

United Community Bancorp  
Form 424B3  
February 21, 2006  
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**Prospectus Supplement**

**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-130302**

**INTERESTS IN**  
**UNITED COMMUNITY BANK**  
**401(K) PROFIT SHARING PLAN**

**AND**

**OFFERING OF 249,696 SHARES OF**  
**UNITED COMMUNITY BANCORP**  
**COMMON STOCK (\$.01 PAR VALUE)**

This prospectus supplement relates to the offer and sale to participants in the United Community Bank 401(k) Profit Sharing Plan of participation interests and shares of common stock of United Community Bancorp, Inc.

401(k) Plan participants may direct the trustee, as appointed by the 401(k) Plan, to use their current account balances to subscribe for and purchase shares of United Community Bancorp common stock to be held in the United Community Bancorp Stock Fund. Based upon the value of the 401(k) Plan assets as of December 31, 2005, 401(k) Plan participants may purchase up to 249,696 shares of United Community Bancorp common stock, assuming a purchase price of \$10.00 per share. This prospectus supplement relates to the election of 401(k) Plan participants to invest all or a portion of their 401(k) Plan accounts in United Community Bancorp, Inc. common stock.

The prospectus dated February 10, 2006 of United Community Bancorp, which accompanies this prospectus supplement, includes detailed information regarding the reorganization of United Community Bank into the mutual holding company form of ownership and the offering of United Community Bancorp common stock, and the financial condition, results of operations and business of United Community Bank. This prospectus supplement provides information regarding the 401(k) Plan. You should read this prospectus supplement, together with the prospectus, and keep both for future reference.

**Please refer to Risk Factors beginning on page 18 of the prospectus.**

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**Neither the Securities and Exchange Commission, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, nor any other state or federal agency or any state securities commission, has approved or disapproved these securities. Any representation to the contrary is a criminal offense.**

**These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

This prospectus supplement may be used only in connection with offers and sales by United Community Bancorp of interests or shares of common stock under the 401(k) Plan to employees of United Community Bank. No one may use this prospectus supplement to reoffer or resell interests or shares of common stock acquired through the 401(k) Plan.

You should rely only on the information contained in this prospectus supplement and the attached prospectus. United Community Bancorp, United Community Bank and the 401(k) Plan have not authorized anyone to provide you with information that is different.

This prospectus supplement does not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. Neither the delivery of this prospectus supplement and the prospectus nor any sale of common stock shall under any circumstances imply that there has been no change in the affairs of United Community Bank or the 401(k) Plan since the date of this prospectus supplement, or that the information contained in this prospectus supplement or incorporated by reference is correct as of any time after the date of this prospectus supplement.

**The date of this Prospectus Supplement is February 10, 2006.**

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**THE OFFERING**

**Securities Offered**

The securities offered in connection with this prospectus supplement are participation interests in the 401(k) Plan. Assuming a purchase price of \$10.00 per share, participants may acquire up to 249,696 shares of United Community Bancorp common stock for the new United Community Bancorp Stock Fund. The participation interests offered under this prospectus supplement are conditioned on the completion of the reorganization of United Community Bank and the stock offering of United Community Bancorp. Your investment in the United Community Bancorp Stock Fund in connection with the reorganization of United Community Bank is also governed by the purchase priorities contained in the amended and restated plan of reorganization and stock issuance. See *The Reorganization and Stock Offering - Subscription Rights and Limitations on Purchases of Shares* sections of the prospectus attached to this prospectus supplement for a discussion of the purchase priorities contained in the plan of reorganization.

This prospectus supplement contains information regarding the 401(k) Plan. The attached prospectus contains information regarding the reorganization of United Community Bank and the financial condition, results of operations and business of United Community Bank. The address of the principal executive office of United Community Bank is 92 Walnut Street, Lawrenceburg, Indiana 47025. The telephone number of United Community Bank is (812) 537-4822.

**Election to Purchase United Community Bancorp Common Stock in the Reorganization**

In connection with the reorganization of United Community Bank, the 401(k) Plan will permit you to direct the transfer of all or part of the funds which represent your current beneficial interest in the assets of the 401(k) Plan to the United Community Bancorp Stock Fund. The trustee of the United Community Bancorp Stock Fund will subscribe for United Community Bancorp common stock offered for sale in connection with the reorganization. However, please note that, in order to maintain a cash buffer within the United Community Bancorp Stock Fund, approximately five percent (5%) of your investment direction will be held in cash. Approximately ninety-five percent (95%) of the total amount that you transfer will be used to purchase common stock in the offering, rounded down to the nearest \$10.00 increment, with any remainder also held in cash within the United Community Bancorp Stock Fund. Prior to the completion of the reorganization and stock offering, the funds you elect to transfer to the United Community Bancorp Stock Fund will be transferred to the 401(k) Plan's Delaware Cash Reserve Fund. If there is not enough common stock in the reorganization to fill all subscriptions, the common stock will be apportioned and the trustee for the 401(k) Plan may not be able to purchase all of the common stock you requested. In such a case, all or a portion of the funds you elected to transfer will not be used to purchase common stock, and will instead remain in the Delaware Cash Reserve Fund. After the close of the offering, you may reinvest in the funds held in the Delaware Cash Reserve Fund among the 401(k) Plan's other investment funds, including the United Community Bancorp Stock Fund. Please note that open market purchases may be made at prices higher or lower than the initial public offering price of \$10.00 per share.

401(k) Plan participants may direct a transfer of funds to the United Community Bancorp Stock Fund. However, as mentioned above, your transfer directions are subject to subscription rights and purchase priorities. Your order for shares in the stock offering will be filled based on your purchase priority in the offering. United Community Bank has granted subscription rights to the following persons in the following order of priority: (1) depositors with \$50.00 or more on deposit at United Community Bank as of August 31, 2004; (2) the United Community Bank Employee Stock Ownership Plan; (3)

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depositors with \$50.00 or more on deposit at United Community Bank as of December 31, 2005; and (4) depositors of United Community Bank as of January 31, 2006. No individual may purchase more than \$150,000 of United Community Bancorp common stock in the subscription offering, and no individual, no individual together with any associates, and no group of persons acting in concert, may purchase more than \$650,000 of United Community Bancorp common stock in the offering. If you fall into one of the above subscription offering categories, you have subscription rights in the offering and you may use funds in your 401(k) Plan account to purchase shares of United Community Bancorp common stock in the offering.

In addition to using funds allocated to your 401(k) Plan accounts, you may also purchase United Community Bancorp common stock in the offering using other funds. You have received or will soon receive stock offering materials in the mail, including a Stock Order Form. If you choose to place an order for stock in the offering using funds other than those in your 401(k) Plan accounts, you must complete and submit a separate Stock Order Form to the location and by the deadline indicated on that form.

## **Value of Participation Interests**

As of December 31, 2005, the market value of the assets of the 401(k) Plan equaled approximately \$2,496,963. United Community Bank has informed each participant of the value of his or her beneficial interest in the 401(k) Plan as of December 31, 2005. The value of 401(k) Plan assets represents past contributions to the 401(k) Plan on your behalf, plus or minus earnings or losses on the contributions, less previous withdrawals and loans.

## **Method of Directing Transfer**

The last two pages of this prospectus supplement contain a form for you to direct a transfer to the United Community Bancorp Stock Fund (the Investment Form ). If you wish to transfer all, or part, in multiples of not less than 1%, of your beneficial interest in the assets of the 401(k) Plan to the United Community Bancorp Stock Fund, you should complete the Investment Form. If you do not wish to invest in the United Community Bancorp Stock Fund through the 401(k) Plan, you do not need to take any action. The minimum investment in the United Community Bancorp Stock Fund during the initial public offering is \$250.

## **Time for Directing Transfer**

The deadline for submitting the Investment Form with your directions to transfer amounts from your other investment funds to the United Community Bancorp Stock Fund in connection with the reorganization is Monday, March 6, 2006. **You must submit the Investment Form to Ms. Barbara McCormack at United Community Bank by 4:00 p.m. on March 6, 2006.**

## **Irrevocability of Transfer Direction**

Once you submit your Investment Form to transfer amounts credited to your account in the 401(k) Plan to the United Community Bancorp Stock Fund, you cannot change your investment direction prior to the completion of the reorganization and stock offering. You may be able to change

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your investments in other investment funds under the 401(k) Plan, subject, however, to the terms of the 401(k) Plan and any blackout notices to the contrary that you receive from the Plan Administrator. Following the closing of the stock offering and your initial purchase of units in the United Community Bancorp Stock Fund, and subject to the terms and requirements of the 401(k) Plan, including any blackout notices, you may direct the investment of additional funds into the United Community Bancorp Stock Fund, which will continue to be an investment option under the 401(k) Plan.

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### **Purchase Price of United Community Bancorp Common Stock**

The trustee will use the funds transferred to the United Community Bancorp Stock Fund to purchase shares of United Community Bancorp common stock in the reorganization. As discussed above, the United Community Bancorp Stock Fund will be comprised of stock units and a cash buffer. The trustee will pay the same price for shares of United Community Bancorp common stock in the offering, \$10.00 per share, as all other persons who purchase shares of United Community Bancorp common stock in the offering.

### **Nature of a Participant's Interest in United Community Bancorp Common Stock**

The 401(k) Plan trustee will hold United Community Bancorp common stock in the name of the 401(k) Plan. Units of the United Community Bancorp Stock Fund acquired at your investment direction will be credited to your account under the 401(k) Plan.

### **Voting and Tender Rights of United Community Bancorp Common Stock**

The 401(k) Plan trustee (based on instructions received) generally will exercise voting and tender rights attributable to all United Community Bancorp common stock held by the United Community Bancorp Stock Fund as directed by participants with interests in the United Community Bancorp Stock Fund. With respect to each matter as to which holders of United Community Bancorp common stock have a right to vote, you will be given voting instruction rights reflecting your proportionate interest in the United Community Bancorp Stock Fund. The number of shares of United Community Bancorp common stock held in the United Community Bancorp Stock Fund that are voted for and against each matter will be proportionate to the number of voting instruction rights exercised by participants. If there is a tender offer for United Community Bancorp common stock, the 401(k) Plan provides that each participant will be allotted a number of tender instruction rights reflecting the participant's proportionate interest in the United Community Bancorp Stock Fund. The percentage of shares of United Community Bancorp common stock held in the United Community Bancorp Stock Fund that will be tendered will be the same as the percentage of the total number of tender instruction rights that are exercised in favor of the tender offer. The remaining shares of United Community Bancorp common stock held in the United Community Bancorp Stock Fund will not be tendered. The 401(k) Plan makes provisions for participants to exercise their voting instruction rights and tender instruction rights on a confidential basis.

## **DESCRIPTION OF THE 401(k) PLAN**

### **Introduction**

Effective January 1, 2006, United Community Bank amended and restated the United Community Bank 401(k) Profit Sharing Plan, originally effective as of April 1, 1997, in its entirety. United Community Bank intends for the 401(k) Plan to comply, in form and in operation, with all applicable provisions of the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended, or ERISA. United Community Bank may change the 401(k) Plan from time to time in the future to ensure continued compliance with these laws. United Community Bank



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may also amend the 401(k) Plan from time to time in the future to add, modify, or eliminate certain features of the 401(k) Plan, as it sees fit. As a 401(k) Plan governed by ERISA, federal law provides you with various rights and protections as a 401(k) Plan participant. Although the 401(k) Plan is governed by many of the provisions of ERISA, the Pension Benefit Guaranty Corporation does not guarantee your retirement benefits under the 401(k) Plan.

**Reference to Full Text of the 401(k) Plan.** The following portions of this prospectus supplement provide an overview of the material provisions of the 401(k) Plan. United Community Bank qualifies this overview in its entirety, however, by reference to the full text of the 401(k) Plan. You may obtain copies of the full 401(k) Plan document by contacting Barbara McCormack at United Community Bank. You should carefully read the full text of the 401(k) Plan document to understand your rights and obligations under the 401(k) Plan.

## **Eligibility and Participation**

Eligible employees of United Community Bank may participate in the 401(k) Plan as of the first day of the month coinciding with or next following their satisfaction of the eligibility requirements. Generally, employees who are at least 18 years of age may participate in the 401(k) Plan upon their completion of one month of service.

As of December 31, 2005, 64 of the 76 employees of United Community Bank elected to participate in the 401(k) Plan.

## **Contributions Under the 401(k) Plan**

**401(k) Plan Participant Contributions.** Subject to certain Internal Revenue Code limitations, the 401(k) Plan permits each participant to contribute up to 100% of their annual compensation to the 401(k) Plan (See Limitations on Contributions below.). Participants may change their rate of contribution with respect to pre-tax deferrals upon providing thirty (30) days notice to United Community Bank.

**United Community Bank Contributions.** The 401(k) Plan provides that United Community Bank may make matching contributions. United Community Bank currently matches 50% of each participant's salary deferrals, up to a maximum of 10% of annual compensation. United Community Bank may also make discretionary contributions on behalf of 401(k) Plan participants. Employer contributions (matching and discretionary) are allocated to each participant who has completed 500 hours of service during the Plan Year (i.e., the calendar year) or who terminated employment during the Plan Year due to disability, retirement or death.

## **Limitations on Contributions**

**Limitations on Employee Salary Deferrals.** Although the 401(k) Plan permits you to defer up to 100% of your compensation, by law your total deferrals under the 401(k) Plan, together with similar plans, may not exceed \$15,000 for 2006. Employees who are age 50 and over may make additional catch-up contributions to the 401(k) Plan, in amounts up to \$5,000 for 2006. (The Internal Revenue Service will periodically increase these annual limitations.) Contributions in excess of these limitations, or excess deferrals, will be included in an affected participant's gross income for federal income tax purposes in the year the contributions are made, provided they are distributed to the participant no later than the

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first April 15th following the close of the taxable year in which the excess deferrals were made. Excess deferrals distributed after that date will be treated, for federal income tax purposes, as earned and received by the participant in the taxable year of the distribution.

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**Limitations on Annual Additions and Benefits.** Under the requirements of the Internal Revenue Code, the 401(k) Plan provides that the total amount of contributions and forfeitures (i.e., annual additions) credited to a participant during any year under all defined contribution plans of United Community Bank (including the 401(k) Plan and the proposed United Community Bank Employee Stock Ownership Plan) may not exceed the lesser of 100% of the participant's compensation or \$44,000 for 2006.

**Limitations on 401(k) Plan Contributions for Highly Compensated Employees.** Special provisions of the Internal Revenue Code limit the amount of salary deferrals and matching contributions that may be made to the 401(k) Plan in any year on behalf of highly compensated employees in relation to the amount of deferrals and matching contributions made by or on behalf of all other employees eligible to participate in the 401(k) Plan. If contributions exceed these limitations, the 401(k) Plan must adjust the contribution levels for highly compensated employees.

In general, a highly compensated employee includes any employee who (1) was a five percent owner of the sponsoring employer at any time during the year or preceding year, or (2) had compensation for the preceding year in excess of \$100,000 and, if the sponsoring employer so elects, was in the top 20% of employees by compensation for such year. These dollar amounts may be adjusted periodically by the Internal Revenue Service.

**Top-Heavy Plan Requirements.** If the 401(k) Plan is a Top-Heavy Plan for any calendar year, United Community Bank may be required to make certain minimum contributions to the 401(k) Plan on behalf of non-key employees. In general, the 401(k) Plan will be treated as a Top-Heavy Plan for any calendar year if, as of the last day of the preceding calendar year, the aggregate balance of the accounts of participants who are Key Employees exceeds 60% of the aggregate balance of the accounts of all participants. A Key Employee generally includes any employee who, at any time during the calendar year or any of the four preceding years, is:

- (1) an officer of United Community Bank whose annual compensation exceeds \$140,000;
- (2) a 5% owner, meaning an employee who owns more than 5% of the outstanding stock of United Community Bancorp, or who owns stock that possesses more than 5% of the total combined voting power of all stock of United Community Bancorp; or
- (3) a 1% owner, meaning an employee who owns more than 1% of the outstanding stock of United Community Bancorp or who owns stock that possesses more than 1% of the combined voting power of the total stock of United Community Bancorp *and* whose annual compensation exceeds \$150,000.

## **401(k) Plan Investments**

**Investment of Contributions.** Prior to January 1, 2006, contributions under the 401(k) Plan were invested in the funds described below. The annual percentage return on these funds (net of fees) for the prior three years was as follows:

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<b>Fund Name</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<i>AllianceBernstein VPS Growth and Income</i>	4.9%	11.43%	32.41%
<i>American Funds Insurance Series Growth</i>	16.1%	12.46%	36.70%
<i>American Funds Insurance Growth-Income</i>	5.8%	10.34%	32.33%
<i>BlackRock Mid-Cap Value Equity</i>	10.0%	23.29%	34.55%
<i>Conservative Balanced Account</i>	4.8%	8.48%	12.44%
<i>Delaware VIP REIT Series</i>	7.1%	31.29%	33.92%
<i>Delaware VIP Small Cap Value Series</i>	9.4%	21.42%	41.85%
<i>Fidelity VIP Contrafund</i>	16.8%	15.32%	28.30%
<i>Fidelity VIP Equity-Income</i>	5.6%	11.20%	29.94%
<i>Government/Corporate Bond Fund</i>	3.2%	6.85%	9.18%
<i>Short Term Account</i>	3.3%	1.41%	1.21%
<i>American Century VP Inflation Protection</i>	1.8%	5.96%	N/A
<i>Delaware VIP Capital Reserves</i>	1.8%	N/A	N/A
<i>Delaware VIP Diversified Income</i>	(0.4)%	8.28%	N/A
<i>High Yield Bond Fund</i>	4.8%	13.59%	29.41%
<i>Templeton Global Income Securities</i>	(2.9)%	N/A	N/A
<i>Aggressive Balanced Account</i>	7.7%	11.84%	25.39%
<i>Balanced Account</i>	7.0%	9.76%	21.63%
<i>BlackRock Large Cap Value Equity</i>	5.9%	13.34%	35.45%
<i>Conservative Balanced Account</i>	4.8%	8.48%	12.44%
<i>Core Equity Account</i>	5.8%	12.10%	30.15%
<i>Delaware Value</i>	5.7%	11.08%	27.63%
<i>Value Equity Account</i>	6.1%	12.17%	27.20%
<i>AllianceBernstein VPS Large Cap Growth</i>	15.1%	8.59%	23.60%
<i>AllianceBernstein VPS Small/Mid Cap Value</i>	6.9%	19.25%	40.84%
<i>American Funds International</i>	21.4%	19.26%	34.75%
<i>American Funds New Perspective</i>	11.2%	10.69%	23.95%
<i>BlackRock Legacy</i>	6.5%	9.70%	28.89%
<i>Fidelity VIP Growth Portfolio</i>	5.5%	3.11%	32.44%
<i>Fidelity VIP Overseas</i>	18.7%	13.28%	42.91%
<i>International Equity Account</i>	13.3%	22.05%	43.30%
<i>Janus Aspen Series Large Cap Growth</i>	4.0%	4.19%	31.40%
<i>Large Capitalization Equity Account</i>	15.2%	3.12%	24.38%
<i>MFS VIT Capital Opportunities</i>	1.7%	12.43%	27.31%
<i>MFS VIT Utilities Series</i>	16.8%	30.11%	35.79%
<i>Neuberger Berman AMT Regency</i>	12.0%	22.33%	35.79%
<i>Scudder VIT Equity 500 Index</i>	4.7%	10.56%	28.07%
<i>Social Awareness Account</i>	12.0%	31.77%	12.67%
<i>Templeton Growth Securities</i>	8.8%	15.98%	32.04%

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<b>Fund Name (cont d.)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<i>AllianceBernstein VPS Global Technology</i>	3.9%	5.44%	43.95%
<i>American Funds Global Small Capitalization</i>	25.3%	20.82%	53.37%
<i>BlackRock Aurora</i>	2.9%	14.94%	49.70%
<i>BlackRock Global Resources</i>	56.8%	47.58%	60.06%
<i>Black Rock Small/Mid-Cap Growth</i>	10.3%	2.34%	53.09%
<i>Delaware VIP Emerging Markets</i>	27.4%	33.37%	70.33%
<i>Fidelity VIP Mid Cap</i>	18.2%	N/A	N/A
<i>Franklin Small-Mid Cap Growth</i>	4.8%	11.44%	37.13%
<i>Janus Aspen Series Mid-Cap Growth</i>	12.0%	20.42%	34.66%
<i>Medium Capitalization Equity Account</i>	10.4%	15.57%	33.28%
<i>MFS VIT Emerging Growth Series</i>	9.2%	12.92%	30.14%
<i>Neuberger Berman Mid-Cap Growth</i>	13.7%	16.29%	28.03%
<i>Scudder VIT Small Cap Index</i>	4.3%	17.73%	46.35%
<i>Small Capitalization Equity Account</i>	6.1%	13.89%	35.90%

**AllianceBernstein VPS Growth and Income.** This fund invests primarily in domestic equity securities. Among the principal risks of investing in the fund are market risk, interest rate risk, and credit risk. The fund's investments in foreign securities have foreign risk and currency risks.

**American Funds Insurance Series Growth.** This fund invests primarily in domestic equity securities with approximately 12.5% of funds allocated to international equity securities. The growth-oriented, equity type securities generally purchased by the fund may involve large price swings and potential for loss.

**American Funds Insurance Growth-Income.** This fund generally invests primarily in growth-oriented, equity-type securities. The prices of equity securities held by the fund may decline in response to certain events or adverse conditions affecting the general economy, overall market declines, world political, social and economic instability, and currency fluctuations.

**BlackRock Mid-Cap Value Equity.** This fund seeks to invest in mid-capitalization stocks worth more than indicated by current market price. The fund manager initially screens for value stocks from the universe of companies with market capitalization between \$1 billion and \$10 billion.

**Conservative Balanced Account.** This account is riskier than a pure bond account, but less risky than a conservative stock account. As a market-valued account, both the principal value and the performance return may go up or down based on the market prices of the stocks in the account. The account does not offer a guarantee of principal or interest.

**Delaware VIP REIT Series.** This fund invests primarily in real estate investment trust (REIT) companies. REIT companies tend to be smaller than average and investments in smaller companies are frequently riskier. However, REITs often have income and value characteristics that help to control volatility. The manager controls risk by investigating both the management of the REIT firms and the underlying real estate.

**Delaware VIP Small Cap Value Series.** This series invests in smaller companies, which are riskier than larger, more stable companies. The manager controls risk, however, by seeking to select companies that represent good value relative to their earnings and by limiting sector bets relative to the benchmark index. The illiquidity of the small cap market may adversely affect the value of these investments so that shares, when

redeemed, may be worth more or less than their original cost.

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***Fidelity VIP Contrafund.*** The Fidelity VIP Contrafund portfolio invests in small- and medium-sized companies, which may rely on limited product lines and markets, financial resources or other factors that may make them more susceptible to setbacks or downturns. Although holdings in small companies involve greater risk than those in larger companies, stocks of small companies also may have increased potential for higher returns.

***Fidelity VIP Equity-Income.*** The VIP Equity-Income fund is a conservative stock investment option. It is not as risky as aggressive stock investment options because it holds stocks of large, well-established companies that are bought at low prices but have strong earnings power. The fund is market-valued, which means both the principal value and the performance will go up or down based on the market prices of its holdings. The VIP Equity-Income fund does not offer a guarantee of principal or interest.

***Government/Corporate Bond Fund.*** This fund invests primarily in investment grade fixed-income securities, although a small allocation in below investment grade may be held. Long-term total return is sought with a combination of current income and capital appreciation.

***Short Term Account.*** The Short Term Account is a conservative account because holdings are high quality, the maturities are short and the risk level is low. For the same reasons, the account will usually produce lower returns than either bonds or stocks. The account does not offer a guarantee of principal or interest.

***American Century VP Inflation Protection.*** This fund seeks a long-term return using a strategy that seeks to protect against U.S. inflation.

***Delaware VIP Capital Reserves.*** This fund seeks a high, stable level of current income while attempting to minimize fluctuations in principal and provide maximum liquidity. The series invests primarily in short- and intermediate-term securities, including securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, instruments secured by U.S. government securities and debt securities issued by U.S. corporations.

***Delaware VIP Diversified Income.*** This fund seeks maximum long-term total return, consistent with reasonable risk, and invests primarily in domestic fixed income investments.

***High Yield Bond Fund.*** The High Yield Bond Fund seeks to buy lower quality bonds, which hold a higher chance that the issuer will be unable to repay the promised interest or principal. It is expected that the higher interest income on the bonds will exceed any default losses. The risk of this Fund increases during periods of economic recession.

***Templeton Global Income Securities.*** The Templeton Global Income Securities fund seeks high current income, consistent with preservation of capital, and with capital appreciation as a secondary consideration. Under normal market conditions, the fund invests mainly in the debt securities of governments and their political subdivisions and agencies, supranational organizations, and companies located anywhere in the world, including emerging markets.

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***Aggressive Balanced Account.*** The Aggressive Balanced Account is riskier than a pure bond account, but less risky than a conservative stock account. The portfolio manager controls risk by periodically adjusting the fund's asset mix based on economic conditions.

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**Balanced Account.** The Balanced Account is also riskier than a pure bond account, but less risky than a conservative stock account. The portfolio manager controls risk by periodically adjusting the asset mix based on economic conditions.

**BlackRock Large Cap Value Equity.** This fund normally invests at least 80% of its net assets in equity securities issued by U.S. large capitalization value companies (defined as those with market capitalizations equal to those within the universe of Russell 1000 Value Index Stocks).

**Conservative Balanced Account.** The Conservative Balanced Account is riskier than a pure bond account, but less risky than a conservative stock account. The portfolio manager controls risk by periodically adjusting the asset mix based on economic conditions.

**Core Equity Account.** The Core Equity Account is a conservative stock investment option. It is not as risky as an aggressive stock investment option because it holds stocks of large, well-established companies.

**Delaware Value.** The underlying fund invests primarily in investments of large capitalization companies that may have long-term capital appreciation potential.

**Value Equity Account.** The Value Equity Account is a conservative equity account. Holdings in this account are not as volatile as holdings in aggressive equity accounts because the account purchases stocks of large, well known companies that are bought at low prices but have strong earnings power.

**AllianceBernstein VPS Large Cap Growth.** This fund seeks long-term growth of capital by investing predominately in the equity securities of a limited number of large, carefully selected, high quality U.S. companies that are judged likely to achieve superior earnings growth.

**AllianceBernstein VPS Small/Mid Cap Value.** This fund invests primarily in a diversified portfolio of equity securities of small-to mid-capitalization U.S. companies. The Fund's investment policies emphasize investment in companies that are determined by Alliance to be undervalued, using Bernstein's fundamental value approach to identify companies whose long-term earnings power is not reflected in the current market price of their securities.

**American Funds International.** Approximately 85.7% of the fund (as of June 30, 2005) was invested in international equity securities. The values of equity securities held by the fund may decline in response to certain events, including those directly involving the companies whose securities are owned in the fund, adverse conditions affecting the general economy, overall market declines, world political, social and economic instability and currency fluctuations.

**American Funds New Perspective.** This fund invests in international equity (64%), domestic equity (30.4%) and cash/other (6.6%) investments (percentages are as of June 30, 2005). This is a market-valued account, which means that both the principal value and the performance will go up or down based on the market prices of its holdings. The fund does not offer a guarantee of principal or interest.

**BlackRock Legacy.** This fund seeks investment in fundamentally sound companies with strong management, superior earnings growth prospects and attractive relative valuations.

**Fidelity VIP Growth Portfolio.** The VIP Growth fund's aggressive, large-cap style may make it suitable for growth-oriented variable product contract holders seeking high total returns over the long-term. Growth investments will be more volatile than value type investments within the large company stock group.

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**Fidelity VIP Overseas.** This fund invests 97.9% of its assets in international equity securities (as of June 30, 2005). Foreign markets, particularly emerging markets, can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market or economic developments, and can perform differently from the U.S. market.

**International Equity Account.** The International Equity Account is an aggressive equity account. Holdings in non-U.S. stocks involve the same types of risk as holdings in domestic aggressive equity stocks. Additional risk factors are also associated with investing on a world-wide basis, including differences in regulation of financial data and reporting, and currency exchange differences, as well as economic and political systems which may differ from the United States.

**Janus Aspen Series Large Cap Growth.** This fund seeks long-term growth of capital in a manner consistent with the preservation of capital, by investing primarily in common stocks of issuers of any size. This portfolio generally invests in larger, more established issuers.

**Large Capitalization Equity Account.** The Large Capitalization Equity Account is an aggressive equity account. Like a conservative equity account, it holds stocks of well established companies. However, it is considered aggressive because its holdings also include growing companies that may or may not grow as expected.

**MFS VIT Capital Opportunities Series.** This fund invests primarily in domestic equity securities (93% as of June 30, 2005), including over-the-counter ( OTC ) listed companies. The fund's market risk is that the price of a security held by the series will decline due to changing economic, political or market conditions or disappointing earnings results. OTC listed companies also have limited product lines, markets or financial resources, and trade less frequently and in small volume than exchange-listed stocks. Therefore, the values of these stocks may be more volatile, and the series may experience difficulty in purchasing or selling these securities at a fair price.

**MFS VIT Utilities Series.** This fund invests primarily in equity and fixed income investments involving utilities. Overall, the portfolio would be considered a moderately conservative equity choice.

**Neuberger Berman AMT Regency.** This fund invests in mid-cap companies and, at times, in below investment grade and unrated securities. Mid-cap stocks involve greater risk than large cap stocks, because the stocks of mid-cap companies may experience more sudden fluctuations than large cap stocks.

**Scudder VIT Equity 500 Index.** The Scudder VIT Equity 500 Index is a conservative equity account similar in makeup and performance to the general stock market. It is less volatile than an aggressive equity account because this account primarily holds stocks in large, well-established companies.

**Social Awareness Account.** The Social Awareness Account is a stock investment account similar in both makeup and performance to the general stock market.

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**Templeton Growth Securities.** This fund invests in international equity (60%), domestic equity (28.7%) and cash/other investments (11.3%) (all percentages are as of June 30, 2005). Stock values may fluctuate in response to the activities of an individual company or general market and economic conditions.

**AllianceBernstein VPS Global Technology.** This fund invests in a global portfolio of securities of U.S. and non-U.S. companies selected for their growth potential. Alliance adjusts the fund's exposure to particular national economics based on its perception of the most favorable markets and issuers.

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***American Funds Global Small Capitalization.*** This fund invests in growth-oriented, equity-type securities. The prices of equity securities held by the fund may decline in response to certain events or adverse conditions affecting the general economy, overall market declines, world political, social and economic instability, and currency fluctuations.

***BlackRock Aurora.*** This fund invests primarily in small- and mid-capitalization stocks the manager believes are trading below their true worth. The fund looks for companies that appear likely to come back in favor with investors, for reasons that may range from good prospective earnings and strong management teams to the introduction of new products and services.

***BlackRock Global Resources.*** This fund invests primarily in U.S. and international companies engaged in the exploration, production, refinement and distribution of energy and natural resources.

***BlackRock Small/Mid-Cap Growth.*** This fund invests primarily in small- and mid-capitalization companies that are less mature and appear to have the potential for rapid growth. The fund looks for companies that have good current or prospective earnings and strong management teams.

***Delaware VIP Emerging Markets.*** This fund seeks to achieve long-term capital appreciation, and invests at least 65% of total assets (as of June 30, 2005) in equity securities in at least three different countries that are considered to be emerging or developing.

***Fidelity VIP Mid Cap.*** This fund seeks long-term growth of capital by investing primarily in common stocks. The portfolio invests at least 80% of assets in securities of companies with medium market capitalizations.

***Franklin Small-Mid Cap Growth Securities.*** This fund seeks long term capital growth by investing at least 80% of its net assets in the equity securities of small cap and mid cap companies.

***Janus Aspen Series Mid-Cap Growth.*** The portfolio is designed for long-term investors who can accept the risks of investing in a portfolio with significant common stock holdings, which tend to be more volatile than other investment choices.

***Medium Capitalization Equity Account.*** The Medium Capitalization Equity Account is an aggressive equity account. Holdings in medium-sized companies involve greater risk than those in larger, established companies. Therefore, money directed to this account is subject to more fluctuation in market value than holdings in conservative stock funds.

***MFS VIT Emerging Growth Series.*** This series invests primarily in small- to medium-sized emerging growth companies. These companies may have just begun their life cycles, but have the potential to become major enterprises. These types of investments involve greater risk than is customarily associated with investments in more established companies. Within the medium- to small-cap stock category, this series would be considered to have above-average risk.

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**Neuberger Berman Mid-Cap Growth.** This fund invests in mid-cap stocks, which involve greater risk than large cap stocks, because stocks of small companies may experience more sudden fluctuations than those of larger companies. Contributions to this account experience more fluctuation in market value than those placed in conservative stock investment options.

**Scudder VIT Small Cap Index.** This fund invests primarily in small cap domestic equity securities. Holdings in small companies involve greater risk than those in large and midsize companies; however, stocks of small companies may also have increased potential for higher returns.

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**Small Capitalization Equity Account.** The Small Capitalization Equity Account is an aggressive equity account. The fund manager controls risk by performing extensive fundamental analysis on purchase candidates. Diversification is also a key factor in controlling risk, as the account typically holds over 70 securities.

Effective January 1, 2006, the 401(k) Plan changed certain investment choices available under the 401(k) Plan. United Community Bank, as Plan Administrator, has selected, and the 401(k) Plan currently offers, the investment choices described below. The annual percentage return on these funds (net of fees) for the prior three years was:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<i>American Funds EuroPacific</i>	28.13%	19.23%	32.37%
<i>American Funds Growth Fund</i>	18.87%	11.60%	32.32%
<i>American Funds Investment Company of America</i>	11.97%	9.34%	25.70%
<i>American Funds New Perspective</i>	19.31%	13.81%	36.21%
<i>American Funds SmallCap World</i>	25.75%	17.25%	49.92%
<i>Delaware Foundation Aggressive Allocation</i>	15.60%	11.54%	27.83%
<i>Delaware Foundation Conservative Allocation</i>	8.46%	6.73%	16.54%
<i>Delaware High-Yield Opportunities</i>	7.42%	13.76%	28.17%
<i>Delaware Foundation Moderate Allocation</i>	11.89%	9.15%	22.96%
<i>Delaware Select Growth</i>	25.71%	7.61%	37.60%
<i>Delaware U.S. Growth</i>	21.01%	2.84%	22.97%
<i>Federated Kaufmann</i>	21.75%	14.29%	45.08%
<i>Franklin Total Return</i>	1.91%	4.91%	7.74%
<i>Gartmore Stable Value</i>	3.30%	3.90%	4.49%
<i>MFS Utilities</i>	36.78%	29.13%	35.68%
<i>Pioneer Small Cap Value</i>	22.08%	21.55%	36.42%
<i>Victory Diversified Stock</i>	12.58%	9.86%	35.07%
<i>Victory Fund for Income</i>	0.93%	2.66%	0.83%
<i>Victory Special Value</i>	31.16%	17.24%	28.96%
<i>Delaware Cash Reserve</i>	2.4%	.9%	.7%

**American Funds EuroPacific.** This investment fund seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of issuers domiciled in Europe and the Pacific Basin. It may also hold cash or money market instruments.

**American Funds Growth Fund.** This investment fund seeks capital growth. The fund invests primarily in common stocks. Management selects securities that it believes are reasonably priced and represent solid long-term investment opportunities.

**American Funds Investment Company of America.** The American Funds Investment Company of America fund seeks long-term growth of capital and income. The fund invests primarily in common stocks. When choosing securities, management gives the possibility of appreciation and potential dividends more weight than current yield.

**American Funds New Perspective.** The American Funds New Perspective fund seeks long-term growth of capital; income is a secondary consideration. The fund primarily invests in common stocks of foreign and U.S. companies.



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***American Funds SmallCap World.*** This investment fund seeks long-term growth of capital. Normally, the fund invests at least 80% of its assets in equity securities of companies located around the world with small market capitalizations. It may also invest in convertible securities, government obligations, preferred stocks, repurchase agreements, and corporate debt securities.

***Delaware Foundation Aggressive Allocation.*** The Delaware Foundation Aggressive Allocation portfolio seeks long-term capital growth. The fund primarily invests in various Delaware Investments mutual funds based on four asset classes. The fund may also invest in individual securities that relate to each class; the fund is non-diversified.

***Delaware Foundation Conservative Allocation.*** This investment fund seeks current income and capital appreciation. The fund primarily invests in various Delaware Investments mutual funds based on four asset classes. It normally invests in fixed-income funds, U.S. equity funds, international equity funds and money market funds. This fund is non-diversified.

***Delaware High-Yield Opportunities.*** This investment fund seeks total return with current income. The fund normally invests at least 80% of its net assets in fixed income securities. The fund will also invest in unrated bonds judged to be of comparable quality. The fund may invest in U.S. and foreign government securities and corporate bonds of foreign issuers.

***Delaware Foundation Moderate Allocation.*** The Delaware Foundation Moderate Allocation fund seeks capital appreciation; current income is secondary. The fund primarily invests in various Delaware Investments mutual funds based on four asset classes. It normally invests assets in U.S. equity funds, fixed income funds, international equity funds and money market funds. This fund is non-diversified.

***Delaware Select Growth.*** The Delaware Select Growth fund seeks long-term capital appreciation. The fund ordinarily invests in equities of companies with market capitalizations of at least \$300 million. It may invest up to 10% of its assets in foreign securities.

***Delaware U.S. Growth.*** The Delaware U.S. Growth fund seeks long-term capital appreciation. The fund invests in equities issued by companies of all sizes that have low dividend yields, strong balance sheets, high growth rates relative to their industry, potential for accelerated growth rates, and the ability to finance internal growth. It may invest up to 35% of assets in debt, and up to 10% of assets in debt below investment-grade.

***Federated Kaufman.*** This fund seeks long-term capital appreciation. It invests primarily in common stocks of small and medium-sized companies. It may invest up to 25% of assets in foreign securities. The fund advisor evaluates a company's growth prospects, the economic outlook for its industry, new-product development, management, security value and financial characteristics. The fund currently offers Class A, B, C and K shares, all of which differ in fee structure and availability.

***Franklin Total Return.*** The Franklin Total Return fund seeks to provide high current income, consistent with preservation of capital. Its secondary goal is capital appreciation over the long term. The fund normally invests 85% of assets in investment grade debt securities and financial futures contracts, or options on such contracts, or U.S. Treasury securities.

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***Gartmore Stable Value.*** This fund is designed to provide preservation of capital and consistent returns regardless of stock and bond market volatility. The fund consists of a diversified portfolio of high quality stable value investment contracts issued by life insurance companies, banks and other financial institutions.

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***MFS Utilities.*** The MFS Utilities fund seeks capital growth and current income. The fund normally invests at least 80% of its assets in equity and debt securities of domestic and foreign companies in the utilities industry. It may invest in common stocks and related securities, such as preferred stock, convertible securities and depository receipts. The fund may also invest in junk bonds, mortgage-backed and asset-backed securities, collateralized mortgage obligations, securities issued by foreign markets and emerging markets and may also engage in active and frequent trading. It is a non-diversified fund.

***Pioneer Small Cap Value.*** This investment fund seeks capital growth by investing in a diversified portfolio of securities consisting primarily of common stocks. The fund may also invest in convertible debt, warrants, real estate investment trusts, and preferred stocks. The fund offers multiple share classes, which differ in fee structure and availability.

***Victory Diversified Stock.*** This investment fund seeks capital growth. The fund principally invests in equity securities of large established companies. The fund invests in securities expected to provide above average dividend growth or appreciation.

***Victory Fund for Income.*** The Victory Fund for Income seeks current income. The fund normally invests 65% of its assets in Ginnie Mae securities. It may invest the remaining assets in securities issued by the U.S. government or its agencies or instrumentalities, with nominal maturities ranging from two to 30 years.

***Victory Special Value.*** This investment fund seeks to provide long-term capital growth and dividend income. The fund normally invests at least 80% of its total assets in the equity securities of companies with market capitalizations within the range of companies comprising the Russell Mid-Cap Index. The fund advisor seeks equity securities that have low valuations relative to the market.

***Delaware Cash Reserve.*** This is a money market fund that seeks to maximize current income while preserving principal and maintaining liquidity.

The 401(k) Plan now offers the United Community Bancorp Stock Fund as an additional choice to the investment alternatives described above. The United Community Bancorp Stock Fund invests primarily in the common stock of United Community Bancorp. Participants in the 401(k) Plan may invest all (subject to a 5% cash buffer) or a portion of their 401(k) Plan account balances in United Community Bancorp common stock.

The United Community Bancorp Stock Fund consists of investments in the common stock of United Community Bancorp and cash. Each participant's proportionate undivided beneficial interest in the United Community Bancorp Stock Fund is measured by units. The daily unit value is calculated by determining the market value of the common stock held and adding to that any cash held by the Fund. This total will be divided by the number of units outstanding to determine the unit value of the United Community Bancorp Stock Fund.

Upon payment of a cash dividend, the unit value will be determined prior to distributing the dividend. The dividend will be used, to the extent practicable, to purchase shares of United Community Bancorp common stock. Pending investment in the common stock, assets held in the United Community Bancorp Stock Fund will be placed in bank deposits and other short-term investments.

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As of the date of this prospectus supplement, no shares of United Community Bancorp common stock have been issued or are outstanding and there is no established market for United Community Bancorp common stock. Accordingly, there is no record of the historical performance of the United Community Bancorp Stock Fund. The performance of the United Community Bancorp Stock Fund will

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depend on a number of factors, including the financial condition and profitability of United Community Bancorp and United Community Bank and general market conditions for United Community Bancorp common stock.

### **Benefits Under the 401(k) Plan**

**Vesting.** 401(k) Plan participants are 100% vested in their elective salary deferrals. Employer contributions to the 401(k) Plan vest 100% upon the completion of three years of service; participants are 0% vested prior to their completion of three years of service.

### **Withdrawals and Distributions From the 401(k) Plan**

**Withdrawals Before Termination of Employment.** You may receive in-service distributions from the 401(k) Plan under limited circumstances in the form of hardship distributions and loans. In order to qualify for a hardship withdrawal, you must have an immediate and substantial need to meet certain expenses and have no other reasonably available resources to meet the financial need. If you qualify for a hardship distribution, the 401(k) Plan trustee will make the distribution proportionately from the investment funds in which you have invested your account balances. Participants and beneficiaries are also eligible for 401(k) Plan loans, subject to the procedures and requirements established by the Plan Administrator. You may obtain additional information from Barbara McCormack at United Community Bank.

**Distribution Upon Retirement or Disability.** Upon retirement or disability, you may receive a full lump sum payment or installment payments from the 401(k) Plan equal to the value of your account.

**Distribution Upon Death.** If you die before your benefits are paid from the 401(k) Plan, your benefits will be paid to your surviving spouse or beneficiary under one or more of the forms available under the 401(k) Plan.

**Distribution Upon Termination for Any Other Reason.** If you terminate employment for any reason other than retirement, disability or death and your account balance exceeds \$5,000, the 401(k) Plan trustee will make your distribution on your normal retirement date, unless you request otherwise. If your account balance does not exceed \$5,000, the trustee will generally distribute your benefits to you as soon as administratively practicable following termination of employment.

**Distributions: Rollovers and Direct Transfers to Another Qualified Plan or to an IRA.** You may roll over virtually all distributions from the 401(k) Plan to another qualified retirement plan or to an individual retirement account.

**Nonalienation of Benefits.** Except with respect to federal income tax withholding and as provided for under a qualified domestic relations order, benefits payable under the 401(k) Plan will not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any rights to benefits payable under the 401(k) Plan will be void.

**Applicable federal tax law requires the 401(k) Plan to impose substantial restrictions on your right to withdraw amounts held under the 401(k) Plan before your termination of employment with UnitedCommunity Bank. Federal law may also impose an excise tax on withdrawals from the 401(k) Plan before you attain 59 1/2 years of age, regardless of whether the withdrawal occurs during your employment with United Community Bank or after your termination of employment.**

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### **401(k) Plan Trustee**

The trustee of the 401(k) Plan is the named fiduciary of the 401(k) Plan for purposes of ERISA. The board of directors of United Community Bank has appointed MG Trust Company, LLC as directed trustee for the 401(k) Plan. The 401(k) Plan trustee receives, holds and invests the assets of the 401(k) Plan (including the United Community Bancorp Stock Fund) and provides for their distribution to participants and beneficiaries in accordance with the terms of the 401(k) Plan.

### **401(k) Plan Administrator**

The current Plan Administrator is United Community Bank. The Plan Administrator is responsible for the administration of the 401(k) Plan, selection of investment funds under the 401(k) Plan, interpretation of the provisions of the 401(k) Plan, prescribing procedures for filing applications for benefits, preparation and distribution of information explaining the 401(k) Plan, maintenance of records, books of account and all other data necessary for the proper administration of the 401(k) Plan, preparation and filing of all returns and reports required to be filed with the U.S. Department of Labor and the Internal Revenue Service, and for all disclosures to participants, beneficiaries and others required under ERISA.

### **Reports to 401(k) Plan Participants**

United Community Bank, as Plan Administrator, will furnish you a statement at least quarterly showing the balance in your account as of the end of that period, the amount of contributions allocated to your account for that period, and any adjustments to your account to reflect earnings or losses.

### **Amendment and Termination**

United Community Bank expects to continue the 401(k) Plan indefinitely. Nevertheless, United Community Bank may terminate the 401(k) Plan at any time. If United Community Bank terminates the 401(k) Plan in whole or in part, regardless of any contrary provisions of the 401(k) Plan, all affected participants will become fully vested in their accounts. United Community Bank reserves the right to make, from time to time, changes which do not cause any part of the trust to be used for, or diverted to, any purpose other than the exclusive benefit of participants or their beneficiaries; provided, however, that United Community Bank may also amend the 401(k) Plan as it determines necessary or desirable, with or without retroactive effect, to comply with ERISA or the Internal Revenue Code.

### **Merger, Consolidation or Transfer**

If the 401(k) Plan merges or consolidates with another plan or transfers the 401(k) Plan assets to another plan, and if either the 401(k) Plan or the other plan is then terminated, you would receive a benefit immediately after the merger, consolidation or transfer that would be equal to or greater than the benefit you would have been entitled to receive immediately before the merger, consolidation or transfer.

**Federal Income Tax Consequences**

The following summarizes only briefly the material federal income tax aspects of the 401(k) Plan. You should not rely on this summary as a complete or definitive description of the material federal income tax consequences relating to the 401(k) Plan. Statutory provisions change, as do their interpretations, and their application may vary in individual circumstances. Finally, the consequences under applicable state and local income tax laws may not be the same as under the federal income tax laws. **You should consult with your tax advisor with respect to any transaction involving the 401(k) Plan and any distribution from the 401(k) Plan.**

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As a qualified retirement plan, the Internal Revenue Code affords the 401(k) Plan tax advantages, including the following:

- (1) The sponsoring employer is allowed an immediate tax deduction for the amount contributed to the 401(k) Plan each year;
- (2) Participants pay no current income tax on amounts contributed by the employer on their behalf; and
- (3) Earnings of the 401(k) Plan are tax-deferred, thereby permitting the tax-free accumulation of income and gains on investments.

United Community Bank administers the 401(k) Plan to comply with the operational requirements of the Internal Revenue Code as of the applicable effective date of any change in the law. If United Community Bank should receive an adverse determination letter regarding the 401(k) Plan's tax exempt status from the Internal Revenue Service, all participants would generally recognize income equal to their vested interest in the 401(k) Plan, the participants would not be permitted to transfer amounts distributed from the 401(k) Plan to an Individual Retirement Account or to another tax-qualified retirement plan, and United Community Bank would be denied certain tax deductions with respect to the 401(k) Plan.

**Lump Sum Distribution.** A distribution from the 401(k) Plan to a participant or the beneficiary of a participant will qualify as a lump sum distribution if it is made within one taxable year, on account of the participant's death, disability or separation from service, or after the participant attains age 59 1/2, and consists of the balance credited to the participant under the 401(k) Plan and all other profit sharing plans, if any, maintained by United Community Bank. The portion of any lump sum distribution included in taxable income for federal income tax purposes consists of the entire amount of the lump sum distribution, less the amount of after-tax contributions, if any, you have made to any other profit sharing plans maintained by United Community Bank, if the distribution includes those amounts.

**United Community Bancorp Common Stock Included in Lump Sum Distribution.** If a lump sum distribution includes United Community Bancorp common stock, the distribution generally is taxed in the manner described above. The total taxable amount is reduced, however, by the amount of any net unrealized appreciation with respect to United Community Bancorp common stock; that is, the excess of the value of United Community Bancorp common stock at the time of the distribution over the cost or other basis of the securities to the 401(k) Plan. The tax basis of United Community Bancorp common stock, for purposes of computing gain or loss on its subsequent sale, equals the value of United Community Bancorp common stock at the time of distribution, less the amount of net unrealized appreciation. Any gain on a subsequent sale or other taxable disposition of United Community Bancorp common stock, to the extent of the amount of net unrealized appreciation at the time of distribution, is long-term capital gain, regardless of how long you hold the United Community Bancorp common stock, or the holding period. Any gain on a subsequent sale or other taxable disposition of United Community Bancorp common stock that exceeds the amount of net unrealized appreciation at the time of distribution is considered long-term capital gain, regardless of the holding period. The recipient of a distribution may elect to include the amount of any net unrealized appreciation in the total taxable amount of the distribution, to the extent allowed under Internal Revenue Service regulations.

**We have provided you with a brief description of the material federal income tax aspects of the 401(k) Plan that are generally applicable under the Internal Revenue Code. We do not intend this to be a complete or definitive description of the federal income tax consequences of participating in or receiving distributions from the 401(k) Plan. Accordingly, you should consult a tax advisor concerning the federal, state and local tax consequences of participating in and receiving distributions from the 401(k) Plan.**

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### **Restrictions on Resale**

Any affiliate of United Community Bancorp under Rules 144 and 405 of the Securities Act of 1933, as amended, who receives a distribution of common stock under the 401(k) Plan, may re-offer or resell such shares only under a registration statement filed under the Securities Act of 1933, as amended, assuming the availability of a registration statement, or under Rule 144 or some other exemption from the registration requirements. An affiliate of United Community Bank is someone who, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, United Community Bank. Generally, a director, principal officer or major shareholder of a corporation is deemed to be an affiliate of that corporation.

Any person who may be an affiliate of United Community Bank may wish to consult with counsel before transferring any common stock they own. In addition, participants should consult with counsel regarding the applicability to them of Section 16 of the Securities Exchange Act of 1934, as amended, which may restrict the sale of United Community Bancorp common stock acquired under the 401(k) Plan or other sales of United Community Bancorp common stock.

Persons who are *not* deemed to be affiliates of United Community Bank at the time of resale may resell freely any shares of United Community Bancorp common stock distributed to them under the 401(k) Plan, either publicly or privately, without regard to the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, or compliance with the restrictions and conditions contained in the exemptions available under federal law. A person deemed an affiliate of United Community Bank at the time of a proposed resale may publicly resell common stock only under a re-offer prospectus or in accordance with the restrictions and conditions contained in Rule 144 of the Securities Act of 1933, as amended, or some other exemption from registration, and may not use this prospectus supplement in connection with any such resale. In general, Rule 144 restricts the amount of common stock which an affiliate may publicly resell in any three-month period to the greater of one percent of United Community Bancorp common stock then outstanding or the average weekly trading volume reported on the Nasdaq Stock Market during the four calendar weeks before the sale. Affiliates may sell only through brokers without solicitation and only at a time when United Community Bancorp is current in filing all required reports under the Securities Exchange Act of 1934, as amended.

### **SEC Reporting and Short-Swing Profit Liability**

Section 16 of the Securities Exchange Act of 1934, as amended, imposes reporting and liability requirements on officers, directors and persons who beneficially own more than ten percent of public companies such as United Community Bancorp. Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the filing of reports of beneficial ownership. Within ten days of becoming a person required to file reports under Section 16(a), a Form 3 reporting initial beneficial ownership must be filed with the Securities and Exchange Commission. Reporting persons must also report certain changes in beneficial ownership involving allocation or reallocation of assets held in their 401(k) Plan accounts, either on a Form 4 within two business days after a transaction, or annually on a Form 5 within 45 days after the close of a company's fiscal year.

In addition to the reporting requirements described above, Section 16(b) of the Securities Exchange Act of 1934, as amended, provides for the recovery by United Community Bancorp of profits realized from the purchase and sale, or sale and purchase, of the common stock within any six-month period by any officer, director or any person who beneficially owns more than ten percent of the common stock.

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The SEC has adopted rules that exempt many transactions involving the 401(k) Plan from the short-swing profit recovery provisions of Section 16(b). The exemptions generally involve restrictions upon the timing of elections to buy or sell employer securities for the accounts of any officer, director or other person who beneficially owns more than ten percent of the common stock.

Except for distributions of the common stock due to death, disability, retirement, termination of employment or under a qualified domestic relations order, persons who are governed by Section 16(b) may be required, under limited circumstances involving the purchase of common stock within six months of a distribution, to hold shares of the common stock distributed from the 401(k) Plan for six months after the distribution date.

**LEGAL OPINION**

The validity of the issuance of the common stock of United Community Bancorp will be passed upon by Muldoon Murphy & Aguggia LLP, Washington, D.C. Muldoon Murphy & Aguggia LLP acted as special counsel for United Community Bank in connection with the reorganization of United Community Bank and the stock offering of United Community Bancorp.

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\*\*\*SPECIAL ONE-TIME FORM FOR USE IN STOCK OFFERING\*\*\*

**UNITED COMMUNITY BANK**

**401(k) Profit Sharing Plan**

**INVESTMENT FORM**

Name of 401(k) Plan Participant: \_\_\_\_\_  
(Please Print)

Social Security Number: \_\_\_\_\_

**1. Instructions.** In connection with the offering to the public of the common stock of United Community Bancorp (the Common Stock), the United Community Bank 401(k) Profit Sharing Plan (the 401(k) Plan) now permits participants to direct their current 401(k) Plan account balances into a new fund: the United Community Bancorp Stock Fund (the Stock Fund). The percentages of your accounts that you direct to be transferred into the Stock Fund will be used to purchase shares of Common Stock in the offering. Please note that approximately five percent (5%) of the total amount that you transfer into the Stock Fund will not be used to purchase shares of Common Stock in the offering, but will instead be held as cash, as discussed on Page 1 of the attached Prospectus Supplement. Approximately ninety-five percent (95%) of the total amount that you transfer will be used to purchase Common Stock in the offering, rounded down to the nearest \$10.00 increment, with any remainder also held in cash within the Stock Fund.

To transfer all or part of your 401(k) Plan funds to the Stock Fund, **you should complete and return this form to Ms. Barbara McCormack at United Community Bank. This form must be received no later than 4:00 p.m. on March 6, 2006.** If you need any assistance in completing this form, please contact Ms. McCormack at (812)537-4822. If you do not complete and return this form by 4:00 p.m. on March 6, 2006, your 401(k) Plan funds will continue to be invested in accordance with your prior investment directions, or in accordance with the terms of the 401(k) Plan if you have not provided investment directions. **You need not submit this form if you do not wish to purchase Common Stock in the offering with your 401(k) Plan funds. PLEASE KEEP A COPY OF THE COMPLETED FORM FOR YOUR RECORDS.**

**2. Purchaser Information.** Your ability to purchase Common Stock in the offering and to direct your 401(k) Plan funds into the Stock Fund may be based upon your subscription rights. Please indicate only the earliest date that applies to you:

- .. Check here if you had \$50.00 or more on deposit with United Community Bank as of August 31, 2004.
  
- .. Check here if you had \$50.00 or more on deposit with United Community Bank as of December 31, 2005.
  
- .. Check here if you had a deposit with United Community Bank as of January 31, 2006.

## Edgar Filing: United Community Bancorp - Form 424B3

**3. Investment Directions.** I hereby authorize the Plan Administrator to direct the trustee to transfer the following percentages (in whole percentages only) of each of my 401(k) Plan account balances into the Stock Fund:

<u>Investment Funds</u>	<u>Percentage</u>
American Funds EuroPacific	___%
American Funds Growth Fund	___%
American Funds Investment Company of America	___%
American Funds New Perspective	___%
American Funds SmallCap World	___%
Delaware Foundation Aggressive Allocation	___%
Delaware Foundation Conservative Allocation	___%
Delaware High-Yield Opportunities	___%
Delaware Foundation Moderate Allocation	___%
Delaware Select Growth	___%
Delaware U.S. Growth	___%
Federated Kaufmann	___%
Franklin Total Return	___%

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Investment Funds (cont d.)	Percentage
Gartmore Stable Value	___%
MFS Utilities	___%
Pioneer Small Cap Value	___%
Victory Diversified Stock	___%
Victory Fund for Income	___%
Victory Special Value	___%
Delaware Cash Reserve	___%

I understand that, if there is not enough Common Stock available in the stock offering to fill my subscription in whole or in part pursuant to the investment directions above, any funds not used to purchase Common Stock will remain in the Delaware Cash Reserve Fund until I provide directions to reinvest the funds in accordance with the terms of the 401(k) Plan.

**4. Acknowledgment of Participant.** I understand that this Investment Form shall be subject to all of the terms and conditions of the 401(k) Plan. I acknowledge that I have received a copy of the Prospectus and the Prospectus Supplement.

\_\_\_\_\_  
Signature of Participant

\_\_\_\_\_  
Date

**Acknowledgment of Receipt by Plan Administrator.** This Investment Form was received by United Community Bank on the date noted below.

By: \_\_\_\_\_

\_\_\_\_\_  
Date

**THE PARTICIPATION INTERESTS REPRESENTED BY THE COMMON STOCK OFFERED HEREBY ARE NOT DEPOSIT ACCOUNTS AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY, AND ARE NOT GUARANTEED BY UNITED COMMUNITY BANCORP, UNITED COMMUNITY MHC OR UNITED COMMUNITY BANK. THE COMMON STOCK IS SUBJECT TO AN INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF THE PRINCIPAL INVESTED.**

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**PROSPECTUS**

**(Proposed Holding Company for United Community Bank)**

**Up to 3,172,160 Shares of Common Stock**

This is the initial public offering of shares of common stock of United Community Bancorp, a company to be formed in connection with the reorganization of United Community Bank into the mutual holding company form of organization. The shares we are offering will represent approximately 43.1% of our outstanding common stock. United Community MHC, a mutual holding company to be formed in connection with the reorganization, will own approximately 55.0% of our outstanding common stock. The remaining 1.9% of our common stock will be held by United Community Bank Charitable Foundation, a charitable foundation to be formed in connection with the reorganization. We have received conditional approval to list our common stock on the Nasdaq National Market under the symbol UCBA.

***If you are or were a depositor of United Community Bank:***

You may have priority rights to purchase shares of common stock.

***If you are a participant in the United Community Bank 401(k) Profit Sharing Plan:***

You may direct that all or part of your current account balances in this plan be invested in shares of common stock.

You will be receiving separately a supplement to this prospectus that describes your rights under this plan.

***If you fit neither of the categories above, but are interested in purchasing shares of our common stock:***

You may have an opportunity to purchase shares of common stock after priority orders are filled.

We are offering up to 3,172,160 shares of common stock for sale on a best efforts basis, subject to certain conditions. We must sell a minimum of 2,344,640 shares to complete the offering. If, as a result of regulatory considerations, demand for the shares or changes in market conditions, the independent appraiser determines our market value has increased, we may sell up to 3,647,984 shares without giving you further notice or the opportunity to change or cancel your order. The offering is expected to terminate at 12:00 Noon, Eastern time, on March 14, 2006. We may extend this termination date without notice to you until April 28, 2006, unless the Office of Thrift Supervision approves a later date, which will not be beyond March 21, 2008.

## Edgar Filing: United Community Bancorp - Form 424B3

Keefe, Bruyette & Woods, Inc. will use its best efforts to assist us in our selling efforts, but is not required to purchase any of the common stock that is offered for sale. Purchasers will not pay a commission to purchase shares of common stock in the offering. All shares offered for sale are offered at a price of \$10.00 per share.

The minimum purchase is 25 shares. Once submitted, orders are irrevocable unless the offering is terminated or extended beyond April 28, 2006. If the offering is extended beyond April 28, 2006, subscribers will have their funds promptly returned unless they reconfirm their subscription. Funds received before completion of the offering will be held in an escrow account at United Community Bank or, at our discretion, at another insured financial institution, and will earn interest at our statement savings rate, which is currently 0.25% per annum. In addition, if we do not sell the minimum number of shares or if we terminate the offering for any other reason, we will promptly return your funds with interest at our statement savings rate.

We expect our directors and executive officers, together with their associates, to subscribe for 482,500 shares, which equals 15.2% of the shares offered for sale at the maximum of the offering range.

On February 10, 2006, the Office of Thrift Supervision conditionally approved the plan of reorganization and stock issuance. However, such approval does not constitute a recommendation or endorsement of this offering by that agency.

**This investment involves a degree of risk, including the possible loss of principal.**

Please read **Risk Factors** beginning on page 18.

### OFFERING SUMMARY

Price Per Share: \$10.00

	<u>Minimum</u>	<u>Maximum</u>	<u>Maximum As Adjusted</u>
Number of shares	2,344,640	3,172,160	3,647,984
Gross offering proceeds	\$ 23,446,400	\$ 31,721,600	\$ 36,479,840
Estimated offering expenses	\$ 1,098,000	\$ 1,154,000	\$ 1,275,000
Estimated net proceeds	\$ 22,348,400	\$ 30,567,600	\$ 35,204,840
Estimated net proceeds per share	\$ 9.53	\$ 9.64	\$ 9.65

**These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

**Neither the Securities and Exchange Commission, the Office of Thrift Supervision nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

For assistance, please contact the stock information center at (812) 537-1189.

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**KEEFE, BRUYETTE & WOODS**

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**The date of this prospectus is February 10, 2006**

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**Summary**

*This summary highlights selected information from this document and may not contain all the information that is important to you. To understand the reorganization and stock offering more fully, you should read this entire document carefully. For assistance, please contact our stock information center at (812) 537-1189.*

**The Companies**

**United Community MHC**

92 Walnut Street

Lawrenceburg, Indiana 47025

(812) 537-4822

United Community MHC is a federally chartered mutual holding company that we are forming to own 55.0% of the common stock of United Community Bancorp. As a savings and loan holding company, United Community MHC will be examined by, and must comply with the rules and regulations of, the Office of Thrift Supervision. As a mutual holding company, United Community MHC will be a non-stock company whose members are the depositors of United Community Bank. Under federal regulations, so long as United Community MHC exists, it will own a majority of the voting stock of United Community Bancorp, and through its board of directors, will be able to exercise voting control over most matters put to a vote of stockholders. United Community MHC will not be able to exercise such voting control over a proposal to adopt stock benefit plans for our officers, directors and employees or a proposal for United Community MHC to convert from mutual to stock form in a transaction commonly known as a second-step conversion. The same persons who will comprise the board of directors of United Community Bancorp and United Community Bank will also comprise the board of directors of United Community MHC. United Community MHC is not currently an operating company and has not engaged in any business to date. United Community MHC will be formed upon completion of the reorganization. We do not expect that United Community MHC will engage in any business activity other than owning a majority of the common stock of United Community Bancorp.

**United Community Bancorp**

92 Walnut Street

Lawrenceburg, Indiana 47025

(812) 537-4822

This offering is made by United Community Bancorp. United Community Bancorp is a federally chartered mid-tier stock holding company that we are forming. As a savings and loan holding company, United Community Bancorp will be examined by, and must comply with the rules and regulations of, the Office of Thrift Supervision. United Community Bancorp is not currently an operating company and has not engaged in any business to date. After the reorganization, United Community Bancorp will own all of United Community Bank's capital stock and will direct, plan and coordinate United Community Bank's business activities. In the future, United Community Bancorp might also acquire or organize other operating subsidiaries, including other financial institutions or financial services companies, although it currently has no specific plans or agreements to do so.

**United Community Bank**

92 Walnut Street

Lawrenceburg, Indiana 47025

(812) 537-4822

United Community Bank is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area. United Community Bank is subject to extensive regulation, examination and supervision by the Office of Thrift Supervision, its primary federal regulator, and

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the Federal Deposit Insurance Corporation, its deposit insurer. We attract deposits from the general public and local municipalities and use such funds to originate primarily one- to four-family residential real estate loans. To a lesser but growing extent, we originate multi-family and nonresidential real estate loans, construction loans, commercial loans and consumer loans. At September 30, 2005, we operated out of our main office and three branch offices in Lawrenceburg, Indiana, and a temporary office in Aurora, Indiana, pending construction of a permanent facility. At September 30, 2005, we had total assets of \$321.3 million, deposits of \$289.1 million and total equity of \$29.8 million.

**Our Operating Strategy (page 60)**

Our mission is to operate and grow a profitable community-oriented and independent financial institution serving primarily retail customers and small businesses in our market area. After the reorganization, we plan to continue our strategy of:

- offering a full range of financial services to retail customers and businesses in our market area;
- expanding our branch network into new market areas;
- increasing deposits by continuing to offer exceptional customer service and emphasizing our commercial deposit offerings;
- managing our net interest margin and net interest spread by seeking to increase lending levels and by originating higher-yielding loans;
- pursuing opportunities to increase commercial and multi-family lending in our primary market area;
- applying disciplined underwriting practices to maintain the high quality of our loan portfolio; and
- managing our investment and borrowings portfolios to manage interest rate risk.

Opening new branch offices is an integral part of our growth strategy. In August 2005, we opened a branch office in a temporary facility in Aurora, Indiana. We are in the process of building a permanent full-service facility for the Aurora branch which we anticipate will be completed in June 2006. In addition, we have acquired property and intend to build and open a full-service branch office in both St. Leon, Indiana, and Milan, Indiana. Aurora and St. Leon are located in Dearborn County, Indiana. Milan is located in adjacent Ripley County.

We expect the total cost of the land and construction for the permanent Aurora location to be approximately \$1.8 million, of which approximately \$1.2 million had been incurred at September 30, 2005. We expect the total cost of the land and construction for the new St. Leon location to be approximately \$1.0 million, of which

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\$250,000 had been incurred at September 30, 2005. We purchased the property in Milan for \$135,000 and expect the total cost, including improvements, to be approximately \$750,000. We have financed and expect to continue to finance the costs of the new offices through funds we generate from operations. Financing for these new offices is not contingent on this offering.

We consider our primary market area to be Dearborn County and the surrounding Indiana counties, as well as the Greater Cincinnati metropolitan area and Northern Kentucky.

**The Reorganization**

**Description of the**

Currently, we are a federally chartered mutual savings bank with no stockholders. Our depositors currently have the right to vote on certain matters such as the election of directors and this reorganization.

**Reorganization (page 110)**

The mutual holding company reorganization process that we are now undertaking involves a series of transactions by which we will convert our organization from the mutual form of organization to the mutual holding company form of organization. In the mutual holding company structure, United Community Bank will become a federally chartered stock savings bank to be named United Community Bank and all of its stock will be owned by United Community Bancorp. In addition, 43.1% of United Community Bancorp's stock will be owned by the public, including our employee stock ownership plan, 1.9% of United Community Bancorp's stock will be owned by United Community Bank Charitable Foundation and 55.0% of United Community Bancorp's stock will be owned by United Community MHC. Our depositors will become members of United Community MHC and will have similar voting rights in United Community MHC as they currently have in United Community Bank.

After the reorganization, our ownership structure will be as follows:

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Our normal business operations will continue without interruption during the reorganization. The same directors who adopted the plan of reorganization and stock issuance and who continue to be directors of United Community Bank at the time of the reorganization will serve as directors of United Community MHC, United Community Bancorp and United Community Bank after the reorganization. The initial officers of United Community MHC, United Community Bancorp and United Community Bank will be persons who are currently officers of United Community Bank.

**The Offering**

**Purchase Price**

The purchase price is \$10.00 per share.

**Number of Shares to be Sold**

We are offering for sale between 2,344,640 and 3,172,160 shares of United Community Bancorp common stock in this reorganization to persons other than United Community MHC and the charitable foundation. With regulatory approval, we may increase the number of shares to be sold to 3,647,984 shares without giving you further notice or the opportunity to change or cancel your order. The Office of Thrift Supervision will consider the level of subscriptions, the views of our independent appraiser, our financial condition and results of operations and changes in market conditions in connection with a request to increase the offering size.

**How We Determined the Offering Range (page 123)**

We decided to offer between 2,344,640 and 3,172,160 shares, which is our offering range, based on an independent appraisal of our pro forma market value prepared by Keller & Company, Inc., an appraisal firm experienced in appraisals of financial institutions. Keller & Company will receive fees totaling \$37,000 for its appraisal services, reasonable out-of-pocket expenses not to exceed \$800, plus \$1,000 for each appraisal valuation update and reimbursement of out-of-pocket expenses. Keller & Company estimates that as of November 14, 2005, our pro forma market value on a fully converted basis was between \$54.4 million and \$73.6 million, with a midpoint of \$64.0 million. The term fully converted means that Keller & Company assumed that 100.0% of our common stock had been sold to the public and contributed to the charitable foundation, rather than the 45.0% that will be sold and contributed in connection with this offering.

In preparing its appraisal, Keller & Company considered the information in this prospectus, including our financial statements. Keller & Company also considered the following factors, among others:

our historical, present and projected operating results and financial condition and the economic and demographic characteristics of our market areas;

a comparative evaluation of the operating and financial statistics of United Community Bank with those of other

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similarly-situated, publicly-traded savings associations and savings association holding companies;

the effect of the capital raised in this offering on our net worth and earnings potential;

the trading market for securities of comparable institutions and general conditions in the market for such securities; and

our intention to make a contribution to the United Community Bank Charitable Foundation of 1.9% of United Community Bancorp's outstanding common stock and \$250,000 in cash.

Our board of directors determined that the common stock should be sold at \$10.00 per share and that 43.1% of the shares of our common stock should be offered for sale to the public in the offering. The following table shows the number of shares that will be sold in the offering, issued to United Community MHC and contributed to the charitable foundation, based on the estimated valuation range and the purchase price.

	<b>At Minimum of Offering Range</b>	<b>At Maximum of Offering Range</b>	<b>Percent of Shares Outstanding</b>
Shares sold in the offering	2,344,640	3,172,160	43.1%
Shares issued to United Community MHC	2,992,000	4,048,000	55.0
Shares contributed to the charitable foundation	103,360	139,480	1.9
<b>Total</b>	<b>5,440,000</b>	<b>7,360,000</b>	<b>100.0%</b>

Two measures that some investors use to analyze whether a stock might be a good investment are the ratio of the offering price to the issuer's tangible book value and the ratio of the offering price to the issuer's annual core earnings. Keller & Company considered these ratios in preparing its appraisal, among other factors. Tangible book value is the same as total equity, less intangibles, and represents the difference between the issuer's tangible assets and liabilities. Core earnings, for purposes of the appraisal, is defined as net earnings after taxes, plus non-recurring expenses and minus non-recurring income, adjusted for income taxes in each case. Keller & Company's appraisal also incorporates an analysis of a peer group of publicly traded fully converted savings associations and fully converted savings association holding companies that Keller & Company considered as comparable to us.

The following table presents a summary of selected pricing ratios for the peer group companies and for us that Keller & Company utilized in its appraisal. The ratios are presented on a fully-converted basis. Our ratios are based on core earnings for the twelve months ended September 30, 2005 and tangible book value as of September 30, 2005.

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	<u>Fully Converted Price to Core Earnings Multiple</u>	<u>Fully Converted Price to Tangible Book Value Ratio</u>
United Community Bancorp (pro forma):		
Minimum	16.39x	68.84%
Maximum	19.66	76.08
Peer group companies as of November 14, 2005:		
Average	16.61x	117.35%
Median	13.66	123.52

Compared to the average pricing ratios of the peer group, at the maximum of the offering range, our stock would be priced at a premium of 18.42% to the peer group on a price-to-core earnings basis and a discount of 35.17% to the peer group on a price-to-tangible book basis. This means that, at the maximum of the offering range, a share of our common stock would be more expensive than the peer group on a core earnings per share basis but less expensive than the peer group on a tangible book value per share basis.

**The independent appraisal does not indicate market value. You should not assume or expect that the valuation described above means that our common stock will trade at or above the \$10.00 purchase price after the reorganization.**

**Mutual Holding Company Data**

The following table presents a summary of selected pricing ratios, on a non-fully-converted basis, for publicly traded mutual holding companies and for us.

	<u>Non-Fully Converted Price to Earnings Multiple</u>	<u>Non-Fully Converted Price to Tangible Book Value Ratio</u>
United Community Bancorp (pro forma):		
Minimum	20.83x	111.11%
Maximum	27.78	131.06
Publicly traded mutual holding companies as of November 14, 2005 <sup>(1)</sup> :		
Average	35.08x	171.54%
Median	34.84	160.78

<sup>(1)</sup> The information for publicly traded mutual holding companies may not be meaningful to investors because it presents average and median information for mutual holding companies that issued a different percentage of their stock in their offerings than the 43.1% that we are offering to the public. In addition, the effect of stock repurchases also affects the ratios to a greater or lesser degree depending upon repurchase activity.

**Table of Contents****Possible Change in Offering Range  
(page 125)**

Keller & Company will update its appraisal before we complete the stock offering. If, as a result of regulatory considerations, demand for the shares or changes in market conditions, Keller & Company determines that our pro forma market value has increased, we may sell up to 3,647,984 shares without further notice to you. If the pro forma market value of the common stock to be sold in the offering at the time the appraisal is updated to either below \$2,344,640 or above \$3,647,984, then, after consulting with the Office of Thrift Supervision, we may either: terminate the stock offering and promptly return all funds; promptly return all funds, set a new offering range and give all subscribers the opportunity to place a new order for shares of United Community Bancorp common stock; or take such other actions as may be permitted by the Office of Thrift Supervision and the Securities and Exchange Commission.

**After-Market Performance of First  
Step Mutual Holding Company  
Offerings**

The following table provides information regarding the after-market performance of the first-step mutual holding company offerings completed from January 1, 2005 through December 31, 2005.

Issuer (Market/Symbol)	State	IPO Date	Total Assets (In thousands)	1 Day	1 Month	%
				% Change	% Change	Change Through 12/30/05
Georgetown Bancorp, Inc. (OTCBB: GTWN)	MA	01/06/2005	\$ 162,509	2.00	0.50	(14.00)
BV Financial, Inc. (OTCBB: BVFL)	MD	01/14/2005	130,922	(6.50)	(1.50)	(10.50)
Home Federal Bancorp, Inc. of LA (OTCBB: HFBL)	LA	01/21/2005	110,748	(1.00)	(0.80)	(2.00)
Kearny Financial Corp. (Nasdaq: KRNY)	NJ	02/24/2005	2,075,959	13.90	10.80	22.00
Kentucky First Federal Bancorp (Nasdaq: KFFB)	KY	03/03/2005	271,679	7.90	12.40	4.00
Prudential Bancorp, Inc. of PA (Nasdaq: PBIP)	PA	03/30/2005	446,592	(1.50)	(12.50)	18.50
Brooklyn Federal Bancorp, Inc. (Nasdaq: BFSB)	NY	04/06/2005	340,858	(0.50)	(5.00)	10.60
FedFirst Financial Corporation (Nasdaq: FFCO)	PA	04/07/2005	282,404	(6.60)	(14.50)	(11.10)
Rockville Financial, Inc. (Nasdaq: RCKB)	CT	05/23/2005	1,010,042	4.80	19.60	30.50
North Penn Bancorp, Inc. (OTCBB: NPEN)	PA	06/02/2005	100,472	10.00	1.50	3.00
Colonial Bankshares, Inc. (Nasdaq: COBK)	NJ	06/30/2005	327,535	6.00	7.50	5.50
Heritage Financial Group (Nasdaq: HBOS)	GA	06/30/2005	359,653	7.50	9.30	15.20
United Financial Bancorp (Nasdaq: UNBK)	MA	07/13/2005	898,106	17.50	17.00	15.30
Ottawa Savings Bancorp (OTCBB: OTTW)	IL	07/15/2005	182,693	10.00	7.00	5.00
Wauwatosa Holdings Inc. (Nasdaq: WAUW)	WI	10/05/2005	1,772,757	12.50	9.50	14.40
Investors Bancorp Inc. (Nasdaq: ISBC)	NJ	10/12/2005	5,719,455	0.20	5.20	10.30
Equitable Financial Corp. (OFCBB: EQFC)	NE	11/09/2005	163,709	0.00	(6.00)	(5.00)
Average - all transactions				4.48	3.53	6.57
Median - all transactions				4.80	5.20	5.50

*This table is not intended to be indicative of how our stock price may perform. Furthermore, this table presents only short-term price performance with respect to companies that only recently completed their initial public offerings and may not be indicative of the longer-term stock price performance of these companies.*

Stock price performance is affected by many factors, including, but not limited to: general market and economic conditions; the interest rate environment; the amount of proceeds a company raises in its offering; and numerous factors relating to the specific company, including the experience and ability of management, historical and anticipated operating results, the nature and quality of the company's assets, and the company's market area. The companies listed in the table above may not be similar to United Community Bancorp, the pricing ratios

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for their stock offerings may be different from the pricing ratios for United Community Bancorp common stock and the market conditions in which these offerings were completed may be different from current market conditions. Any or all of these differences may cause our stock to perform differently from these other companies. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the *Risk Factors* beginning on page 18.

You should be aware that, in certain market conditions, stock prices of initial public offerings by thrift institutions have decreased below their initial offering prices. For example, as the above table illustrates, the stocks of 7 companies traded at or below their initial offering price at various times through December 31, 2005. We can give you no assurance that our stock will not trade below the \$10.00 purchase price or that our stock will perform similarly to other recent first-step mutual holding company offerings. See *Risk Factors Risks Related to this Offering Our stock price may decline when trading commences.*

As part of its appraisal of our pro forma market value, Keller & Company considered the after-market performance of mutual-to-stock conversions completed in the 12 months before November 14, 2005, which is the date of its appraisal report. Keller & Company considered information regarding the new issue market for converting thrifts as part of its consideration of the market for thrift stocks.

**Possible Termination of the Offering**

We must sell a minimum of 2,344,640 shares to complete the offering. If we do not sell the minimum number of shares, or if we terminate the offering for any other reason, we will promptly return all funds with interest at our current statement savings rate.

**Conditions to Completing the Reorganization**

We are conducting the reorganization under the terms of our plan of reorganization and stock issuance. We cannot complete the reorganization and related offering unless:

the plan of reorganization and stock issuance is approved by at least *a majority of votes eligible to be cast* by members of United Community Bank (depositors of United Community Bank);

we sell at least the minimum number of shares offered; and

we receive the final approval of the Office of Thrift Supervision to complete the reorganization and offering.

**Reasons for the Reorganization (page 109)**

Our primary reasons for the reorganization are to:

increase the capital of United Community Bank;

support future lending and operational growth;

support future branching activities and/or the acquisition of other financial institutions or financial services companies or their assets; and

enhance our ability to attract and retain qualified directors and management through stock-based compensation plans.

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While we exceed all of our regulatory capital requirements and are considered well capitalized for regulatory purposes, our core capital level of \$29.5 million, or 9.2% of adjusted total assets, at September 30, 2005 restricts our ability both to grow and continue to maintain our well capitalized status. Accordingly, we require additional capital in order to increase our lending activities and expand our operations.

As discussed in *Management's Discussion and Analysis of Financial Condition and Results of Operations Operating Strategy*, we have branch expansion plans that are already underway. The new branches have been and are expected to continue to be funded by cash generated by our business and we do not expect to borrow funds for these expansion plans. Funding for these branches is also not contingent on this offering. Although we are interested in establishing branches in addition to branch expansion plans that are already underway, we do not have any additional specific plans or arrangements for further expansion. We do not now have any specific acquisition plans.

We chose to conduct a mutual holding company reorganization and minority stock offering rather than a full mutual-to-stock conversion because it permits us, by issuing less than 50.0% of our common stock to the public, to control the amount of capital being raised, which will enable us to deploy the proceeds of the offering more prudently and to provide for the control of United Community Bancorp by United Community MHC through its majority ownership position. We chose to sell 43.1% of our shares to the public, rather than a smaller portion, because we believe that we will be able to deploy the capital raised through an offering of this size.

We also will be able to increase our philanthropic endeavors to the communities we serve through the formation and funding of United Community Bank Charitable Foundation.

**We Will Form the United  
Community Bank Charitable  
Foundation (page 128)**

To continue our long-standing commitment to our local communities, we intend to establish a charitable foundation, named United Community Bank Charitable Foundation, as part of the reorganization. Subject to separate approval by at least a majority of votes eligible to be cast by members of United Community Bank, the charitable foundation will be funded with a number of shares of United Community Bancorp common stock that will result in the charitable foundation owning 1.9% of our outstanding shares and \$250,000 in cash. At the midpoint of the offering range, we would contribute 121,600 shares of United Community Bancorp common stock to the charitable foundation. At the midpoint of the offering range, our contribution to the charitable foundation would reduce net earnings by \$968,000, after tax, in the year in which the charitable foundation is established, which is expected to be fiscal 2006. United Community Bank Charitable Foundation will make grants and donations to non-profit and community groups and projects located within our market areas. The amount of common stock that we would offer for sale would be greater if the reorganization were to be completed without the formation of United Community Bank Charitable Foundation. For a further discussion of the financial impact of the charitable foundation, including its effect on those who purchase shares in the

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offering and on the shares issued to stockholders of United Community Bancorp, see *Comparison of Independent Valuation and Pro Forma Financial Information With and Without the Foundation*.

**Benefits of the Reorganization to Management (page 93)**

We intend to adopt the following benefit plans and employment agreements:

***Employee Stock Ownership Plan.*** We intend to establish an employee stock ownership plan that will provide retirement benefits to our employees. The plan will purchase 3.92% of the shares issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation, with the proceeds of a loan from United Community Bancorp. As the loan is repaid and shares are released from collateral, the shares will be allocated to the accounts of participants based on a participant's compensation as a percentage of total plan compensation. Non-employee directors are not eligible to participate in the employee stock ownership plan. We will incur additional compensation expense as a result of this plan. See *Pro Forma Data* for an illustration of the effects of this plan.

***Equity Incentive Plan.*** We intend to implement an equity-based incentive plan no earlier than six months after the reorganization. Under Office of Thrift Supervision regulations, the plan must be approved by a majority of the total votes eligible to be cast by our stockholders, other than United Community MHC, unless we obtain a waiver that allows approval by a majority of votes cast, other than by United Community MHC. Under this plan, we may award stock options and shares of restricted stock to employees and directors. Shares of restricted stock will be awarded at no cost to the recipient. Stock options will be granted at an exercise price equal to 100% of the fair market value of our common stock on the option grant date. We will incur additional compensation expense as a result of this plan. See *Pro Forma Data* for an illustration of the effects of this plan. Under this plan, we may grant stock options in an amount up to 4.9% of the number of shares issued in the offering, including shares issued to United Community MHC and contributed to the charitable foundation, and restricted stock awards in an amount equal to 1.96% of the shares issued in the offering, including shares issued to United Community MHC and contributed to the charitable foundation. The equity incentive plan will comply with all applicable Office of Thrift Supervision regulations.

The following table presents the total value of all shares to be available for restricted stock awards under the equity incentive plan, based on a range of market prices from \$8.00 per share to \$14.00 per share. Ultimately, the value of the grants will depend on the actual trading price of our common stock, which depends on numerous factors.



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or United Community Bank. Based solely on cash compensation earned for the year ended June 30, 2005 and excluding any benefits that would be payable under any employee benefit plan, if a change in control of United Community Bancorp and United Community Bank occurred, and we terminated these officers, the total payments due under the employment agreements would equal approximately \$1.4 million.

***Supplemental Executive Retirement Plan.*** This plan will provide benefits to eligible employees if their retirement benefits under the employee stock ownership plan and the 401(k) plan are reduced because of federal tax law limitations. The plan will also provide benefits to eligible employees if they retire or are

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terminated following a change in control but before the complete allocation of shares under the employee stock ownership plan.

**Employee Severance Compensation Plan.** This plan will provide severance benefits to eligible employees if there is a change in control. Based solely on compensation levels as of December 31, 2004 and years of service at September 30, 2005, if a change in control of United Community Bancorp and United Community Bank occurred, and we terminated all employees covered by the severance compensation plan, the total payment due under the plan would equal approximately \$1.5 million.

The following table summarizes, at the maximum of the offering range, the total number and value of the shares of common stock that the employee stock ownership plan expects to acquire and the total value of all restricted stock awards that are expected to be available under the equity incentive plan. At the maximum of the offering range, we will sell 3,172,160 shares and have 7,360,000 shares outstanding.

	Number of Shares to be Granted or			Total
	Purchased			
	As a % of			
	Common			
	Stock Sold	As a % of	Total	
At		Common		Estimated
Maximum	at Maximum	Common		Value of
of Offering	of Offering	Stock		Grants
Range	Range	Outstanding		
(Dollars in thousands)				
Employee stock ownership plan <sup>(1)</sup>	288,512	9.10%	3.92%	\$ 2,885
Restricted stock awards <sup>(1)</sup>	144,256	4.55	1.96	1,443
Stock options <sup>(2)</sup>	360,640	11.37	4.90	1,471
<b>Total</b>	<b>793,408</b>	<b>25.01%</b>	<b>10.78%</b>	<b>\$ 5,799</b>

<sup>(1)</sup> Assumes the value of United Community Bancorp's common stock is \$10.00 per share for purposes of determining the total estimated value.

<sup>(2)</sup> Assumes the value of a stock option is \$4.08 per share, which was determined using the Black-Scholes option-pricing formula. See *Pro Forma Data*.

**Tax Consequences (page 112)**

As a general matter, the reorganization will not be a taxable transaction for purposes of federal or state income taxes to us or to persons who receive or exercise subscription rights. Our special counsel, Muldoon Murphy & Aguggia LLP, has issued a federal tax opinion to us that, among other items, provides:

the reorganization will qualify as a tax-free reorganization and no gain or loss will be recognized by us as a result of the reorganization;

no gain or loss will be recognized by our account holders upon the issuance to them of deposit accounts in United Community Bank immediately after the reorganization;

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it is more likely than not that the fair market value of the rights to subscribe for shares of our common stock is zero and, accordingly, that no income will be realized by our

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members upon the issuance or exercise of the subscription rights;

it is more likely than not that the tax basis to the purchasers in the offering will be the amount paid for our common stock, and that the holding period for shares of common stock will begin on the date of completion of the offering; and

the holding period for shares of common stock purchased in the community offering or syndicated community offering will begin on the day after the date of the purchase.

We have also received an opinion from Clark, Schaefer, Hackett & Co. stating that, assuming the reorganization does not result in any federal income tax liability to us or to our account holders, implementation of the plan of reorganization and stock issuance will not result in any Indiana income tax liability to those entities or persons. See *The Reorganization and Stock Offering Material Income Tax Consequences*.

**Persons Who Can Order Stock in the Offering (page 114)**

We have granted rights to subscribe for shares of our common stock in a subscription offering to the following persons in the following order of priority:

*Note: Subscription rights are not transferable, and persons with subscription rights may not subscribe for shares for the benefit of any other person. If you violate this prohibition, you may lose your rights to purchase shares and may face criminal prosecution and/or other sanctions.*

1. Persons with \$50 or more on deposit at United Community Bank as of the close of business on August 31, 2004.
2. Our employee stock ownership plan.
3. Persons with \$50 or more on deposit at United Community Bank as of the close of business on December 31, 2005.
4. United Community Bank's depositors as of the close of business on January 31, 2006 who were not able to subscribe for shares under categories 1 and 3.

If we receive subscriptions for more shares than are to be sold in this offering, we may be unable to fill or may only partially fill your order. Shares will be allocated in order of the priorities described above under a formula outlined in the plan of reorganization and stock issuance. Generally, shares first will be allocated so as to permit each eligible subscriber, if possible, to purchase a number of shares sufficient to make the subscriber's total allocation equal to 100 shares or the number of shares actually subscribed for, whichever is less. After that, unallocated shares will be allocated among the remaining eligible subscribers whose subscriptions remain unfilled in proportion to the amounts of their respective qualifying deposits bear to the total qualifying deposits of all remaining eligible subscribers whose subscriptions remain unfilled. If we increase the number of shares to be sold above 3,172,640, our employee stock ownership plan will have the first priority right to purchase any shares exceeding that amount to the extent that its subscription has not previously been filled. Any shares remaining will be allocated in the order of

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priorities and according to the formula described above. See *The Reorganization and Stock Offering Subscription Offering and Subscription Rights* for a description of the allocation procedure.

We may offer shares not sold in the subscription offering to the general public in a community offering or through a syndicate of broker-dealers. People and trusts for the benefit of people who are residents of Dearborn County, Indiana, will have first preference to purchase shares in the community offering. The community offering and syndicated community offering, if held, may begin at any time during or immediately following the subscription offering.

**Subscription Rights Are Not Transferable**

You are not allowed to transfer your subscription rights and we will act to ensure that you do not do so. You will be required to certify that you are purchasing shares solely for your own account and that you have no agreement or understanding with another person involving the transfer of the shares that you purchase. We will not accept any stock orders that we believe involve the transfer of subscription rights. **Eligible depositors who enter into agreements to allow ineligible investors to participate in the subscription offering may be violating federal law and may be subject to civil enforcement actions or criminal prosecution.**

**Deadline for Ordering Stock (page 116)**

The subscription offering will end at 12:00 Noon, Eastern time, on March 14, 2006. We expect that the community offering will terminate at the same time, although it may continue for up to 45 days after the end of the subscription offering, or longer if regulators approve a later date. No single extension may be for more than 90 days. If we extend the offering beyond April 28, 2006 or if we intend to sell fewer than 2,344,640 shares or more than 3,172,160, all subscribers will be notified and given the opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will return your funds promptly, in full and with interest, at our statement savings rate.

**Purchase Limitations (page 118)**

Our plan of reorganization and stock issuance establishes limitations on the purchase of stock in the offering. These limitations include the following:

The minimum purchase is 25 shares.

No individual (or individuals on a single deposit account) may purchase more than \$150,000 of common stock (which equals 15,000 shares) in the subscription offering.

No individual, no individual together with any associates, and no group of persons acting in concert may purchase more than \$650,000 of common stock (which equals 65,000 shares) in the offering.

Subject to the Office of Thrift Supervision's approval, we may increase or decrease the purchase and ownership limitations at any time.

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**How to Purchase Common Stock  
(page 122)**

If you want to place an order for shares in the offering, you must complete an original stock order and certification form and send it to us, together with full payment. You must sign the certification on the reverse side of the stock order and certification form. We must receive your stock order and certification form before the end of the subscription offering or the end of the community offering, as appropriate. Once we receive your order, you cannot cancel or change it without our consent.

To ensure that we properly identify your subscription rights, you must list all of your deposit accounts as of the applicable eligibility date on the stock order and certification form. If you fail to do so, your subscription may be reduced or rejected if the offering is oversubscribed. To preserve your purchase priority, you must register the shares only in the name or names of eligible purchasers at the applicable date of eligibility. You may not add the names of others who were not eligible to purchase common stock in the offering on the applicable date of eligibility.

We may, in our sole discretion, reject orders received in the community offering either in whole or in part. For example, we may reject an order submitted by a person who we believe is making false representations or who we believe is attempting to violate, evade or circumvent the terms and conditions of the plan of reorganization and stock issuance. If your order is rejected in part, you cannot cancel the remainder of your order.

You may pay for shares in the subscription offering or the community offering in any of the following ways:

***By check or money order*** made payable to United Community Bancorp.

***By authorizing a withdrawal from an account at United Community Bank.*** To use funds in an existing Individual Retirement Account at United Community Bank, you must transfer your account to an unaffiliated institution or broker, and open a self-directed Individual Retirement Account. Individual Retirement Accounts at United Community Bank are not self-directed and common stock may only be purchased using a self-directed Individual Retirement Account. Please contact your broker or financial institution as quickly as possible to see if you may transfer your Individual Retirement Account from United Community Bank because completing the transfer may take several days.

We will pay interest on your subscription funds at the rate we pay on statement savings accounts, which is currently 0.25% per annum, from the date we receive your funds until the reorganization is completed or terminated. All funds authorized for withdrawal from deposit accounts with us will earn interest at the applicable account rate until the offering is completed or terminated. If, as a result of a withdrawal from a certificate of deposit, the balance falls below the minimum balance requirement, the remaining funds will earn interest at our statement savings rate. There will be no early withdrawal penalty for withdrawals from certificates of deposit used to pay for common stock.

**Table of Contents****How We Will Use the Proceeds of****this Offering (page 36)**

The following table summarizes how the proceeds of this offering will be used, based on the sale of shares at the minimum and maximum of the offering range.

	2,344,640 Shares at \$ 10.00 Per Share	3,172,160 Shares at \$ 10.00 Per Share
	(In thousands)	
Offering proceeds	\$ 23,446	\$ 31,722
Less: offering expenses	1,098	1,211
<b>Net offering proceeds</b>	<b>22,348</b>	<b>30,511</b>
Less:		
Proceeds contributed to United Community Bank	11,174	15,256
Proceeds used for loan to employee stock ownership plan	2,132	2,885
Proceeds contributed to the charitable foundation	250	250
Proceeds contributed to United Community MHC	100	100
<b>Proceeds remaining for United Community Bancorp</b>	<b>\$ 8,692</b>	<b>\$ 12,020</b>

United Community Bancorp may use the portion of the proceeds that it retains to, among other things, invest in securities, pay dividends to stockholders, repurchase shares of its common stock (subject to regulatory restrictions), finance the possible acquisition of financial institutions or other businesses that are related to banking, or for general corporate purposes. United Community Bank may use the portion of the proceeds that it receives to fund new loans, open new branches, invest in securities and expand its business activities.

**Purchases by Directors and Executive Officers (page 99)**

We expect that our directors and executive officers, together with their associates, will subscribe for 482,500 shares, which equals 15.2% of the shares offered for sale at the maximum of the offering range. Directors and executive officers will pay the same \$10.00 per share price as everyone else who purchases shares in the offering. Like all of our depositors, our directors and executive officers have subscription rights based on their deposits and, in the event of an oversubscription, their orders will be subject to the allocation provisions set forth in our plan of reorganization and stock issuance. Purchases by our directors and executive officers will count towards the minimum number of shares we must sell to close the offering.

**Market for United Community Bancorp Common Stock (page 38)**

We have received conditional approval to list our common stock quoted on the Nasdaq National Market under the symbol UCBA. Keefe, Bruyette & Woods, Inc. currently intends to become a market maker in the common stock, but is under no obligation to do so. We cannot assure you that other market makers will be obtained or that an active and liquid trading market for our common stock will develop or, if developed, will be maintained. After shares of the common stock begin trading, you may contact a stock broker to buy or sell shares.

**United Community Bancorp's Dividend Policy (page 37)**

We have not yet determined whether we will pay a dividend on the common stock. After the reorganization, we will consider a policy of paying regular cash dividends. Our ability to pay dividends will depend on a number of factors, including capital requirements, regulatory limitations and our operating results and financial condition. We anticipate that United Community MHC will waive receipt of any dividends that we may pay.

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**Possible Conversion of United Community MHC to Stock Form (page 110)**

In the future, we may undertake a transaction commonly known as a second-step conversion in which we would sell to the public the shares held by United Community MHC. In a second-step conversion, members of United Community MHC would have subscription rights to purchase common stock of United Community Bancorp or its successor, and the public stockholders of United Community Bancorp would be entitled to exchange their shares of common stock for an equal percentage of shares of the new holding company. This percentage may be adjusted to reflect any assets owned by United Community MHC. United Community Bancorp's public stockholders, therefore, would own approximately the same percentage of the resulting entity as they owned before the second-step conversion. Any second-step conversion would require the approval of the stockholders of United Community Bancorp, other than United Community MHC, and the members of United Community MHC. The board of directors has no current plan to undertake a second-step conversion transaction.

**Stock Information Center**

If you have any questions regarding the offering or our reorganization, please call the stock information center at (812) 537-1189.

The stock information center is open Monday through Friday, except bank holidays, from 9:00 a.m. to 5:00 p.m., Eastern time.

**To ensure that each purchaser in the subscription and community offering receives a prospectus at least 48 hours before the expiration date of the subscription and community offering in accordance with federal law, no prospectus will be mailed any later than five days before the expiration date, sent via overnight delivery any later than three days before the expiration date or hand delivered any later than two days before the expiration date. Stock order and certification forms will be distributed only when preceded or accompanied by a prospectus.**

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**Risk Factors**

*You should consider carefully the following risk factors before purchasing United Community Bancorp common stock.*

**Risks Related to Our Business**

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

Our business is concentrated in the Lawrenceburg, Indiana, area. Lawrenceburg is the site of a riverboat casino that opened in 1996. The economy of the Lawrenceburg metropolitan area significantly depends on services and industries related to gaming and tourism. Any event that negatively and materially impacts the gaming and tourism industry will adversely impact the Lawrenceburg economy.

Gaming revenue is vulnerable to fluctuations in the national economy. A prolonged downturn in the national economy could have a significant adverse effect on the economy of the Lawrenceburg area. Virtually any development or event that could dissuade travel or spending related to gaming and tourism, whether inside or outside of Lawrenceburg, could adversely affect the Lawrenceburg economy. Consequently, the Lawrenceburg economy is more susceptible than the economies of other cities to issues such as higher gasoline and other fuel prices, unemployment levels, recession, rising interest rates, and other economic conditions, whether domestic or foreign.

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

Loan delinquencies may increase;

Problem assets and foreclosures may increase;

Demand for our products and services may decline; and

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

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

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Lawrenceburg, Indiana, competes with other areas of the country for gaming revenue, and it is possible that the expansion of gaming operations in other states, as a result of changes in laws or otherwise, could significantly reduce gaming revenue in the Lawrenceburg area. This is particularly true of gaming operations in Kentucky and/or Ohio, states from which the Lawrenceburg casino generally draws substantial year-round clientele. Kentucky and/or Ohio legislative proposals could permit gaming activities. The establishment of casino gaming in Kentucky and/or Ohio, or other states, could have a substantial adverse effect on gaming revenue in Lawrenceburg which would adversely affect the Lawrenceburg economy and our business.

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**We rely heavily on municipal deposits as a source of funds and a reduced level of those deposits may hurt our profits.**

Historically, municipal deposits, consisting primarily of tax revenues from the local river boat casino operations, have been a significant source of funds for our lending and investment activities. At September 30, 2005, \$139.2 million, or 48.1% of our total deposits, consisted of municipal deposits. Municipal deposits are generally short-term deposits and are generally considered rate-sensitive instruments. Consequently, if our municipal deposits decrease to a level where we would need to resort to other sources of funds for our lending and investment activities, such as borrowings from the Federal Home Loan Bank of Indianapolis, the interest expense associated with these other funding sources may be higher than the rates we pay on the municipal deposits, which would hurt our profits.

**Rising interest rates may hurt our earnings and asset value.**

Interest rates have recently been at historically low levels. However, since June 30, 2004, the U.S. Federal Reserve has increased its target for the federal funds rate 14 times, from 1.0% to 4.5%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased, longer-term market interest rates (which we use as a guide to price our longer-term loans) have not. This flattening of the market yield curve has had a negative impact on our interest rate spread and net interest margin, and if short-term interest rates continue to rise, and if rates on our deposits and borrowings continue to reprice upwards faster than the rates on our long-term loans and investments, we would continue to experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability.

Changes in interest rates also affect the value of our interest-earning assets, and in particular our securities portfolio. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. In addition, we invest in callable securities that expose us to reinvestment risk, particularly during periods of falling market interest rates when issuers of callable securities tend to call or redeem their securities. Reinvestment risk is the risk that we may have to reinvest the proceeds from called securities at lower rates of return than the rates earned on the called securities. For further discussion of how changes in interest rates could impact us, see *Management's Discussion and Analysis of Financial Condition and Results of Operations* Risk Management Interest Rate Risk Management.

**Our increased emphasis on multi-family residential and nonresidential real estate and land lending may expose us to increased lending risks.**

At September 30, 2005, \$72.5 million, or 34.5%, of our loan portfolio consisted of multi-family residential and nonresidential real estate and land loans. We have grown our loan portfolio in recent years, particularly with respect to multi-family residential and nonresidential real estate and land loans and intend to continue to emphasize these types of lending. These types of loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. In addition, since such loans generally entail greater credit risk than one- to four-family residential mortgage loans, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with the growth of such loans. Also, many of our multi-family residential and nonresidential real estate and land borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. At September 30, 2005, our largest multi-family residential and nonresidential real estate and land lending relationship was a \$4.3 million commercial real estate loan relationship. This loan relationship was within our maximum lending limit to one borrower at September 30, 2005. See *Our Business* Lending Underwriting Risks Loans to One Borrower.



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### **If we do not achieve profitability on new branches, the new branches may hurt our earnings.**

We cannot assure you that our branch expansion strategy and our branch upgrading will increase our earnings in the short term or within a reasonable period of time, if at all. Numerous factors will affect our branch expansion strategy, such as our ability to select suitable branch locations, real estate acquisition costs, competition, interest rates, managerial resources, our ability to hire and retain qualified personnel, the effectiveness of our marketing strategy and our ability to attract deposits. It takes time for a new branch to generate significant deposits and loan volume to offset expenses, some of which, like salaries and occupancy expense, are relatively fixed costs. We can provide no assurance that we will be successful in increasing the volume of our loans and deposits by expanding our branch network. Building and staffing new branch offices will increase our operating expenses. We can provide no assurance that we will be able to manage the costs and implementation risks associated with this strategy so that expansion of our branch network will be profitable.

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

We face intense competition both in making loans and attracting deposits. In particular, several financial institutions have recently opened new offices or branches in Dearborn County, Indiana. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. As of June 30, 2005, the most recent date for which information is available, we held 36.3% of the deposits in Dearborn County. Competition also makes it more difficult to hire and retain experienced employees. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market areas. For more information about our market areas and the competition we face, see *Our Business Market Areas* and *Our Business Competition*.

### **We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.**

We are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision, our primary federal regulator, and by the Federal Deposit Insurance Corporation, as insurer of our deposits. United Community MHC, United Community Bancorp and United Community Bank will all be subject to regulation and supervision by the Office of Thrift Supervision. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of United Community Bank rather than for holders of United Community Bancorp common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

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**Risks Related to This Offering**

**Additional expenses following the offering from operating as a public company and from new stock-based benefit plans will adversely affect our profitability.**

Following the offering, our noninterest expenses are likely to increase as a result of the financial accounting, legal and various other additional expenses usually associated with operating as a public company. We also will recognize additional annual salaries and employee benefits expenses stemming from the shares purchased or granted to employees and executives under new benefit plans. These additional expenses will adversely affect our profitability. We cannot determine the actual amount of these new stock-related compensation and benefit expenses at this time because applicable accounting practices require that they be based on the fair market value of the shares of common stock at specific points in the future; however, we expect them to be material. We will recognize expenses for our employee stock ownership plan when shares are committed to be released to participants' accounts and will recognize expenses for restricted stock awards and stock options over the vesting period of awards made to recipients. These benefit expenses in the first year following the offering have been estimated to be approximately \$511,000 at the maximum of the offering range as set forth in the pro forma financial information under *Pro Forma Data* assuming the \$10.00 per share purchase price as fair market value. Actual expenses, however, may be higher or lower, depending on the price of our common stock. For further discussion of these plans, see *Our Management Benefit Plans*.

**We will need to implement additional finance and accounting systems, procedures and controls in order to satisfy our new public company reporting requirements.**

Upon the completion of this offering, we will become a public reporting company. The federal securities laws and the regulations of the Securities and Exchange Commission require that we file annual, quarterly and current reports and that we maintain effective disclosure controls and procedures and internal controls over financial reporting. We expect that the obligations of being a public company, including substantial public reporting obligations, will require significant expenditures and place additional demands on our management team. These obligations will increase our operating expenses and could divert our management's attention from our operations. Compliance with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission will require us to certify the adequacy of our internal controls and procedures, which will require us to upgrade our accounting systems, which will increase our operating costs.

**Our low return on equity may negatively impact the value of our common stock.**

Return on equity, which equals net income divided by average equity, is a ratio used by many investors to compare the performance of a particular company with other companies. For the year ended June 30, 2005 and the three months ended September 30, 2005, our return on equity was 7.02% and 7.50%, respectively. Our pro forma return on equity for the same periods is expected to be 3.96% and 4.17%, respectively, assuming the midpoint of the offering range. Our peer group used in the valuation of United Community Bancorp had a average return on equity of 8.11% for the 12 months ended September 30, 2005, while all publicly traded fully converted thrifts had a average return on equity of 12.73% for the same period. Over time, we intend to use the net proceeds from this offering to increase earnings per share and book value per share, without assuming undue risk, with the goal of achieving a return on equity that is competitive with other publicly held subsidiaries of mutual holding companies. This goal could take a number of years to achieve, and we cannot assure you that it will be attained. Consequently, you should not expect a competitive return on equity in the near future. Failure to achieve a competitive return on equity might make an investment in our common stock unattractive to some investors and might cause our common stock to trade at lower prices than comparable companies with higher returns on equity. See *Pro Forma Data* for an illustration of the financial impact of this offering. The information in *Pro Forma Data* does not reflect the impact that the new expenses we expect to incur as a result of our expansion and operating as a public company will have on our return on equity.



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**We have broad discretion in allocating the proceeds of the offering. Our failure to utilize effectively such proceeds would reduce our profitability.**

United Community Bancorp intends to contribute approximately 50.0% of the net proceeds of the offering to United Community Bank. We may use the remaining net proceeds to pay dividends to stockholders, repurchase common stock, purchase securities, finance the acquisition of other financial institutions or other businesses that are related to banking, or for other general corporate purposes. We expect to use a portion of the net proceeds to fund the purchase by our employee stock ownership plan of shares in the offering. United Community Bank may use the proceeds it receives to fund new loans, purchase loans, purchase securities, establish or acquire new branches, acquire financial institutions or other businesses that are related to banking, or for general corporate purposes. We have not allocated specific amounts of proceeds for any of these purposes, and we will have significant flexibility in determining how much of the net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively would reduce our profitability.

**Issuance of shares for benefit programs may dilute your ownership interest.**

We intend to adopt an equity incentive plan following the reorganization. If stockholders approve the new equity incentive plan, we intend to issue shares to our officers and directors through this plan. If the restricted stock awards under the equity incentive plan are funded from authorized but unissued stock, your ownership interest in the shares issued to persons other than United Community MHC could be diluted by up to approximately 4.17%, assuming awards of common stock equal to 1.96% of the shares issued in the offering, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation, are awarded under the plan. If the shares issued upon the exercise of stock options under the equity incentive plan are issued from authorized but unissued stock, your ownership interest in the shares issued to persons other than United Community MHC could be diluted by up to approximately 9.82%, assuming stock option grants equal to 4.9% of the shares issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation, are granted under the plan. See *Pro Forma Data* and *Our Management Benefit Plans*.

**United Community MHC's majority control of our common stock will enable it to exercise voting control over most matters put to a vote of stockholders and will prevent stockholders from forcing a sale or a second-step conversion transaction you may find advantageous.**

United Community MHC will own a majority of United Community Bancorp's common stock after the offering and, through its board of directors, will be able to exercise voting control over most matters put to a vote of stockholders. The same directors and officers who will manage United Community Bancorp and United Community Bank will also manage United Community MHC. As a federally chartered mutual holding company, the board of directors of United Community MHC must ensure that the interests of depositors of United Community Bank are represented and considered in matters put to a vote of stockholders of United Community Bancorp. Therefore, the votes cast by United Community MHC may not be in your personal best interests as a stockholder. For example, United Community MHC may exercise its voting control to defeat a stockholder nominee for election to the board of directors of United Community Bancorp. In addition, stockholders will not be able to force a merger or second-step conversion transaction without the consent of United Community MHC. Some stockholders may desire a sale or merger transaction, since stockholders typically receive a premium for their shares, or a second-step conversion transaction, since fully converted institutions tend to trade at higher multiples than mutual holding companies.

**Office of Thrift Supervision policy on remutualization transactions could prohibit acquisition of United Community Bancorp, which may adversely affect our stock price.**

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Current Office of Thrift Supervision regulations permit a mutual holding company to be acquired by a mutual institution in a remutualization transaction. The possibility of a remutualization transaction has recently resulted in a degree of takeover speculation for mutual holding companies that is reflected in the per share price of mutual holding companies' common stock. However, the Office of Thrift Supervision has issued a policy statement indicating that it views remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual

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members of the acquiring entity. Under certain circumstances, the Office of Thrift Supervision intends to give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that the Office of Thrift Supervision's concerns are not warranted in the particular case. Should the Office of Thrift Supervision prohibit or otherwise restrict these transactions in the future, our per share stock price may be adversely affected. For further information, see *Restrictions on Acquisition of United Community Bancorp and United Community Bank Regulatory Restrictions*.

### **Office of Thrift Supervision regulations and anti-takeover provisions in our charter restrict the accumulation of our common stock, which may adversely affect our stock price.**

Office of Thrift Supervision regulations provide that for a period of three years following the date of the completion of the reorganization, no person, acting alone or together with associates or in a group of persons acting in concert, may directly or indirectly offer to acquire or acquire the beneficial ownership of more than 10.0% of our common stock without the prior written approval of the Office of Thrift Supervision. In addition, United Community Bancorp's charter provides that, for a period of five years from the date of the reorganization, no person, other than United Community MHC may acquire directly or indirectly the beneficial ownership of more than 10.0% of any class of any equity security of United Community Bancorp. In the event a person acquires shares in violation of this charter provision, all shares beneficially owned by such person in excess of 10.0% will be considered "excess shares" and will not be counted as shares entitled to vote or counted as voting shares in connection with any matters submitted to the stockholders for a vote. These factors make it more difficult and less attractive for stockholders to acquire a significant amount of our common stock, which may adversely affect our stock price.

### **Our stock price may decline when trading commences.**

We cannot guarantee that if you purchase shares in the offering that you will be able to sell them at or above the \$10.00 per share purchase price. The shares of several recent minority offerings by mutual holding companies have traded below the initial offering price after completion of the offering. After the shares of our common stock begin trading, the trading price of the common stock will be determined by the marketplace, and will be influenced by many factors outside of our control, including prevailing interest rates, investor perceptions and general industry, geopolitical and economic conditions. Publicly traded stocks, including stocks of financial institutions, often experience substantial market price volatility. These market fluctuations might not be related to the operating performance of particular companies whose shares are traded.

### **There may be a limited market for our common stock, which may adversely affect our stock price.**

Although we have received conditional approval to list our stock on the Nasdaq National Market, there is no guarantee that the shares will be actively traded. If an active trading market for our common stock does not develop, you may not be able to sell all of your shares of common stock on short notice and the sale of a large number of shares at one time could temporarily depress the market price. There also may be a wide spread between the bid and asked price for our common stock. When there is a wide spread between the bid and asked price, the price at which you may be able to sell our common stock may be significantly lower than the price at which you could buy it at that time.

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**Risks Related to the Formation of the Charitable Foundation**

**The contribution to United Community Bank Charitable Foundation will decrease the ownership interest and voting interest in the shares issued to persons other than United Community MHC by 4.2% after the contribution.**

Purchasers of shares, other than United Community MHC, will have their ownership and voting interests diluted by 4.2% at the close of the reorganization when United Community Bancorp issues and contributes an additional number of shares to United Community Bank Charitable Foundation. For a further discussion regarding the effect of the contribution to the charitable foundation, see *Pro Forma Data* and *Comparison of Independent Valuation and Pro Forma Financial Information With and Without the Foundation*.

**Our contribution to United Community Bank Charitable Foundation may not be tax deductible, which could hurt our profits.**

We believe that our contribution to United Community Bank Charitable Foundation, valued at \$1.7 million at the maximum of the offering, pre-tax, will be deductible for federal income tax purposes. However, we do not have any assurance that the Internal Revenue Service will grant tax-exempt status to the foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. In addition, even if the contribution is tax deductible, we may not have sufficient profits to be able to use the deduction fully. In the event it is more likely than not that we will be unable to use the entire deduction, we will be required to establish a valuation allowance related to any deferred tax asset that has been recorded for this contribution.

**Establishment of United Community Bank Charitable Foundation will hurt our profits for fiscal year 2006.**

United Community Bancorp intends to contribute \$250,000 in cash and shares of common stock equal to 1.9% of United Community Bancorp's outstanding common stock to United Community Bank Charitable Foundation. This contribution will be an additional operating expense and will reduce net income during the fiscal year in which the foundation is established, which is expected to be the year ending June 30, 2006. Based on the pro forma assumptions, at the midpoint of the offering range, the contribution to United Community Bank Charitable Foundation would reduce net earnings by \$968,000, after tax, in fiscal year 2006. See *Pro Forma Data*.

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**A Warning About Forward-Looking Statements**

This prospectus contains forward-looking statements, which can be identified by the use of words such as believes, expects, anticipates, estimates or similar expressions. Forward-looking statements include:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

general economic conditions, either nationally or in our market areas, that are worse than expected;

changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;

increased competitive pressures among financial services companies;

changes in consumer spending, borrowing and savings habits;

legislative or regulatory changes that adversely affect our business;

adverse changes in the securities markets;

inability of key third-party providers to perform their obligations to United Community Bank;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board; and

our ability to successfully implement our branch expansion strategy.

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Any of the forward-looking statements that we make in this prospectus and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Consequently, no forward-looking statement can be guaranteed.

**Table of Contents****Selected Financial and Other Data**

The summary financial information presented below is derived in part from our financial statements. The following is only a summary and you should read it in conjunction with the financial statements and notes beginning on page F-1. The information at June 30, 2005 and 2004 and for the years ended June 30, 2005, 2004 and 2003 is derived in part from the audited financial statements of United Community Bank that appear elsewhere in this prospectus. The information at and for the years ended June 30, 2002 and 2001 is derived in part from audited financial statements of United Community Bank that do not appear in this prospectus. The selected data at September 30, 2005 and for the three months ended September 30, 2005 and 2004 was not audited, but in the opinion of management, reflects all adjustments necessary for a fair presentation. All of these adjustments are normal and recurring. The results of operations for the three months ended September 30, 2005 are not necessarily indicative of the results of operations that may be expected for the entire year.

	At September 30,		At June 30,			
	2005	2005	2004	2003	2002	2001
(In thousands)						
<b>Financial Condition Data:</b>						
Total assets	\$ 321,315	\$ 331,505	\$ 257,145	\$ 267,145	\$ 232,942	\$ 214,121
Cash and cash equivalents	18,345	76,263	6,681	15,801	8,998	16,637
Securities held-to-maturity	265	265	669	761	846	923
Securities available-for-sale	31,704	9,937	16,025	32,199	32,265	21,698
Mortgage-backed securities available-for-sale	48,592	28,199	40,082	60,942	18,034	5,664
Loans receivable, net	206,022	200,878	179,257	145,753	160,115	162,129
Deposits	289,134	299,379	227,939	237,924	206,862	189,949
Advances from Federal Home Loan Bank				328	594	464
Total equity	29,765	29,736	27,584	26,230	23,533	21,794

**For the Three Months**

	Ended September 30,		For the Year Ended June 30,				
	2005	2004	2005	2004	2003	2002	2001
(In thousands)							
<b>Operating Data:</b>							
Interest income	\$ 4,130	\$ 3,210	\$ 13,470	\$ 12,488	\$ 14,011	\$ 14,974	\$ 16,024
Interest expense	1,819	999	4,655	4,134	6,091	7,524	9,167
Net interest income	2,311	2,211	8,815	8,354	7,920	7,450	6,857
Provision for loan losses	30	30	857	120	620		
Net interest income after provision for loan losses	2,281	2,181	7,958	8,234	7,300	7,450	6,857
Other income	360	320	1,708	1,373	2,933	1,121	773
Other expense	1,757	1,690	6,979	6,252	5,760	5,202	4,541
Income before income taxes	884	811	2,687	3,355	4,473	3,369	3,089
Provision for income taxes	323	281	642	1,199	1,658	1,353	1,205
Net income	\$ 561	\$ 530	\$ 2,045	\$ 2,156	\$ 2,815	\$ 2,016	\$ 1,884



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	At or for the Three Months Ended September 30,		At or for the Year Ended June 30,				
	2005	2004	2005	2004	2003	2002	2001
<b>Performance Ratios: <sup>(1)</sup></b>							
Return on average assets	0.69%	0.80%	0.75%	0.82%	1.12%	0.90%	0.91%
Return on average equity	7.50	7.52	7.02	7.99	11.42	8.90	9.40
Interest rate spread <sup>(2)</sup>	2.88	3.50	3.33	3.23	3.13	3.23	3.04
Net interest margin <sup>(3)</sup>	3.01	3.54	3.44	3.35	3.31	3.54	3.42
Noninterest expense to average assets	2.18	2.46	2.55	2.39	2.30	2.33	2.20
Efficiency ratio <sup>(4)</sup>	65.78	66.77	68.06	64.27	53.07	60.69	59.52
Average interest-earning assets to average interest-bearing liabilities	105.65	102.48	105.64	107.46	107.19	108.12	108.28
Average equity to average assets	9.26	10.28	10.64	10.31	9.46	10.14	9.70
<b>Capital Ratios:</b>							
Tangible capital	9.20	10.19	8.76	10.46	9.29	9.49	9.34
Core capital	9.19	10.19	8.76	10.46	9.29	9.49	9.34
Total risk-based capital	16.04	16.67	15.59	17.26	8.87	16.23	14.96
<b>Asset Quality Ratios:</b>							
Nonperforming loans as a percent of total loans	0.73	0.80	0.72	0.61	0.47	0.36	0.49
Allowance for loan losses as a percent of total loans	1.09	0.82	1.10	0.85	1.00	0.60	0.63
Allowance for loan losses as a percent of nonperforming loans	150.13	102.03	153.21	138.15	209.90	120.57	77.34
Net charge-offs to average outstanding loans during the period		0.01	0.07	0.03	0.07	0.05	0.04
<b>Other Data:</b>							
Number of:							
Real estate loans outstanding	2,339	2,203	2,288	2,198	2,213	2,574	2,812
Deposit accounts	18,464	18,168	18,362	18,205	18,194	18,086	17,633
Offices	5	4	4	4	4	4	4

<sup>(1)</sup> Performance ratios for the three months ended September 30, 2005 and 2004 are annualized.

<sup>(2)</sup> Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities.

<sup>(3)</sup> Represents net interest income as a percent of average interest-earning assets.

<sup>(4)</sup> Represents other expense divided by the sum of net interest income and other income.

**Table of Contents****Recent Developments**

The following tables contain certain information concerning the financial position and results of operations of United Community Bank. The data at December 31, 2005 and for the three and six months ended December 31, 2005 and 2004 was not audited, but, in the opinion of our management, reflects all adjustments necessary for a fair presentation. No adjustments were made other than normal recurring entries. The results of operations for the three and six months ended December 31, 2005 are not necessarily indicative of the results of operations that may be expected for the entire year.

	At December 31, 2005	At June 30, 2005	% Change
(In thousands)			
<b>Financial Condition Data:</b>			
Total assets	\$ 322,646	\$ 331,505	(2.7)%
Cash and cash equivalents	6,515	76,263	(91.5)
Securities held-to-maturity	265	265	
Securities available-for-sale	33,884	9,937	241.0
Mortgage-backed securities available-for-sale	51,348	28,199	82.1
Loans receivable, net	214,698	200,878	6.9
Deposits	291,122	299,379	(2.8)
Advances from Federal Home Loan Bank			
Total equity	\$ 30,335	\$ 29,736	2.0%

	For the Three Months Ended December 31,			For the Six Months Ended December 31,		
	2005	2004	% Change	2005	2004	% Change
(In thousands)						
<b>Operating Data:</b>						
Interest income	\$ 4,239	\$ 3,219	31.7%	\$ 8,369	\$ 6,429	30.2%
Interest expense	1,938	1,052	84.2	3,757	2,051	83.2
Net interest income	2,301	2,167	6.2	4,612	4,378	5.3
Provision for loan losses	30	367	(91.8)	60	397	(84.9)
Net interest income after provision for loan losses	2,271	1,810	25.5	4,552	3,981	14.3
Other income	367	757	(69.2)	727	1,077	(32.5)
Other expense	1,795	1,746	2.8	3,552	3,436	3.4
Income before income taxes	843	811	3.9	1,727	1,622	6.5
Provision for income taxes	303	288	5.2	626	569	9.9
Net income	\$ 540	\$ 523	3.2	\$ 1,101	\$ 1,053	4.6

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	At or For the Three Months Ended December 31,		At or For the Six Months Ended December 31,	
	2005	2004	2005	2004
<b>Performance Ratios:</b> <sup>(1)</sup>				
Return on average assets	0.65%	0.81%	0.67%	0.79%
Return on average equity	7.18	7.17	7.33	7.34
Interest rate spread <sup>(2)</sup>	2.89	3.44	2.88	3.46
Net interest margin <sup>(3)</sup>	2.96	3.56	2.99	3.54
Noninterest expense to average assets	2.15	2.68	2.16	2.58
Efficiency ratio <sup>(4)</sup>	67.26	59.61	66.53	62.99
Return on average assets	0.65	0.81	0.67	0.79
Average interest-earning assets to average interest-bearing liabilities	1.03	1.07	1.04	1.05
Average equity to average assets	9.01	11.26	9.14	10.75
<b>Capital Ratios:</b>				
Tangible capital	9.29	11.01	9.29	11.01
Core capital	9.29	11.01	9.29	11.01
Total risk-based capital	15.51	17.74	15.51	17.74
<b>Asset Quality Ratios:</b>				
Nonperforming loans as a percent of total loans	0.70	1.13	0.70	1.13
Allowance for loan losses as a percent of total loans	1.01	0.97	1.01	0.97
Allowance for loan losses as a percent of nonperforming loans	1.44	0.85	1.44	0.85
Net charge-offs to average outstanding loans during the period	0.28	0.19	0.14	0.12
<b>Other Data:</b>				
Number of:				
Real estate loans outstanding	2,690	2,572	2,690	2,572
Deposit accounts	18,830	18,114	18,830	18,114
Offices	5	4	5	4

(1) Performance ratios for the three and six months ended December 31, 2005 and 2004 are annualized.

(2) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Represents net interest income as a percent of average interest-earning assets.

(4) Represents other expense divided by the sum of net interest income and other income.

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**Comparison of Financial Condition at December 31, 2005 and June 30, 2005**

Total assets decreased by \$8.9 million during the period from June 30, 2005 to December 31, 2005, primarily due to a decrease in deposits of \$8.3 million which was the result of a withdrawal of municipal deposits to enable the withdrawing municipality to satisfy payment obligations to other municipalities. During this period cash and cash equivalents decreased \$69.7 million as we reinvested the proceeds of significant municipal deposits received at the end of June 2005. As a result, securities increased by \$23.9 million, mortgage-backed securities increased by \$23.1 million and loans increased by \$13.8 million during the six months ended December 31, 2005. Equity increased by \$599,000, or 2.0%, from \$29.7 million at June 30, 2005 to \$30.3 million at December 31, 2005 as a result of \$1.1 million in net income, offset by a decrease in value of investments held available for sale of \$501,000.

**Comparison of Operating Results for the Three and Six Months Ended December 31, 2005 and 2004**

**General.** Net income increased \$17,000 for the three months ended December 31, 2005 compared to the three months ended December 31, 2004, primarily due to a \$134,000 increase in net interest income, a \$337,000 decrease in provision for loan losses, which were offset by a \$390,000 decrease in other income, and a \$49,000 increase in other expense.

Net income increased \$48,000 for the six months ended December 31, 2005 compared to the six months ended December 31, 2004, primarily due to a \$234,000 increase in net interest income and a \$337,000 decrease in provision for loan losses, partially offset by a \$350,000 decrease in other income and a \$116,000 increase in other expenses.

**Net Interest Income.** Net interest income increased \$134,000, or 6.2%, to \$2.3 million for the three months ended December 31, 2005 compared to the year earlier period primarily due to an increase in the average balance of interest-earning assets of \$66.2 million, combined with an increase in average yield on earning assets from 5.27% to 5.46%. The increase in the average balance of interest-earning assets was primarily due to the deployment of municipal deposits into loans and investment securities. Increases in the average yield were primarily the result of increases in market interest rates. During the same period the average balance of interest bearing liabilities increased by \$73.6 million primarily due to an increase of \$60.3 million in municipal deposits, and the average cost of interest bearing liabilities increased from 1.84% to 2.57% primarily as a result of increases in market interest rates.

Net interest income increased \$234,000, or 5.3%, to \$4.6 million for the six months ended December 31, 2005 compared to the six months ended December 31, 2004. The increase was primarily due to a \$61.8 million increase in average interest earnings assets primarily attributable to the combined effect of the deployment of municipal deposits and an increase in average yield on earning assets from 5.20% to 5.42%. The increase in average yield was primarily due to an increase in market interest rates. During the same period the average balances on interest bearing liabilities increased by \$60.3 million primarily due to an increase in municipal deposits, and the average cost of interest bearing liabilities increased from 1.74% to 2.54% due to an increase in market interest rates.

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The following table summarizes changes in interest income and interest expense for the three and six months ended December 31, 2005 and 2004.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2005	2004	% Change	2005	2004	% Change
(Dollars in thousands)						
<b>Interest income:</b>						
Loans	\$ 3,316	\$ 2,823	17.5%	\$ 6,475	\$ 5,533	17.0%
Investment securities	742	360	106.1	1,406	826	70.2
Other interest-earning assets	181	36	402.7	488	70	597.1
<b>Total interest income</b>	<b>4,239</b>	<b>3,219</b>	<b>31.7</b>	<b>8,369</b>	<b>6,429</b>	<b>30.2</b>
<b>Interest expense:</b>						
NOW and money market deposit accounts	963	171	463.2	1,831	362	405.8
Passbook accounts	171	179	(4.5)	370	317	16.7
Certificates of deposit	804	666	20.7	1,556	1,336	16.5
<b>Total interest-bearing deposits</b>	<b>1,938</b>	<b>1,016</b>	<b>90.7</b>	<b>3,757</b>	<b>2,015</b>	<b>86.4</b>
FHLB advances		36	(100.0)		36	(100.0)
<b>Total interest expense</b>	<b>1,938</b>	<b>1,052</b>	<b>84.2</b>	<b>3,757</b>	<b>2,051</b>	<b>83.2</b>
<b>Net interest income</b>	<b>\$ 2,301</b>	<b>\$ 2,167</b>	<b>6.2</b>	<b>\$ 4,612</b>	<b>\$ 4,378</b>	<b>5.3</b>

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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three and six months ended December 31, 2005 and 2004.

	Three Months Ended December 31,						Six Months Ended December 31,					
	2005			2004			2005			2004		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
(Dollars in thousands)												
Interest-earning assets:												
Loans	\$ 213,560	\$ 3,316	6.21%	\$ 189,655	\$ 2,823	5.95%	\$ 208,608	\$ 6,475	6.21%	\$ 181,866	\$ 5,533	6.08%
Investment securities	83,351	742	3.56	48,095	360	2.99	79,634	1,406	3.53	57,430	826	2.88
Other interest-earning assets	13,657	181	5.30	6,625	36	2.17	20,688	488	4.72	7,852	70	1.78
<b>Total interest-earning assets</b>	<b>\$ 310,568</b>	<b>\$ 4,239</b>	<b>5.46</b>	<b>\$ 244,375</b>	<b>\$ 3,219</b>	<b>5.27</b>	<b>\$ 308,930</b>	<b>\$ 8,369</b>	<b>5.42</b>	<b>\$ 247,148</b>	<b>\$ 6,429</b>	<b>5.20</b>
Interest-bearing liabilities:												
NOW and money market deposit accounts												
Passbook accounts	\$ 153,582	\$ 963	2.51	\$ 52,197	\$ 171	1.31	\$ 147,280	\$ 1,831	2.49	\$ 61,188	\$ 362	1.18
Certificates of deposit	44,383	171	1.54	57,877	179	1.24	44,957	370	1.65	58,429	317	1.09
	103,965	804	3.09	110,658	666	2.41	104,140	1,556	2.99	112,698	1,336	2.37
<b>Total interest-bearing deposits</b>	<b>301,930</b>	<b>1,938</b>	<b>2.57</b>	<b>220,732</b>	<b>1,016</b>	<b>1.84</b>	<b>296,377</b>	<b>3,757</b>	<b>2.54</b>	<b>232,315</b>	<b>2,015</b>	<b>1.73</b>
FHLB advances				7,583	36	1.90				3,792	36	1.90
<b>Total interest-bearing liabilities</b>	<b>\$ 301,930</b>	<b>\$ 1,938</b>	<b>2.57</b>	<b>\$ 228,315</b>	<b>\$ 1,052</b>	<b>1.84</b>	<b>\$ 296,377</b>	<b>\$ 3,757</b>	<b>2.54</b>	<b>\$ 236,107</b>	<b>\$ 2,051</b>	<b>1.74</b>

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Interest income increased \$1.0 million, or 31.7%, for the three months ended December 31, 2005 as a result of a \$493,000 increase in loan interest and a \$382,000 increase in investment interest. Interest income increased \$1.9 million, or 30.1%, for the six months ended December 31, 2005 as a result of a \$942,000 increase in loan interest and a \$580,000 increase in investment securities interest. The increases in interest income is primarily due to the combined effect of an increase in average interest-earning assets and an increase in average yields due to market interest rate increases. The increases in investment securities interest income is primarily due to the increase in the average balance of investment securities caused by the deployment of municipal deposits into investment securities.

Interest expense increased \$886,000, or 84.2%, for the three months ended December 31, 2005 primarily as a result of a \$792,000 increase in interest paid on NOW and money market deposit accounts and a \$138,000 increase paid on certificates of deposit primarily due to an increase in market interest rates. Interest expense increased \$1.7 million, or 83.2%, for the six months ended December 31, 2005 primarily as a result of a \$1.5 million increase in NOW and money market deposit account interest.

**Provision for Loan Losses.** The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three and six months ended December 31, 2005 and 2004.

	Three Months		Six Months	
	Ended December 31,		Ended December 31,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Allowance at beginning of period	\$ 2,294	\$ 1,557	\$ 2,266	\$ 1,550
Provision for loan losses	30	367	60	397
Charge offs:				
Real estate			13	
Nonresidential real estate and land				
Consumer and other loans	149	88	157	128
<b>Total charge-offs</b>	<b>149</b>	<b>88</b>	<b>170</b>	<b>128</b>
Recoveries:				
Real estate			9	11
Consumer and other loans	1		11	6
<b>Total recoveries</b>	<b>1</b>		<b>20</b>	<b>17</b>
<b>Net charge-offs</b>	<b>148</b>	<b>88</b>	<b>150</b>	<b>111</b>
Allowance at end of period	\$ 2,176	\$ 1,836	\$ 2,176	\$ 1,836

The provision for loan losses decreased in both the three and six months ended December 31, 2005 compared to the respective prior year periods. The provision for loan losses in the 2004 periods reflects the effect of the updating of our loan loss allowance methodology during fiscal 2005 as discussed under *Management's Discussion of Operations Risk Management Analyses and Determination of the Allowance for Loan Losses*. The provision for loan losses of \$30,000 and \$60,000 during the three and six months ended December 31, 2005, respectively, reflects the continued increases in the portfolios of non-residential real estate and land loans, multi-family loans, construction loans, commercial business loans and consumer loans as a percentage of the total loan portfolio. These loan types are generally considered to have a greater inherent risk of loss than one- to four-family mortgage loans.



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The following table provides information with respect to our nonperforming assets at the dates indicated. We did not have any troubled debt restructurings or any accruing loans past due 90 days or more at the dates presented.

	At December 31, 2005	At December 31, 2004	% Change
(Dollars in thousands)			
Nonaccrual loans:			
Residential real estate:			
One- to four-family	\$ 691	\$ 1,013	(31.2)%
Nonresidential real estate and land	676	790	(14.4)
Consumer and other loans	146	352	(58.5)
<b>Total</b>	<b>1,513</b>	<b>2,155</b>	<b>(29.8)</b>
Real estate owned	174	83	109.6
<b>Total nonperforming assets</b>	<b>\$ 1,687</b>	<b>\$ 2,238</b>	<b>(24.6)</b>
Total nonperforming loans to total loans	0.70%	1.13%	(0.43)
Total nonperforming loans to total assets	0.47%	0.85%	(0.38)
Total nonperforming assets to total assets	0.52%	0.88%	(0.36)

**Other Income.** The following table summarizes other income for the three and six months ended December 31, 2005 and 2004.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2005	2004	% Change	2005	2004	% Change
(Dollars in thousands)						
Service charges	\$ 264	\$ 224	17.8%	\$ 492	\$ 424	16.0%
Gain on sale of loans	9	7	28.6	26	16	62.5
Gain on sale of investments		304	(100.0)		320	(100.0)
Income from Bank Owned Life Insurance	57	55	3.6	113	111	1.8
Other	37	167	(77.8)	96	206	(53.4)
<b>Total</b>	<b>\$ 367</b>	<b>\$ 757</b>	<b>(51.5)</b>	<b>\$ 727</b>	<b>\$ 1,077</b>	<b>(32.5)</b>

Other income decreased \$390,000 during the three months ended December 31, 2005 from the prior year period primarily due to the absence of a \$304,000 gain on the sale of investments in 2005. The 2004 period included the sale of equity securities that we received in exchange for debt securities of the issuer in a recapitalization transaction by the issuer. We sold the equity securities to satisfy bank regulatory requirements. Also contributing to the decrease in other income was a \$130,000 decrease in the category of other income. The decrease in other income was the combined effect of the absence of a \$40,000 payment received during the 2004 period for a previously discharged obligation, a \$30,000 reduction in fees earned by United Community Financial Services and a general decrease in other noninterest income. Other income decreased \$350,000 during the six months ended December 31, 2005 primarily due to a \$320,000 reduction in gain on the sale of investments (described above) and a \$110,000 decrease in the category of other income, partially offset by a \$68,000 increase in service charge income. The decrease in the category of other income was the result of the combined effect of a \$20,000 decrease in fees earned by United Community Bank Financial Services, a \$40,000 payment received for a previously discharged obligation and a general decrease in other noninterest income. The increase in

service charge income is primarily due to increased ATM services charges due to increased usage.

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**Other Expense.** The following table summarizes other expense for the three and six months ended December 31, 2005 and 2004.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2005	2004	% Change	2005	2004	% Change
(Dollars in thousands)						
Compensation and employee benefits	\$ 1,108	\$ 1,120	(1.1)%	\$ 2,122	\$ 2,155	(1.5)%
Premises and occupancy expense	225	221	1.8	493	458	7.6
Deposit insurance premium	10	9	1.0	17	17	
Advertising expense	66	56	17.9	153	112	36.6
Data processing expense	63	67	(6.0)	124	144	(13.9)
ATM service fees	77	60	21.7	150	118	27.1
Other operating expenses	246	213	13.4	493	432	14.1
<b>Total</b>	<b>\$ 1,795</b>	<b>\$ 1,746</b>	<b>2.8</b>	<b>\$ 3,552</b>	<b>\$ 3,436</b>	<b>3.4</b>

Other expense increased \$49,000 during the three months ended December 31, 2005 primarily due to a \$33,000 increase in other operating expense, partially offset by a \$12,000 decrease in compensation and employee benefit expense. Other expense increased \$116,000 during the six months ended December 31, 2005 primarily due to a \$41,000 increase in advertising expense, a \$32,000 increase in ATM service fees, and a \$61,000 increase in other operating expense, partially offset by a \$33,000 decrease in compensation and employee benefit expense. The increase in advertising expense was due to a general increase in our use of advertising services. The increase in ATM service charges was the result of increased volume in ATM usage. The increase in other operating expense is primarily due to inflationary increases in other expenses. The decrease in compensation and employee benefit expense is primarily the result of reduced costs of our supplemental executive retirement plan and insurance costs and a \$20,000 decrease in data processing expense. The decrease in data processing expense was the result of incentives we received for renewing our data processing agreement.

**Income Taxes.** The provision for income taxes increased from \$288,000 for the three months ended December 31, 2004 to \$303,000 for the three months ended December 31, 2005 due to an increase in pre-tax income from \$811,000 to \$843,000 for these periods. The provision for income taxes increased from \$569,000 for the six months ended December 31, 2004 to \$626,000 for the six months ended December 31, 2005 due to an increase in pre-tax income from \$1.6 million to \$1.7 million for these periods.

**Table of Contents****Use of Proceeds**

The following table shows how we expect to use the net proceeds of the offering. The actual net proceeds will depend on the number of shares of common stock sold in the offering and the actual expenses incurred in connection with the offering. Payments for shares made through withdrawals from deposit accounts at United Community Bank will reduce United Community Bank's deposits and will not result in the receipt of new funds for investment. See *Pro Forma Data* for the assumptions used to arrive at these amounts.

	Minimum of Offering Range		Midpoint of Offering Range		Maximum of Offering Range		15% of Maximum of Offering Range	
	2,344,640 Shares at \$10.00 Per Share	Percent of Net Proceeds	2,758,400 Shares at \$10.00 Per Share	Percent of Net Proceeds	3,172,160 Shares at \$10.00 Per Share	Percent of Net Proceeds	3,647,984 Shares at \$10.00 Per Share	Percent of Net Proceeds
(Dollars in thousands)								
Offering proceeds	\$ 23,446		\$ 27,584		\$ 31,722		\$ 36,480	
Less: estimated offering expenses	1,098		1,154		1,211		1,275	
Estimated net offering proceeds	22,348	100.0%	26,430	100.0%	30,511	100.0%	35,205	100.0%
Less:								
Proceeds contributed to United Community Bank	11,174	50.0	13,215	50.0	15,256	50.0	17,603	50.0
Proceeds used for loan to employee stock ownership plan	2,132	9.6	2,509	9.5	2,885	9.5	3,318	9.4
Proceeds contributed to charitable foundation	250	1.1	250	1.0	250	0.8	250	0.7
Proceeds contributed to United Community MHC	100	0.4	100	0.3	100	0.3	100	0.3
Proceeds remaining for United Community Bancorp	\$ 8,692	38.9%	\$ 10,356	39.2%	\$ 12,020	39.4%	\$ 13,934	39.6%

United Community Bancorp intends to invest the proceeds it retains from the offering initially in short-term, liquid investments. Over time, United Community Bancorp may use the proceeds it retains from the offering:

to invest in securities;

to pay dividends to stockholders;

to repurchase shares of its common stock, subject to regulatory restrictions;

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to finance the possible acquisition of financial institutions or other businesses that are related to banking; and

for general corporate purposes.

Under current Office of Thrift Supervision regulations, United Community Bancorp may not repurchase shares of its common stock during the first year following the reorganization, except to fund stock-based benefit plans or, with prior regulatory approval, when extraordinary circumstances exist.

United Community Bank intends to invest the proceeds it receives from the offering initially in short-term, liquid investments. Over time, United Community Bank may use the proceeds that it receives from the offering, which are shown in the table above as the amount contributed to United Community Bank:

to fund new loans;

to invest in securities;

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to finance the possible expansion of its business activities, including developing new branch locations; and

for general corporate purposes.

United Community Bank may need regulatory approvals to engage in some of the activities listed above. It currently has no specific plans or agreements regarding any expansion activities or acquisitions other than the planned branch office openings discussed under *Our Business Properties*. Financing for opening these branches is not contingent on this offering.

Except as described above, neither United Community Bancorp nor United Community Bank has any specific plans for the investment of the proceeds of this offering and has not allocated a specific portion of the proceeds to any particular use. For a discussion of our business reasons for undertaking the reorganization, see *The Reorganization and Stock Offering Reasons for the Reorganization*.

### **Our Dividend Policy**

Following the reorganization, our board of directors intends to adopt a policy of paying regular cash dividends, but has not decided the amount that may be paid or when the payments may begin. In addition, the board of directors may declare and pay periodic special cash dividends in addition to, or in lieu of, regular cash dividends. In determining whether to declare or pay any dividends, whether regular or special, the board of directors will take into account United Community Bancorp's financial condition and results of operations, tax considerations, capital requirements, industry standards and economic conditions. The regulatory restrictions that affect the payment of dividends by United Community Bank to United Community Bancorp discussed below will also be considered. United Community Bancorp cannot guarantee that it will pay dividends or that, if paid, United Community Bancorp will not reduce or eliminate dividends in the future.

If United Community Bancorp pays dividends to its stockholders, it also will be required to pay dividends to United Community MHC, unless United Community MHC elects to waive the receipt of dividends. We anticipate that United Community MHC will waive any dividends that United Community Bancorp may pay. Any decision to waive dividends will be subject to regulatory approval.

United Community Bancorp will not be subject to Office of Thrift Supervision regulatory restrictions on the payment of dividends. However, United Community Bancorp's ability to pay dividends may depend, in part, upon its receipt of dividends from United Community Bank because United Community Bancorp initially will have no source of income other than earnings from the investment of the net proceeds from the offering that it retains. Office of Thrift Supervision regulations limit dividends and other distributions from United Community Bank to United Community Bancorp. In addition, United Community Bank may not make a distribution that would constitute a return of capital during the three-year term of the business plan submitted in connection with the reorganization. No insured depository institution may make a capital distribution if, after making the distribution, the institution would be undercapitalized. See *Regulation and Supervision Regulation of Federal Savings Associations Limitation on Capital Distributions*.

Any payment of dividends by United Community Bank to United Community Bancorp that would be deemed to be drawn out of United Community Bank's bad debt reserves would require United Community Bank to pay federal income taxes at the then-current income tax rate on the amount deemed distributed. See *Federal and State Taxation Federal Income Taxation* and note 15 of the notes to financial statements included in this prospectus. United Community Bancorp does not contemplate any distribution by United Community Bank that would result in this type of tax liability.



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**Market for the Common Stock**

We have not previously issued common stock and there is currently no established market for the common stock. We have received conditional approval to list our shares of common stock on the Nasdaq National Market under the symbol UCBA upon completion of the reorganization. Keefe, Bruyette & Woods, Inc. intends to become a market maker in our common stock following the reorganization, but is under no obligation to do so. We cannot assure you that other market makers will be obtained or that an active and liquid trading market for the common stock will develop or, if developed, will be maintained.

The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. There can be no assurance that persons purchasing the common stock will be able to sell their shares at or above the \$10.00 price per share in the offering. Purchasers of our common stock should have a longer term investment intent and should recognize that there may be a limited trading market in the common stock.

Table of Contents**Capitalization**

The following table presents the historical capitalization of United Community Bank at September 30, 2005 and the capitalization of United Community Bancorp reflecting the offering (referred to as pro forma information). The pro forma capitalization gives effect to the assumptions listed under *Pro Forma Data*, based on the sale of the number of shares of common stock indicated in the table. This table does not reflect the issuance of additional shares under the proposed equity incentive plan. **A change in the number of shares to be issued in the offering may materially affect pro forma capitalization.** United Community Bancorp is offering its common stock on a best efforts basis. United Community Bancorp must sell a minimum of 2,344,640 shares to complete the offering.

	United Community Bank Capitalization as of September 30, 2005	United Community Bancorp Pro Forma Capitalization Based Upon the Sale of			
		2,344,640 Shares at \$10.00  Per Share	2,758,400 Shares at \$10.00  Per Share	3,172,160 Shares at \$10.00  Per Share	3,647,984 Shares at \$10.00  Per Share
(Dollars in thousands)					
Deposits <sup>(1)</sup>	\$ 289,134	\$ 289,134	\$ 289,134	\$ 289,134	\$ 289,134
Borrowings					
Total deposits and borrowed funds	\$ 289,134	\$ 289,134	\$ 289,134	\$ 289,134	\$ 289,134
Stockholders' equity:					
Preferred stock:					
1,000,000 shares, \$.01 par value per share, authorized; none issued or outstanding	\$	\$	\$	\$	\$
Common stock:					
19,000,000 shares, \$.01 par value per share, authorized; specified number of shares assumed to be issued and outstanding <sup>(2)</sup>		54	64	74	85
Additional paid-in capital		22,294	26,367	30,437	35,120
Retained earnings <sup>(3)</sup>	29,525	29,525	29,525	29,525	29,525
Accumulated other comprehensive income	240	240	240	240	240
Shares issued to the foundation		1,034	1,216	1,398	1,608
Less:					
Capitalization of United Community MHC		100	100	100	100
Foundation contribution expense - shares <sup>(4)</sup>		682	803	923	1,061
Foundation contribution - cash <sup>(4)</sup>		165	165	165	165
Common stock acquired by employee stock ownership plan <sup>(5)</sup>		2,132	2,509	2,885	3,318
Common stock to be acquired by equity incentive plan <sup>(6)</sup>		1,066	1,255	1,443	1,659
Total stockholders' equity	\$ 29,765	\$ 49,002	\$ 52,580	\$ 56,158	\$ 60,275
Total pro forma stockholders' equity as a percentage of pro forma total assets <sup>(1)</sup>		14.39%	15.29%	16.16%	17.15%

(1)

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Does not reflect withdrawals from deposit accounts for the purchase of common stock in the offering. Withdrawals to purchase common stock will reduce pro forma deposits by the amounts of the withdrawals.

- (2) Reflects total issued and outstanding shares of 5,440,000, 6,400,000, 7,360,000 and 8,464,000 at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. Issued and outstanding shares include shares sold in the offering, issued to United Community MHC and contributed to United Community Bank Charitable Foundation.
- (3) Retained earnings are restricted by applicable regulatory capital requirements.
- (4) Represents the expense, net of tax, of the contribution of common stock to United Community Bank Charitable Foundation based on an estimated tax rate of 34.0%. The actual rate experienced by United Community Bancorp may vary. The realization of the tax benefit is limited annually to 10.0% of our annual taxable income. However, for federal and state tax purposes, we can carry forward any unused portion of the deduction for five years following the year in which the contribution is made.
- (5) Assumes that 3.92% of the common stock issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation, will be acquired by the employee stock ownership plan in the offering with funds borrowed from United Community Bancorp. Under U.S. generally accepted accounting principles, the amount of common stock to be purchased by the employee stock ownership plan represents unearned compensation and is, accordingly, reflected as a reduction of stockholders' equity. As shares are released to plan participants' accounts, a corresponding reduction in the charge against stockholders' equity will occur. Since the funds are borrowed from United Community Bancorp, the borrowing will be eliminated in consolidation and no liability or interest expense will be reflected in the financial statements of United Community Bancorp. See *Pro Forma Data* and *Our Management Benefit Plans Employee Stock Ownership Plan*.
- (6) Assumes the purchase in the open market at \$10.00 per share, under the proposed equity incentive plan, of a number of shares equal to 1.96% of the shares of common stock issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation. The shares are reflected as a reduction of stockholders' equity. The equity incentive plan will be submitted to stockholders for approval at a meeting following the reorganization. See *Risk Factors Risks Related to this Offering Issuance of shares for benefit programs may dilute your ownership interest*, *Pro Forma Data* and *Our Management Benefit Plans Future Equity Incentive Plan*.



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Excess	\$ 15,778	8.04%	\$ 23,528	11.89%	\$ 24,980	12.60%	\$ 26,432	13.60%	\$ 28,103	14.41%
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- (1) Tangible capital shown as a percentage of adjusted total assets of \$320.1 million. Risk-based and core capital levels are shown as a percentage of risk-weighted assets of \$196.3 million.
  - (2) A portion of the unrealized gains on available-for-sale securities accounts for the difference between capital calculated under U.S. generally accepted accounting principles and each of tangible capital and core capital. See note 14 to the notes to financial statements for additional information.
  - (3) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20.0% risk-weighting.

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**Pro Forma Data**

The following tables show information about our net income and stockholders' equity reflecting the reorganization. The information provided illustrates our pro forma net income and stockholders' equity based on the sale of common stock at the minimum of the offering range, the midpoint of the offering range, the maximum of the offering range and 15% above the maximum of the offering range. The actual net proceeds from the sale of the common stock cannot be determined until the reorganization is completed. Net proceeds indicated in the following tables are based upon the following assumptions:

All shares of stock will be sold in the subscription and community offerings;

Our employee stock ownership plan will purchase a number of shares equal to 3.92% of the shares issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation, with a loan from United Community Bancorp that will be repaid in equal installments over a period of 15 years;

Keefe, Bruyette & Woods, Inc. will receive a fee equal to 1.5% of the aggregate purchase price of the shares sold in the offering, except that no fee will be paid with respect to shares contributed to the charitable foundation or purchased by the employee stock ownership plan or by our officers, directors and employees and members of their immediate families;

Total expenses of the offering, excluding fees paid to Keefe, Bruyette & Woods, Inc., will be \$850,000; and

We will make a charitable contribution of a number of shares of United Community Bancorp common stock equal to 1.9% of the shares issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Charitable Foundation, with an assumed value of \$10.00 per share, plus \$250,000 in cash. The number of shares contributed to the foundation would equal 103,360, 121,600, 139,840 and 160,816 at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively.

Actual expenses may vary from this estimate, and the fees paid will depend upon whether a syndicate of broker-dealers or other means is necessary to sell the shares (which would increase offering expenses), and other factors.

Pro forma net income for the three months ended September 30, 2005 and the year ended June 30, 2005 have been calculated as if the reorganization was completed at the beginning of each period, and the net proceeds had been invested at 4.36% for the three months ended September 30, 2005 and 3.25% for the year ended June 30, 2005, which represents the one-year treasury rate on each date. We believe that the one-year treasury rate represents a more realistic yield on the investment of the offering proceeds than the arithmetic average of the weighted average yield earned on our interest-earning assets and the weighted average rate paid on our deposits, which is the reinvestment rate required by Office of Thrift Supervision regulations.

A pro forma after-tax return of 2.88% is used for the three months ended September 30, 2005 and 2.15% for the year ended June 30, 2005, after giving effect to a combined federal and state income tax rate of 34.0% for each period. The actual rate experienced by United Community Bancorp may vary. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the number of shares of common stock indicated in the tables.

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When reviewing the following tables, you should consider the following:

The final column gives effect to a 15% increase in the offering range, which may occur without any further notice if Keller & Company increases its appraisal to reflect the results of this offering, changes in our financial condition or results of operations or changes in market or economic

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conditions after the offering begins or due to regulatory considerations. See *The Reorganization and Stock Offering How We Determined the Offering Range and the \$10.00 Purchase Price*.

Since funds on deposit at United Community Bank may be withdrawn to purchase shares of common stock, the amount of funds available for investment will be reduced by the amount of withdrawals for stock purchases. The pro forma tables do not reflect withdrawals from deposit accounts.

Historical per share amounts have been computed as if the shares of common stock expected to be issued in the reorganization had been outstanding at the beginning of the period covered by the table. However, neither historical nor pro forma stockholders' equity has been adjusted to reflect the investment of the estimated net proceeds from the sale of the shares in the reorganization, the additional employee stock ownership plan expense or the proposed equity incentive plan.

Pro forma stockholders' equity ( book value ) represents the difference between the stated amounts of our assets and liabilities. Book value amounts do not represent fair market values or amounts available for distribution to stockholders in the unlikely event of liquidation. The amounts shown do not reflect the federal income tax consequences of the restoration to income of United Community Bank's special bad debt reserves for income tax purposes, which would be required in the unlikely event of liquidation. See *Federal and State Taxation*.

The amounts shown as pro forma stockholders' equity per share do not represent possible future price appreciation of United Community Bancorp's common stock.

The pro forma tables do not reflect the impact of the net expenses we initially expect to incur as a result of the construction of branch offices in Aurora, St. Leon and Milan, Indiana, and as a result of operating as a public company.

The following pro forma data may not represent the actual financial effects of the reorganization or our operating results after the reorganization. The pro forma data rely exclusively on the assumptions outlined above and in the notes to the pro forma tables. The pro forma data do not represent the fair market value of our common stock, the current fair market value of our assets or liabilities or the amount of money that would be available for distribution to stockholders if we are liquidated after the reorganization.

We are offering our common stock on a best efforts basis. United Community Bancorp must sell a minimum of 2,344,640 shares to complete the offering.

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	Three Months Ended September 30, 2005			
	Minimum of Offering Range	Midpoint of Offering Range	Maximum of Offering Range	15% Above Maximum of Offering Range
	2,344,640 Shares at \$10.00 Per Share	2,758,400 Shares at \$10.00 Per Share	3,172,160 Shares at \$10.00 Per Share	3,647,984 Shares at \$10.00 Per Share
	(Dollars in thousands, except per share amounts)			
Gross proceeds	\$ 23,446	\$ 27,584	\$ 31,722	\$ 36,480
Less: estimated offering expenses	(1,098)	(1,154)	(1,211)	(1,275)
Estimated net proceeds	22,368	26,430	30,511	35,205
Less: cash contributed to charitable foundation	(250)	(250)	(250)	(250)
Less: cash to United Community MHC	(100)	(100)	(100)	(100)
Less: common stock acquired by employee stock ownership plan (1)	(2,132)	(2,509)	(2,885)	(3,318)
Less: common stock to be acquired by equity incentive plan (2)	(1,066)	(1,254)	(1,443)	(1,659)
Net investable proceeds	\$ 18,800	\$ 22,317	\$ 25,833	\$ 29,878
<b>Pro Forma Net Income:</b>				
Pro forma net income <sup>(3)</sup> :				
Historical	\$ 561	\$ 561	\$ 561	\$ 561
Pro forma income on net investable proceeds	135	161	186	215
Less: pro forma employee stock ownership plan adjustments <sup>(1)</sup>	(23)	(28)	(32)	(36)
Less: pro forma restricted stock award expense <sup>(2)</sup>	(35)	(41)	(48)	(55)
Less: pro forma stock option expense <sup>(4)</sup>	(36)	(42)	(49)	(56)
Pro forma net income	\$ 602	\$ 611	\$ 618	\$ 629
Pro forma net income per share <sup>(3)</sup> :				
Historical	\$ 0.11	\$ 0.09	\$ 0.08	\$ 0.07
Pro forma income on net investable proceeds	0.03	0.03	0.03	0.03
Less: pro forma employee stock ownership plan adjustments <sup>(1)</sup>	(0.01)	(0.01)	(0.01)	(0.01)
Less: pro forma restricted stock award expense <sup>(2)</sup>	(0.01)	(0.01)	(0.01)	(0.01)
Less: pro forma stock option expense <sup>(4)</sup>	(0.01)	(0.01)	(0.01)	(0.01)
Pro forma net income per share	\$ 0.12	\$ 0.10	\$ 0.09	\$ 0.08
Offering price as a multiple of pro forma net income per share	20.83x 5,230,306	25.00x 6,153,301	27.78x 7,076,297	31.25x 8,137,741

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Number of shares used to calculate pro forma net income per share

(5)

### Pro Forma Stockholders Equity:

Pro forma stockholders equity (book value)<sup>(4)</sup>:

Historical	\$ 29,765	\$ 29,765	\$ 29,765	\$ 29,765
Estimated net proceeds	22,348	26,430	30,511	35,205
Plus: shares issued to the foundation	1,034	1,216	1,398	1,608
Less: after-tax cost of foundation shares	(682)	(803)	(923)	(1,061)
Less: after-tax cost of foundation cash	(165)	(165)	(165)	(165)
Less: capitalization of United Community MHC	(100)	(100)	(100)	(100)
Less: common stock acquired by employee stock ownership plan <sup>(1)</sup>	(2,132)	(2,509)	(2,885)	(3,318)
Less: common stock to be acquired by equity incentive plan <sup>(2)</sup>	(1,066)	(1,254)	(1,443)	(1,659)
<b>Pro forma stockholders equity</b>	<b>\$ 49,002</b>	<b>\$ 52,580</b>	<b>\$ 56,158</b>	<b>\$ 60,275</b>

Pro forma stockholders equity per share<sup>(4)</sup>:

Historical	\$ 5.47	\$ 4.65	\$ 4.04	\$ 3.52
Estimated net proceeds	4.11	4.13	4.15	4.16
Plus: shares issued to the foundation	0.19	0.19	0.19	0.19
Less: after-tax cost of foundation shares	(0.13)	(0.13)	(0.13)	(0.13)
Less: after-tax cost of foundation cash	(0.03)	(0.03)	(0.02)	(0.02)
Less: capitalization of United Community MHC	(0.02)	(0.02)	(0.01)	(0.01)
Less: common stock acquired by employee stock ownership plan <sup>(1)</sup>	(0.39)	(0.39)	(0.39)	(0.39)
Less: common stock to be acquired by equity incentive plan <sup>(2)</sup>	(0.20)	(0.20)	(0.20)	(0.20)
<b>Pro forma stockholders equity per share</b>	<b>\$ 9.00</b>	<b>\$ 8.20</b>	<b>\$ 7.63</b>	<b>\$ 7.12</b>

Offering price as a percentage of pro forma stockholders equity per share

	111.11%	121.95%	131.06%	140.45%
Number of shares used to calculate pro forma stockholders equity per share <sup>(5)</sup>	5,440,000	6,400,000	7,360,000	8,464,000

(footnotes on page 45)

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	Year Ended June 30, 2005			
	Minimum of Offering Range	Midpoint of Offering Range	Maximum of Offering Range	15% Above  Maximum of  Offering Range
	2,344,640 Shares at \$10.00 Per Share	2,758,400 Shares at \$10.00 Per Share	3,172,160 Shares at \$10.00 Per Share	3,647,984  Shares  at \$10.00 Per Share
	(Dollars in thousands, except per share amounts)			
Gross proceeds	\$ 23,446	\$ 27,584	\$ 31,722	\$ 36,480
Less: estimated offering expenses	(1,098)	(1,154)	(1,211)	(1,275)
Estimated net proceeds	22,348	26,430	30,511	35,205
Less: cash contribution to charitable foundation	(250)	(250)	(250)	(250)
Less: cash to United Community MHC	(100)	(100)	(100)	(100)
Less: common stock acquired by employee stock ownership plan <sup>(1)</sup>	(2,132)	(2,509)	(2,885)	(3,318)
Less: common stock to be acquired by equity incentive plan <sup>(2)</sup>	(1,066)	(1,254)	(1,443)	(1,659)
Net investable proceeds	\$ 18,800	\$ 22,317	\$ 25,833	\$ 29,878
<b>Pro Forma Net Income:</b>				
Pro forma net income <sup>(3)</sup> :				
Historical	\$ 2,045	\$ 2,045	\$ 2,045	\$ 2,045
Pro forma income on net investable proceeds	403	479	554	641
Less: pro forma employee stock ownership plan adjustments <sup>(1)</sup>	(94)	(110)	(127)	(146)
Less: pro forma restricted stock award expense <sup>(2)</sup>	(141)	(166)	(190)	(219)
Less: pro forma stock option expense <sup>(4)</sup>	(144)	(169)	(194)	(223)
Pro forma net income	\$ 2,069	\$ 2,079	\$ 2,088	\$ 2,098
Pro forma net income per share <sup>(3)</sup> :				
Historical	\$ 0.39	\$ 0.33	\$ 0.29	\$ 0.25
Pro forma income on net investable proceeds	0.08	0.08	0.08	0.08
Less: pro forma employee stock ownership plan adjustments <sup>(1)</sup>	(0.02)	(0.02)	(0.02)	(0.02)
Less: pro forma restricted stock award expense <sup>(2)</sup>	(0.03)	(0.03)	(0.03)	(0.03)
Less: pro forma stock option expense <sup>(4)</sup>	(0.03)	(0.03)	(0.03)	(0.03)
Pro forma net income per share	\$ 0.39	\$ 0.33	\$ 0.29	\$ 0.25
Offering price as a multiple of pro forma net income per share	25.64x	30.30x	34.48x	40.00x

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Number of shares used to calculate pro forma net income per share

	5,240,969	6,165,845	7,090,722	8,154,330
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### Pro Forma Stockholders Equity:

Pro forma stockholders equity (book value)<sup>(4)</sup>:

Historical	\$ 29,736	\$ 29,736	\$ 29,736	\$ 29,736
Estimated net proceeds	22,348	26,430	30,511	35,205
Plus: shares issued to the foundation	1,034	1,216	1,398	1,608
Less: after-tax cost of foundation shares	(682)	(803)	(923)	(1,061)
Less: after-tax cost of foundation cash	(165)	(165)	(165)	(165)
Less: capitalization of United Community MHC	(100)	(100)	(100)	(100)
Less: common stock acquired by employee stock ownership plan <sup>(1)</sup>	(2,132)	(2,509)	(2,885)	(3,318)
Less: common stock to be acquired by equity incentive plan <sup>(2)</sup>	(1,066)	(1,254)	(1,443)	(1,659)
<b>Pro forma stockholders equity</b>	<b>\$ 48,973</b>	<b>\$ 52,551</b>	<b>\$ 56,129</b>	<b>\$ 60,246</b>

Pro forma stockholders equity per share<sup>(4)</sup>:

Historical	\$ 5.47	\$ 4.65	\$ 4.04	\$ 3.51
Estimated net proceeds	4.11	4.13	4.15	4.16
Plus: shares issued to the foundation	0.19	0.19	0.19	0.19
Less: after-tax cost of foundation shares	(0.13)	(0.13)	(0.13)	(0.13)
Less: after-tax cost of foundation cash	(0.03)	(0.03)	(0.02)	(0.02)
Less: capitalization of United Community MHC	(0.02)	(0.02)	(0.01)	(0.01)
Less: common stock acquired by employee stock ownership plan <sup>(1)</sup>	(0.39)	(0.39)	(0.39)	(0.39)
Less: common stock to be acquired by equity incentive plan <sup>(2)</sup>	(0.20)	(0.20)	(0.20)	(0.20)
<b>Pro forma stockholders equity per share</b>	<b>\$ 9.00</b>	<b>\$ 8.20</b>	<b>\$ 7.63</b>	<b>\$ 7.11</b>

Offering price as a percentage of pro forma stockholders equity per share

	111.11%	121.95%	131.06%	140.65%
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Number of shares used to calculate pro forma stockholders equity per share<sup>(5)</sup>

	5,440,000	6,400,000	7,360,000	8,464,000
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*(footnotes on following page)*

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- (1) Assumes that the employee stock ownership plan will acquire a number of shares equal to 3.92% of the shares issued in the reorganization, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation (213,248, 250,880, 288,512 and 331,789 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively). The employee stock ownership plan will borrow the funds used to acquire these shares from the net proceeds from the reorganization retained by United Community Bancorp. The amount of this borrowing has been reflected as a reduction from gross proceeds to determine estimated net investable proceeds. This borrowing will have an interest rate equal to the prime rate as published in *The Wall Street Journal*, which is currently 7.5%, and a term of 15 years. United Community Bank intends to make contributions to the employee stock ownership plan in amounts at least equal to the principal and interest requirement of the debt. Interest income that United Community Bancorp will earn on the loan will offset the interest paid on the loan by United Community Bank. As the debt is paid down, shares will be released for allocation to participants accounts and stockholders equity will be increased.

The adjustment to pro forma net income for the employee stock ownership plan reflects the after-tax compensation expense associated with the plan. Applicable accounting principles require that compensation expense for the employee stock ownership plan be based upon shares committed to be released and that unallocated shares be excluded from earnings per share computations. An equal number of shares (1/15 of the total, based on a 15-year loan) will be released each year over the term of the loan. The valuation of shares committed to be released would be based upon the average market value of the shares during the year, which, for purposes of this calculation, was assumed to be equal to the \$10.00 per share purchase price. If the average market value per share is greater than \$10.00 per share, total employee stock ownership plan expense would be greater. See *Our Management Benefit Plans Employee Stock Ownership Plan*.

- (2) Assumes that United Community Bancorp will purchase in the open market a number of shares equal to 1.96% of the shares issued in the offering, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation (106,624, 125,440, 144,256 and 165,894 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively), that will be reissued as restricted stock awards under an equity incentive plan to be adopted following the reorganization. Repurchases will be funded with cash on hand at United Community Bancorp or with dividends paid to United Community Bancorp by United Community Bank. The cost of these shares has been reflected as a reduction from gross proceeds to determine estimated net investable proceeds. In calculating the pro forma effect of the restricted stock awards, it is assumed that the required stockholder approval has been received, that the shares used to fund the awards were acquired at the beginning of the respective period and that the shares were acquired at the \$10.00 per share purchase price. The issuance of authorized but unissued shares of the common stock instead of shares repurchased in the open market would dilute the ownership interests of existing stockholders, other than United Community MHC, by approximately 4.17%.

The adjustment to pro forma net income for the restricted stock awards reflects the after-tax compensation expense associated with the awards. It is assumed that the fair market value of a share of United Community Bancorp common stock was \$10.00 at the time the awards were made, that shares of restricted stock issued under the equity incentive plan vest 20.0% per year, that compensation expense is recognized on a straight-line basis over each vesting period so that 20.0% of the value of the shares awarded was an amortized expense during each year, and that the combined federal and state income tax rate was 34.0%. If the fair market value per share is greater than \$10.00 per share on the date shares are awarded under the equity incentive plan, total equity incentive plan expense would be greater.

- (3) Does not give effect to the non-recurring expense that will be recognized in fiscal 2006 as a result of the contribution of common stock to United Community Bank Charitable Foundation.

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The following table shows the estimated after-tax expense associated with the contribution to the foundation, as well as pro forma net income (loss) and pro forma net income (loss) per share assuming the contribution to the foundation was expensed during the periods presented.

	<b>Minimum of Offering Range</b>	<b>Midpoint of Offering Range</b>	<b>Maximum of Offering Range</b>	<b>15% Above Maximum of Offering Range</b>
(Dollars in thousands, except per share amounts)				
<b>After-tax expense of contribution to foundation:</b>				
Three months ended September 30, 2005	\$ 847	\$ 968	\$ 1,088	\$ 1,226
Year ended June 30, 2005	847	968	1,088	1,226
<b>Pro forma net income (loss):</b>				
Three months ended September 30, 2005	\$ (245)	\$ (357)	\$ (470)	\$ (597)
Year ended June 30, 2005	1,222	1,129	1,000	872
<b>Pro forma net income (loss) per share:</b>				
Three months ended September 30, 2005	\$ (0.05)	\$ (0.06)	\$ (0.07)	\$ (0.07)
Year ended June 30, 2005	0.23	0.18	0.14	0.11

The pro forma data assume that we will realize 100.0% of the income tax benefit as a result of the contribution to the foundation based on a 34.0% income tax rate. The realization of the tax benefit is limited annually to 10.0% of our annual taxable income. However, for federal and state tax purposes, we can carry forward any unused portion of the deduction for five years following the year in which the contribution is made.

- (4) The adjustment to pro forma net income for stock options reflects the after-tax compensation expense associated with the stock options that may be granted under the equity incentive plan to be adopted following the offering. If the equity incentive plan is approved by stockholders, a number of shares equal to 4.9% of the number of shares issued in the offering, including shares issued to United Community MHC and contributed to United Community Bank Charitable Foundation (266,560, 313,600, 360,640 and 414,736 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively), will be reserved for future issuance upon the exercise of stock options that may be granted under the plan. Using the Black-Scholes option-pricing formula, the options are assumed to have a value of \$4.08 per option based on the following assumptions: exercise price, \$10.00; trading price on date of grant, \$10.00; dividend yield, 0.0%; expected life, 10 years; expected volatility, 16.3%; and risk-free interest rate, 4.56%. Because there currently is no market for United Community Bancorp common stock, the assumed expected volatility is based on the SNL Financial MHC Index. The dividend yield is assumed to be 0.0% because there is no history of dividend payments and the board of directors has not expressed an intention to commence dividend payments upon completion of the offering. It is assumed that stock options granted under the equity incentive plan vest 20.0% per year, that compensation expense is recognized on a straight-line basis over each vesting period so that 20.0% of the value of the options awarded was an amortized expense during each year, that 25.0% of the options awarded are non-qualified options and that the combined federal and state income tax rate was 34.0%. If the fair market value per share is different than \$10.00 per share on the date options are awarded under the equity incentive plan, or if the assumptions used in the option-pricing formula are different from those used in preparing this pro forma data, the value of the stock options and the related expense would be different. Applicable accounting standards do not prescribe a specific valuation technique to be used to estimate the fair value of employee stock options. United Community Bancorp may use a valuation technique other than the Black-Scholes option-pricing formula and that technique may produce a different value. The issuance of authorized but unissued shares of common stock to satisfy option exercises instead of shares repurchased in the open market would dilute the ownership interests of existing stockholders, other than United Community MHC, by approximately 8.92%.
- (5) The number of shares used to calculate pro forma net income per share is equal to the total number of shares to be outstanding upon completion of the reorganization, less the number of shares purchased by the employee stock ownership plan not committed to be released within one year following the reorganization. The number of shares used to calculate pro forma stockholders' equity per share is equal to the total number of shares to be outstanding upon completion of the offering.



**Table of Contents****Comparison of Independent Valuation and Pro Forma Financial Information With and Without the Foundation**

As set forth in the following table, if we do not establish and fund United Community Bank Charitable Foundation as part of the offering, Keller & Company estimates that our pro forma valuation would be greater, which would have resulted in an increase in the amount of common stock offered for sale in the offering. If the foundation were not established, there is no assurance that the updated appraisal that Keller & Company will prepare at the closing of the offering would conclude that our pro forma market value would be the same as the estimate set forth in the table below. The updated appraisal will be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions.

The information presented in the following table is for comparative purposes only. It assumes that the offering was completed at September 30, 2005, based on the assumptions set forth under Pro Forma Data.

	At the Minimum		At the Midpoint		At the Maximum		At the Maximum,	
	of Estimated		of Estimated		of Estimated		as Adjusted,	
	Valuation Range		Valuation Range		Valuation Range		of Estimated	
	With	No	With	No	With	No	With	No
	Foundation	Foundation	Foundation	Foundation	Foundation	Foundation	Foundation	Foundation
(Dollars in thousands, except per share amounts)								
Estimated offering amount <sup>(1)</sup>	\$ 23,446	\$ 25,628	\$ 27,584	\$ 30,150	\$ 31,721	\$ 34,673	\$ 36,480	\$ 39,873
Pro forma market capitalization (excluding United Community MHC)	24,480	25,628	28,800	30,150	33,120	34,673	38,088	39,878
Estimated pro forma valuation	54,400	56,950	64,000	67,000	73,600	77,050	84,640	88,608
Pro forma total assets	340,465	342,460	343,982	346,330	347,498	350,200	351,543	354,650
Pro forma total liabilities	291,463	291,648	291,402	291,649	291,340	291,649	291,268	291,650
Pro forma stockholders equity	49,002	50,812	52,580	54,681	56,158	58,551	60,275	63,000
Pro forma net income	602	612	611	624	618	634	629	647
Pro forma stockholders equity per share	9.00	8.92	8.20	8.16	7.63	7.60	7.12	7.11
Pro forma net income per share	0.12	0.11	0.10	0.10	0.09	0.09	0.08	0.08
<b>Pro Forma Pricing Ratios:</b>								
Offering price as a percentage of pro forma stockholders equity	111.11%	112.11%	121.95%	122.55%	131.06%	131.58%	140.45%	140.65%
Offering price as a multiple of pro forma net income per share (annualized)	20.83	22.36	25.00	25.83	27.78	29.24	31.25	32.89
Offering price to assets	15.98	16.63	18.61	19.35	21.18	22.00	24.08	24.98

**Pro Forma Financial Ratios:**

Return on assets (annualized)	0.71%	0.71%	0.71%	0.72%	0.71%	0.72%	0.72%	0.73%
Return on stockholders equity (annualized)	4.91	4.82	4.65	4.56	4.40	4.33	4.17	4.11
Stockholders equity to total assets	14.39	14.84	15.29	15.79	16.16	16.72	17.15	17.76

<sup>(1)</sup> Based on independent valuation prepared by Keller & Company as of November 14, 2005.

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### **Our Business**

#### **General**

United Community Bancorp will be organized as a federal corporation upon completion of the reorganization. As a result of the reorganization, United Community Bank will be a wholly owned subsidiary of United Community Bancorp and United Community Bancorp will be a majority-owned subsidiary of United Community MHC. Upon completion of the reorganization, United Community Bancorp's business activities will be the ownership of the outstanding capital stock of United Community Bank and management of the investment of offering proceeds retained from the reorganization. Initially, United Community Bancorp will neither own nor lease any property but instead will use the premises, equipment and other property of United Community Bank with the payment of appropriate rental fees, as required by applicable law and regulations. In the future, United Community Bancorp may acquire or organize other operating subsidiaries; however, there are no current plans, arrangements, agreements or understandings, written or oral, to do so.

United Community Bank was created on April 12, 1999 through the merger of Perpetual Federal Savings and Loan Association, originally chartered in 1894, and Progressive Federal Savings Bank, originally chartered in 1914. Both institutions were headquartered in Lawrenceburg, Indiana, and operated as community-oriented financial institutions in the Lawrenceburg market area. At the time of our merger, we had approximately \$185.0 million in assets and \$166.0 million in deposits. At September 30, 2005, we have approximately \$321.3 million in assets and \$289.1 million in deposits.

United Community Bank provides customers with quality customer service combined with a full menu of banking services and products. Recent years have seen the expansion of services we offer from a traditional savings and loan product mix to one of a full-service financial institution servicing the needs of consumer and commercial customers. We give back to the communities we serve by assuming a role in community affairs, not only through monetary donations, but by asking our employees to also contribute their time by taking leadership roles in the many organizations dedicated to serving the community.

We operate as a community-oriented financial institution offering traditional financial services to consumers and businesses in our market areas. We attract deposits from the general public and local municipalities and use those funds to originate one- to four-family real estate, multi-family and nonresidential real estate and land, construction, commercial and consumer loans, which, with the exception of long-term fixed-rate one-to four-family real estate loans, we primarily hold for investment. We also maintain an investment portfolio. We offer non-deposit investment products through a third-party network arrangement with a registered broker-dealer.

Our website address is [www.bankucb.com](http://www.bankucb.com). Information on our website should not be considered a part of this prospectus.

#### **Market Areas**

We are headquartered in Lawrenceburg, Indiana, which is in the eastern part of Dearborn County, Indiana, along the Ohio River. The economy of the region in which our current offices are located, and planned future offices will be located, has historically been a mixture of light industrial enterprises and services. The economy in Lawrenceburg has been strong in recent years as a result of the opening of a riverboat casino in Lawrenceburg whose presence has led to new retail centers, job growth and an increase in housing development. Located 20 miles from Cincinnati, Ohio, Dearborn County has also benefitted from the growth in and around Cincinnati and Northern Kentucky, as many residents

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commute to these areas for employment.

Dearborn County's road system includes eight state highways and two U.S. highways. Interstate 275 enters Indiana near Lawrenceburg and offers easy connection to Interstate 71 and Interstate 75. At the northern end of the county, Interstate 74 connects us with Indianapolis to the northwest and Cincinnati to the east. Dearborn County is 20 minutes from the Greater Cincinnati/Northern Kentucky International Airport by way of Interstate 275. The county has four rail lines and port facilities due to the proximity of the Ohio River.

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Based on United States Census data, personal income per capita in 2000 for Dearborn County, Indiana, was approximately \$27,472 compared to \$26,933 for Indiana and \$29,469 for the entire United States. In addition, the population of Dearborn County was 46,000 compared to 6.1 million for Indiana.

## **Competition**

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions operating in our market areas and, to a lesser extent, from other financial service companies such as brokerage firms, credit unions and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2005, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held approximately 36.3% of the deposits in Dearborn County, which was the largest market share out of the nine financial institutions with offices in Dearborn County. In addition, banks owned by large out-of-state bank holding companies such as Wells Fargo & Company, Fifth Third Bancorp and U.S. Bancorp also operate in our market areas. These institutions are significantly larger than us and, therefore, have significantly greater resources.

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

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our future growth.

## **Lending Activities**

**General.** We originate loans primarily for investment purposes. The largest segment of our loan portfolio is one- to four-family residential real estate loans. The other significant segments of our loan portfolio are nonresidential real estate and land loans, multifamily residential real estate loans, residential loans and consumer loans.

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

While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans. Additionally, our current practice is

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generally to (i) sell in the secondary market newly originated conforming fixed-rate 15-, 20- and 30-year one- to four-family residential real estate loans, and (ii) to hold in our portfolio fixed-rate loans with 10-year terms or less and adjustable-rate loans. Occasionally, we have purchased loans and purchased participation interests in loans originated by other institutions to supplement our origination efforts.

Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that ranges from one to 10 years. Interest rates and payments on these adjustable-rate loans generally are based on the one-year constant maturity Treasury index (three-year constant maturity Treasury index in the case of three-year adjustable-rate loans) as published by the Federal Reserve in Statistical Release H.15. The maximum amount by which the interest rate may be increased is generally two percentage points per adjustment period and the lifetime interest rate cap ranges from five to six percentage points over the initial interest rate of the loan. Our adjustable-rate residential mortgage loans generally do not provide for a decrease in the rate paid below the initial contract rate. The inability of our residential real estate loans to adjust downward below the initial contract rate can contribute to increased income in periods of declining interest rates, and also assists us in our efforts to limit the risks to earnings and equity value resulting from changes in interest rates, subject to the risk that borrowers may refinance these loans during periods of declining interest rates.

We generally do not make conventional loans with loan-to-value ratios exceeding 95% at the time the loan is originated. Private mortgage insurance is generally required for all fixed-rate loans with loan-to-value ratios in excess of 80%, and all adjustable-rate loans with loan-to-value ratios exceeding 85%. We require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We generally require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, and flood insurance for loans on properties located in a flood zone, before closing the loan.

In an effort to provide financing for low- and moderate-income and first-time buyers, we offer a special home buyers program. We offer residential mortgage loans through this program to qualified individuals and originate the loans using reduced interest rates, fees and loan conditions.

***Multi-Family Real Estate Loans.*** We offer adjustable-rate mortgage loans secured by multi-family real estate. Our multi-family real estate loans are generally secured by apartment buildings. We also make multi-family real estate loans secured by apartment buildings outside of our primary market area to existing customers who reside in our primary market area. We intend to continue to grow this segment of our loan portfolio.

These loans are typically repaid or the term extended before maturity, in which case a new rate is negotiated to meet market conditions and an extension of the loan is executed for a new term with a new amortization schedule. We originate adjustable-rate multi-family real estate loans with terms up to 30 years. Interest rates and payments on most of these loans typically adjust annually after an initial fixed term of five or seven years. Interest rates and payments on our adjustable-rate loans generally are based on the prime interest rate. The maximum amount by which the interest rate may be increased is generally two percentage points per adjustment period and the lifetime interest rate cap is six percentage points over the initial interest rate of the loan (five percentage points for loans with three-year terms). Loans are secured by first mortgages that generally do not exceed 80% of the property's appraised value. When the borrower is a corporation, partnership or other entity, we generally require that significant equity holders serve as co-borrowers on the loan, or, to a lesser extent, serve as a personal guarantor of the loan.

Loans secured by multi-family real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than one- to four-family residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors of loan relationships totaling more than \$1.0 million, in the aggregate, to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family real estate loan, we consider the net operating income of the property, the borrower's expertise, credit

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history and profitability and the value of the underlying property. In addition, with respect to rental properties, we will also consider the term of the lease and the credit quality of the tenants. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x.

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At September 30, 2005, the largest outstanding multi-family real estate loan had an outstanding balance of \$2.2 million and is secured by an apartment building located in Northern Kentucky. This loan was performing according to its original terms at September 30, 2005.

**Nonresidential Real Estate and Land Loans.** We offer adjustable-rate mortgage loans secured by nonresidential real estate. Our nonresidential real estate loans are generally secured by commercial buildings. We intend to continue to grow this segment of our loan portfolio. These loans are typically repaid or the term extended before maturity, in which case a new rate is negotiated to meet market conditions and an extension of the loan is executed for a new term with a new amortization schedule. We originate adjustable-rate nonresidential real estate loans with terms up to 30 years. Interest rates and payments on most of these loans typically adjust annually after an initial fixed term of five or seven years. Interest rates and payments on these loans generally are based on the prime interest rate. The maximum amount by which the interest rate may be increased is generally two percentage points per adjustment period and the lifetime interest rate cap is six percentage points over the initial interest rate of the loan (five percentage points for loans with three-year terms). Loans are secured by first mortgages that generally do not exceed 80% of the property's appraised value (75% for land only loans). When the borrower is a corporation, partnership or other entity, we generally require that significant equity holders serve as co-borrowers or as personal guarantors of the loan.

Loans secured by nonresidential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than one- to four-family residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors of loan relationships totaling more than \$1.0 million, in the aggregate, to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a nonresidential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. In addition, with respect to rental properties, we will also consider the term of the lease and the credit quality of the tenants. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental surveys and inspections are generally required for loans over \$500,000.

We also originate loans secured by unimproved property, including lots for single family homes and for mobile homes, raw land, commercial property and agricultural property. The terms and rates of our land loans are the same as our nonresidential and multifamily real estate loans. Loans secured by undeveloped land or improved lots generally involve greater risks than residential mortgage lending because land loans are more difficult to evaluate. If the estimate of value proves to be inaccurate, in the event of default and foreclosure, we may be confronted with a property the value of which is insufficient to assure full repayment. Loan amounts generally do not exceed 80% of the lesser of the appraised value or the purchase price.

At September 30, 2005, we had \$49.5 million in nonresidential real estate loans outstanding, or 24.0% of total loans, and \$9.7 million in land loans outstanding, or 4.6% of total loans.

At September 30, 2005, the largest outstanding nonresidential real estate loan had an outstanding balance of \$2.9 million. This loan is a participation loan in which we have a 4.3% interest. This loan is secured by truck terminals located in 26 states across the United States and was performing according to its original terms at September 30, 2005. At September 30, 2005, our largest land loan, which was performing according to its original terms at that date, was for \$1.5 million and was secured by a mobile home park.

**Construction Loans.** We originate fixed-rate and adjustable-rate loans to individuals and, to a lesser extent, builders to finance the construction of residential dwellings. We also make construction loans for commercial development projects, including apartment buildings, restaurants, shopping centers and owner-occupied



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properties used for businesses. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually nine months for residential properties and 12 months for commercial properties. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Loans generally can be made with a maximum loan to value ratio of 95% on residential construction and 80% on commercial construction at the time the loan is originated. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also will require an inspection of the property before disbursement of funds during the term of the construction loan.

At September 30, 2005, our largest outstanding residential construction loan was for \$440,000, of which \$283,000 was outstanding. At September 30, 2005, our largest outstanding commercial construction loan was for \$500,000, of which \$167,000 was outstanding. This loan is secured by a medical professional building. These loans were performing in accordance with their original terms at September 30, 2005.

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

We originate secured and unsecured commercial lines of credit to finance the working capital needs of businesses to be repaid by seasonal cash flows or to provide a period of time during which the business can borrow funds for planned equipment purchases. Secured commercial lines of credit secured by nonresidential real estate are adjustable-rate loans and whose rates are based on the prime interest rate and adjust monthly. Commercial lines of credit secured by nonresidential real estate have a maximum term of five years and a maximum loan-to-value ratio of 80% of the pledged collateral when the collateral is commercial real estate. We also originate commercial lines of credit secured by marketable securities and unsecured lines of credit. These lines of credit, as well as certain commercial lines of credit secured by nonresidential real estate, require that only interest be paid on a monthly or quarterly basis and have a maximum term of five years.

We also originate secured and unsecured commercial loans. Secured commercial loans are generally collateralized by nonresidential real estate, marketable securities, accounts receivable, inventory, industrial/commercial machinery and equipment and furniture and fixtures. We originate both fixed-rate and adjustable-rate commercial loans with terms up to 20 years for secured loans and up to five years for unsecured loans. Adjustable-rate loans are based on prime and adjust either monthly or annually. Where the borrower is a corporation, partnership or other entity, we generally require significant equity holders to be co-borrowers and in cases where they are not co-borrowers we require personal guarantees from significant equity holders.

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

At September 30, 2005, our largest commercial loan was a \$649,000 loan secured by the assets of a local privately owned utility company. This loan was performing in accordance with its original terms at September 30, 2005.

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

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

We generally offer home equity loans and lines of credit with a maximum combined loan to value ratio of 90%. Home equity lines of credit have adjustable-rates of interest that are based on the prime interest rate. Home

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equity lines of credit generally require that only interest be paid on a monthly basis and have terms up to 20 years. Interest rates on these loans typically adjust monthly. We offer fixed-rate and adjustable-rate home equity loans. Home equity loans with fixed-rates have terms that range from one to 15 years. Home equity loans with adjustable-rates have terms that range from 16 to 30 years. Interest rates on these loans are based on the prime interest rate. We hold a first mortgage position on most of the homes that secure our home equity loans and home equity lines of credit.

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

We offer loans secured by new and used boats, motor homes, campers and motorcycles. We offer fixed and adjustable-rate loans for new motor homes and boats with terms up to 20 years for adjustable-rate loans and up to 10 years for fixed-rate loans. We offer fixed-rate loans for all other new and used recreational vehicles with terms up to 10 years for campers and five years for motorcycles.

We offer secured consumer loans with fixed interest rates and terms up to 10 years and secured lines of credit with adjustable-rates based on the prime rate with terms up to five years. We also offer fixed-rate unsecured consumer loans and lines of credit with terms up to five years. For more information on our loan commitments, see *Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Liquidity Management*.

## **Loan Underwriting Risks**

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

**Multi-Family and Nonresidential Real Estate and Land Loans.** Loans secured by multi-family and nonresidential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors of loan relationships totaling more than \$1.0 million, in the aggregate, to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family and nonresidential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental surveys and inspections are obtained when circumstances suggest the possibility of the presence of hazardous materials.

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

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the

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estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

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

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

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

We generally originate loans for our portfolio but our current practice is to sell to the secondary market almost all newly originated conforming fixed-rate, 15-, 20- and 30-year one- to four-family residential real estate loans and to hold in our portfolio fixed-rate loans with 10-year terms or less and adjustable-rate loans. Our decision to sell loans is based on prevailing market interest rate conditions and interest rate risk management. Generally, loans are sold to Freddie Mac with servicing retained.

**Loan Approval Procedures and Authority.** Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. The board has granted the Management Mortgage Loan Committee (comprised of the President, Executive Vice President and the Senior Vice President, Lending) with loan approval authority for mortgage loans up to \$100,000 and to the Board Loan Committee up to \$1 million.

The board has granted authority to approve consumer loans to certain employees up to prescribed limits, depending on the officer's experience and tenure. The board also granted loan approval authority to the Management Consumer Loan Committee, consisting of the President and the Executive Vice President, the Senior Vice President, Lending and the Vice President, Consumer Lending. Any two members of the committee may approve consumer loans secured by real estate up to \$250,000, consumer loans secured by assets other than real estate up to \$100,000 and unsecured consumer loans up to \$50,000. The board of directors has also granted loan approval authority to the Management Commercial Loan Committee, consisting of the President, the Executive Vice President, the Senior Vice President, Lending and the Senior Vice President, Investments Officer and Commercial Lending Officer. Any two members of the committee may approve commercial loans secured by real estate up to \$250,000, commercial loans secured by assets other than real estate up to \$50,000 and unsecured commercial loans up to \$25,000. A majority of the Management Commercial Loan Committee may approve commercial loans secured by real estate up to \$500,000, commercial

loans secured by assets other than real estate up to \$100,000 and unsecured commercial loans up to \$50,000.

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The Board Loan Committee, consisting of the President, the Executive Vice President and five to six other members of the board, may approve consumer and commercial loans secured by real estate up to \$1,000,000, consumer and commercial loans secured by assets other than real estate up to \$300,000 and unsecured consumer commercial loans up to \$100,000.

All loans in excess of these limits must be approved by the full board of directors.

***Loans to One Borrower.*** The maximum amount that we may lend to one borrower and the borrower's related entities generally is limited, by regulation, to 15% of our stated capital and reserves. At September 30, 2005, our general regulatory limit on loans to one borrower was \$4.5 million. On September 30, 2005, our largest lending relationship was a \$4.3 million commercial real estate loan relationship. The loans that comprise this relationship were performing according to their original terms at September 30, 2005.

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

## **Investment Activities**

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and municipal governments, deposits at the Federal Home Loan Bank of Indianapolis and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in mutual funds. We also are required to maintain an investment in Federal Home Loan Bank of Indianapolis stock. While we have the authority under applicable law to invest in derivative securities, our investment policy does not permit this investment. We had no investments in derivative securities at September 30, 2005.

At September 30, 2005, our investment portfolio totaled \$80.6 million and consisted primarily of U.S. Government sponsored entity securities and mortgage-backed securities issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, securities of municipal governments, corporate debt securities and mutual funds that invest in adjustable-rate mortgages and U.S. Treasury obligations.

At September 30, 2005, \$27.5 million of our investment portfolio consisted of callable securities. These securities contain either a one-time call option or may be called anytime during the life of the security. We face reinvestment risk with callable securities, particularly during periods of falling market interest rates when issuers of callable securities tend to call or redeem their securities. Reinvestment risk is the risk that we may have to reinvest the proceeds from called securities at lower rates of return than the rates paid on the called securities.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. The Investment Committee is responsible for the implementation of the investment policy. The Management Investment Committee, consisting of the President and Chief Executive Officer, the Chief Operating Officer and the Senior Vice President, Investment Officer, is responsible for monitoring our investment performance. Individual investment transactions, portfolio composition and performance are reviewed by our board of directors monthly.

**Deposit Activities and Other Sources of Funds**

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

**Deposit Accounts.** Substantially all of our depositors are residents of the State of Indiana. We attract deposits in our market area through advertising and through our website. We offer a broad selection of deposit instruments, including noninterest-bearing demand accounts (such as checking accounts), interest-bearing accounts

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(such as NOW and money market accounts), regular savings accounts and certificates of deposit. Municipal deposits comprise a substantial portion of our total deposits. At September 30, 2005, \$139.2 million, or 48.1% of our total deposits, were municipal deposits. At September 30, 2005, we did not utilize brokered deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates and to be in the middle of the market for rates on all types of deposit products.

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

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The following table sets forth certain information relating to our properties as of September 30, 2005.

<u>Location</u>	<u>Year Opened</u>	<u>Owned/ Leased</u>	<u>Date of Lease Expiration</u>	<u>Net Book Value as of September 30, 2005</u>
				<u>(In thousands)</u>
<b>Main Office:</b>				
92 Walnut Street	2004	Owned		\$ 1,968
Lawrenceburg, Indiana 47025				
<b>Full-Service Branches:</b>				
215 W. Eads Parkway	1914	Owned		896
Lawrenceburg, Indiana 47025				
19710 Stateline Road	2000	Owned		775
Lawrenceburg, Indiana 47025				
447 Bielby Road	1999	Leased	1/2008	27
Lawrenceburg, Indiana 47025				
<b>Other Office:</b>				
(Temporary Branch Office) <sup>(1)</sup>	2005	Leased	5/2006	
513 Green Blvd, Unit #2				
Aurora, Indiana 47001				
<b>Other Properties:</b>				
(Future Site of Aurora Branch Office)	Expected 2006	Owned <sup>(2)</sup>		1,201
Corner of Sunnyside Avenue & U.S. 50				
Aurora, Indiana 47001				
(Future Site of St. Leon Branch Office)	Expected 2006	Owned <sup>(2)</sup>		269
State Route 1				
St. Leon, Indiana 47012				
(Future Site of Milan Branch Office)	Expected 2007	Owned <sup>(2)</sup>		135
Corner of State Route 350 & State Route 101				
Milan, Indiana 47031				

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- (1) Branch is temporarily housed in a modular facility until a permanent building is constructed.
- (2) Land only.

In 2003, we purchased the oldest three-story brick building in the State of Indiana, renovated it and moved our headquarters there in 2004. In addition to our main office, we operate from three additional locations in Lawrenceburg, Indiana. In the beginning of 2004, our Board of Directors made the strategic decision to expand into other select markets in Dearborn County, Indiana, and adjacent Ripley County, Indiana. In April 2004, we purchased land in Aurora and St. Leon, Indiana, and in May 2004 purchased land in Milan, Indiana (Ripley County), each for the purpose of opening a full-service branch office. We opened a limited-service branch office in a temporary facility across the street from the Aurora property in August 2005 and we are in the process of building a permanent full-service facility for the Aurora branch on the Aurora property. We expect the Aurora full-service branch office to be completed in June 2006. In addition, we intend to build and open a full-service branch office on the St. Leon, Indiana, property, which we also expect will be completed in June 2006. In addition, we expect to open a full-service branch office on the Milan, Indiana, property in 2007.

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### **Personnel**

As of September 30, 2005, we had 65 full-time employees and eight part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

### **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 a 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.

### **Subsidiaries**

United Community Bank's only active subsidiary is United Community Bank Financial Services, Inc. United Community Bank Financial Services, Inc. receives commissions from the sale of non-deposit investment and insurance products.

## **Management's Discussion and Analysis of**

## **Financial Condition and Results of Operations**

The objective of this section is to help potential investors understand our results of operations and financial condition. You should read this discussion in conjunction with the financial statements and notes to the financial statements that appear at the end of this prospectus.

### **Overview**

**Income.** Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and securities, and interest expense, which is the interest that we pay on our deposits and Federal Home Loan Bank borrowings. Other significant sources of pre-tax income are service charges on deposit accounts and other loan fees. In addition, in February 2003 we entered into a contract with a non-affiliated registered broker dealer, Lincoln Financial Advisors, that allows us to provide non-deposit investment products and services to our community. Fee income related to this arrangement amounted to \$9,000 for the three months ended September 30, 2005 and \$51,000 and \$16,000 for the years ended June 30, 2005 and 2004, respectively. We also recognize income or losses from the sale of investments in years that we have such sales.

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**Allowance for Loan Losses.** The allowance for loan losses is a valuation allowance for probable credit losses inherent in the loan portfolio. The allowance is established through the provision for loan losses, which is charged to income. Charge-offs, if any, are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and value of the portfolio, information about specific borrower situations, and estimated collateral values, economic conditions, and other factors. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

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

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Salaries and employee benefits consist primarily of salaries and wages paid to our employees, payroll taxes and expenses for health insurance and other employee benefits. Following the offering, we will recognize additional annual employee compensation expenses stemming from the adoption of new stock-based benefit plans. We cannot determine the actual amount of these new stock-related compensation and benefit expenses at this time because applicable accounting practices require that they be based on the fair market value of the shares of common stock at specific points in the future. For an illustration of these expenses, see *Pro Forma Data*.

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

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

Regulatory fees and deposit insurance premiums are primarily payments we make to the Federal Deposit Insurance Corporation for insurance of our deposit accounts.

Other expenses include expenses for supplies, telephone and postage, data processing, contributions and donations, director and committee fees, insurance and surety bond premiums and other fees and expenses.

Following the offering, our noninterest expenses are likely to increase as a result of operating as a public company. These additional expenses will be primarily legal and accounting fees, expenses necessary to comply with the internal control over financial reporting provisions of the Sarbanes-Oxley Act and expenses related to stockholder communications and meetings.

We also expect that noninterest expenses will increase as a result of our strategy to expand our branch network. These additional expenses will be primarily salaries and employee benefits and occupancy and equipment expenses. Over time, we anticipate that we will generate sufficient income to offset the expenses related to our new facilities and new employees, but we cannot assure you that our branch expansion will increase our earnings or that it will increase our earnings within a reasonable period of time.

In addition, our contribution to the charitable foundation will be an additional operating expense that will reduce net income during the fiscal quarter in which the foundation is established and, as a result, we expect to record a loss in the third quarter of fiscal 2006.

## **Critical Accounting Policies**

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: allowance for loan losses and 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; value of collateral; and determination of loss factors to be applied to the various elements of the 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 Thrift Supervision, as an integral part of its examination process, periodically

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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 note 1 of the notes to the consolidated financial statements included in this prospectus.

***Deferred Income Taxes.*** We use the asset and liability method of accounting for income taxes as prescribed in Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. 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.

## **Operating Strategy**

Our mission is to operate and grow a profitable, independent community-oriented financial institution serving primarily retail customers and small businesses in our market areas. After the reorganization, we plan to continue our strategy of:

expanding our branch network and upgrading our existing branches;

pursuing opportunities to increase and diversify our loan portfolio in our expanding market areas;

increasing core deposits through the expansion of our branch network and new deposit products;

continuing to increase our sale of non-deposit investment products and services; and

applying disciplined underwriting practices to maintain the high quality of our loan portfolio.

### ***Expanding our branch network and upgrading our existing branches***

Since our merger in 1999, we have opened two new branches and are leasing a third new temporary modular branch in Aurora, Indiana, until the permanent branch construction is complete in June 2006. In addition to these branches, we have acquired two more branch sites and intend to have a branch open in St. Leon, Indiana, in June 2006 and one in Milan, Indiana, open in 2007. We expect the total cost of the land and construction for the new Aurora location to be approximately \$1.8 million, of which approximately \$1.2 million had been incurred at September 30, 2005. We have entered into an agreement to lease part of the Aurora property for \$88,000 per year until March 2008, when the lessee will purchase that portion of the Aurora property for \$750,000. We expect the total cost of the land and construction for the new St. Leon location to be approximately \$1.0 million, of which \$250,000 had been incurred at September 30, 2005. We purchased the site in Milan for a

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cost of \$135,000 and expect the total cost, including improvements, to be approximately \$750,000.

In connection with the addition of three new branches to our branch network, we expect to need to hire approximately 20 new employees to support our expanded infrastructure, eight of whom have been hired through September 30, 2005.

The new branches have been and are expected to continue to be, funded by cash generated by our business. Consequently, we do not expect to borrow funds for these expansion projects. Furthermore, funding for these expansion projects is not contingent on this offering. We may continue to upgrade our current branch facilities and

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may pursue further expansion in Southeastern Indiana, Northern Kentucky or Southwest Ohio in future years through de novo branching, branch acquisitions and acquisitions of other financial institutions. See *Risk Factors Risks Related to Our Business If we do not achieve profitability on new branches, the new branches may hurt our earnings.*

### ***Pursuing opportunities to increase and diversify our lending portfolio in our expanding market areas***

In recent years we have sought to diversify our loan portfolio beyond residential mortgage loans. In particular, since June 30, 2003, our multi-family and nonresidential real estate, commercial business and construction loan portfolio has increased \$42.2 million, or 109.6%, and at September 30, 2005 was 38.5% of our total loan portfolio. During this period, we have taken advantage of the significant growth in both residential and nonresidential real estate development in our market and have originated loans in other market areas. With the additional capital raised in the offering, we expect to continue to expand all of our lending activities and, in particular, intend to continue to pursue the larger lending relationships associated with multi-family and nonresidential real estate and construction lending opportunities. We expect that our loan portfolio, including our multi-family and nonresidential real estate, commercial business and construction loan portfolio, will continue to increase. For a discussion of the risks related to our commercial and construction loan portfolio, see *Risk Factors Risks Related to Our Business Our increased emphasis on multi-family residential and nonresidential real estate and land lending may expose us to increased lending risk* and *Our Business Lending Activities Loan Underwriting Risks.*

### ***Increasing core deposits through the expansion of our branch network and new deposit products***

Historically, retail deposits are our primary source of funds for investing and lending. However, in recent years, we have increased our reliance on municipal deposits significantly. These municipal deposits represent tax and other revenues from the local gaming industry. Currently, our core deposits, which include all deposit account types except certificates of deposit and municipal deposits. Core deposits are generally lower cost to us than certificate of deposit accounts, and they are generally less sensitive to withdrawal when interest rates fluctuate. At September 30, 2005, core deposits represented 15.7% of our total deposits. We believe that our expanding branch network and offering new deposit and savings products will contribute to increasing core deposits.

### ***Continuing to increase noninterest income***

Our profits rely heavily on the spread between the interest earned on loans and securities and interest paid on deposits and Federal Home Loan Bank borrowings. In order to decrease our reliance on interest rate spread income, we have pursued initiatives to increase noninterest income. Our primary recurring source of noninterest income has been services charges on deposit products and other services. In addition, we now offer non-deposit investment products through a third party registered broker-dealer, Lincoln Financial Advisors. In connection with our expanding branch network, we intend to continue to increase our sale of non-deposit investment products and expect to increase service charge income.

### ***Applying disciplined underwriting practices to maintain the high quality of our loan portfolio***

We believe that high asset quality is a key to long-term financial success. We have sought to grow and diversify the loan portfolio, while maintaining a high level of asset quality and moderate credit risk, using underwriting standards that we believe are conservative, and diligent monitoring and collection efforts. At June 30, 2005 and September 30, 2005, our nonperforming loans (nonaccrual loans and accruing loans which are 90 or more days delinquent) were 0.72% and 0.73% of our total loan portfolio, respectively. Although we intend to continue our

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efforts to originate multi-family and nonresidential real estate, commercial business and construction loans after the reorganization, we intend to continue our philosophy of managing large loan exposure through our conservative approach to lending.

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### **Balance Sheet Analysis**

**Loans.** Our primary lending activity is the origination of loans secured by real estate. We originate one- to four-family residential loans, multi-family and nonresidential real estate loans and construction loans. To a lesser extent, we originate commercial and consumer loans.

The largest segment of our loan portfolio is one- to four-family residential loans. At September 30, 2005, these loans totaled \$111.5 million, or 53.1% of total gross loans. At June 30, 2005, these loans totaled \$109.3 million, or 53.2% of total loans, compared to \$107.6 million, or 58.9% of total loans, at June 30, 2004 and \$99.0 million, or 66.9% of total loans, at June 30, 2003. The size of our one- to four-family residential loan portfolio has increased over this period as new originations outpaced payoffs during the recent refinancing boom. As a percentage of the total loan portfolio, one- to four-family residential loans have decreased as we grew other segments of the portfolio.

Multi-family and nonresidential real estate loans totaled \$72.5 million and represented 34.5% of total loans at September 30, 2005. At June 30, 2005, these loans totaled \$72.5 million, or 35.2% of total loans, compared to \$59.2 million, or 32.4% of total loans, at June 30, 2004 and \$34.8 million, or 23.5% of total loans, at June 30, 2003. Our multi-family and nonresidential real estate loan portfolio increased over the period as a result of our efforts to diversify our total loan portfolio.

Construction loans totaled \$4.4 million, or 2.1% of total loans, at September 30, 2005. At June 30, 2005, these loans totaled \$5.9 million, or 2.9% of total loans, compared to \$1.2 million, or 0.6% of total loans, at June 30, 2004 and \$1.6 million, or 1.1% of total loans, at June 30, 2003. Our construction loan portfolio decreased in the third quarter of 2005 primarily as a result of large construction loans converting to amortizing loans. Between June 30, 2004, and June 30, 2005, the portfolio increased by \$4.7 million as a result of the origination of several large construction loans.

Commercial business loans totaled \$3.9 million, or 1.8% of total loans, at September 30, 2005. At June 30, 2005, these loans totaled \$5.0 million, or 2.4% of total loans, compared to \$2.1 million, or 1.1% of total loans, at June 30, 2004 and \$2.1 million, or 1.4% of total loans, at June 30, 2003. Commercial business loans decreased \$1.1 million, or 22.9%, in the quarter ended September 30, 2005 as a result of the payoff of a sizeable commercial business loan and increased \$2.9 million, or 140.1%, in the year ended June 30, 2005 as a result of our efforts to increase our commercial business loan portfolio.

Consumer loans totaled \$17.6 million, or 8.5% of total loans, at September 30, 2005. At June 30, 2005, these loans totaled \$12.8 million, or 6.2% of total loans, compared to \$12.6 million, or 6.9% of total loans, at June 30, 2004 and \$10.5 million, or 7.1% of total loans, at June 30, 2003. Growth in the consumer loan portfolio for the three months ended September 30, 2005 is primarily attributable to an advertising campaign to promote such loans.

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

	At		At June 30,									
	September 30,		2005		2004		2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)												
Residential real estate:												
One- to four-family	\$ 111,503	53.1%	\$ 109,325	53.2%	\$ 107,589	58.9%	\$ 98,990	66.9%	\$ 113,631	69.7%	\$ 123,364	74.5%
Multi-family	13,268	6.3	13,194	6.4	10,932	6.0	4,449	3.0	5,183	3.2	2,760	1.7
Total residential real estate loans	124,771	59.4	122,519	59.6	118,521	64.9	103,439	69.9	118,814	72.1	126,124	76.2
Construction Nonresidential real estate and land	4,365	2.1	5,899	2.9	1,186	0.6	1,596	1.1	4,351	2.7	1,970	1.2
Commercial business	59,217 <sup>(1)</sup>	28.2	59,263	28.8	48,237	26.4	30,310	20.5	27,396	16.8	24,314	14.7
Consumer:												
Home equity	3,852	1.8	4,996	2.4	2,074	1.1	2,141	1.4	2,067	1.3	2,233	1.4
Auto	11,420	5.5	9,205	4.5	5,268	2.9	4,441	3.0	4,364	2.7	4,989	3.0
Share loans	2,074	1.0	2,161	1.1	2,837	1.6	3,039	2.1	2,977	1.8	3,133	1.9
Other	1,028	0.5	861	0.4	2,495	1.4	796	0.5	843	0.5	810	0.4
	3,087	1.5	610	0.3	1,975	1.1	2,227	1.5	2,123	1.3	1,956	1.2
Total consumer loans	17,609	8.5	12,837	6.2	12,563	6.9	10,503	7.1	10,307	6.3	10,888	6.5
Total loans	\$ 209,814	100.0%	\$ 205,514	100.0%	\$ 182,581	100.0%	\$ 147,989	100.0%	\$ 162,935	100.0%	\$ 165,529	100.0%
Less (Plus):												
Deferred loan fees (costs)	(216)		(173)		(113)		(147)		(119)			
Undisbursed portion of loans in process	1,714		2,543		1,887		899		1,965		2,309	
Allowance for loan losses	2,294		2,266		1,550		1,484		974		1,091	
Loans, net	\$ 206,022		\$ 200,878		\$ 179,257		\$ 145,753		\$ 160,115		\$ 162,129	

<sup>(1)</sup> Includes construction loans secured by commercial properties totaling \$2.1 million.

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The following table sets forth certain information at September 30, 2005 and June 30, 2005 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 that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	<b>One- to Four-Family Real Estate Loans</b>	<b>Multi-family Real Estate Loans</b>	<b>Construction Loans</b>	<b>Non- residential Real Estate and Land Loans</b>	<b>Consumer and Commercial Business Loans</b>	<b>Total Loans</b>
(In thousands)						
<b>At September 30, 2005</b>						
Amounts due in:						
One year or less	\$ 37,207	\$ 1,285	\$ 3,730	\$ 12,777	\$ 16,299	\$ 71,298
More than one year to five years	33,892	5,500	358	32,135	3,421	75,306
More than five years	40,404	6,483	277	14,305	1,741	63,210
<b>Total</b>	<b>\$ 111,503</b>	<b>\$ 13,268</b>	<b>\$ 4,365</b>	<b>\$ 59,217</b>	<b>\$ 21,461</b>	<b>\$ 209,814</b>
<b>At June 30, 2005</b>						
Amounts due in:						
One year or less	\$ 35,324	\$ 1,671	\$ 5,361	\$ 13,260	\$ 13,388	\$ 69,004
More than one year to five years	36,061	5,388	436	31,811	3,187	76,883
More than five years	37,940	6,135	102	14,192	1,258	59,627
<b>Total</b>	<b>\$ 109,325</b>	<b>\$ 13,194</b>	<b>\$ 5,899</b>	<b>\$ 59,263</b>	<b>\$ 17,833</b>	<b>\$ 205,514</b>

The following table sets forth the dollar amount of all loans at September 30, 2005 and June 30, 2005 that have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan fees.

	<b>Fixed-Rates</b>	<b>Floating or Adjustable-Rates</b>	<b>Total</b>
(In thousands)			
<b>September 30, 2005</b>			
Residential real estate:			
One- to four-family	\$ 32,665	\$ 78,838	\$ 111,503
Multi-family	13,268		13,268
Construction	190	4,175	4,365
Nonresidential real estate and land	10,300	48,917	59,217
Consumer and commercial business	5,915	15,546	21,461
<b>Total</b>	<b>\$ 62,338</b>	<b>\$ 147,476</b>	<b>\$ 209,814</b>

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**June 30, 2005**

Residential real estate:

One- to four-family	\$ 31,368	\$ 77,957	\$ 109,325
Multi-family	13,043	151	13,194
Construction	1,598	4,301	5,899
Nonresidential real estate and land	7,210	52,053	59,263
Consumer and commercial busines	5,799	12,034	17,833

Total