in the second quarter of 2012, United Community Bank conducted further cash flow analyses and determined that the only way the loan would be paid off would be to sell the property. United Community Bank recorded a charge-off of $146,000 based on the most recent appraisal. An impairment in the amount of $120,000 was also established as an estimate to impair the loan further based on United Community Bank's experience in settling

foreclosed properties. The carrying value of the loan was $711,000 at September 30, 2012. The borrower has continued to make the required, market rate, monthly principal and interest payments through September 30, 2012.

The following table summarizes all Note A/B format loans at September 30, 2012:

| ***(Dollars in thousands)*** | Loan Balances | | | Number of Loans | |
|---|---|---|---|---|---|
| | Note A | Note B | Total | Note A | Note B |
| Nonresidential real estate | $3,818 | $2,382 | $6,200 | 4 | 4 |
| Multi-family residential real estate | 6,255 | 3,331 | 9,586 | 7 | 7 |
| One- to four-family residential real estate | 520 | 61 | 581 | 1 | 1 |
| Total (1) | $10,593 | $5,774 | $16,367 | 12 | 12 |

(1) Included in this total are an aggregate of $7.4 million comprised of Note As and $4.1 million comprised of Note Bs that are included in the discussion of Loan Relationships A, B, C, D, E, F and H.

Based on the fact that our loans receivable greater than 30 days past due and accruing in the multi-family residential real estate and nonresidential real estate portfolios totaled $529,000, which represents 0.6% of these loans at September 30, 2012, 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 table provides information with respect to all of our loans that are classified as troubled debt restructurings. For additional information regarding troubled debt restructurings on nonaccrual status, see the table of nonperforming assets above.

| | At September 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loan Status | | Total Unpaid Principal | Related | Recorded | Number | Average Recorded |
| *(in thousands)* | **Accrual** | **Nonaccrual** | **Balance** | **Allowance** | **Investment** | **of Loans** | **Investment** |
| One- to four-family residential real estate | $2,095 | $ 2,693 | $4,788 | $ 23 | $ 4,765 | 26 | $ 4,858 |
| Multi-family residential real estate | 7,377 | 4,179 | 11,556 | 160 | 11,396 | 12 | 11,598 |
| Nonresidential real estate | 3,111 | 2,926 | 6,037 | 435 | 5,602 | 8 | 5,623 |
| Total | $12,583 | $ 9,798 | $22,381 | $ 618 | $ 21,763 | 46 | $ 22,079 |

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

| | Three Months Ended September 30, 2012 | |
|---|---|---|
| | Recorded Investment | Number of Loans |
| **(Dollars in thousands)** | | |
| Beginning balance | $ 22,394 | 48 |
| Additions to TDRs | 156 | — |
| Removal from TDRs (1) | (146) | (2) |
| Payments | (641) | — |
| Ending balance | $ 21,763 | 46 |

(1) One TDR was foreclosed on during the period and transferred to REO in the amount of $146,000. At June 30, 2012, one customer had two TDRs that were restructured during the quarter ended September 30, 2012 into one loan.

Two loans that were recorded as TDRs at June 30, 2012 were restructured during the quarter ended September 30, 2012 upon the end of the original restructured terms. The restructuring increased the recorded investment in these loans by $156,000 and the loans continue to be carried as TDRs.

No new loans were restructured during the quarter ended September 30, 2012.

Loans that were included in TDRs at September 30, 2012 were generally given concessions of interest rate reductions of between 25 and 300 basis points, and/or structured as interest only payment loans for periods of one to three years. 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 September 30, 2012, there were 38 loans that required payments of principal and interest, and eight loans that required interest payments only.

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

| | At September 30, | |
|---|---|---|
| | 2012 | 2011 |
| | (In thousands) | |
| Special mention assets | $9,384 | $10,254 |
| Substandard assets | 30,648 | 33,280 |
| Total classified assets | $40,032 | $43,534 |

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b) at September 30, 2012 and at June 30, 2012.

At September 30, 2012:

**Credit Risk Profile by Internally Assigned Grade**

| | One- to Four-Family Owner-Occupied Mortgage | Consumer | One- to Four-Family Non-Owner Occupied Mortgage | Multi-family Non-Owner-Occupied Mortgage | Non-Residential Real estate | Construction | Land | Commercial and Agricultural | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | $105,945 | $33,961 | $12,080 | $ 16,203 | $30,256 | $ 707 | $2,673 | $ 6,441 | $208,266 |
| Watch | 7,279 | 1,004 | 3,945 | 3,006 | 11,554 | 479 | 965 | 639 | 28,871 |
| Special mention | 526 | 22 | 823 | 344 | 7,623 | — | — | 46 | 9,384 |
| Substandard | 5,774 | 532 | 1,481 | 15,871 | 6,114 | 200 | 27 | 649 | 30,648 |
| Total | $119,524 | $35,519 | $18,329 | $ 35,424 | $55,547 | $ 1,386 | $3,665 | $ 7,775 | $277,169 |

At June 30, 2012:

**Credit Risk Profile by Internally Assigned Grade**

| | One- to Four-Family Owner-Occupied Mortgage | Consumer | One- to Four-Family Non-Owner Occupied Mortgage | **Multi-family Non-Owner-Occupied Mortgage** | **Non-Residential Real estate** | **Construction** | **Land** | Commercial and Agricultural | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | $108,642 | $34,380 | $11,836 | $ 15,423 | $ 30,379 | $ 510 | $2,577 | $ 6,015 | $209,762 |
| Watch | 6,503 | 683 | 4,059 | 10,223 | 11,250 | 479 | 836 | 615 | 34,648 |
| Special mention | 268 | 24 | 827 | 347 | 10,249 | — | — | — | 11,715 |
| Substandard | 6,288 | 508 | 1,099 | 16,332 | 7,245 | 200 | 28 | 374 | 32,074 |
| Total | $121,701 | $35,595 | $17,821 | $ 42,325 | $ 59,123 | $ 1,189 | $3,441 | $ 7,004 | $288,199 |

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

| | At September 30, 2012 | | At June 30, 2012 | |
|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 30-59 Days Past Due | 60-89 Days Past Due |
| | *(in thousands)* | | | |
| One- to four-family mortgage – owner-occupied | $1,000 | $ 218 | $ 1,764 | $ 355 |
| Consumer | 296 | 3 | 195 | 15 |
| One- to four-family mortgage – nonowner-occupied | 1,251 | — | 947 | — |
| Multi-family mortgage | 488 | — | 489 | — |
| Nonresidential real estate mortgage – commercial and office buildings | 41 | — | 207 | 306 |
| Construction | — | — | — | — |
| Land | 50 | — | — | — |
| Commercial and agricultural | 6 | 46 | 246 | — |
| Total | $3,132 | $ 267 | $ 3,848 | $ 676 |

The following table illustrates the changes to the allowance for loan losses for the three months ended September 30, 2012:

| | One- to Four-Family Mortgage Owner-Occupied | Consumer | One- to Four-Family Mortgage Nonowner-Occupied | Multi-Family Mortgage Nonowner-Occupied | Non-Residential Real Estate | Construction | Land | Commercial and Agricultural | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | | |
| Allowance for Loan Losses: | | | | | | | | | |
| Beginning Balance: | $666 | $477 | $236 | $1,915 | $2,282 | $3 | $11 | $24 | $5,614 |
| Charge offs | (59) | (50) | — | — | (100) | — | — | — | (209) |
| Recoveries | 5 | 13 | (1) | 9 | 1 | — | — | 1 | 28 |
| Provision | 323 | 111 | 22 | (253) | 38 | 3 | 8 | (2) | 250 |
| Ending Balance: | $935 | $551 | $257 | $1,671 | $2,221 | $6 | $19 | $23 | $5,683 |
| Balance, Individually Evaluated | $17 | $— | $6 | $448 | $435 | $— | $— | $— | $906 |
| Balance, Collectively Evaluated | 918 | 551 | 251 | 1,223 | 1,786 | 6 | 19 | 23 | 4,777 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Financing receivables: ending balance | 119,524 | 35,519 | 18,329 | 35,424 | 55,547 | 1,386 | 3,665 | 7,775 | 277,169 |
| Ending Balance: individually evaluated for impairment | 4,903 | 1,619 | 1,976 | 13,547 | 6,047 | — | 27 | 236 | 28,355 |
| Ending Balance: collectively evaluated for impairment | 101,429 | 28,873 | 15,621 | 21,497 | 45,034 | 1,386 | 3,556 | 6,577 | 223,973 |
| Ending Balance: loans acquired at fair value | 13,192 | 5,027 | 732 | 380 | 4,466 | — | 82 | 962 | 24,841 |

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

| | At September 30, **2012** | | | **At June 30, 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 | $1,192 | 21.0 % | 49.7 % | $902 | 16.1 % | 48.4 % |
| Multi-family real estate | 1,671 | 29.4 | 12.8 | 1,915 | 34.1 | 14.7 |
| Nonresidential real estate | 2,221 | 39.1 | 20.0 | 2,282 | 40.6 | 20.5 |
| Land | 19 | 0.3 | 1.3 | 11 | 0.2 | 1.2 |
| Agricultural | — | — | 1.3 | — | — | 1.1 |
| Commercial | 23 | 0.4 | 1.6 | 24 | 0.4 | 1.3 |
| Consumer | 551 | 9.7 | 12.8 | 477 | 8.5 | 12.4 |
| Construction | 6 | 0.1 | 0.5 | 3 | 0.1 | 0.4 |
| Total allowance for loan losses | $5,683 | 100.0 % | 100.0 % | $5,614 | 100.0 % | 100.0 % |
| Total loans | $277,169 | | | $288,199 | | |

***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 $31.3 million at September 30, 2012 and $29.1 million at June 30, 2012. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled $110.1 million at September 30, 2012. Total securities classified as available-for-sale were $160.8 million at September 30, 2012. In addition, at September 30, 2012, we had the ability to borrow a total of approximately $110.8 million from the Federal Home Loan Bank of Indianapolis.

At September 30, 2012, we had $30.3 million in loan commitments outstanding, consisting of $1.4 million in mortgage loan commitments, $21,000 in commercial loan commitments, $23.7 million in unused home equity lines of credit, $4.8 million in commercial lines of credit, and $334,000 in letters of credit outstanding. Certificates of deposit due within one year of September 30, 2012 totaled $114.0 million. This represented 26.3% of certificates of deposit at September 30, 2012. We believe that the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funding, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2012. However, based on past experience, we believe that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

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

***Capital Management.*** United Community Bank is subject to various regulatory capital requirements administered by the OCC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2012, we exceeded all of our regulatory capital requirements. We are considered "well capitalized" under regulatory guidelines. See *"Regulation and Supervision—Regulation of Federal Savings Associations—Capital Requirements,"* and Note 16 to the Consolidated Financial Statements included in Item 8 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 7, 2012.

The following table summarizes the Bank's capital amounts and the ratios required at September 30, 2012:

| | Actual | | For capital adequacy purposes | | To be well capitalized under prompt corrective action provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| September 30, 2012 (unaudited) | (in thousands) | | | | | |
| Tier 1 capital to risk-weighted assets | $45,848 | 18.37% | $ 9,983 | 4% | $ 14,975 | 6% |
| Total capital to risk-weighted assets | 48,999 | 19.64% | 19,959 | 8% | 24,949 | 10% |
| Tier 1 capital to adjusted total assets | 45,848 | 9.18% | 19,977 | 4% | 24,972 | 5% |
| Tangible capital to adjusted total assets | 45,848 | 9.18% | 7,492 | 1.5% | NA | NA |

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

For the three months ended September 30, 2012, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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

For a discussion of the Company's asset and liability management policies as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 7, 2012. The main components of market risk for the Company

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

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

The following table presents the change in our net economic value of equity at September 30, 2012 that would occur in the event of an immediate change in interest rates, with no effect given to any steps that we might take to counteract that change.

| | Economic Value of Equity (Dollars in Thousands) | | | Economic Value of Equity as % of Economic Value of Total Assets | |
|---|---|---|---|---|---|
| Basis Point ("bp") Change in Rates | Amount | Change | % Change | Economic Value Ratio | |
| 300 | $51,458 | $(15,501) | (23.15)% | 10.77 | % |
| 200 | 55,647 | (11,312) | (16.89)% | 11.38 | % |
| 100 | 62,899 | (4,060) | (6.06)% | 12.48 | % |
| 0 | 66,959 | — | — | 12.98 | % |
| (100) | 70,026 | 3,067 | 4.58 % | 13.35 | % |
| (200) | 62,523 | (4,436) | (6.62)% | 12.09 | % |

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.

We use a net portfolio value analysis prepared by the OCC to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio 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. Net portfolio value 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. This analysis assesses the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 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, this analysis is not performed for decreases of more than 200 basis points.

**Item 4. Controls and Procedures**

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. During the quarterly period ended September 30, 2012, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended June 30, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10 are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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

There were no repurchases of the Company’s common stock during the quarter ended September 30, 2012.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

| | |
|---|---|
| Exhibit 31.1 | Certification of Chief Executive Officer |
| Exhibit 31.2 | Certification of Chief Financial Officer |
| Exhibit 32 | Section 1305 Certifications |
| Exhibit 101.0* | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements |

* Furnished, not filed.

**SIGNATURES**

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

UNITED COMMUNITY BANCORP

Date: November 15, 2012 By: /s/ William F. Ritzmann
William F. Ritzmann
President and Chief Executive Officer

Date: November 15, 2012 By: /s/ Vicki A. March
Vicki A. March
Senior Vice President, Chief Financial Officer and Treasurer