UNITED COMMUNITY FINANCIAL CORP
Form 10-K
March 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

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

Commission File Number: 0-024399

UNITED COMMUNITY FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Ohio | 34-1856319 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification Number) |
| 275 West Federal Street, Youngstown, Ohio | 44503 |
| (Address of principal executive offices) | (Zip Code) |

Registrant’s telephone number: (330) 742-0500

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

| Common shares, no par value per share | Nasdaq Global Market |
| --- | --- |
| (Title of Class) | (Name of each exchange on which registered) |

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

None

(Title of Class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this 10-K.

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

| Large accelerated filer | Accelerated filer | Non-accelerated filer | Small reporting company |
| --- | --- | --- | --- |
| | | | Emerging growth company |

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the last reported sale on June 30, 2017 was approximately $400.3 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of March 9, 2018, there were 49,866,491 of the Registrant's Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K - Portions of the Proxy Statement for the 2018 Annual Meeting of Shareholders

---

TABLE OF CONTENTS


| Item Number | | Page |
|---|---|---|
| | PART I | |
| 1. | Business | |
| | General | 1 |
| | Discussion of Forward-Looking Statements | 1 |
| | Lending Activities | 3 |
| | Investment Activities | 12 |
| | Sources of Funds | 13 |
| | Competition | 15 |
| | Employees | 15 |
| | Regulation | 16 |
| 1A. | Risk Factors | 21 |
| 1B. | Unresolved Staff Comments | 27 |
| 2. | Properties | 27 |
| 3. | Legal Proceedings | 27 |
| 4. | Mine Safety Disclosures | 27 |
| | PART II | |
| 5. | Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities | 28 |
| 6. | Selected Financial Data | 29 |
| 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 32 |
| 7A. | Quantitative and Qualitative Disclosures About Market Risk | 43 |
| 8. | Financial Statements and Supplementary Data | 45 |
| 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 119 |
| 9A. | Controls and Procedures | 119 |
| 9B. | Other Information | 119 |
| | PART III | |
| 10. | Directors, Executive Officers and Corporate Governance | 119 |
| 11. | Executive Compensation | 119 |
| 12. | Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters | 120 |
| 13. | Certain Relationships and Related Transactions and Director Independence | 120 |
| 14. | Principal Accounting Fees and Services | 120 |
| | PART IV | |
| 15. | Exhibits, Financial Statement Schedules | 121 |
| Signatures | | 123 |

# PART I

## Item 1. Business

DISCUSSION OF FORWARD-LOOKING STATEMENTS

When used in this Form 10-K, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including government intervention in the U.S. financial markets, changes in economic conditions in the United Community Financial Corp.'s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in our market area, competition and those risks discussed under "Item 1A – Risk Factors" in this Annual Report on Form 10-K, that could cause actual results to differ materially from results presently anticipated or projected. United Community Financial Corp. (United Community, we or our) cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We advise readers that the factors listed above could affect United Community's financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

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

GENERAL

United Community was incorporated in the State of Ohio in February 1998 for the purpose of owning all of the outstanding capital stock of Home Savings Bank (Home Savings or the Bank) issued upon the conversion of Home Savings from a mutual savings association to a permanent capital stock savings association (Conversion). The Conversion was completed on July 8, 1998. On January 31, 2017, United Community completed an acquisition of Ohio Legacy Corp. (OLCB) and merger of United Community's wholly-owned subsidiary bank with and into Premier Bank & Trust, OLCB's wholly-owned subsidiary bank (PB&T), with PB&T as the surviving bank following the merger. As a result of this acquisition, United Community became a financial holding company and its surviving subsidiary bank became an Ohio-chartered bank with the name "Home Savings Bank." The acquisition of OLCB and related merger with PB&T are discussed in further detail below under the heading "Acquisitions."

In addition to the Bank, United Community also operates through its subsidiaries, HSB Insurance, LLC, HSB Capital, LLC and HSB Insurance, Inc. HSB Capital, LLC was formed as an Ohio limited liability company by United Community during 2016 for the purpose of providing mezzanine funding for customers of the Bank. Mezzanine loans are offered by HSB Capital, LLC to customers in United Community's market area, as defined below, and are expected to be repaid from the cash flow from operations of the business.

HSB Insurance, LLC, (d/b/a James & Sons Insurance) is a wholly-owned insurance subsidiary of United Community that was formed on April 6, 2016 to acquire James & Insurance. As a result of this acquisition, HSB Insurance, LLC now offers a variety of insurance products for business and residential customers, including auto, homeowners, life-health, commercial, surety bonds and aviation, within United Community's market area, as defined below.

HSB Insurance, Inc., was formed on June 1, 2017 as a Delaware-based captive insurance company that is a wholly-owned subsidiary of United Community. HSB Insurance, Inc. insures against certain risks that are unique to the operations of the Company and its subsidiaries and for which insurance may not be currently available or economically feasible by pooling resources with several other insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. HSB Insurance, Inc. is subject to regulations of the State of Delaware and undergoes periodic examinations by the Delaware Division of Insurance.

The term “Company” is used in this Annual Report on Form 10-K to refer to United Community and Home Savings, collectively.

Our filings with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings are also available on the SEC’s web-site at http://www.sec.gov free of charge as soon as reasonably practicable after we have filed the above referenced reports.

United Community's Internet site, ir.ucfconline.com, contains a hyperlink to the Securities and Exchange Commission (SEC) where United Community's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 Insider Reports and amendments to those reports that are filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge, as soon as reasonably practicable after United Community has filed any such report with, or furnished it to, the SEC. The contents of our website are not incorporated into, or otherwise made a part of, this Annual Report on Form 10-K.

As a financial holding company, United Community is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (FRB) and the SEC. United Community's primary activity is holding the common shares of Home Savings. Consequently, the following discussion focuses primarily on the business of Home Savings.

Home Savings was organized as a mutual savings association under Ohio law in 1889. Currently, Home Savings is an Ohio-chartered bank, subject to the supervision and regulation by the Federal Deposit Insurance Corporation (FDIC) and the Division of Financial Institutions of the Ohio Department of Commerce (Ohio Division). Home Savings is a member of the Federal Home Loan Bank of Cincinnati (FHLB) and the deposits of Home Savings are insured up to applicable limits by the FDIC.

Home Savings conducts business from its main office located in Youngstown, Ohio, and through 35 retail banking offices, three wealth management offices and 13 residential mortgage loan centers located throughout Ohio, western Pennsylvania and West Virginia. The principal business of Home Savings is the origination of mortgage loans, including construction loans, on residential and nonresidential real estate located in Home Savings' primary market area, which consists of Ashland, Belmont, Columbiana, Cuyahoga, Erie, Franklin, Geauga, Huron, Lake, Lucas, Mahoning, Portage, Richland, Stark, Summit and Trumbull Counties in Ohio, Allegheny and Beaver Counties in Pennsylvania and Monongalia County in West Virginia. In addition to real estate lending, Home Savings originates commercial loans and various types of consumer loans. For liquidity and interest rate risk management purposes, Home Savings invests in various financial instruments as discussed below under the heading "Investment Activities." Funds for lending and other investment activities are obtained primarily from retail deposits, which are insured up to applicable limits by the FDIC, principal repayments of loans, borrowings from the FHLB, repurchase agreements and maturities of securities.

Interest on loans and other investments is Home Savings' primary source of income. Home Savings' principal expenses are interest paid on deposit accounts and other borrowings, as well as salaries and benefits paid to employees. Operating results are dependent to a significant degree on the net interest income of Home Savings, which is the difference between interest earned on loans and other investments and interest paid on deposits and borrowed funds. Like most financial institutions, Home Savings' interest income and interest expense can be affected significantly by general economic conditions and by the policies of various regulatory authorities.

As of December 31, 2017, the FDIC categorized Home Savings as well capitalized.

ACQUISITIONS

On January 29, 2016, United Community acquired James & Sons Insurance, an insurance agency that offers a variety of insurance products for business and residential customers, which include auto, homeowners, life-health, commercial, surety bonds, and aviation. James & Sons Insurance was merged into HSB Insurance, LLC, a wholly-owned subsidiary of United Community, with HSB Insurance, LLC as the surviving entity following the merger. This acquisition marked the initial step in the formation of The Home Savings Insurance Group. During fiscal year 2017, United Community completed two additional acquisitions to expand the product offerings and market area of HSB Insurance, LLC. On February 28, 2017, HSB Insurance, LLC acquired Eich Brothers Insurance, an insurance

agency that offers insurance products for business and residential customers, including auto, commercial, homeowners and life-health.  On July 1, 2017, HSB Insurance, LLC acquired Stevens Insurance Agency, which offers insurance products for business and residential customers, including auto, commercial, homeowners and life-health. Home Savings intends to expand The Home Savings Insurance Group via organic growth coupled with a selective acquisition strategy.



---

On January 31, 2017, United Community completed its acquisition of OLCB. Immediately following the acquisition of OLCB, Home Savings was merged into PB&T, and PB&T changed its name to “Home Savings Bank.” In connection with the acquisition, United Community issued 3,033,604 United Community common shares and paid $19,958,724.19 to OLCB shareholders. As a result of the acquisition, United Community became a financial holding company and its wholly owned subsidiary became an Ohio-chartered bank. These changes in charter status are not expected to have a material impact on the Company.

LENDING ACTIVITIES

General. Home Savings’ principal lending activity is the origination of conventional residential real estate loans, commercial real estate loans, commercial and industrial loans, and various types of consumer loans, including home equity loans and lines of credit, loans secured by deposit accounts and investments, direct and indirect auto lending and unsecured loans, primarily originated in Home Savings’ market area.

Loan Portfolio Composition. The following table presents certain information regarding the composition of Home Savings' loan portfolio at the dates indicated:

| | At December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| | Amount | Percent of total loans | Amount | Percent of total loans | Amount | Percent of total loans | Amount | Percent of total loans | Amount | Percen total lo |
| | (Dollars in thousands) | | | | | | | | | |
| mmercial Loans | | | | | | | | | | |
| ltifamily | $120,480 | 5.98 % | $93,597 | 6.16 % | $80,170 | 6.02 % | $60,546 | 5.20 % | $54,485 | 5.19 |
| nresidential | 381,611 | 18.93 % | 231,401 | 15.23 % | 175,456 | 13.17 % | 121,595 | 10.44 % | 131,251 | 12.52 |
| nd | 15,162 | 0.75 % | 8,373 | 0.55 % | 9,301 | 0.70 % | 9,484 | 0.81 % | 9,683 | 0.92 |
| nstruction | 116,863 | 5.80 % | 68,158 | 4.49 % | 38,812 | 2.91 % | 16,064 | 1.38 % | 4,452 | 0.42 |
| ured | 177,994 | 8.83 % | 95,343 | 6.27 % | 63,182 | 4.74 % | 45,088 | 3.87 % | 25,714 | 2.45 |
| secured | 10,506 | 0.52 % | 7,386 | 0.49 % | 2,831 | 0.21 % | 134 | 0.01 % | 427 | 0.04 |
| al commercial ns | 822,616 | 40.80 % | 504,258 | 33.19 % | 369,752 | 27.75 % | 252,911 | 21.71 % | 226,012 | 21.54 |
| sidential rtgage Loans | | | | | | | | | | |
| e-to-four-family | 870,939 | 43.20 % | 762,926 | 50.21 % | 733,685 | 55.06 % | 694,105 | 59.58 % | 585,025 | 55.76 |
| nstruction | 49,092 | 2.43 % | 35,695 | 2.35 % | 40,898 | 3.07 % | 37,113 | 3.19 % | 48,897 | 4.66 |
| al residential rtgage loans | 920,031 | 45.63 % | 798,621 | 52.56 % | 774,583 | 58.13 % | 731,218 | 62.77 % | 633,922 | 60.42 |
| nsumer Loans | | | | | | | | | | |
| me Equity | 195,852 | 9.71 % | 165,054 | 10.86 % | 161,338 | 12.11 % | 154,776 | 13.28 % | 159,795 | 15.22 |
| to | 64,364 | 3.19 % | 39,609 | 2.60 % | 11,348 | 0.85 % | 5,902 | 0.51 % | 5,669 | 0.54 |
| rine | 1,526 | 0.08 % | 1,796 | 0.12 % | 2,699 | 0.20 % | 3,917 | 0.34 % | 4,308 | 0.42 |
| creational nicle | 5,696 | 0.28 % | 7,602 | 0.50 % | 10,656 | 0.80 % | 14,054 | 1.21 % | 17,347 | 1.66 |
| her (1) | 6,056 | 0.30 % | 2,537 | 0.17 % | 2,217 | 0.17 % | 2,105 | 0.18 % | 2,112 | 0.20 |
| al consumer ns | 273,494 | 13.57 % | 216,598 | 14.25 % | 188,258 | 14.13 % | 180,754 | 15.52 % | 189,231 | 18.04 |
| al Loans | 2,016,141 | 100.00 % | 1,519,477 | 100.00 % | 1,332,593 | 100.00 % | 1,164,883 | 100.00 % | 1,049,165 | 100.0 |
| s net items | 16,264 | | 15,900 | | 16,401 | | 16,790 | | 19,973 | |
| al Loans, net | $1,999,877 | | $1,503,577 | | $1,316,192 | | $1,148,093 | | $1,029,192 | |

(1) Consists primarily of overdraft protection loans and loans to individuals secured by demand accounts, deposits and other consumer assets.

Loan Maturity. The following table sets forth certain information as of December 31, 2017, regarding the dollar amount of construction and commercial loans maturing in Home Savings' portfolio based on their contractual terms to maturity. Demand and other loans having no stated schedule of repayments or no stated maturity are reported as due in one year or less. Mortgage loans originated by Home Savings always include due-on-sale clauses that provide Home Savings with the contractual right to deem the loan immediately due and payable in the event the borrower transfers the ownership of the property without Home Savings' consent. The table does not include the effects of possible prepayments.

| | Principal payments contractually due in the years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | 2019-2022 | 2023 and thereafter | Total |
| | (Dollars in thousands) | | | |
| Construction loans: | | | | |
| Residential mortgage construction | $— | $ — | $49,092 | $49,092 |
| Commercial construction | 19,315 | 25,377 | 72,171 | 116,863 |
| Commercial loans | 22,860 | 53,906 | 111,734 | 188,500 |
| Total | $42,175 | $ 79,283 | $232,997 | $354,455 |

The table below sets forth the dollar amount of all loans reported above becoming due after December 31, 2017, which have fixed or adjustable interest rates:

| | Due after December 31, 2017 |
|---|---|
| | (Dollars in thousands) |
| Fixed rate | $ 82,568 |
| Adjustable rate | 229,712 |
| | $ 312,280 |

Commercial Loans:

Multifamily. Home Savings originates loans secured by multifamily properties that contain more than four units. Multifamily loans are offered with adjustable and fixed rates of interest, which adjust according to a specified index, and typically have terms ranging from five to ten years and of the value of the real estate and improvements (LTV) of up to 80%.

Multifamily lending generally is considered to involve a higher degree of risk than one-to-four-family residential lending because the borrower typically depends upon income generated by the subject property to cover operating expenses and debt service. The profitability of a subject property can be affected by economic conditions, government

policies and other factors beyond the control of the borrower. Home Savings attempts to mitigate the risk associated with multifamily lending by evaluating the creditworthiness of the borrower and the projected income from the subject property and, in most cases, obtaining personal guarantees on loans made to corporations, limited liability companies and partnerships. Home Savings requires borrowers to submit financial statements annually to enable management to monitor the loan and requires an assignment of rents from borrowers.

At December 31, 2017, loans secured by multifamily properties totaled approximately $120.5 million, or 6.0% of total loans, of which $275,000, or 0.2% of Home Savings' total multifamily loans, were considered nonperforming. New originations in this loan category totaled $25.2 million in 2017.

Nonresidential. Home Savings originates loans secured by nonresidential real estate, such as retail centers, office buildings, and industrial buildings. Home Savings' nonresidential real estate loans typically have both fixed and adjustable rates, terms typically up to ten years and LTVs of up to 80%. The majority of such properties are located within Home Savings' primary lending area.

Nonresidential real estate lending generally is considered to involve a higher degree of risk than residential lending due to the relatively larger loan amounts and the effects of general economic conditions on the successful operation of income-producing properties. Home Savings has endeavored to reduce such risk by evaluating the credit history of the borrower and their affiliates, the location of the real estate, analyzing the financial condition of the borrower, in most cases obtaining personal guarantees from the borrower or the borrower's affiliates, and considering the quality and characteristics of the income stream generated by the property and the appraisal supporting the property's valuation.

At December 31, 2017, approximately $381.6 million, or 18.9% of Home Savings' total loans, were secured by mortgages on nonresidential real estate, of which $1.2 million, or 0.3% of Home Savings' total nonresidential real estate loans, were considered nonperforming. New originations in this loan category totaled $134.9 million in 2017.

Land. Home Savings also originates a limited number of loans secured by vacant land. Home Savings' land loans generally are fixed-rate loans for terms of up to five years and require a LTV of 65% or less. At December 31, 2017, approximately $15.2 million, or 0.8%, of Home Savings' total loans were land loans. Nonperforming land loans totaled $9,000, or 0.1% of such loans, at December 31, 2017. New originations in this loan category totaled $8.9 million in 2017.

Construction. Home Savings originates loans for the construction of multifamily properties, nonresidential real estate projects and to builders on a presold or speculative (unsold) basis. Home Savings limits the number of outstanding loans to each residential builder on unsold homes under construction, both by dollar amount and number. Construction loans for multifamily and nonresidential properties, as well as loans to builders, typically have LTV at origination of up to 75% based on estimated value at completion, with the value of the land included as part of the owner's equity.

Construction loans involve greater underwriting and default risks than loans secured by mortgages on existing properties because construction loans are more difficult to appraise and to monitor. Loan funds are advanced upon the security of the project under construction. In the event a default on a construction loan occurs and foreclosure follows, Home Savings may take control of the project and attempt either to arrange for completion of construction or dispose of the unfinished project.

At December 31, 2017, Home Savings had approximately $116.9 million, or 5.8% of its total loans, invested in commercial construction loans. None of these loans were nonperforming at December 31, 2017. New originations for commercial construction loans totaled $119.7 million in 2017.

Secured and Unsecured. Home Savings makes commercial loans to businesses in its primary market area, including traditional lines of credit, revolving lines of credit and term loans. The collateral coverage ratios for commercial loans depend upon the nature of the underlying collateral. Lines of credit and revolving credits generally are priced on a floating rate basis, which is tied to the prime interest rate or LIBOR. Term loans usually have adjustable rates, but can have fixed rates of interest, and typically have terms of one to five years.

The repayment of commercial loans typically is dependent on the cash flow stream and successful operation of a business, which can be affected by economic conditions. The collateral for commercial term loans often consists of depreciating assets, which are generally matched to the amortization of the underlying loan.

At December 31, 2017, Home Savings had approximately $178.0 million invested in secured commercial loans and $10.5 million in unsecured commercial loans. The majority of these loans are secured by inventory, accounts receivable, equipment, investment property, vehicles or other assets of the borrower. These loans are underwritten based on the creditworthiness of the borrower and the guarantors, where applicable.

Nonperforming secured and unsecured commercial loans at December 31, 2017 amounted to $1.5 million, or 0.9% of total commercial loans. New originations of commercial loans totaled $100.2 million in 2017, of which $96.8 million were secured.

Residential Mortgage Loans:

One-to-Four-Family. Home Savings mainly originates conventional loans secured by first mortgages on one-to-four-family residences primarily located within Home Savings' market area.

Home Savings currently offers fixed-rate mortgage loans and adjustable-rate mortgage loans (ARMs). Although Home Savings' loan portfolio includes a significant amount of 30-year fixed-rate loans, a considerable portion of fixed rate loans are originated for sale. The interest rate adjustment periods on ARMs are typically one, three, five, seven or ten years. The maximum interest rate adjustment on most of the ARMs is 2.0% on any adjustment date and a total of 6.0% over the life of the loan. The interest rate adjustments on three-year, five-year and ten-year ARMs presently offered by Home Savings are indexed to the weekly average rate on the one-year U.S. Treasury securities. Rate adjustments are computed by adding a stated margin to the index.

FDIC regulations and Ohio law limit the amount that Home Savings may lend in relationship to the appraised value of the real estate and improvements that secure the loan at the time of loan origination. In accordance with such regulations, Home Savings is permitted to make loans up to 100% of the LTV. Home Savings typically requires private mortgage insurance on the portion of the principal amount of the loan that exceeds 80% of the appraised value or sales price of the property (whichever is less) securing the loan.

Under certain circumstances, Home Savings will offer loans with LTVs exceeding 80% without private mortgage insurance. Customers may borrow up to 80% of the home’s appraised value and obtain a second loan or line of credit from Home Savings for up to 9% of the appraised value without having to purchase mortgage insurance. Home Savings also offers a first-time homebuyers product that permits an LTV of 97% without private mortgage insurance. Such loans involve a higher degree of risk because, in the event of a borrower default, the value of the underlying collateral may not satisfy the principal and interest outstanding on the loan. To reduce this risk, Home Savings underwrites all portfolio loans to Freddie Mac and Fannie Mae underwriting guidelines.

Currently, no interest-only, one-to-four-family loans are contained in the Home Savings’ mortgage loan portfolio.

Home Savings issues loan origination commitments to qualified borrowers primarily for the purchase of single-family residential real estate. Such commitments have specified terms and conditions and are made for periods of up to 60 days, during which time the interest rate is locked in. Home Savings utilizes various hedge strategies to mitigate its interest rate risk during this time period.

At December 31, 2017, Home Savings’ one-to-four-family residential real estate loans held in portfolio totaled approximately $870.9 million, or 43.2% of total loans. At December 31, 2017, $6.1 million, or 0.7%, of Home Savings’ one-to-four-family loans were nonperforming. New originations in this loan category totaled $236.0 million in 2017.

Construction. Home Savings originates loans for the construction of one-to-four-family residences. These construction loans to owner-occupants are structured as permanent loans with fixed or adjustable rates of interest and terms of up to 30 years. During the construction phase, the borrower is required to pay interest only. These loans have LTVs at origination of up to 95% with appropriate mortgage insurance.

At December 31, 2017, Home Savings had approximately $49.1 million, or 2.4% of its total loans, invested in one-to-four-family residential construction loans. All of these loans were performing according to the terms of their agreement as of December 31, 2017.

New originations for residential mortgage construction loans to owner-occupants totaled $245.8 million in 2017. The level of new originations exceeded the outstanding balance of these loans as not all funds have been drawn on such loans as of December 31, 2017.

Consumer Loans:

Home Savings originates various types of consumer loans, including home equity loans, home equity lines of credit, vehicle loans, unsecured loans, and cash-secured loans. Home Savings generally does not originate recreational vehicle loans or marine loans. Consumer loans are made at fixed and variable rates of interest for different terms based on the type of loan.

Home Savings generally makes closed-end home equity loans and lines of credit in an amount that, when added to the prior indebtedness secured by the real estate, does not exceed 90% of the estimated value of the real estate. Home equity loans typically are secured by a second mortgage on the real estate. Home Savings frequently holds the first

mortgage, although Home Savings will make home equity loans in cases where it sells the first mortgage or another lender holds the first mortgage. Home Savings also offers home equity lines of credit. Fixed-rate home equity loans typically have terms of ten years. Rate adjustments on adjustable home equity loans change based on the prime interest rate for loans on residences of up to 90% LTV regardless of lien position. At December 31, 2017, approximately $195.9 million, or 9.7%, of Home Savings' consumer loan portfolio consisted of home equity loans. Home Savings also makes cash-secured consumer loans and investment-secured loans for up to 100% of the principal balance of the account. These loans generally have fixed rates tied to market conditions.

For new automobiles, loans are originated for up to 115% of the MSRP value of the car with terms of up to 78 months. For used automobiles, loans are made for up to the National Automobile Dealers Association (N.A.D.A.) retail value of the car model and a term of up to 78 months. Most automobile loans are originated indirectly through approved auto dealerships. At December 31, 2017, automobile loans totaled $64.4 million, or 3.2% of Home Savings' consumer loan portfolio.

At December 31, 2017, Home Savings had approximately $273.5 million, or 13.6% of its total loans, invested in consumer loans. Nonperforming consumer loans at December 31, 2017, amounted to $2.6 million, or 1.0% of such loans. New originations of consumer loans totaled $115.3 million in 2017.

Lending Process:

Loan Solicitation and Processing. The lending activities of Home Savings are subject to the written, non-discriminatory underwriting standards and loan origination procedures approved by Home Savings' Board of Directors (the Board). Loan originations generally are obtained from existing customers and members of the local community and from referrals by real estate brokers, lawyers, accountants, builders and current and former customers. Home Savings also advertises in the local print media, radio television, billboards and online.

Each of Home Savings' retail banking offices and residential mortgage loan centers have loan personnel who can accept loan applications, which are then forwarded to Home Savings' Credit Department for processing and approval. In underwriting real estate loans, Home Savings typically obtains a credit report and verification of employment and analyzes the cash flows of the borrower and other documentation concerning the creditworthiness of the borrower. Typically, an appraisal of the fair market value of the real estate that will be given as security for the loan is prepared by an approved independent fee appraiser. For all nonresidential real estate loans, the appraisal is conducted by an outside fee appraiser whose report is reviewed by a third-party appraisal review firm engaged by Home Savings. Upon the completion of the appraisal and the receipt of information on the credit history of the borrower, the loan application is submitted for review to the appropriate persons. Generally, all commercial requests and consumer loan requests of $500,000 or more and residential mortgage loan requests over $800,000 up to and including $5.0 million require the approval of the Officers' Loan Committee or the appropriate Officer's Loan Committee member. All loans that would cause the aggregate lending relationship to be greater than $5.0 million require approval from both the Officers' Loan Committee and the Executive Officers' Loan Committee. Lending relationships greater than $10.0 million must be approved by the Board Loan Committee.

Borrowers are required to carry satisfactory fire and casualty insurance and flood insurance, if applicable, and to name Home Savings as an insured mortgagee. Home Savings generally obtains a title guarantee or title insurance on real estate loans.

The procedure for approval of construction loans is the same as for permanent real estate loans, except that an appraiser evaluates the building plans, construction specifications and estimates of construction costs. Home Savings also evaluates the feasibility of the proposed construction project and the experience and record of the builder. Once approved, the construction loan is disbursed in installments based upon periodic inspections of the construction progress and lien releases.

Consumer loans are underwritten based on the borrower's credit history and an analysis of the borrower's income and expenses, ability to repay the loan and the value of the collateral, if any.

Loan Originations, Purchases and Sales. Home Savings' residential loans generally are made on terms and conditions and documented to conform to the secondary market guidelines for sale to Freddie Mac, Fannie Mae and other institutional and private investors in the secondary market. Home Savings originates first mortgage loans insured by the Federal Housing Authority and the Veteran's Administration with the intention to sell in the secondary market.

Home Savings generally retains the servicing rights on the sale of loans originated in the geographic area surrounding its full-service branches. Home Savings anticipates continued participation in the secondary mortgage loan market to maintain its desired risk profile.

At December 31, 2017, Home Savings had $40.2 million of outstanding commitments to make mortgage loans with the intention to sell in the secondary market, as well as $257.4 million available to borrowers under consumer and commercial lines of credit and $54.4 million available in the OverdraftPrivilege™ program. At December 31, 2017, Home Savings had $124.6 million in funds related to commercial loans in process and $46.1 million related to construction loans in process under existing contractual obligations.

Loans to One Borrower Limits. Regulations generally limit the aggregate amount that Home Savings may lend to any one borrower to an amount equal to 15.0% of Home Savings' unimpaired capital and unimpaired surplus (Lending Limit Capital). A bank may lend to one borrower an additional amount not to exceed 10.0% of Lending Limit Capital if the additional amount is fully secured by certain forms of readily marketable collateral. Real estate is not considered readily marketable collateral. In applying this limit, regulations require that loans to certain related or affiliated borrowers be aggregated.

Based on such limits, Home Savings could lend approximately $35.0 million to one borrower at December 31, 2017. The largest amount Home Savings had committed to one borrower at December 31, 2017, was $17.1 million in the form of five loans, of which $7.3 million was outstanding at December 31, 2017. At December 31, 2017, these commercial real estate loans were performing in accordance with their terms.

Delinquent Loans, Nonperforming Assets and Classified Assets. The following table reflects the amount of all loans in a delinquent status as of the dates indicated:

| | At December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2016 | | | |
| | Number | Amount | Percent of net loans | | Number | Amount | Percent of net loans | |
| | (Dollars in thousands) | | | | | | | |
| Loans delinquent for: | | | | | | | | |
| 30-59 days | 114 | $6,287 | 0.31 | % | 96 | $8,488 | 0.56 | % |
| 60-89 days | 33 | 1,750 | 0.09 | % | 42 | 2,525 | 0.17 | % |
| 90 days or over | 170 | 8,620 | 0.43 | % | 182 | 7,858 | 0.52 | % |
| Total delinquent loans | 317 | $16,657 | 0.83 | % | 320 | $18,871 | 1.26 | % |

Home Savings determines the past due status of loans based on the number of payments the loan is past due.

Nonperforming assets include loans past due 90 days and on a nonaccrual status, loans past due 90 days and still accruing, loans less than 90 days past due and on a nonaccrual status, real estate acquired by foreclosure or by deed-in-lieu of foreclosure and repossessed assets. Once a loan becomes 90 days delinquent, it generally is placed on nonaccrual status.

Loans are placed on nonaccrual status when collection in full is considered by management to be in doubt. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income. Subsequent cash payments received, if any, generally are applied to principal unless the remaining recorded investment in the asset (i.e., after charge-off of identified losses, if any) is deemed to be fully collectable. In those cases, subsequent cash payments are applied to principal and interest income in accordance with the original terms of the note.

Home Savings does not extend additional credit to borrowers whose loans are classified — i.e., loans that exhibit a well-defined weakness such that management determines that the loan should be classified as substandard, doubtful or loss — without approval by the applicable loan committee.

The following table sets forth information with respect to Home Savings' nonperforming loans and other assets by year at the dates indicated:

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in thousands) | | | | |
| Nonperforming loans: | | | | | |
| Nonaccrual loans | | | | | |
| Commercial Loans: | | | | | |
| Multifamily and nonresidential | $1,493 | $3,546 | $3,599 | $5,874 | $6,201 |
| Construction and land | 9 | 34 | 384 | 1,582 | 3,580 |
| Commercial and industrial | 1,505 | 361 | 4,016 | 4,016 | 4,158 |
| Total commercial loans | 3,007 | 3,941 | 7,999 | 11,472 | 13,939 |
| Residential mortgage loans: | 6,076 | 6,084 | 6,181 | 6,816 | 6,356 |
| Consumer Loans: | 2,620 | 2,413 | 2,567 | 2,163 | 3,248 |
| Total nonaccrual loans | 11,703 | 12,438 | 16,747 | 20,451 | 23,543 |
| Past due 90 days and still accruing | — | — | — | — | 45 |
| Total nonperforming loans | 11,703 | 12,438 | 16,747 | 20,451 | 23,588 |
| Real estate acquired through foreclosure and other repossessed assets | 1,253 | 1,777 | 2,727 | 3,467 | 6,341 |
| Other classified assets | 4,050 | 6,384 | — | — | — |
| Total nonperforming assets | $17,006 | $20,599 | $19,474 | $23,918 | $29,929 |
| Total impaired loans | $26,250 | $31,548 | $39,659 | $45,897 | $48,181 |
| Nonperforming loans as a percent of loans, net | 0.59 % | 0.83 % | 1.27 % | 1.78 % | 2.29 % |
| Nonperforming assets as a percent of total assets | 0.64 % | 0.94 % | 0.98 % | 1.30 % | 1.72 % |
| Allowance for loan losses as a percent of nonperforming loans | 181.17% | 153.26% | 105.76% | 86.48 % | 89.52 % |
| Allowance for loan losses as a percent of loans, net | 1.05 % | 1.25 % | 1.33 % | 1.52 % | 2.01 % |

In 2017, net income did not include uncollected interest on nonperforming loans. During 2017, approximately $998,000 in additional interest income would have been recorded had nonaccrual loans been accruing pursuant to contractual terms.

A loan is considered impaired when, based on current information and events, it is probable that Home Savings will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the strength of guarantors (if any). Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the facts and circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by the fair value of the collateral if the loan is collateral dependent, the present value of expected future cash flows discounted at the loan's effective interest rate, or the market value of the loan. Home Savings considers all troubled debt restructured loans as impaired.

During 2017, Home Savings experienced a decline in impaired loans of $4.1 million. Home Savings recognized a decrease in nonperforming nonresidential loans of approximately $4.1 million. Nonperforming home equity and residential one-to-four-family loans declined $1.0 million and $1.3 million, respectively. Nonperforming secured loans and purchased credit impaired loans increased $1.1 million and $1.2 million, respectively.

Real estate acquired in settlement of loans is classified separately on the balance sheet at estimated fair value less costs to sell as of the date of acquisition. At foreclosure, the loan is written down to the value of the underlying collateral by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income or loss on disposition, are included in real estate owned and other repossessed asset expenses. At December 31, 2017, the carrying value of real estate and other repossessed assets acquired in settlement of loans was $1.3 million and consisted primarily of $693,000 in one-to-four-family residential properties, $354,000 secured by one-to-four-family residential construction properties and $206,000 in automobiles and recreational vehicles.

In addition to the classified loans identified above, other loans may be identified as having potential credit problems as a result of those loans being identified by our internal loan review function. These special mention loans, which have not exhibited the more severe weaknesses generally present in classified loans, amounted to $15.8 million, as of December 31, 2017, compared to $13.1 million as of December 31, 2016.

Allowance for Loan Losses. Management has established a methodology to calculate the allowance for loan losses at a level it believes adequate to absorb probable incurred losses in the loan portfolio. The methodology is reviewed regularly by the Board and is revised as conditions and circumstances within the Bank's loan portfolio dictate. Management bases its determination of the adequacy of the allowance upon estimates derived from an analysis of individual credits, prior and current loss experience, loan portfolio delinquency levels, overall growth in the loan portfolio, current economic conditions and results of regulatory examinations. Furthermore, in determining the level of the allowance for loan losses, management reviews and evaluates on a monthly basis the necessity of a reserve for individual impaired loans classified by management. The specifically allocated reserve for a classified loan is determined based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, market value of collateral, other sources of cash flow and legal options available to Home Savings. Once a review is completed, a specific reserve is determined and allocated to the loan.

Other loans not reviewed specifically by management are evaluated as a homogenous group of loans (generally single-family residential mortgage loans and all consumer credits except marine loans) using a loss factor applied to the outstanding loan balance to determine the level of reserve required. This loss factor consists of two components, a quantitative and a qualitative component. The quantitative component is based on a historical analysis of all charged-off loans, net of recoveries, looking back 22 quarters as of December 31, 2017. In determining the qualitative component, consideration is given to such attributes as lending policies, economic conditions, nature and volume of the portfolio, management, loan quality trend, loan review, collateral value, concentrations, economic cycles and other external factors. The quantitative and qualitative components are combined to arrive at the loss factor, which is applied to the average outstanding balance of homogenous loans. At December 31, 2016, the Company evaluated 18 quarters of net charge-off history.

In determining the qualitative factors, consideration is given to such factors as economic conditions, changes in the nature and volume of the portfolio, lending personnel, lending policies, past-due loan trends, and trends in collateral values. Specific reserves on individual loans and historical ratios are reviewed periodically and adjusted as necessary based on subsequent collections, loan upgrades or downgrades, nonperforming trends or actual principal charge-offs. When evaluating the adequacy of the allowance for loan losses, consideration is given to geographic concentrations and the effect that changing economic conditions have on Home Savings. These estimates are particularly susceptible to changes that could result in a material adjustment to results of operations. The provision for loan losses represents a charge against current earnings in order to maintain the allowance for loan losses at an appropriate level.

The following table sets forth an analysis of Home Savings' allowance for loan losses for the periods indicated:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in thousands) | | | | |
| Balance at beginning of period | $19,087 | $17,712 | $17,687 | $21,116 | $21,130 |
| Provision(recovery) for loan losses | 4,253 | 5,387 | 2,135 | (1,271 ) | 4,116 |
| Charge-offs: | | | | | |
| Commercial loans | (1,565 ) | (3,722 ) | (1,268 ) | (1,656 ) | (5,208 ) |
| Residential mortgage loans | (1,218 ) | (761 ) | (1,301 ) | (1,005 ) | (1,536 ) |

| | | | | | |
|---|---|---|---|---|---|
| Consumer loans | (815 ) | (1,151 ) | (1,257 ) | (1,578 ) | (1,883 ) |
| Total charge-offs | (3,598 ) | (5,634 ) | (3,826 ) | (4,239 ) | (8,627 ) |
| Recoveries: | | | | | |
| Commercial loans | 693 | 858 | 733 | 1,011 | 3,527 |
| Residential mortgage loans | 235 | 133 | 388 | 242 | 253 |
| Consumer loans | 532 | 631 | 595 | 828 | 717 |
| Total recoveries | 1,460 | 1,622 | 1,716 | 2,081 | 4,497 |
| Net charge-offs | (2,138 ) | (4,012 ) | (2,110 ) | (2,158 ) | (4,130 ) |
| Balance at end of year | $21,202 | $19,087 | $17,712 | $17,687 | $21,116 |
| Ratio of net charge-offs during fiscal year to average net loans outstanding during fiscal year | (0.11 )% | (0.29 )% | (0.17 )% | (0.20 )% | (0.40 )% |

At December 31, 2017, the allowance for loan losses was 1.05% of net loans and 181.17% of total nonperforming loans.

The following table sets forth the allocation of the allowance for loan losses by category. The allocations are based on management's assessment of the risk characteristics of each of the components of the total loan portfolio and are subject to change when the risk factors of each component change. The allocation is not indicative of either the specific amounts or the loan categories in which future charge-offs may be taken, nor should it be taken as an indicator of future loss trends. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict the use of the allowance to absorb losses in any category.

| | At December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans |
| | (Dollars in thousands) | | | | | | | | | |
| Commercial loans | $12,542 | 59.15 % | $10,824 | 56.71 % | $8,077 | 45.60 % | $5,690 | 21.71 % | $6,984 | 21.54 % |
| Residential mortgage loans | 5,860 | 27.64 % | 5,538 | 29.01 % | 6,630 | 37.43 % | 8,517 | 62.77 % | 9,830 | 60.42 % |
| Consumer loans | 2,800 | 13.21 % | 2,725 | 14.28 % | 3,005 | 16.97 % | 3,480 | 15.52 % | 4,302 | 18.04 % |
| Total | $21,202 | 100.00% | $19,087 | 100.00% | $17,712 | 100.00% | $17,687 | 100.00% | $21,116 | 100.00% |

INVESTMENT ACTIVITIES

General. Investment securities are classified upon acquisition as available for sale, held to maturity or trading. Securities classified as available for sale are carried at estimated fair value with the unrealized holding gain or loss, net of taxes, reflected in other comprehensive income and as a component of shareholders' equity. Securities classified as held to maturity are carried at amortized cost. Securities classified as trading are carried at estimated fair value with the unrealized holding gain or loss reflected as a component of income. United Community and Home Savings recognize premiums and discounts in interest on the level yield method without anticipating prepayments and realized gains or losses on the sale of debt securities based on the amortized cost of the specific securities sold.

Home Savings Investment Activities. Federal laws and regulations as well as Ohio law permit Home Savings to invest in various types of marketable securities, including interest-bearing deposits in other financial institutions, federal funds, U.S. Treasury and agency obligations, mortgage-related securities and certain other specified investments. The Board has adopted an investment policy that authorizes management to make investments in U.S. Treasury

obligations, U.S. federal agency and federally-sponsored corporation obligations, mortgage-related securities issued or sponsored by Fannie Mae, Freddie Mac and Government National Mortgage Association (GNMA), investment-grade municipal obligations and creditworthy, unrated securities issued by municipalities in which Home Savings is located. Such securities comprised 100% of Home Savings' investment securities portfolio at December 31, 2017. The investment policy also authorizes management to make investments in securities issued by private issuers, investment-grade corporate debt securities, investment grade asset-backed securities, certificates of deposit that are fully-insured by the FDIC, bankers' acceptances, federal funds and money market funds. Home Savings' investment policy is designed primarily to provide and maintain liquidity within regulatory guidelines, to maintain a balance of high quality investments to minimize risk and to maximize return without sacrificing liquidity.

Home Savings maintains a significant portfolio of mortgage-backed securities that are issued by Fannie Mae, GNMA and Freddie Mac. Mortgage-backed securities generally entitle Home Savings to receive a portion of the cash flows from an identified pool of mortgages. Home Savings is exposed to prepayment risk and reinvestment risk to the extent that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Mortgage-related securities enable Home Savings to generate positive interest rate spreads with minimal administrative expense and reduce credit risk due to either guarantees provided by the issuer or the high credit rating of the issuer. Mortgage-related securities classified as available for sale also provide Home Savings with an additional source of liquid funds.

United Community Investment Activities. Funds maintained by United Community for general corporate purposes primarily are invested in an account with Home Savings.



---

The following table presents the amortized cost, fair value and weighted average yield of securities available for sale at December 31, 2017 by maturity:

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | No stated maturity | | One year or less | | After one year through five years | |
| | Amortized cost | Average yield | Amortized cost | Average yield | Amortized cost | Average yield |
| | (Dollars in thousands) | | | | | |
| Securities: | | | | | | |
| U.S Government agencies and corporations | $— | 0.00 % | $— | 0.00 % | $26,497 | 2.00 % |
| Mortgage-related securities-residential | — | 0.00 % | — | 0.00 % | — | 0.00 % |
| States of the U.S. and political subdivisions | — | 0.00 % | — | 0.00 % | — | 0.00 % |
| Total securities available for sale | $— | 0.00 % | $— | 0.00 % | $26,497 | 2.00 % |

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Five years through ten years | | After ten years | | Total | |
| | Amortized cost | Average yield | Amortized cost | Average yield | Amortized cost | Average yield |
| | (Dollars in thousands) | | | | | |
| Securities: | | | | | | |
| U.S Government agencies and corporations | $98,485 | 2.30 % | $— | 0.00 % | $124,982 | 2.24 % |
| Mortgage-related securities-residential | 557 | 3.86 % | 58,249 | 4.12 % | 58,806 | 4.12 % |
| States of the U.S. and political subdivisions | 22,074 | 2.25 % | 65,843 | 2.49 % | 87,917 | 2.43 % |
| Total securities available for sale | $121,116 | 2.30 % | $124,092 | 3.26 % | $271,705 | 2.71 % |

The following table presents the amortized cost, fair value and weighted average yield of securities held to maturity at December 31, 2017 by maturity:

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | No stated maturity | | One year or less | | After one year through five years | |
| | Amortized cost | Average yield | Amortized cost | Average yield | Amortized cost | Average yield |
| | (Dollars in thousands) | | | | | |
| Securities: | | | | | | |
| Mortgage-related securities-residential | — | 0.00 % | — | 0.00 % | — | 0.00 % |
| States of the U.S. and political subdivisions | — | 0.00 % | — | 0.00 % | — | 0.00 % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total securities held to maturity | $— | 0.00 | % | $— | 0.00 | % | $— | 0.00 | % |

| | At December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Five years through ten years | | | After ten years | | | Total | | |
| | Amortized cost | Average yield | | Amortized cost | Average yield | | Amortized cost | Average yield | |
| | (Dollars in thousands) | | | | | | | | |
| Securities: | | | | | | | | | |
| Mortgage-related securities-residential | — | 0.00 | % | 73,682 | 2.23 | % | 73,682 | 2.23 | % |
| States of the U.S. and political subdivisions | 7,568 | 3.21 | % | 1,661 | 3.67 | % | 9,229 | 3.29 | % |
| Total securities held to maturity | $7,568 | 3.21 | % | $75,343 | 2.26 | % | $82,911 | 2.35 | % |

Yields are calculated on a fully tax equivalent basis.

SOURCES OF FUNDS

General. Deposits traditionally have been the primary source of Home Savings' funds for use in lending and other investment activities. In addition to deposits, Home Savings derives funds from interest payments and principal repayments on loans and income

on other earning assets. Loan payments are a relatively stable source of funds, while deposit inflows and outflows fluctuate in response to general interest rates and money market conditions. Home Savings also may borrow from the FHLB and other suitable lenders as well as use repurchase agreements as sources of funds.

Deposits. Deposits are attracted principally from within Home Savings' primary market area through the offering of a selection of deposit instruments, including checking accounts, regular savings accounts, money market accounts, certificates of deposit and individual retirement accounts (IRAs). Interest rates paid, maturity terms, service fees and withdrawal penalties for the various types of accounts are monitored periodically by management. The amount of deposits from outside Home Savings' primary market area is not significant.

Brokered deposits represent funds, which Home Savings obtained, directly or indirectly, through a deposit broker. A deposit broker places deposits from third parties with insured depository institutions or places deposits with an institution for the purpose of selling interest in those deposits to third parties. Home Savings had $156.5 million in brokered deposits at December 31, 2017 and $76.5 million in brokered deposits at December 31, 2016.

The following table sets forth the dollar amount of deposits in the various types of accounts offered by Home Savings at the dates indicated:

| | At December 31, 2017 | | | For the Year Ended December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Amount | Percent of total deposits | Weighted average rate | Average balance | Percent of average deposits | Weighted average rate |
| | (Dollars in thousands) | | | | | |
| Noninterest bearing demand | $354,970 | 18.14 % | 0.00 % | $333,495 | 17.76 % | 0.00 % |
| Checking and money market accounts | 594,712 | 30.39 % | 0.37 % | 597,686 | 31.82 % | 0.31 % |
| Savings accounts | 301,716 | 15.42 % | 0.04 % | 305,641 | 16.27 % | 0.04 % |
| Certificates of deposit | 705,341 | 36.05 % | 1.25 % | 641,294 | 34.15 % | 1.01 % |
| Total deposits | $1,956,739 | 100.00 % | 0.57 % | $1,878,116 | 100.00 % | 0.45 % |

| | At December 31, 2016 | | | For the Year Ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Amount | Percent of total deposits | Weighted average rate | Average balance | Percent of average deposits | Weighted average rate |
| | (Dollars in thousands) | | | | | |
| Noninterest bearing demand | $256,918 | 16.96 % | 0.00 % | $242,384 | 16.55 % | 0.00 % |
| Checking and money market accounts | 475,083 | 31.36 % | 0.21 % | 489,838 | 33.45 % | 0.21 % |
| Savings accounts | 294,564 | 19.44 % | 0.03 % | 289,506 | 19.77 % | 0.04 % |
| Certificates of deposit | 488,426 | 32.24 % | 0.97 % | 442,717 | 30.23 % | 1.08 % |
| Total deposits | $1,514,991 | 100.00 % | 0.38 % | $1,464,445 | 100.00 % | 0.40 % |

The following table shows rate and maturity information for Home Savings' certificates of deposit at December 31, 2017:

| Rate | Up to one year | Over 1 year to 2 years | Over 2 years to 3 years | Thereafter | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| 2.00% or less | $424,278 | $173,503 | $29,007 | $ 59,214 | $686,002 |
| 2.01% to 4.00% | 8,858 | 5,927 | 4,043 | 511 | 19,339 |
| Total certificates of deposit | $433,136 | $179,430 | $33,050 | $ 59,725 | $705,341 |

At December 31, 2017, approximately $433.1 million of Home Savings' certificates of deposit will mature within one year. Based on past experience and Home Savings' prevailing pricing strategies, management believes that a substantial percentage of such certificates will be renewed with Home Savings at maturity. If, however, Home Savings is unable to renew the maturing certificates for any reason, borrowings of up to $256.8 million, as of December 31, 2017, were available from the FHLB.

The following table presents the amount of Home Savings' certificates of deposit of $100,000 or more by the time remaining until maturity at December 31, 2017:

| Maturity | Amount |
|---|---|
| | (Dollars in thousands) |
| Three months or less | $ 30,032 |
| Over 3 months to 6 months | 26,717 |
| Over 6 months to 12 months | 65,141 |
| Over 12 months | 110,716 |
| Total | $ 232,606 |

The following table presents the amount of Home Savings' certificates of deposit of $250,000 or more, which are included in the table above, by the time remaining until maturity at December 31, 2017:

| Maturity | Amount |
|---|---|
| | (Dollars in thousands) |
| Three months or less | $ 12,670 |
| Over 3 months to 6 months | 7,255 |
| Over 6 months to 12 months | 19,105 |
| Over 12 months | 18,306 |
| Total | $ 57,336 |

The following table sets forth Home Savings' deposit account balance activity for the periods indicated:

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (Dollars in thousands) | |
| Beginning balance | $1,514,991 | $1,435,743 |
| Net increase (decrease) in other deposits | 434,698 | 73,326 |
| Net deposits before interest credited | 1,949,689 | 1,509,069 |
| Interest credited | 7,050 | 5,922 |
| Ending balance | 1,956,739 | 1,514,991 |
| Net increase (decrease) | $441,748 | $79,248 |
| Percent increase (decrease) | 29.16 % | 5.52 % |

Borrowings. The FHLB system functions as a central reserve bank providing credit for its member institutions and certain other financial institutions. As a member in good standing of the FHLB, Home Savings is authorized to apply for advances, provided certain standards of creditworthiness have been met. Home Savings may borrow up to an additional $256.8 million from the FHLB and had $356.5 million in outstanding advances at December 31, 2017. None of the advances outstanding are callable.

COMPETITION

Home Savings faces competition for deposits and loans from other financial institutions, credit unions, online banks and mortgage originators in Home Savings' primary market area. The primary factors in competition for deposits are customer service, convenience, interest rates and fees. Home Savings competes for loan originations primarily through the interest rates and loan fees it charges and through the efficiency and quality of service it provides to borrowers. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors, which are not readily predictable.

EMPLOYEES

At December 31, 2017, United Community had 503 full-time equivalent employees. Home Savings believes that relations with its employees are good. Home Savings makes available health, life and disability benefits, access to variable compensation and a 401(k) plan for its employees.

## REGULATION

The following is a summary of certain statutes and regulations affecting United Community and Home Savings. The summary is qualified in its entirety by reference to such statutes and regulations. Applicable laws and regulations restrict permissible activities and investments, and require actions to protect loan, deposit, brokerage, fiduciary and other customers, as well as the Federal Deposit Insurance Fund.

### Financial Holding Company Regulation

United Community is a bank holding company that is qualified and has elected to be a financial holding company. As a bank holding company, United Community is subject to the Bank Holding Company Act and to the reporting requirements of, and examination and regulation by, the FRB. The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, issue cease and desist or removal orders, and require that a bank holding company divest subsidiaries (including its bank subsidiaries). In general, the FRB may initiate enforcement action for violations of laws and regulations and unsafe or unsound practices.

A bank holding company is required to serve as a source of financial strength to each subsidiary bank and to commit resources to support those subsidiary banks. The FRB may require a bank holding company to contribute additional capital to an undercapitalized subsidary bank and may disapprove of the payment of dividends to the shareholders of the bank holding company if the FRB believes the payment would be an unsafe or unsound practice. The FRB also requires bank holding companies to provide advance notification of planned dividends under certain circumstances.

The Bank Holding Company Act requires the prior approval of the FRB in any case where a bank holding company proposes to:

- acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by it;
- acquire all of substantially all of the assets of another bank or bank holding company; or
- merge or consolidate with any other bank holding company.

### Financial Holding Company Activities

United Community is a financial holding company, permitting it to engage in activities beyond those permitted for traditional bank holding companies.  In order to become a financial holding company, a bank holding company and all of its depository institutions must be “well capitalized” and “well managed” under federal banking regulations, and the depository institutions must have received a Community Reinvestment Act rating of at least satisfactory.

Financial holding companies may engage in a wide variety of financial activities, including any activity that the FRB and the Treasury Department consider financial in nature or incidental to financial activities, and any activity that the FRB determines complementary to a financial activity and which does not pose a substantial safety and soundness risk.  These activities include securities underwriting and dealing activities, insurance and underwriting activities and merchant banking/equity investment activities.  Because it has authority to engage in a broad array of financial activities, a financial holding company may have affiliates that are functionally regulated by financial regulators other than the FRB, such as the SEC and state insurance regulators.

If a financial holding company or a subsidiary bank fails to meet the requirements for the holding company to remain a financial holding company, the financial holding company must enter into a written agreement with the FRB to comply with all applicable capital and management requirements.  Until the FRB determines that the holding company and its subsidiary banks meet the requirements, the FRB may impose additional limitations or conditions on the conduct or activities of the financial holding company or any affiliate that the FRB finds to be appropriate or consistent with federal banking laws.  If the deficiencies are not corrected, the financial holding company may be required to divest ownership or control of some or all of its subsidiaries.  If restrictions are imposed on the activities of the holding company, such restrictions may not be made publicly available pursuant to confidentiality regulations of the banking regulators.

The Home Savings Insurance Group is supervised and regulated by the State of Ohio Department of Insurance.  The insurance laws and regulations applicable to insurance agencies require education and licensing of individual agents and agencies require reports and impose business conduct rules.

Regulation of Ohio State-Chartered Banks

As an Ohio state-chartered bank that is not a member of the Federal Reserve System, Home Savings is supervised and regulated primarily by the ODFI and the FDIC. Home Savings' deposits are insured up to applicable limits by the FDIC, and Home Savings is subject to the applicable provisions of the Federal Deposit Insurance Act and other regulations of the FDIC. Home Savings is also subject to the regulations of the Consumer Financial Protection Bureau (CFPB), which has broad authority to adopt and enforce consumer protection regulations.

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of Home Savings, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on payment of dividends, limitations on branching and increasingly extensive consumer protection laws and regulations.

Consumer protection laws and regulations include the Equal Credit Opportunity Act and the Fair Housing Act (prohibiting certain types of discriminatory lending practices), the Truth in Lending Act (requiring understandable disclosure of credit terms), the Home Mortgage Dislcosure Act (requiring the collection of data that enables regulatory agencies to determine whether the financial insitutions are serving the housing credit needs of the communities in which they are located), the Real Estate Seteelement Procedures Act (requiring disclosures to borrowers and prohibiting abusive practices that increase borrowers' costs) and the privacy provisions of the Gramm-Leach-Bliley Act (requiring policies and procedures to restrict unauthorized sharing of non-public customer data with nonaffiliated parties and protecting customer information from unauthorized access). The banking regulators also use their authority under the Federal Trade Commission Act to take supervisory or enforcement action with respect to unfair or deceptive acts or practices by banks that may not necessarily fall within the scope of specific banking or consumer finance law.

In 2017, the State of Ohio completed a substantial re-writing of Ohio's banking laws that became effective on January 1, 2018. The law adopted one universal bank charter for depository institutions chartered by the state, rather than having separate types of state depository institution charters with different powers and limitations for banks, savings banks and savings and loan associations. The result is that all Ohio-chartered depository institutions are now considered to have full commercial bank powers, unless an institution elects to continue to be governed by federal restrictions applicable to federal savings and loan associations and federal savings banks. While the most substantial changes in the law affect institutions chartered by Ohio as savings banks or savings and loan associations prior to the effectiveness of the new law, some changes also apply to institutions, like Home Savings, that were chartered as commercial banks prior to the change in the law. The changes for all Ohio-chartered banks include provisions allowing Ohio-chartered banks to exercise the same powers, perform all acts, and provide all services that are permitted for federally chartered depository institutions, with the exception of laws and regulations dealing with interest rates, thereby enhancing opportunities for Ohio-chartered banks to compete with other financial institutions. Other provisions clarify previous laws addressing, or allow more flexibility with respect to, corporate governance matters, mergers and acquisitions and additional reliance on Ohio corporate law generally.

In addition, in October 2017, Ohio-chartered banks received notices of required assessments to be paid to the ODFI after two years without assessments while the ODFI was funded by State of Ohio excess unclaimed funds allocated to the ODFI by the State of Ohio.

Capital Requirements

Financial institutions and their holding companies are required to maintain capital as a way of absorbing losses that can, as well as losses that cannot, be predicted. The FRB has adopted risk-based capital guidelines for bank holding companies, and the FDIC has adopted risk-based capital guidelines for state banks that are not members of the Federal Reserve System. The guidelines provide a systematic analytical framework which makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures expressly into account in evaluating capital adequacy and minimizes disincentives to holding liquid, low-risk assets. Capital levels as measured by these standards are also used to categorize financial institutions for purposes of certain prompt corrective action regulatory provisions.

The risk-based capital guidelines adopted by the federal banking agencies are based on the "International Convergence of Capital Measurement and Capital Standard" (Basel I), published by the Basel Committee on Banking Supervision (Basel Committee). New capital rules applicable to smaller banking organizations (Basel III Capital Rules), which also implement certain of the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), became effective commencing on January 1, 2015. Compliance with the new minimum capital requirements was required effective on January 1, 2015,

whereas a new capital conservation buffer and deductions from common equity capital phase in from January 1, 2016, through January 1, 2019, and most deductions from common equity tier 1 capital will phase in from January 1, 2015, through January 1, 2019.

The rules include (a) a minimum common equity tier 1 capital ratio of 4.5 percent, (b) a minimum Tier 1 capital ratio of 6.0 percent, (c) a minimum total risk-based capital ratio of 8.0 percent, and (d) a minimum leverage ratio (Tier 1 capital to average assets) of 4%.

Common equity for the common equity tier 1 capital ratio includes common stock (plus related surplus) and retained earnings, plus limited amounts of minority interests in the form of common stock, less the majority of certain regulatory deductions.

Tier 1 capital includes common equity as defined for the common equity tier 1 capital ratio, plus certain non-cumulative preferred stock and related surplus, cumulative preferred stock and related surplus and trust preferred securities that have been grandfathered (but which are not permitted going forward), and limited amounts of minority interests in the form of additional Tier 1 capital instruments, less certain deductions.

Tier 2 capital, which can be included in the total capital ratio, includes certain capital instruments (such as subordinated debt) and limited amounts of the allowance for loan and lease losses, subject to new eligibility criteria, less applicable deductions.

The deductions from common equity tier 1 capital include goodwill and other intangibles, certain deferred tax assets, mortgage-servicing assets above certain levels, gains on sale in connection with a securitization, investments in a banking organization's own capital instruments and investments in the capital of unconsolidated financial institutions (above certain levels). The deductions phase in from 2015 through 2019.

Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of several risk weights is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The rules also place restrictions on the payment of capital distributions, including dividends, and certain discretionary bonus payments to executive officers if the company does not hold a capital conservation buffer of greater than 2.5 percent composed of common equity tier 1 capital above its minimum risk-based capital requirements, or if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The capital conservation buffer phases in starting on January 1, 2016, at .625% and is currently 1.875%. The implementation of Basel III is not expected to have a material impact on United Community's or Home Savings' capital ratios.

Federal banking regulators have established regulations governing prompt corrective action to resolve capital deficient banks. Under these regulations, institutions which become undercapitalized become subject to mandatory regulatory scrutiny and limitations, which increase as capital continues to decrease. Such institutions are also required to file capital plans with their primary federal regulator, and their holding companies must guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

Effective January 1, 2015, in order to be "well-capitalized," a bank must have a common equity tier 1 capital ratio of at least 6.5%, a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8% and a leverage ratio of at least 5%, and the bank must not be subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level or any capital measure. United Community's

management believes that Home Savings meets the ratio requirements to be deemed “well-capitalized” under the prompt corrective action regulations.

A bank with a capital level that might qualify for well-capitalized or adequately-capitalized status may nevertheless be treated as though the bank is in the next lower capital category if the bank’s primary federal banking supervisory authority determines that an unsafe or unsound condition or practice warrants that treatment. A bank’s operations can be significantly affected by its capital classification under the prompt corrective action rules. For example, a bank that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market without advance regulatory approval. These deposit-funding limitations can have an adverse effect on the bank’s liquidity. At each successively lower capital category, an insured depository institution is subject to additional restrictions. Undercapitalized banks are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance fund. Bank regulatory agencies generally are required to appoint a receiver or conservator within 90 days after a bank becomes critically undercapitalized, with a leverage ratio of less than 2%. The Federal Deposit Insurance Act provides that a federal bank regulatory authority may require a bank holding company to divest itself of an undercapitalized bank subsidiary if the agency determines that divestiture will improve the bank’s financial condition and prospects.

Regulations of the FRB require a financial holding company to maintain total risk-based capital of 10.0% and Tier 1 risk-based capital of 6.0%.

In September 2017, the bank regulatory agencies proposed amendments to their capital requirements to simplify various aspects of the capital rules for community banks, including Home Savings, in an attempt to reduce the regulatory burden for such smaller financial institutions. Because the amendments have not been finalized, we do not yet know what effect the final rules will have on Home Savings' capital calculations. In November 2017, the federal banking agencies extended, for the community banks, the existing capital requirements for certain items that were scheduled to change effective January 1, 2018, in light of the simplification amendments being considered.

Limits on Dividends

The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary banks and other subsidiaries. However, the FRB expects a bank holding company to serve as a source of strength to its bank subsidiaries, which may require the holding company to retain capital for further investments in its bank subsidiaries, rather than paying dividends to shareholders of the holding company. Home Savings may not pay dividends to United Community if, after paying such dividends, it would fail to meet the required capital levels. Dividends are also subject to limitations if United Community or Home Savings fails to hold the required capital conservation buffer. Home Savings must have the approval of its regulatory authorities if a dividend in any year would cause the total dividends for that year to exceed the sum of its current year's net profits and retained net profits for the preceding two years, less required transfers to surplus. Under Ohio law, Home Savings may pay a dividend from surplus only with the approval of its shareholders (United Community) and the approval of the Superintendent of Financial Institutions. Payment of dividends by Home Savings may be restricted at any time at the discretion of its regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice or if necessary to maintain adequate capital for Home Savings. These provisions could have the effect of limiting United Community's ability to pay dividends on its outstanding common shares.

In addition, FRB policy requires United Community to provide notice to the FRB in advance of the payment of a dividend to United Community's shareholders under certain circumstances, and the FRB may disapprove of such dividend payment if the FRB determines the payment would be an unsafe or unsound practice.

Deposit Insurance Assessments

The FDIC is an independent federal agency which insures deposits, up to prescribed statutory limits, of federally-insured banks and savings associations and safeguards the safety and soundness of the financial institution industry. The deposits of Home Savings are insured up to statutorily prescribed limits by the FDIC, generally up to a maximum of $250,000 per separately insured depositor.

As insurer as well as primary federal regulator of Home Savings, the FDIC is authorized to conduct examinations of and to require reporting by Home Savings, to prohibit Home Savings from engaging in any activity the FDIC determines to pose a threat to the Deposit Insurance Fund, and to take enforcement actions against Home Savings. The FDIC may terminate insurance of deposits of any institution if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or other regulatory agency.

The FDIC assesses a quarterly deposit insurance premium on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations. The premiums fund the Deposit Insurance Fund (DIF). Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), which is the amount in the DIF as a percentage of all DIF insured deposits. In March 2016, the FDIC adopted final rules designed to meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets of less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. Although the FDIC's new rules reduced assessment rates on all banks, they imposed a surcharge on banks with assets of $10 billion or more to be paid until the DRR reaches 1.35%. The rules also provide assessment credits to banks with assets of less than $1 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35%. The rules further changed the method of determining risk-based assessment rates for established banks with less than $10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, which was established by the government to recapitalize a predecessor to the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019.



---

Transactions with Affiliates, Directors, Executive Officers and Shareholders

The Federal Deposit Insurance Act applies to state-chartered non-member banks Section 23A and 23B of the Federal Reserve Act and Regulation W, which restrict transactions by banks and their subsidiaries with their affiliates. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank. Generally, Sections 23A and 23B and Regulation W:

- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of that bank’s capital stock and surplus (i.e., tangible capital);
- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with all affiliates to 20% of that bank’s capital stock and surplus; and
- require that all such transactions be on terms substantially the same, or at least as favorable to the bank subsidiary, as those provided to a non-affiliate.

The term “covered transaction” includes the making of loans to the affiliate, the purchase of assets from the affiliate, the issuance of a guarantee on behalf of the affiliate, the purchase of securities issued by the affiliate, and other similar types of transactions.

Home Savings’ authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities such persons control, is subject to limits established by FDIC regulations, which incorporate by reference most of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve Board. Among other restrictions, these loans must be made on terms substantially the same as those offered to unaffiliated individuals or be made as part of a benefit or compensation program and on terms widely available to employees, and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank’s capital position, and specified approval procedures must be followed.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit or other financial assistance to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA. As of its most recent evaluation, Home Savings was assigned an overall CRA rating of “Satisfactory.”

Monetary Policy and Economic Conditions

The business of commercial banks is affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities, including the FRB. The FRB regulates the money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These policies and regulations significantly influence the amount of bank loans and deposits and the interest rates charged and paid thereon, and thus have an effect on earnings.

Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorist Act of 2001 (Patriot Act) gives the federal government powers to address terrorist threats through domestic security measures, surveillance powers, information sharing and anti-money laundering requirements. Title III of the

Patriot Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions. Among other requirements, Title III and related regulations require regulated financial institutions to establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts and establish due diligence policies, procedures and controls designed to detect and report suspicious activity.

Executive and Incentive Compensation

In June 2010, the FRB, the FDIC and the Office of the Comptroller of the Currency issued joint interagency guidance on incentive compensation policies (Joint Guidance) intended to ensure that the incentive compensation policies of banking organizations

do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees who have the ability to affect materially the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should: (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks; (ii) be compatible with effective internal controls and risk management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. The Joint Guidance made incentive compensation part of the regulatory agencies' examination process, with the findings of the supervisory initiatives included in reports of examination and enforcement actions possible.

After issuing proposed rules in 2011, in May 2016, the federal bank regulatory agencies approved their second joint notice of proposed rules (Second Proposed Joint Rules) designed to prohibit incentive-based compensation arrangements that encourage inappropriate risks at financial institutions. The requirements of the Second Proposed Joint Rules would differ for each of three categories of financial institutions:

- Level 1 consists of institutions with assets of $250 billion or more;
- Level 2 consists of institutions with assets of at least $50 billion and less than $250 billion; and
- Level 3 consists of institutions with assets of at least $1 billion and less than $50 billion.

Some of the requirements would apply only to Level 1 and Level 2 institutions. For all covered institutions the Second Proposed Joint Rules would prohibit certain practices and types of incentive compensation and:

- prohibit incentive-based compensation arrangements that are "excessive" or "could lead to material financial loss;"
- require incentive based compensation that is consistent with a balance of risk and reward, effective management and control of risk, and effective governance; and
- require board oversight, recordkeeping and disclosure to the appropriate regulatory agency.

| | | Minimum Regulatory Capital Ratios | Minimum Ratio With Capital Conservation Buffer | Well-Capitalized Minimums | December 31, 2017 Ratio | Amount | 2016 Ratio | Amount |
|---|---|---|---|---|---|---|---|---|
| | | | | | (dollars in thousands) | | | |
| Tier 1 leverage | United Community | 4.00 % | N/A | N/A | 10.91 % | $285,320 | 11.98 % | $258,869 |
| | Home Savings | 4.00 % | N/A | 5.00 % | 10.41 % | 271,353 | 10.65 % | 229,938 |
| CET 1 risk-based capital | United Community | 4.50 % | 5.75 % | N/A | 14.28 % | 285,320 | 17.13 % | 258,869 |
| | Home Savings | 4.50 % | 5.75 % | 6.50 % | 13.62 % | 271,353 | 15.22 % | 229,938 |
| Tier 1 risk-based capital | United Community | 6.00 % | 7.25 % | 6.00 % | 14.28 % | 285,320 | 17.13 % | 258,869 |
| | Home Savings | 6.00 % | 7.25 % | 8.00 % | 13.62 % | 271,353 | 15.22 % | 229,938 |
| Total risk-based capital | United Community | 8.00 % | 9.25 % | 10.00 % | 15.34 % | 306,522 | 18.38 % | 277,817 |
| | Home Savings | 8.00 % | 9.25 % | 10.00 % | 14.69 % | 292,504 | 16.57 % | 248,861 |

Item 1A. Risk Factors

Like all financial companies, United Community's business and results of operations are subject to a number of risks, many of which are outside of our control. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, could materially impact our business and future results of operations.

United Community and the Bank have an enterprise risk management program. The Board Risk Management Committee provides oversight of the program. The Board also adopted the Corporate Risk Management and Control Policy. The policy provides a framework for risk identification, monitoring and mitigation through a risk assessment process, including reviewing of policies and procedures to enhance the controls and risk management practices at United Community and the Bank. The Officers Risk Management Committee leads this process as part of an ongoing program.

Economic conditions may adversely affect our results of operations and financial condition.

A reduction in the availability of credit, the lack of confidence in the financial sector, a decrease in consumer confidence, an increase in volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition and results of operations. Economic turmoil in Europe and Asia and changes in oil production in the Middle East affect the economy and stock prices in the United States, which can affect United Community's earnings and capital and the ability of its customers to repay loans. As a result of the challenges presented by economic conditions, the Company may face the following risks in connection with these events:

- Inability of borrowers to make timely repayments of their loans, or decreases in value of real estate collateral securing the payment of such loans resulting in significant credit losses, which could result in increased delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on our operating results.
- Increased regulation of the financial services industry, including heightened legal standards and regulatory requirements or expectations. Compliance with such regulation will likely increase costs and may limit the Company's ability to pursue business opportunities.
- Disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in an inability to borrow on favorable terms or at all from other financial institutions.
- Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions, which may adversely affect the Company's ability to market competitive products and services.

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

Our results of operations depend substantially on our net interest income, which is the difference between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits and other borrowings. These rates are highly sensitive to many factors beyond our control, including general economic conditions, inflation, recession, unemployment, the money supply and the policies of various governmental and regulatory authorities. While we have taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that these measures will be effective in avoiding undue interest rate risk.

Increases in interest rates can affect the value of available for sale securities, loans and other assets, including our ability to realize gains on the sale of these assets. We originate loans for sale and for our portfolio. Increasing interest rates may reduce the origination of loans for sale and consequently the fee income we earn on such sales. Further, increasing interest rates may adversely affect the ability of borrowers to pay the principal or interest on loans and leases, resulting in an increase in nonperforming assets and a reduction of income recognized.

In contrast, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of assets related to the servicing rights on loans sold to be lower than originally anticipated. If this happens, we may need to write down our servicing assets faster, which would accelerate our expense and lower our earnings.

Increases in credit risks could adversely affect our results of operations.

There are inherent risks associated with our lending activities, including credit risk, which is the risk that borrowers may not repay outstanding loans or the value of the collateral securing loans will decrease. We attempt to manage credit risk through a program of underwriting standards, the review of certain credit decisions and an on-going assessment of the quality of the credit already extended. However, conditions such as inflation, recession, unemployment, changes in interest rates, money supply, declines in real estate value and other factors beyond our control may increase our credit risk. Such changes in the economy may have a negative impact on the ability of

borrowers to repay their loans. Because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of our collateral. In addition, substantial portions of our loans are to individuals and businesses in Ohio. Consequently, any decline in the state's economy could have a materially adverse effect on our financial condition and results of operations.

A loan is impaired when, based on current information and events, it is probable that Home Savings will be unable to collect both the contractual interest payments and the contractual principal payments, as scheduled in the loan agreement. Construction loans generally involve greater underwriting and default risks than loans secured by mortgages on existing properties because construction loans are more difficult to appraise and to monitor. In the event a default on a construction loan occurs and foreclosure follows, we may need to take control of the project and attempt either to arrange for completion of construction or dispose of the unfinished project.



---

We operate in an extremely competitive market, and our business will suffer if we are unable to compete effectively.

In our market area, we encounter significant competition from savings and loan associations, banks, credit unions, mortgage-banking firms, securities brokerage firms, asset management firms and insurance companies. Many of our competitors have substantially greater resources and lending limits than we do and may offer services that we do not or cannot provide. In order to compete, Home Savings may need to lower interest rates on its products to match interest rates offered by its competition, which could have a negative impact on net interest margin and earnings.

Legislative or regulatory changes or actions could adversely impact the financial services industry and/or our business, financial condition or results of operations.

The financial services industry is extensively regulated. Federal and state banking laws and regulations are primarily intended for the protection of consumers, depositors and the deposit insurance funds, and are not necessarily intended to benefit our shareholders. Changes to laws and regulations or other actions by regulatory agencies may negatively impact us. Future legislation or regulatory changes would likely increase compliance costs, along with possibly restricting the operations of United Community. In addition, regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution’s allowance for loan losses. The significant federal and state banking regulations that affect us are described in this Annual Report on Form 10-K under the heading “Regulation.”

The preparation of financial statements requires management to make estimates about matters that are inherently uncertain.

Management’s accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting principles and reflect management’s judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. Three of the most critical estimates are the level of the allowance for loan losses, the fair value of real estate owned and the valuation of mortgage servicing rights. Due to the inherent nature of these estimates, we cannot provide absolute assurance that we will not significantly increase the allowance for loan losses, sustain loan losses that are significantly higher than the provided allowance or recognize a significant provision for the impairment of mortgage servicing rights. Material additions to the allowance for loan losses and any loan losses that exceed our reserves would materially adversely affect our results of operations and financial condition.

Material breaches in security of our vendors and our systems may have a significant effect on our business.

Financial institutions are under continuous threat of loss due to cyber-attacks especially as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. The most significant cyber–attack risks that we face are e-fraud, denial of service, and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customer or our accounts. Loss can occur as a result of negative customer experience in the event of a successful denial of service attack that disrupts availability of our on-line banking services. The attempts to breach sensitive customer data, such as account numbers and social security numbers, could present significant operational, reputational, legal and/or regulatory costs to us, if successful. The Company has security, backup and recovery systems in place and a comprehensive business continuity plan to ensure the systems will not be inoperable. The Company also has security in place to prevent unauthorized access to the systems. In addition, the Company has a cyber-liability insurance policy to protect against breaches of the Company and vendor systems. Third party service providers also are required to maintain similar controls. However, the Company cannot be certain the measures will be successful to prevent a security breach. Our risk and exposure to

these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers. Security breaches also may increase reputational and legal risks, and the Company could experience an increase in expenses or losses resulting from such breaches.

Potential misuse of funds or information by the Bank’s employees or by third parties could result in damage to our customers for which we could be held liable, subject the Company to regulatory sanctions and otherwise adversely affect our financial condition and results of operations.

Our employees handle a significant amount of funds, as well as financial and personal information. Although the Company has implemented systems to minimize the risk of fraudulent taking or misuse of funds or information, there can be no assurance that such systems will be adequate or that a taking or misuse of funds or information by employees, by third parties who have authorized access to funds or information, or by third parties who are able to access funds or information without authorization will never occur. We could be held liable for such an event and could also be subject to regulatory sanctions. We could also incur the expense of

developing additional controls to prevent future such occurrences. Although the Company has insurance to cover such potential losses, we cannot provide assurance that such insurance will be adequate to meet any liability. In addition, any loss of trust or confidence placed in the Company by our clients could result in a loss of business, which could adversely affect our financial condition and results of operations.

Our allowance for loan losses may prove to be insufficient to absorb probable incurred losses in our loan portfolio.

Lending money is a substantial part of our business. However, every loan we make carries a risk of non-payment. This risk is affected by, among other things: cash flow of the borrower and/or the project being financed; in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral; the credit history of a particular borrower; changes in economic and industry conditions; and the duration of the loan.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make significant estimates that affect the financial statements. One of our most critical estimates is the adequacy of the allowance for loan losses. Due to the inherent nature of these estimates, we cannot provide absolute assurance that we will not be required to charge earnings for significant unexpected loan losses.

We maintain an allowance for loan losses that we believe is a reasonable estimate of known and probable incurred losses within the loan portfolio. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates and real estate values, which may be beyond our control, and these losses may exceed current estimates. We cannot fully predict the amount or timing of losses or whether the loan loss allowance will be adequate in the future.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

The Company’s financial condition and results of operations could be negatively affected if the Company fails to manage its growth effectively.

United Community may acquire other financial institutions or parts of institutions in the future, open new branches, and consider new lines of business and new products or services. Expansions of its business would involve a number of expenses and risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions or expansions into new markets;
- the potential inaccuracy of estimates and judgments used to evaluate the business and risks with respect to target institutions;
- the time and costs of hiring local management and opening new offices;
- the delay in the generation of profits from commencing potential acquisitions or engaging in new activities;
- United Community’s ability to finance an expansion and the possible dilution to existing shareholders;
- the diversion of management’s attention to the expansion;
- management’s lack of familiarity with new market areas;

- the integration of new products and services and new personnel into the Company’s existing business;
- the incurrence and possible impairment of goodwill associated with an acquisition and effects on United Community’s results of operations; and
- the risk of loss of key employees and customers.

If United Community’s growth involves the acquisition of companies through merger or other acquisition, the success of such merger or acquisition will depend on, among other things, United Community’s ability to combine the businesses in a manner that permits growth opportunities and cost efficiencies, and does not cause inconsistencies in standards, controls, procedures and policies that adversely affect the ability of United Community to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger or acquisition.

Failure to manage United Community's growth effectively could have a material adverse effect on its business, future prospects, financial condition or results of operations and could adversely affect United Community's ability to successfully implement its business strategy.

The Company's results of operations, financial condition or liquidity may be adversely impacted by potential losses in connection with actual or projected repurchases and indemnification payments related to mortgages sold into the secondary market.

In connection with the origination and sale of residential mortgages into the secondary market, the Company makes certain representations and warranties, which, if breached, may require it to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. Although the Company believes that its mortgage documentation and procedures have been appropriate, it is possible that the Company will receive repurchase requests in the future and the Company may not be able to reach favorable settlements with respect to such requests. It is therefore possible that the Company may increase its reserves or may sustain losses associated with such loan repurchases and indemnification payments.

We may not be able to attract and retain skilled people.

Our success depends in large part on our ability to attract and retain key people. There are a limited number of qualified persons in our market area with the knowledge and experience required to successfully manage our business. The unexpected loss of services of other key personnel could have a material adverse impact on our business because of a loss of their skills, knowledge of our market and years of industry experience. If the Company is not able to promptly recruit qualified personnel, which the Company requires to conduct our operations, our business and our ability to successfully implement our strategic plan could be affected.

Volatility in the economy may negatively impact the fair value of our common shares.

The market price for our common shares has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future, including:

- Announcements of developments related to our business;
- Fluctuations in our results of operations;
- Sales of substantial amounts of our securities into the marketplace;
- General conditions in our markets or the worldwide economy;
- A default by another large financial institution;
- A shortfall in revenues or earnings compared to market expectations;
- Our inability to pay dividends; and
- Our announcement of other projects.

We rely, in part, on external financing to fund our operations and the availability of such funds in the future could adversely impact our growth strategy and prospects.

Home Savings relies on deposits, advances from the FHLB and other borrowings to fund its banking operations. United Community has no debt outstanding. Although the Company considers its sources of funds to be adequate for its current funding needs, the Company may seek additional debt or equity capital in the future to achieve its long-term business objectives. The sale of equity or convertible debt securities in the future may be dilutive to the Company's shareholders, and debt refinancing arrangements may require the Company to pledge some of its assets and enter into covenants that would restrict its ability to incur further indebtedness. Additional financing sources, if sought, might be unavailable to the Company or, if available, could be on terms unfavorable to it. If additional financing sources are unavailable, not available on reasonable terms or the Company is unable to obtain any required

regulatory approval for additional debt, the Company's growth strategy and future prospects could be adversely impacted.

Our ability to pay cash dividends is subject to certain regulatory requirements.

United Community is generally dependent upon the earnings of Home Savings for funds to pay dividends on our common shares. The payment of dividends by Home Savings is subject to certain regulatory restrictions. Federal law generally prohibits a depository institution from making any capital distributions (including payment of a dividend) to its parent holding company if the depository institution would be undercapitalized as a result.

U.S. tax laws applicable to Home Savings would cause a taxable recapture of accumulated bad debt reserves of up to $21.1 million to the extent that Home Savings makes a distribution to United Community while Home Savings does not have sufficient tax earnings and profits at the time of such distribution. The income tax liability resulting from such a distribution could be as great as $4.4 million. No deferred tax liability has been recorded for this potential recapture liability. For a further description, refer to Note 14 to the consolidated financial statements. Accordingly, until Home Savings restores its tax earnings and profits to an amount sufficient to avoid taxable bad debt reserve recapture upon distributions to United Community, we may be unwilling to approve a dividend from Home Savings to United Community even if Home Savings was otherwise permitted or able to make a dividend to United Community. As of December 31, 2017, the deficit in tax earnings and profits was approximately $17.6 million. Tax earnings and profits is generally increased by taxable income and tax-exempt income and decreased by income taxes payable and non-deductible expenses.

As a result, any payment of dividends in the future by United Community will be generally dependent on Home Savings' earnings, capital requirements, financial condition and other factors.

Changes in the fair value of our investment securities may reduce stockholders' equity and net income.

As of December 31, 2017, securities available for sale were $270.6 million and the net unrealized losses on those securities were $1.1 million. Stockholders' equity is increased or decreased by the change in unrealized gain or loss on these securities, through accumulated other comprehensive income (loss) (AOCI). The unrealized gain or loss represents the difference between the estimated fair value and the amortized cost of the securities. A decline in the estimated fair value of the portfolio results in, but is not limited to, a decline in stockholders' equity, book value per common share, and tangible book value per common share. Potential recovery of a debt security is dependent upon a number of factors as it approaches maturity, including, but not limited to, credit quality and market interest rates. Increases in market interest rates commonly result in declines in the fair value of debt securities. Equity securities have no stated maturity; therefore, declines in fair value may or may not be recovered over time and are subject to market and issuer fundamentals.

We conduct quarterly reviews of our securities portfolio to determine if the declines are other-than-temporary. If we determine that fair value decreases are other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of noninterest income.

We continue to monitor the fair value of our securities portfolio as part of our ongoing other-than-temporary-impairment (OTTI) evaluation process. No assurance can be given that we will not need to recognize OTTI charges in the future. Additional OTTI charges may materially affect our financial condition and earnings. See Note 1 to our consolidated financial statements for a further discussion on OTTI.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures or interruptions could have an adverse effect on our financial condition and results of operations.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with, and depend on, third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or

subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Unauthorized disclosure of sensitive or confidential customer information, whether through a breach of our computer systems or otherwise, could result in harm to such customer for which we may be held liable or incur sanctions.

Potential misuse of funds or information by Home Savings' employees or by third parties could result in damage to Home Savings' customers for which Home Savings could be held liable, subject Home Savings to regulatory sanctions and otherwise adversely affect Home Savings' financial condition and results of operations.

Home Savings' employees handle a significant amount of funds, as well as financial and personal information. Although Home Savings has implemented systems to minimize the risk of fraudulent taking or misuse of funds or information, there can be no assurance that such systems will be adequate or that a taking or misuse of funds or information by employees, by third parties who have authorized access to funds or information, or by third parties who are able to access funds or information without authorization

will never occur. Home Savings could be held liable for such an event and could also be subject to regulatory sanctions. Home Savings could also incur the expense of developing additional controls to prevent future such occurrences. Although Home Savings has insurance to cover such potential losses, Home Savings cannot provide assurance that such insurance will be adequate to meet any liability. In addition, any loss of trust or confidence placed in Home Savings by our customers could result in a loss of business, which could adversely affect our financial condition and results of operations.

We could suffer a material adverse impact from interruptions in the effective operation of, or security breaches affecting, our computer systems.

Home Savings relies heavily on information systems to conduct our business and to process, record, and monitor transactions. Risks to the system result from a variety of factors, including the potential for bad acts on the part of hackers, criminals, employees and others. As one example, some banks have experienced denial of service attacks in which individuals or organizations flood the bank's website with extraordinarily high volumes of traffic, with the goal and effect of disrupting the ability of the bank to process transactions. Home Savings is also at risk for the impact of natural disasters, terrorism and international hostilities on its systems or for the effects of outages or other failures involving power or communications systems operated by others. These risks also arise from the same types of threats to businesses with which Home Savings deals.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Home Savings owns its corporate headquarters building located in Youngstown, Ohio. Of Home Savings' 35 retail banking offices, 29 are owned and the remaining offices are leased. Loan origination and wealth management offices are leased under long-term lease agreements. The information contained in Note 8 to the consolidated financial statements titled Premises and Equipment is incorporated herein by reference.

## Item 3. Legal Proceedings

In the normal course of business, United Community and Home Savings are parties, and their respective properties are named or subject, to litigation incidental to their respective businesses. While it is impossible to determine the ultimate resolution of these contingent matters, management believes any resulting liability would not have a material effect upon United Community's financial statements.

Item 4. Mine Safety Disclosures
Not applicable.

PART II

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

There were 54,138,910 United Community common shares issued and 49,866,491 shares outstanding and held by approximately 9,500 record holders as of March 9, 2018. United Community's common shares are traded on The Nasdaq Stock Market® under the symbol UCFC. Quarterly stock prices and dividends declared are shown in the following table.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2017 | | | | |
| High | $ 9.12 | $ 8.89 | $ 9.80 | $ 10.00 |
| Low | 8.10 | 7.91 | 8.43 | 8.78 |
| Dividends declared and paid | 0.03 | 0.03 | 0.04 | 0.04 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2016 | | | | |
| High | $ 6.13 | $ 6.12 | $ 7.28 | $ 9.40 |
| Low | 5.31 | 5.56 | 5.98 | 7.06 |
| Dividends declared and paid | 0.03 | 0.03 | 0.03 | 0.03 |

The following table provides information concerning purchases of United Community's common shares made by United Community during the three months ended December 31, 2017:

| Period | Total number of common shares purchased | Average price paid per common share | Total number of common shares purchased as part of publicly announced plans | Maximum number of shares that may yet be purchased under the plan [(2)] |
|---|---|---|---|---|
| October 1 through October 31, 2017 [(1)] | 1,167 | $ 9.82 | — | 1,683,830 |
| November 1 through November 30, 2017 | — | — | — | 1,683,830 |
| December 1 through December 31, 2017 | — | — | — | 1,683,830 |
| Total | 1,167 | 9.82 | — | 1,683,830 |

[(1)] In October 2017, United Community purchased 1,167 shares at $9.82 per share from employees for the payment of employment taxes. The purchase of these shares was not part of United Community's share repurchase program.

(2) United Community's stock repurchase program was publicly announced on April 28, 2016 in a press release, a copy of which can be found in United Community's Form 8-K filed on May 2, 2016. The program permits the repurchase of up to 2,500,000 UCFC common shares. There is no expiration date for the program.

Restrictions on Dividends. The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary banks and other subsidiaries. However, the FRB expects a bank holding company to serve as a source of strength to its bank subsidiaries, which may require the holding company to retain capital for further investments in its bank subsidiaries, rather than paying dividends to shareholders of the holding company. Home Savings may not pay dividends to United Community if, after paying such dividends, it would fail to meet the required capital levels. Dividends are also subject to limitations if United Community or Home Savings fails to hold the required capital conservation buffer. Payment of dividends by Home Savings may be restricted at any time at the discretion of its regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice or if necessary to maintain adequate capital for Home Savings. These provisions could have the effect of limiting United Community's ability to pay dividends on its outstanding common shares. In addition, FRB policy requires United Community to provide notice to the FRB in advance of the payment of a dividend to United Community's shareholders under certain circumstances, and the FRB may disapprove of such dividend payment if the FRB determines the payment would be an unsafe or unsound practice.

Performance Graph

The following graph compares the cumulative total return on United Community's common shares since December 31, 2012, with the total return of an index of companies whose shares are traded on The Nasdaq Stock Market and an index of publicly traded thrift institutions and thrift holding companies. The graph assumes that $100 was invested in United Community shares on December 31, 2012.

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| Index | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
| United Community Financial Corp. | 100.00 | 123.53 | 186.61 | 207.71 | 320.15 | 332.08 |
| NASDAQ Composite Index | 100.00 | 140.12 | 160.78 | 171.97 | 187.22 | 242.71 |
| SNL Bank Index | 100.00 | 137.30 | 153.48 | 156.10 | 197.23 | 232.91 |
| SNL Thrift Index | 100.00 | 128.33 | 138.02 | 155.20 | 190.11 | 188.72 |

Item 6. Selected Financial Data
Selected financial condition data:

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in thousands) | | | | |
| Total assets | $2,649,905 | $2,191,345 | $1,987,989 | $1,833,550 | $1,737,850 |
| Cash and cash equivalents | 46,880 | 45,887 | 35,910 | 32,980 | 77,331 |
| Securities: | | | | | |
| Available for sale, at fair value | 270,561 | 343,284 | 357,670 | 499,790 | 511,006 |
| Held to maturity, at amortized cost | 82,911 | 97,519 | 110,699 | — | — |
| Loans held for sale | 83,752 | 62,758 | 35,801 | 20,730 | 4,838 |
| Loans, net | 1,999,877 | 1,503,577 | 1,316,192 | 1,148,093 | 1,029,192 |
| Federal Home Loan Bank stock, at cost | 19,324 | 18,068 | 18,068 | 18,068 | 26,464 |
| Cash surrender value of life insurance | 62,488 | 55,861 | 54,366 | 46,401 | 44,972 |
| Deposits | 1,956,739 | 1,514,991 | 1,435,743 | 1,347,836 | 1,391,752 |
| Borrowed funds | 356,733 | 391,268 | 279,510 | 216,752 | 140,578 |
| Total shareholders' equity | 294,265 | 249,806 | 244,245 | 240,135 | 175,074 |

Summary of earnings:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in thousands) | | | | |
| Interest income | $93,510 | $70,729 | $65,635 | $63,244 | $64,744 |
| Interest expense | 13,157 | 8,428 | 9,113 | 11,825 | 13,413 |
| Net interest income | 80,353 | 62,301 | 56,522 | 51,419 | 51,331 |
| Provision for loan losses | 4,253 | 5,387 | 2,135 | (1,271 ) | 4,116 |
| Net interest income after provision for loan losses | 76,100 | 56,914 | 54,387 | 52,690 | 47,215 |
| Non-interest income | 25,239 | 22,076 | 19,717 | 13,741 | 19,749 |
| Non-interest expenses | 68,259 | 52,019 | 49,929 | 55,960 | 56,737 |
| Income before taxes | 33,080 | 26,971 | 24,175 | 10,471 | 10,227 |
| Income tax expense (benefit) | 11,295 | 8,143 | 7,893 | (39,735) | 200 |
| Net income | 21,785 | 18,828 | 16,282 | 50,206 | 10,027 |
| Amortization of discount on preferred stock | — | — | — | — | (6,751 ) |
| Earnings available to common shareholders | $21,785 | $18,828 | $16,282 | $50,206 | $3,276 |

Selected financial ratios and other data:

| | At or for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Performance ratios: | | | | | |
| Return on average assets [1] | 0.85 % | 0.91 % | 0.85 % | 2.82 % | 0.56 % |
| Return on average equity [2] | 7.63 % | 7.58 % | 6.65 % | 23.30 % | 5.32 % |
| Interest rate spread [3] | 3.27 % | 3.13 % | 3.06 % | 2.93 % | 2.88 % |
| Net interest margin [4] | 3.41 % | 3.24 % | 3.18 % | 3.10 % | 3.04 % |
| Noninterest expense to average assets | 2.66 % | 2.50 % | 2.61 % | 3.14 % | 3.16 % |
| Efficiency ratio [5] | 64.28 % | 61.01 % | 65.10 % | 80.11 % | 80.15 % |
| Average interest-earning assets to average interest-bearing liabilities | 125.08 % | 124.82 % | 124.39 % | 122.83 % | 119.98 % |
| Capital ratios: | | | | | |
| Average equity to average assets | 11.13 % | 11.95 % | 12.81 % | 12.10 % | 10.51 % |
| Equity to assets, end of period | 11.09 % | 11.39 % | 12.29 % | 13.10 % | 10.07 % |
| Tier 1 leverage ratio | 10.42 % | 10.65 % | 11.46 % | 12.11 % | 10.50 % |
| Common equity Tier 1 ratio | 13.64 % | 15.22 % | 17.46 % | n/a | n/a |
| Tier 1 risk-based capital ratio | 13.64 % | 15.22 % | 17.46 % | 19.87 % | 18.50 % |
| Total risk-based capital ratio | 14.70 % | 16.47 % | 18.72 % | 21.13 % | 19.76 % |
| Asset quality ratios: | | | | | |
| Nonperforming loans to net loans at end of period [6] | 0.59 % | 0.83 % | 1.27 % | 1.78 % | 2.29 % |
| Nonperforming assets to average assets [7] | 0.66 % | 0.99 % | 1.02 % | 1.34 % | 1.67 % |
| Nonperforming assets to total assets at end of period | 0.64 % | 0.94 % | 0.98 % | 1.30 % | 1.72 % |
| Allowance for loan losses as a percent of loans | 1.05 % | 1.25 % | 1.33 % | 1.52 % | 2.01 % |
| Allowance for loan losses as a percent of nonperforming loans [6] | 181.17 % | 153.46 % | 105.76 % | 86.48 % | 89.52 % |
| Total classified assets as a percent of Tier 1 Capital | 17.34 % | 12.76 % | 17.74 % | 18.64 % | 31.83 % |
| Total classified loans as a percent of Tier 1 Capital and ALLL | 14.27 % | 8.49 % | 15.32 % | 15.79 % | 25.58 % |
| Total classified assets as a percent of Tier 1 Capital and ALLL | 16.08 % | 11.77 % | 16.44 % | 17.25 % | 28.62 % |
| Net chargeoffs as a percent of average loans | 0.12 % | 0.29 % | 0.17 % | 0.20 % | 0.40 % |
| Total 90+ days past due as a percent of net loans | 0.49 % | 0.52 % | 1.24 % | 1.40 % | 1.97 % |
| Per share data: | | | | | |
| Basic earnings (loss) per common share [9] | $0.44 | $0.40 | $0.34 | $1.00 | $0.07 |
| Diluted earnings (loss) per common share [9] | 0.44 | 0.40 | 0.34 | 1.00 | 0.07 |
| Book value per common share [10] | 5.90 | 5.36 | 5.14 | 4.88 | 3.48 |
| Tangible book value per common share [11] | 5.41 | 5.32 | 5.14 | 4.88 | 3.47 |
| Cash dividend per common share | 0.14 | 0.11 | 0.07 | 0.02 | — |
| Dividend payout ratio [12] | 31.82 % | 27.50 % | 20.59 % | 2.00 % | n/a |

Notes:

1. Net income divided by average total assets
2. Net income divided by average total equity
3. Difference between weighted average yield on interest-earning assets and weighted average cost of interest-bearing liabilities
4. Net interest income as a percent of average interest-earning assets
5. Noninterest expense, excluding the amortization of intangible assets and prepayment penalty, divided by the sum of net interest income and noninterest income, excluding gains and losses on securities and gains and losses on foreclosed assets
6. Nonperforming loans consist of nonaccrual loans and loans past due ninety days and still accruing
7. Nonperforming assets consist of nonperforming loans, real estate owned and other repossessed assets and other assets
8. Nonperforming assets divided by the sum of tangible common equity and the allowance for loan losses
9. Net income divided by the number of basic or diluted shares outstanding
10. Shareholders' equity divided by number of shares outstanding
11. Shareholders' equity minus core deposit intangible divided by number of shares outstanding
12. Historical per share dividends declared and paid for the year divided by the diluted earnings per share for that year

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

United Community was incorporated in the State of Ohio in February 1998 for the purpose of owning all of the outstanding capital stock of Home Savings issued upon the Conversion, which was completed on July 8, 1998.

The following discussion and analysis of the financial condition and results of operations of United Community and its subsidiary, Home Savings, should be read in conjunction with the consolidated financial statements, and the notes thereto, included in this Annual Report on Form 10-K.

Overview

On January 31, 2017, United Community completed its acquisition of Ohio Legacy Corp (OLCB). Pursuant to the terms of the Agreement and Plan of Merger, dated September 8, 2016, among United Community, OLCB, Premier Bank & Trust, OLCB's wholly owned subsidiary bank (PB&T), The Home Savings and Loan Company of Youngstown, Ohio, United Community's wholly owned subsidiary bank (the Merger Agreement), OLCB was merged with and into United Community (the merger). Immediately following the merger, Home Savings was merged with and into PB&T and the surviving bank changed its name to "Home Savings Bank."

As a result of the merger and in accordance with the terms of the Merger Agreement, each preferred share of OLCB was deemed to have been converted into OLCB common shares. Each OLCB common share was converted into the right to receive either $18.00 in cash or 2.736 United Community common shares, subject to certain allocation procedures set forth in the Merger Agreement that ensured that 50% of OLCB's common shares outstanding were converted into United Community common shares, and 50% of OLCB's common shares outstanding were converted into the right to receive the cash consideration. The Company paid cash in lieu of issuing fractional shares. This transaction resulted in the addition of approximately $349.3 million in assets and the addition of four branches in Summit, Stark and Belmont counties. See Note 2 to the consolidated financial statements for additional information regarding this transaction.

Total assets increased $458.6 million, or 20.9%, to $2.6 billion at December 31, 2017. The primary reason for this increase was the merger with OLCB which increased assets by $349.3 million. Contributing to the change were increases in net loans, loans held for sale, goodwill, core deposit intangible and the cash surrender value of life insurance. These changes were offset by decreases in securities, real estate owned and other assets. Total liabilities increased, $414.1 million, or 21.3%, to $2.4 billion at December 31, 2017. This change was primarily due to the $266.3 million in deposits from the merger along organic customer deposit growth and an increase of $80.0 million in brokered deposits.

The Company recognized net income of $21.8 million for the year ended December 31, 2017, compared to net income of $18.8 million in 2016. Materially impacting 2017 net income was the merger discussed above. The merger, along with organic growth, resulted in an $18.3 million increase in net interest income and a $3.2 million increase in noninterest income offset by an increase in noninterest expense of $16.2 million.

In addition to Home Savings, United Community operates through three other wholly-owned subsidiaries: HSB Insurance, LLC, HSB Capital, LLC and HSB Insurance, Inc. HSB Capital, LLC was formed as an Ohio limited liability company by United Community during 2016 for the purpose of providing mezzanine funding for customers of the Bank. Mezzanine loans are offered by HSB Capital, LLC to customers in United Community's market area, as defined below, and are expected to be repaid from the cash flow from operations of the business.

HSB Insurance, LLC, (d/b/a James & Sons Insurance), United Community's wholly-owned insurance subsidiary, was formed on April 6, 2016 to acquire James & Insurance. As a result of this acquisition, HSB Insurance, LLC now offers a variety of insurance products for business and residential customers, including auto, homeowners, life-health, commercial, surety bonds and aviation, within United Community's market area. HSB Insurance, LLC completed two additional acquisitions of insurance companies in 2017 to expand its offerings and market area.

HSB Insurance, Inc., a Delaware-based captive insurance company, was formed by United Community and began operations on June 1, 2017. HSB Insurance, Inc. insures against certain risks unique to the operations of United Community and its subsidiaries and for which insurance may not be currently available or economically feasible in today's insurance marketplace. HSB Insurance, Inc. pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. HSB Insurance, Inc. is subject to regulations of the State of Delaware and undergoes periodic examinations by the Delaware Division of Insurance.

Material Changes in Financial Condition

Funds not currently utilized for general corporate purposes are invested in overnight funds and securities. Cash and cash equivalents increased $993,000, or 2.2%, to $46.9 million at December 31, 2017, compared to $45.9 million at December 31, 2016. Cash and cash equivalents increased in 2017 primarily as a result of increased cash on hand related to the additional branch locations from the merger offset by less funds held in interest bearing accounts.

Available for sale securities decreased $72.7 million, or 21.2% to $270.6 million at December 31, 2017. The change in available for sale securities was affected by maturities, pay downs and amortization totaling $14.2 million and sales of $62.9 million. Offsetting this was an increase in the market value adjustment on the securities totaling $3.7 million. The balance of the unrealized loss position at December 31, 2017 was $1.1 million, pretax, compared to a loss position of $4.8 million, pretax, at December 31, 2016. The unrealized loss position recognized in available for sale securities is primarily driven by market conditions. To that end, the Company expects to receive all principal and interest payments contractually due and has no intent to sell and more than likely will not be required to sell these securities until maturity. The majority of the securities are Government Sponsored Entities (GSE) issued debt or mortgage-backed securities and carry the same rating as the U.S. Government.

The duration of the available for sale securities portfolio was approximately 5.5 years at December 31, 2017. There is risk that longer-term rates could rise, resulting in greater unrealized losses. It is also possible, however, that longer term rates could fall, resulting in the recovery of all of the unrealized losses. Management continues to allow the balance of the portfolio to decline as planned in the normal course. In addition, the Company may look for opportunities to sell securities to continue to reduce the portfolio change the duration characteristics of the portfolio, and/or change the mix of the portfolio.

Held to maturity securities decreased $14.6 million, or 15.0% to $82.9 million at December 31, 2017. The change in held to maturity securities is the result of maturities, pay downs and amortization. The Company did not purchase any securities that were classified as held to maturity during 2017.

Loans held for sale, carried at lower of cost or market, were $211,000 and loans held for sale, carried at fair value were $83.5 million at December 31, 2017. The $21.0 million change in loans held for sale was primarily attributable to the originations of permanent construction loans during the period. These loans are not sold until construction of the residence is complete, which is usually within nine to ten months of origination. Home Savings continues to sell a majority of its newly originated fixed rate mortgage loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

Net loans increased $496.3 million, or 33.0%, to $2.0 billion at December 31, 2017, compared to $1.5 billion at December 31, 2016. The primary reason for the increase is the merger completed in the first quarter of 2017 which added $259.4 million in balances along with a continued focus on growing the commercial real estate and commercial and industrial portfolios. See Note 5 to the consolidated financial statements for additional information regarding the composition of net loans.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses established through a provision for probable loan losses charged to expense. The allowance for loan losses was $21.2 million at December 31, 2017, compared to $19.1 million at December 31, 2016. The allowance for loan losses as a percentage of loans was 1.05% at December 31, 2017, compared to 1.25% at December 31, 2016. The decrease is a result of the acquired loan portfolio being recorded at fair value without an allowance for loan losses. The allowance for loan losses as a percentage of nonperforming loans was 181.2% at December 31, 2017, compared to 153.46% at

December 31, 2016. Loan losses are charged against the allowance when the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are added back to the allowance. Home Savings' allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables," and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies". Accordingly, the methodology is based on historical loss experience by type of credit plus specific loss allocations and adjustments for current events and conditions. Home Savings' process for determining the appropriate level of the allowance for probable loan losses is designed to account for credit deterioration as it occurs. The provision for probable loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, classified loans and net charge-offs or recoveries, among other factors.

During 2017, the Company recorded a loan loss provision of $4.3 million. This recognition was primarily due to the growth of the loan portfolio and net charge-offs, partially offset by improvements in qualitative factors used in calculating the allowance for loan loss reserve.

Impaired Loans. A loan is considered impaired when there is a deterioration of the credit worthiness of the borrower to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. The total outstanding balance of all impaired loans was $27.4 million at December 31, 2017 as compared to $31.5 million at December 31, 2016.  The decrease in impaired loans can be largely attributed to the resolution of loans through principal payments, charge-offs, sale of the loan or collateral or by Home Savings taking possession of the collateral.

Included in impaired loans above are certain loans Home Savings considers to be troubled debt restructurings (TDR). A loan is considered a TDR if Home Savings grants a concession to a debtor experiencing financial difficulty that it would otherwise not consider. The concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. If the debtor is not currently experiencing financial difficulties but would probably be in payment default in the future without the modification, then this type of restructure also could be considered a TDR.

A restructured loan that has fallen into nonaccrual status will return to accruing status if either of the following criteria are met: (i) none of the principal and interest is due or unpaid and Home Savings expects repayment of the remaining contractual principal and interest, or (ii) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is between 30 and 89 days past due and there is reasonable assurance of prepayment established through payment performance over a period of six months. TDR loans aggregated $20.3 million at December 31, 2017 compared to $27.3 million at December 31, 2016. TDR loans that were on nonaccrual status aggregated $2.4 million and $7.0 million at December 31, 2017 and December 31, 2016, respectively. Such loans are considered nonperforming loans. TDR loans that were accruing according to their terms aggregated $17.9 million and $20.3 million at December 31, 2017 and December 31, 2016, respectively.

Nonperforming Loans. Nonperforming loans consist of nonaccrual loans and loans past due 90 days and still accruing. Nonperforming loans were $11.7 million, or 0.59% of total loans, at December 31, 2017, compared to $12.4 million, or 0.83% of total loans, at December 31, 2016.

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory guidance. Loans to a customer whose financial condition has deteriorated are considered for nonaccrual status whether or not the loan is 90 or more days past due. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent cash receipts on nonaccrual loans are recorded as a reduction of principal. Interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as nonaccrual does not preclude the ultimate collection of loan principal or interest.

Federal Home Loan Bank Stock. FHLB stock was $19.3 million at December 31, 2017 compared to $18.1 million at December 31, 2016. The increase was due to the merger. During 2017, the FHLB paid cash dividends of $961,000 in lieu of stock dividends to its member banks.

Real Estate Owned and Other Repossessed Assets. Real estate owned and other repossessed assets decreased $524,000 or 29.5% during the year ended December 31, 201, as compared to the year ended December 31, 2016. Property acquired in the settlement of loans is recorded at the lower of the loan's acquisition balance less cost to sell or the fair market value of the property secured less costs to sell. Appraisals are obtained at least annually on properties that exceed $1.0 million in value. Based on current appraisals, a valuation allowance may be established to reflect properly the asset at fair value.

Bank Owned Life Insurance. Bank Owned Life Insurance (BOLI) is maintained on select officers and employees of Home Savings whereby Home Savings is the beneficiary. BOLI is recorded at its cash surrender value, or the amount currently realizable. Increases in the Home Savings' policy cash surrender value are tax exempt and death benefit proceeds received by Home Savings are tax-free. Income from these policies and changes in the cash surrender value are recorded in other income. There is no post-termination coverage, split dollar or other benefits provided to participants covered by the BOLI. During the year, the Company purchased additional BOLI totaling $5.0 million. Home Savings recognized $1.6 million and $1.5 million as other non-interest income based on the change in cash value of the policies in the twelve months ended December 31, 2017 and 2016, respectively.

Other Assets. Other assets decreased $4.8 million during 2017. The decrease was driven by the decline of net deferred tax assets and an other asset impairment charge of $2.3 million. In 2003, Home Savings entered into two development loans on which the borrower subsequently filed bankruptcy, and a court appointed receiver liquidated the collateral. The proceeds from the sale of the collateral have remained in escrow with the Court since 2007 as a number of competing claims were made against the proceeds. In 2011, a lower court affirmed Home Savings' priority position in the proceeds, and its lien validity was affirmed by the same Court in 2016. However, in December 2017, an Appellate Court ruled that a portion of the proceeds should be awarded to another claimant. The $2.3 million charge reflects the appellate court ruling. The Company intends to continue to pursue a full recovery. These decreases were offset by an increase in an investment related to low-income housing aggregating $3.0 million in 2017. As of December 31, 2017, the net DTA was $4.2 million, and as of December 31, 2016, the net DTA was $12.7 million.

Total Deposits. Total deposits increased $441.7 million to $2.0 billion at December 31, 2017, compared to $1.5 billion at December 31, 2016. Deposits increased $266.3 million as a result of the merger. Non-interest bearing accounts increased $98.1 million since the prior year-end attributable to approximately $54.8 million in non-interest bearing deposits from the merger along

with $43.3 million in organic growth. The organic growth was primarily due in an increase in commercial deposits. Interest bearing deposits grew $343.7 million during 2017 of which approximately $211.5 million came from the merger. An additional $80 million in growth was due to increased use of brokered deposits in 2017. The remaining increase of $52.2 million was due to organic growth.

FHLB Advances. Funds needed in excess of deposit growth are borrowed in the normal course of business, if necessary. Home Savings has an established credit relationship with the FHLB of Cincinnati under which Home Savings could borrow up to an additional $256.8 million as of December 31, 2017. These borrowings are collateralized by residential mortgage loans. Of the total borrowing capacity at the FHLB, Home Savings had outstanding term advances of $48.5 million with an effective rate of 3.26% and overnight advances of $308.0 million with a rate of 1.42 % at December 31, 2017.

Shareholders' Equity. Shareholders' equity increased $44.5 million to $294.3 million at December 31, 2017, from $249.8 million at December 31, 2016. Over half of this increase was due to the merger which added $25.8 million to shareholders' equity in 2017. Net income offset by cash dividends of $7.0 million in 2017 accounted for the majority of the remaining change.

Accumulated other comprehensive income increased $2.4 million from December 31, 2016 to December 31, 2017. Unrealized losses on securities included in other comprehensive income have not been recognized in income at December 31, 2017 and December 31, 2016 because the issuer's securities are of high credit quality (rated AA or higher), management does not intend to sell (and it is likely that management will not be required to sell) the securities prior to their anticipated recovery, and the decline in fair value is largely due to the level of longer-term interest rates in 2017 and 2016. The fair value is expected to recover as the investments approach maturity.

Events beyond management's control, such as fluctuations in interest rates or a downturn in the economy in areas in which Home Savings' loans and securities are concentrated, could adversely affect future earnings and consequently Home Savings' ability to meet its future capital requirements.

Book value per common share as of December 31, 2017 was $5.90 as compared to $5.36 per common share as of December 31, 2016. Book value per share is calculated as total common equity divided by the number of common shares outstanding. Book value was impacted by the overall change in equity as discussed above.

Material Changes in Operating Results for the Years Ended December 31, 2017 and December 31, 2016

Net Income. United Community recognized net income for the twelve months ended December 31, 2017, of $21.8 million, or $0.44 per diluted common share, compared to net income of $18.8 million, or $0.40 per diluted common share.

The significant change in earnings for 2017 was primarily a result of higher pretax income due to the merger and organic growth. Net interest income for 2017 increased $18.3 million while the provision for loan losses decreased $1.1 million during the same period. Additionally, non-interest income increased $3.2 million and noninterest expense increased $16.2 million with $4.2 million of the increase related to merger costs. United Community's return on average assets and return on average equity were 0.85% and 7.63%, respectively for the twelve months ended December 31, 2017 and 0.91% and 7.58%, respectively, for the twelve months ended December 31, 2016. Impacting the comparison were three charges that were recognized. In the fourth quarter, a revaluation of net deferred tax assets increased tax expense $1.5 million and an asset write down of $1.5 million, after tax, was prompted by an unfavorable ruling from an Appellate Court. For the year, non-recurring merger related expenses totaling $3.3 million, after tax, were also recognized.

Net Interest Income. Net interest income was $81.3 million in 2017, up from the $63.0 million recorded in 2016. Net interest margin increased 17 basis points to 3.41% for the twelve months ended December 31, 2017 compared to 3.24% for the twelve months ended December 31, 2016.

Total interest income increased by $23.0 million in 2017 compared to 2016, to $94.4 million from $71.4 million. The increase is a primarily a result of an increase in average net loans and loans held for sale and along with increased yield on loans and securities. The increased loan yield was due to the impact of purchase accounting adjustments from the merger along with higher yields being realized on net loans as interest rates rose in 2017. Average net loans increased $461.2 million in 2017 compared to the same period in 2016 and yields increased 15 basis points to 4.28% for the twelve months ended December 31, 2017 from 4.13% for the same period in 2016. Average loans held for sale increased $35.5 million in 2017 compared to 2016, while yields climbed to 4.06% for the twelve months ended December 31, 2017 from 3.82% for the same period in 2016. Interest income from net loans increased to $79.8 million for the twelve months ended December 31, 2017 compared to $57.9 million for the same period in 201, and income from loans held for sale increased to $3.3 million for the twelve months ended December 31, 2017 compared to $1.8 million for the same period in 2016. These increases were partially offset by a decline of $1.1 million in income on available for sale and held to maturity securities.

Interest expense increased by $4.7 million in 2017 to $13.2 million compared to $8.4 million during the same period in 2016. This increase was due to a $349.1 million increase in average interest-bearing liabilities along with a 14 basis point increase in the cost of interest-bearing liabilities in 2017. The increase in average interest-bearing liabilities was due to the merger, organic growth in deposits and an increased used of brokered certificates of deposit. The increase in the cost of interest-bearing liabilities was primarily driven by increases in yields on brokered certificates of deposits and borrowed funds due to rising interest rates. Interest expense related to interest-bearing deposits was $8.4 million in 2017 compared to $5.9 million in 2016. Interest expense on borrowed funds totaled $13.2 million in 2017 compared to $8.4 million in 2016.

Provision for Loan Losses. A provision for loan losses is charged to income to bring the total allowance for loan losses to a level considered by management to be adequate, based on management's evaluation of such factors as the delinquency status of loans, current economic conditions, the net realizable value of the underlying collateral, changes in the composition of the loan portfolio and prior loan loss experience. The Company recognized a loan loss provision of $4.3 million in 2017, compared to $5.4 million in 2016. The decrease in provision expense during 2017 was driven by lower net charge-offs offset by strong loan growth. For the twelve months ended December 31, 2017, net charge-offs to average outstanding loans were 12 basis points. This compares to 29 basis points for the same period in 2016. The Company recorded a charge-off of $2.5 million during 2016, related to one long-held nonresidential commercial real estate loan which contributed to the higher charge-off ratio.

Noninterest Income. Non-interest income was $25.2 million in 2017 compared to $22.1 million in 2016. Positively impacting the comparison was the benefit of trust fee income totaling $1.6 million associated with the merger of OLCB. Also contributing to the change were increases of $320,000 for insurance agency income, $150,000 for deposit related fees, $274,000 for mortgage banking income, $369,000 for debit/credit card fees and a one-time gain of $595,000 for the sale of a building the Company owned. Offsetting this was a $123,000 decline in brokerage income and a $96,000 increase in the losses associated with the sale of real estate owned and other repossessed assets.

Noninterest Expense. Non-interest expense was $68.3 million for the twelve months ended December 31, 2017, which represented an increase of $16.2 million, or 31.2%, from the twelve months ended December 31, 2016. The merger of OLCB and the operating expenses of the acquired branches for the year negatively affected the current comparison along with an increase in merger related expenses. The merger related expenses totaled $5.0 million in 2017 compared to $787,000 in 2016. In addition, the Company recognized a $2.3 million asset write down in 2017. In 2003, Home Savings entered into two development loans on which the borrower subsequently filed bankruptcy, and a court appointed receiver liquidated the collateral. The proceeds from the sale of the collateral have remained in escrow with the court since 2007 as a number of competing claims were made against the proceeds. In 2011, a lower court affirmed Home Savings' priority position in the proceeds, and its lien validity was affirmed by the same court in 2016. However, in December 2017, an appellate court ruled that a portion of the proceeds should be awarded to another claimant. The $2.3 million charge reflects the Appellate court ruling. The efficiency ratio increased to 64.28% for 2017 compared to 61.01% for 2016 primarily due to the merger expenses and the write down.

Federal Income Taxes. During the twelve months ended December 31, 2017, the Company recognized tax expense of $11.3 million on pre-tax income of $33.1 million, compared to tax expense of $8.1 million on pre-tax income of $27.0 million for the twelve months ended December 31, 2016. The primary reason for the variance was higher pre-tax income. In addition, the Company recognized $1.5 million of additional tax expense in 2017 from the revaluation of its deferred tax assets and liabilities due to the enactment of the Tax Cuts and Jobs Act on December 22, 2017.

Material Changes in Operating Results for the Years Ended December 31, 2016 and December 31, 2015

Net Income. United Community recognized net income for the twelve months ended December 31, 2016, of $18.8 million, or $0.40 per diluted common share, compared to net income of $16.3 million, or $0.34 per diluted common share.

The significant change in earnings for 2016 was primarily a result of higher pretax income. Net interest income for 2016 increased $5.8 million. The provision for loan losses increased $3.3 million during the same period. Additionally, non-interest income increased $2.4 million and noninterest expense increased $2.1 million. United Community's annualized return on average assets and return on average equity were 0.91% and 7.58%, respectively for the twelve months ended December 31, 2016 and 0.85% and 6.65%, respectively, for the twelve months ended December 31, 2015.

Net Interest Income. Net interest income was $62.3 million in 2016, up from the $56.5 million recorded in 2015. Net interest margin increased six basis points to 3.24% for the twelve months ended December 31, 2016 compared to 3.18% for the twelve months ended December 31, 2015.

Total interest income increased by $5.1 million in 2016 compared to 2015, to $70.7 million from $65.6 million. The increase is a result of an increase in average net loans and loans held for sale, offset by lower yields received on these balances. Average net loans increased $182.0 million 2016 compared to the same period in 2015 and yields declined 18 basis points to 4.13% for the twelve months ended December 31, 2016 from 4.31% for the same period in 2015. Average loans held for sale increased $11.2 million in 2016 compared to 2015, while yields declined to 3.82% for the twelve months ended December 31, 2016 from 4.03% for the same period in 2015. Interest income from net loans increased to $57.9 million for the twelve months ended December 31, 2016 compared to $52.6 million for the same period in 2015, and income from loans held for sale increased to $1.8 million for the twelve months ended December 31, 2016 compared to $1.4 million for the same period in 2015. These increases were partially offset by a decline of $581,000 in income on available for sale and held to maturity securities.

Interest expense decreased by $685,000 in 2016 to $8.4 million compared to $9.1 million during the same period in 2015. This decrease was due to a ten basis point decline in the average cost of interest-bearing liabilities in 2016 primarily due to the prepayment of a repurchase agreement in the fourth quarter of 2015. Interest expense related to interest-bearing deposits was $5.9 million in 2016 compared to $6.5 million in 2015. Expenses on FHLB advances and securities sold under repurchase agreements and other borrowings were $2.5 million and $20,000 respectively in 2016 compared to $1.3 million and $1.3 million respectively in 2015.

Provision for Loan Losses. A provision for loan losses is charged to income to bring the total allowance for loan losses to a level considered by management to be adequate, based on management's evaluation of such factors as the delinquency status of loans, current economic conditions, the net realizable value of the underlying collateral, changes in the composition of the loan portfolio and prior loan loss experience. The Company recognized a loan loss provision of $5.4 million in 2016, compared to $2.1 million in 2015. The increase in provision expense during 2016 was driven by strong loan growth. Additionally, the Company recorded a charge-off of $2.5 million during 2016, related to one long-held nonresidential commercial real estate loan. For the twelve months ended December 31, 2016, net charge-offs to average outstanding loans was 29 basis points. This compares to 17 basis points for the same period in 2015.

Noninterest Income. Non-interest income was $22.1 million in 2016 compared to $19.7 million in 2015. Positively impacting the comparison was the benefit of insurance agency income totaling $1.7 million. Also contributing to the change was an increase of $102,000 of deposit related fees along with an increase of $166,000 in brokerage income and a $162,000 increase in debit/credit card fees. A decrease in losses incurred on real estate owned and other repossessed assets of $352,000 also contributed to the change. Lastly, security gains totaling $604,000 were $462,000 higher in 2016, when compared to 2015.

Noninterest Expense. Non-interest expense was $52.0 million for the twelve months ended December 31, 2016, which represented an increase of $2.1 million, or 4.2%, from the twelve months ended December 31, 2015. The acquisition of James & Sons Insurance and its operating expenses of $1.3 million for the year negatively affected the current comparison. During the fourth quarter of 2016, United Community recognized $787,000 in merger related expenses associated with the OLCB merger that closed on January 31, 2017. Also affecting the comparison, equipment and data processing charges increased $699,000 and Financial Institutions Tax increased $453,000. The efficiency ratio improved to 61.01% for 2016 compared to 65.10% for 2015.

Federal Income Taxes. During the twelve months ended December 31, 2016, the Company recognized a tax expense of $8.1 million on pre-tax income of $27.0 million, compared to a tax expense of $7.9 million on pre-tax income of $24.2 million for the twelve months ended December 31, 2015. The primary reason for the variance was higher pre-tax income offset by the Company's investment in non-taxable municipal securities and the tax benefit recognized

from the reversal of the disproportionate tax effect of $511,000 associated with the termination of postretirement benefits. The effective tax rate for 2016 was 30.2% compared to 32.6% for 2015.

Critical Accounting Policies and Estimates

The accounting and reporting policies of United Community comply with accounting principles generally accepted within the United States of America and conform to general practices within the financial services industry. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements. Accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments.

The most significant accounting policies followed by United Community are presented in Note 1 to the consolidated financial statements. Accounting and reporting policies for the allowance for loan losses, income taxes, mortgage servicing rights and other-than-temporary impairment are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different from those used by management could result in material changes in United Community's financial position or results of operations.

Allowance for Loan Losses. The allowance for loan losses is an amount that management believes will be adequate to absorb probable incurred losses in existing loans taking into consideration such factors as past loss experience, changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, collateral values securing loans and current economic conditions that affect the borrower's ability to pay. Determination of the allowance inherently is subjective due to the aforementioned reasons. Loan losses are charged-off against the allowance when management believes that the full collectability of the loan is unlikely. Recoveries of amounts previously charged-off are credited to the allowance.

Home Savings maintains a well-documented methodology for maintaining an allowance for loan losses that management believes is compliant with all applicable regulatory guidance and GAAP. The documentation of the adequacy of the allowance for loan losses is reviewed by the board of directors on a quarterly basis.

The allowance is based on management's evaluation of homogeneous groups of loans (single-family residential mortgage loans and all consumer credit except marine loans) to which loss factors have been applied, as well as an evaluation of individual credits (multi-family, nonresidential mortgage loans, marine loans and commercial loans) based on internal risk ratings, collateral and other unique characteristics of each loan.

Management believes that it uses the best information available to determine the adequacy of the allowance for loan losses. However, future adjustments to the allowance may be necessary and the results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

Mortgage Servicing Rights. The cost of mortgage loans sold or securitized is allocated between the mortgage servicing rights and the mortgage loans based on the relative fair values of each. The fair value of the mortgage servicing rights is determined by using a discounted cash flow model, which estimates the present value of the future net cash flows of the servicing portfolio, about which management must make assumptions considering future expectations based on various factors, such as servicing costs, expected prepayment speeds and discount rates.

Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income. Management evaluates mortgage servicing rights for impairment on a quarterly basis by stratifying the loans by original maturity, interest rate and loan type. Impairment is measured by estimating the fair value of each pool, taking into consideration the estimated level of prepayments based upon current industry expectations. An impairment allowance is recorded for a pool when, and in an amount which, its fair value is less than its carrying value.

The value of mortgage servicing rights is subject to prepayment risk. Future expected net cash flows from servicing a loan will not be realized if the loan pays off earlier than anticipated. Since most of these loans do not contain prepayment penalties, the Company receives no economic benefit if the loan pays off earlier than anticipated.

Income Taxes. We are subject to the income tax laws of the United States, its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly, and as new information becomes available, the balances are adjusted as appropriate. We assess any uncertain tax positions using a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements.

Valuation of Investment Securities. Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether we intend to sell the security or more likely than not will be required to sell the security

before recovery of its amortized cost basis less any current-period credit loss. To determine whether impairment is other-than-temporary, we consider all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Factors considered in this assessment include the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the obligor, and the general market conditions in the geographic area or industry the in vestee operates in.

If we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated, into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total impairment related to other factors is recognized in other comprehensive income.

Yields Earned and Rates Paid

The following table sets forth certain information relating to United Community's average balance sheet and reflects the average yield on interest earning assets and the average cost of interest bearing liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balances of interest earning assets or interest bearing liabilities, respectively, for the periods presented. Average balances are derived from daily balances. Nonaccruing loans have been included in the table as loans carrying a zero yield. Loan fees are included in interest income. The average balance for securities available for sale is computed using the carrying value, and the average yield on securities available for sale has been computed using the historical amortized cost average balance.

| | Year ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2016 | | | | 2015 | | | |
| | Average outstanding balance | Interest earned/ paid | Yield/ rate | | Average outstanding balance | Interest earned/ paid | Yield/ rate | | Average outstanding balance | Interest earned/ paid | Yield/ rate | |
| | (Dollars in thousands) | | | | | | | | | | | |
| Interest earning assets: | | | | | | | | | | | | |
| Net loans (1) | $1,863,900 | $79,802 | 4.28 | % | $1,402,706 | $57,909 | 4.13 | % | $1,220,698 | $52,620 | 4.31 | % |
| Loans held for sale | 81,368 | 3,301 | 4.06 | % | 45,896 | 1,755 | 3.82 | % | 34,665 | 1,396 | 4.03 | % |
| Total loans, net | 1,945,268 | 83,103 | 4.27 | % | 1,448,602 | 59,664 | 4.12 | % | 1,255,363 | 54,016 | 4.30 | % |
| Securities: | | | | | | | | | | | | |
| Available for sale-taxable | 246,128 | 5,579 | 2.27 | % | 311,231 | 6,915 | 2.22 | % | 452,005 | 10,141 | 2.24 | % |
| Available for sale-nontaxable | 59,131 | 2,460 | 4.16 | % | 41,114 | 1,679 | 4.08 | % | 1,307 | 53 | 4.06 | % |
| Held to maturity-taxable | 79,361 | 1,764 | 2.22 | % | 93,597 | 1,989 | 2.13 | % | 26,250 | 590 | 2.25 | % |
| Held to maturity-nontaxable | 10,180 | 326 | 3.20 | % | 12,598 | 378 | 3.00 | % | 4,467 | 146 | 3.27 | % |
| Total securities | 394,800 | 10,129 | 2.57 | % | 458,540 | 10,961 | 2.39 | % | 484,029 | 10,930 | 2.26 | % |
| Federal Home Loan Bank stock | 19,221 | 961 | 5.00 | % | 18,068 | 723 | 4.00 | % | 18,068 | 723 | 4.00 | % |
| Other interest earning assets | 26,604 | 228 | 0.86 | % | 19,885 | 67 | 0.34 | % | 19,806 | 35 | 0.18 | % |
| Total interest earning assets | 2,385,893 | 94,421 | 3.96 | % | 1,945,095 | 71,415 | 3.67 | % | 1,777,266 | 65,704 | 3.70 | % |
| Non-interest earning assets | 178,267 | | | | 133,555 | | | | 133,489 | | | |
| Total assets | $2,564,160 | | | | $2,078,650 | | | | $1,910,755 | | | |
| Interest bearing liabilities: | | | | | | | | | | | | |
| Deposits: | | | | | | | | | | | | |
| Checking accounts | $597,686 | $1,874 | 0.31 | % | $489,838 | $1,012 | 0.21 | % | $480,520 | $919 | 0.19 | % |
| Savings accounts | 305,641 | 112 | 0.04 | % | 289,506 | 124 | 0.04 | % | 279,964 | 148 | 0.05 | % |
| Certificates of deposit | | | | | | | | | | | | |
| Customer certificates of deposit | 507,968 | 5,030 | 0.99 | % | 430,474 | 4,710 | 1.09 | % | 446,148 | 5,459 | 1.22 | % |
| Brokered certificates of deposit | 133,326 | 1,421 | 1.07 | % | 12,243 | 76 | 0.62 | % | — | — | — | % |
| Total certificates of deposit | 641,294 | 6,451 | 1.01 | % | 442,717 | 4,786 | 1.08 | % | 446,148 | 5,459 | 1.22 | % |
| Total interest bearing deposits | 1,544,621 | 8,437 | 0.55 | % | 1,222,061 | 5,922 | 0.48 | % | 1,206,632 | 6,526 | 0.54 | % |
| Federal Home Loan Bank advances | | | | | | | | | | | | |
| Long-term advances | 48,118 | 1,510 | 3.14 | % | 47,337 | 1,252 | 2.64 | % | 46,555 | 1,059 | 2.27 | % |
| Short-term advances | 311,179 | 3,189 | 1.02 | % | 288,448 | 1,234 | 0.43 | % | 145,740 | 275 | 0.19 | % |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Federal Home Loan Bank advances | 359,297 | 4,699 | 1.31 | % | 335,785 | 2,486 | 0.74 | % | 192,295 | 1,334 | 0.69 | % |
| Repurchase agreements and other | 3,584 | 21 | 0.59 | % | 523 | 20 | 3.82 | % | 29,891 | 1,253 | 4.19 | % |
| Total borrowed funds | 362,881 | 4,720 | 1.30 | % | 336,308 | 2,506 | 0.75 | % | 222,186 | 2,587 | 1.16 | % |
| Total interest bearing liabilities | 1,907,502 | 13,157 | 0.69 | % | 1,558,369 | 8,428 | 0.54 | % | 1,428,818 | 9,113 | 0.64 | % |
| Non-interest bearing deposits | 333,495 | | | | 242,384 | | | | 209,165 | | | |
| Other non-interest bearing liabilities | 37,652 | | | | 29,535 | | | | 27,977 | | | |
| Total non-interest bearing liabilities | 371,147 | | | | 271,919 | | | | 237,142 | | | |
| Total liabilities | 2,278,649 | | | | 1,830,288 | | | | 1,665,960 | | | |
| Shareholders' equity | 285,511 | | | | 248,362 | | | | 244,795 | | | |
| Total liabilities and equity | $2,564,160 | | | | $2,078,650 | | | | $1,910,755 | | | |
| Net interest income and interest rate spread | | $81,264 | 3.27 | % | | $62,987 | 3.13 | % | | $56,591 | 3.06 | % |
| Net interest margin | | | 3.41 | % | | | 3.24 | % | | | 3.18 | % |
| Average interest earning assets to average interest bearing liabilities | | | 125.08 | % | | | 124.82 | % | | | 124.39 | % |

(1) Nonaccrual loans are included in the average balance.

The table below describes the extent to which changes in interest rates and changes in volume of interest earning assets and interest bearing liabilities have affected United Community's interest income and interest expense during the periods indicated. For each category of interest earning assets and interest bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior period rate), (ii) changes in rate (change in rate multiplied by prior period volume) and (iii) total changes in rate and volume. The combined effects of changes in both volume and rate, which cannot be separately identified, have been allocated in proportion to the changes due to volume and rate:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 vs. 2016 | | | 2016 vs. 2015 | | |
| | Increase (decrease) due to | | Total increase (decrease) | Increase (decrease) due to | | Total increase (decrease) |
| | Rate | Volume | | Rate | Volume | |
| | (Dollars in thousands) | | | | | |
| Interest earning assets: | | | | | | |
| Loans | $2,219 | $19,674 | $ 21,893 | $(2,094) | $7,383 | $ 5,289 |
| Loans held for sale | 113 | 1,433 | 1,546 | (66) | 425 | 359 |
| Securities: | | | | | | |
| Available for sale-taxable | 143 | (1,479) | (1,336) | (97) | (3,129) | (3,226) |
| Available for sale-nontaxable | 32 | 749 | 781 | — | 1,626 | 1,626 |
| Held to maturity-taxable | 97 | (322) | (225) | (30) | 1,429 | 1,399 |
| Held to maturity-nontaxable | 28 | (80) | (52) | (12) | 243 | 231 |
| Federal Home Loan Bank stock | 190 | 48 | 238 | — | — | — |
| Other interest earning assets | 132 | 29 | 161 | 32 | — | 32 |
| Total interest earning assets | $2,954 | $20,052 | $ 23,006 | $(2,267) | $7,977 | $ 5,710 |
| Interest bearing liabilities: | | | | | | |
| Checking accounts | $(20) | $8 | $ (12) | $(43) | $6 | $ (37) |
| Savings accounts | 605 | 257 | 862 | (13) | 19 | 6 |
| Customer certificates of deposit | (357) | 677 | 320 | (532) | (41) | (573) |
| Brokered certificates of deposit | 91 | 1,254 | 1,345 | — | — | — |
| Long term Federal Home Loan Bank advances | 237 | 21 | 258 | 175 | 18 | 193 |
| Short term Federal Home Loan Bank advances | 1,851 | 104 | 1,955 | 541 | 418 | 959 |
| Repurchase agreements and other | — | 1 | 1 | (101) | (1,132) | (1,233) |
| Total interest bearing liabilities | $2,407 | $2,322 | 4,729 | $27 | $(712) | (685) |
| Change in net interest income | | | $ 18,277 | | | $ 6,395 |

Contractual Obligations, Commitments, Contingent Liabilities and Off-balance Sheet Arrangements

The following table presents, as of December 31, 2017, United Community's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums, discounts, or other similar carrying value adjustments. Further detail of the nature of each obligation is included in the relavant note to the consolidated financial statements, which is identified following the below table.

| | Payment Due In | | | | | |
|---|---|---|---|---|---|---|
| | Note Reference | One Year or Less | One to Three Years | Three to Five Years | Over Five Years | Total |
| | (Dollars in thousands) | | | | | |
| Operating leases | 8 | $1,014 | $1,721 | $1,480 | $2,978 | $7,193 |
| Deposits without a stated maturity | 10 | 1,251,398 | — | — | — | 1,251,398 |
| Certificates of deposit | 10 | 433,136 | 212,480 | 43,592 | 16,133 | 705,341 |
| Federal Home Loan Bank advances | 11 | 308,000 | 48,536 | — | — | 356,536 |
| Repurchase agreements and other borrowings | 12 | 197 | — | — | — | 197 |
| Low income housing commitments | 25 | 1,775 | 2,337 | 426 | 798 | 5,336 |

Discussion of loan commitments is included in Note 5 to the consolidated financial statements. In addition, United Community has commitments under benefit plans as described in Note 17 to the consolidated financial statements.

Potential Impact of Changes in Interest Rates

Home Savings' profitability depends to a large extent on its net interest income, which is the difference between interest income from loans and securities and interest expense on deposits and borrowings. Like most financial institutions, Home Savings' short-term interest income and interest expense are significantly affected by changes in market interest rates and other economic factors beyond its control. Accordingly, Home Savings' earnings could be adversely affected during a continued period of low interest rates or a continued period of rising interest rates.

The impact of changes in interest rates is further described in Item 7A in this Annual Report of Form 10-K.

Liquidity and Capital

United Community's liquidity, primarily represented by cash and cash equivalents, is a result of its operating, investing and financing activities. These activities are summarized below for the years indicated.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Net income | $21,785 | $18,828 | $16,282 |
| Adjustments to reconcile net income to net cash from operating activities | 27,934 | (10,318) | (3,360) |
| Net cash from operating activities | 49,719 | 8,510 | 12,922 |
| Net cash from investing activities | (148,125) | (177,145) | (147,472) |
| Net cash from financing activities | 99,399 | 178,612 | 137,480 |
| Net change in cash and cash equivalents | 993 | 9,977 | 2,930 |
| Cash and cash equivalents at beginning of year | 45,887 | 35,910 | 32,980 |
| Cash and cash equivalents at end of year | $46,880 | $45,887 | $35,910 |

The principal sources of funds for United Community are deposits, loan repayments, maturities of securities, borrowings from financial institutions, repurchase agreements and other funds provided by operations. Home Savings also has the ability to borrow from the FHLB. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan prepayments are more influenced by interest rates, general economic conditions and competition. Investments in liquid assets maintained by United Community and Home Savings are based upon management's assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset and liability management program. At December 31, 2017, approximately $433.1 million of Home Savings' certificates of deposit were expected to mature within one year. Based on past experience and Home Savings' prevailing pricing strategies, management believes that a substantial percentage of such certificates will be renewed with Home Savings at maturity, although there can be no assurance that this will occur.

Home Savings' Asset/Liability Committee (ALCO) is responsible for establishing and monitoring liquidity guidelines, policies and procedures. ALCO uses a variety of methods to monitor the liquidity position of Home Savings including a liquidity analysis that measures potential sources and uses of funds over future time periods out to one year. ALCO also performs contingency funding analyses to determine Home Savings' ability to meet potential liquidity needs under stress scenarios that cover varying time horizons ranging from immediate to long-term.

At December 31, 2017, United Community had total on-hand liquidity, defined as cash and cash equivalents, unencumbered securities and additional FHLB borrowing capacity, of $498.5 million.

United Community and Home Savings are subject to certain risk-based capital and leverage ratio requirements adopted by their bank regulatory agencies. These quantitative calculations are minimums, and the regulatory agencies may determine that either company, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner.

Under the capital rules, United Community's and Home Savings' assets, exposures and certain off-balance sheet items are subject to risk weights used to determine the institutions' risk-weighted assets. These risk-weighted assets are used to calculate the following minimum capital ratios:

- Tier 1 Leverage Ratio, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets and certain other deductions).

- Common Equity Tier 1(CET1) Risk-Based Capital Ratio, equal to the ratio of CET1 capital to risk-weighted assets. CET1 capital primarily includes common shareholders' equity subject to certain regulatory adjustments and deductions. Certain of these adjustments and deductions are subject to phase-in periods that began on January 1, 2015 and ended on January 1, 2018. Together with the FDIC, the Federal Reserve and OCC have issued proposed rules that would simplify the capital treatment of certain capital deductions and adjustments. The final phase-in period for these capital deductions and adjustments has been indefinitely delayed.

- Tier 1 Risk-Based Capital Ratio, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital is primarily comprised of CET1 capital, perpetual preferred stock and certain qualifying capital instruments.

- Total Risk-Based Capital Ratio, equal to the ratio of total capital, including CET1 capital, Tier 1 capital and Tier 2 capital, to risk-weighted assets. Tier 2 capital primarily includes qualifying subordinated debt and qualifying ALLL. Tier 2 capital also includes, among other things, certain trust preferred securities.

In addition to meeting the minimum capital requirements, United Community and Home Savings must also maintain a required capital conservation buffer to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The capital conservation buffer is calculated as a ratio of CET1 capital to risk-weighted assets, and it effectively increases the required minimum risk-based capital ratios. The capital conservation buffer requirement is being phased in over a three-year period that began on January 1, 2016. When the phase-in period is complete on January 1, 2019, the capital conservation buffer requirement will be 2.5%. Throughout 2017, the required capital conservation buffer was 1.25%, and the required capital conservation buffer throughout 2018 will be 1.875%.

In addition to the capital adequacy minimums applicable to both United Community and Home Savings, the prompt corrective action regulations applicable only to Home Savings set forth five categories based on the levels of a bank's capital, the highest of which is "well capitalized." Failure to be well capitalized or to meet minimum capital adequacy requirements under the prompt corrective action framework could result in certain mandatory and possible additional discretionary actions by the FRB or the FDIC that, if undertaken, could have a material adverse effect on our operations or financial condition.

The FRB has also adopted capital requirements United Community must maintain to be deemed "well capitalized" and to maintain its status as a financial holding company, which permits United Community to engage in activities that are not permitted to bank holding companies that do not meet financial holding company requirements.

The table below sets forth United Community's and Home Savings' required regulatory capital ratios as of December 31, 2017, and the actual capital of each of United Community and Home Savings at December 31, 2017 and 2016, calculated using the regulatory capital methodology applicable to us during each of those years.

| | | Minimum Regulatory Capital Ratios | Minimum Ratio With Capital Conservation Buffer | Well- Capitalized Minimums | December 31, 2017 Ratio | Amount | 2016 Ratio | Amount |
|---|---|---|---|---|---|---|---|---|
| | | | | | (dollars in thousands) | | | |
| Tier 1 leverage | United Community | 4.00 % | N/A | N/A | 10.91 % | $285,320 | 11.98 % | $258,869 |
| | Home Savings | 4.00 % | N/A | 5.00 % | 10.41 % | 271,353 | 10.65 % | 229,938 |
| CET 1 risk-based capital | United Community | 4.50 % | 5.75 % | N/A | 14.28 % | 285,320 | 17.13 % | 258,869 |
| | Home Savings | 4.50 % | 5.75 % | 6.50 % | 13.62 % | 271,353 | 15.22 % | 229,938 |
| Tier 1 risk-based capital | United Community | 6.00 % | 7.25 % | 6.00 % | 14.28 % | 285,320 | 17.13 % | 258,869 |
| | Home Savings | 6.00 % | 7.25 % | 8.00 % | 13.62 % | 271,353 | 15.22 % | 229,938 |
| Total risk-based capital | United Community | 8.00 % | 9.25 % | 10.00 % | 15.34 % | 306,522 | 18.38 % | 277,817 |
| | Home Savings | 8.00 % | 9.25 % | 10.00 % | 14.69 % | 292,504 | 16.57 % | 248,861 |

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Qualitative Aspects of Market Risk. The principal market risk affecting United Community is interest rate risk. United Community is subject to interest rate risk to the extent that its interest earning assets reprice differently than its interest bearing liabilities. Interest rate risk is defined as the sensitivity of United Community's earnings and net asset values to changes in interest rates. As part of its efforts to monitor and manage the interest rate risk, the Board of Directors of Home Savings has adopted an interest rate risk policy that requires the Home Savings Board to review quarterly reports related to interest rate risk and to annually set exposure limits for Home Savings as a guide to management in setting and implementing day to day operating strategies.

Quantitative Aspects of Market Risk. As part of its interest rate risk analysis, Home Savings uses the net portfolio value (NPV) and net interest income methodology. Generally, NPV is the discounted present value of the difference between incoming cash flows on interest earning and other assets and outgoing cash flows on interest bearing and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the NPV and net interest income that would result from various levels of theoretical basis point changes in market interest rates.

Home Savings uses an NPV and earnings simulation model prepared internally as its primary method to identify and manage its interest rate risk profile. The model is based on actual cash flows and repricing characteristics for all financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on future volumes and the prepayment rate of applicable financial instruments. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates also are incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure NPV or net interest income or precisely predict the impact of fluctuations in interest rates on net interest rate changes as well as changes in market conditions and management strategies.

Presented below are analyses of Home Savings' interest rate risk as measured by changes in NPV and net interest income for instantaneous and sustained parallel shifts of 100 basis point increments in market interest rates. As noted, for the year ended December 31, 2017, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings as the minimum NPV ratio and the maximum change in interest income the Home Savings Board deems advisable in the event of various changes in interest rates. See the table below for Board adopted policy limits.

Year Ended December 31, 2017

| NPV as % of portfolio value of assets | | | | | Next 12 months net interest income (Dollars in thousands) | | |
|---|---|---|---|---|---|---|---|
| Change in rates (Basis points) | NPV Ratio | Internal policy limitations | NPV Ratio Change% | Internal policy limitations on NPV % Change | $ Change | Internal policy limitations | % Change |
| 400 | 11.38% | 6.00% | (6.58)% | -25.00% | $(2,988) | (18.00)% | (3.57)% |
| 300 | 11.80% | 6.00% | (3.17)% | -20.00% | (2,145) | (13.00)% | (2.56)% |
| 200 | 12.21% | 7.00% | 0.21% | -15.00% | (1,328) | (8.00)% | (1.59)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 100 | 12.32 % | 7.00 % | 1.11 % | -10.00 % | (633 ) | (3.00 )% | (0.76 )% |
| Static | 12.19 % | 9.00 % | 0.00 % | 0.00 % | — | — % | — % |
| -100 | 11.42 % | 7.00 % | (6.29 )% | -15.00 % | (1,525 ) | (5.00 )% | (1.82 )% |

Year Ended December 31, 2016

| NPV as % of portfolio value of assets | | | | | Next 12 months net interest income (Dollars in thousands) | | |
|---|---|---|---|---|---|---|---|
| Change in rates (Basis points) | NPV Ratio | Internal policy limitations | NPV Ratio Change% | Internal policy limitations on NPV % Change | $ Change | Internal policy limitations | % Change |
| 400 | 10.04 % | 6.00 % | (17.12 )% | -30.00 % | $ (8,716 ) | (20.00 )% | (13.27 )% |
| 300 | 10.73 % | 6.00 % | (11.46 )% | -25.00 % | (6,903 ) | (15.00 )% | (10.51 )% |
| 200 | 11.35 % | 7.00 % | (6.38 )% | -20.00 % | (4,198 ) | (10.00 )% | (6.39 )% |
| 100 | 11.88 % | 7.00 % | (1.96 )% | -15.00 % | (1,726 ) | (5.00 )% | (2.63 )% |
| Static | 12.12 % | 9.00 % | 0.00 % | 0.00 % | — | — % | — % |

Due to a low interest rate environment, it was not meaningful to calculate results for a drop in interest rates at December 31, 2016.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the above approach. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. In addition, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Further, in the event of a change in interest rates, expected rates of prepayment on loans and early withdrawal levels from certificates of deposit may deviate significantly from those assumed in making risk calculations.

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Assets: | | |
| Cash and deposits with banks | $34,365 | $ 27,690 |
| Federal funds sold | 12,515 | 18,197 |
| Total cash and cash equivalents | 46,880 | 45,887 |
| Securities: | | |
| Available for sale, at fair value | 270,561 | 343,284 |
| Held to maturity (fair value of $82,126 and $96,150, respectively) | 82,911 | 97,519 |
| Loans held for sale, at lower of cost or market | 211 | 165 |
| Loans held for sale, at fair value | 83,541 | 62,593 |
| Loans, net of allowance for loan losses of $21,202 and $19,087 | 1,999,877 | 1,503,577 |
| Federal Home Loan Bank stock, at cost | 19,324 | 18,068 |
| Premises and equipment, net | 22,094 | 20,963 |
| Accrued interest receivable | 8,190 | 6,900 |
| Real estate owned and other repossessed assets, net | 1,253 | 1,777 |
| Goodwill | 20,221 | 208 |
| Customer list intangible | 2,060 | 1,356 |
| Core deposit intangible | 1,934 | 5 |
| Cash surrender value of life insurance | 62,488 | 55,861 |
| Other assets | 28,360 | 33,182 |
| Total assets | 2,649,905 | 2,191,345 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | 354,970 | 256,918 |
| Interest bearing | 1,601,769 | 1,258,073 |
| Total deposits | 1,956,739 | 1,514,991 |
| Borrowed funds: | | |
| Federal Home Loan Bank advances | | |
| Long-term Federal Home Loan Bank advances | 48,536 | 47,756 |
| Short-term Federal Home Loan Bank advances | 308,000 | 343,000 |
| Total Federal Home Loan Bank advances | 356,536 | 390,756 |
| Repurchase agreements and other borrowed funds | 197 | 512 |
| Total borrowed funds | 356,733 | 391,268 |
| Advance payments by borrowers for taxes and insurance | 25,038 | 23,812 |
| Accrued interest payable | 1,097 | 145 |
| Accrued expenses and other liabilities | 16,033 | 11,323 |
| Total liabilities | 2,355,640 | 1,941,539 |
| Commitments and contingent liabilities (Note 5 and Note 13) | — | — |
| Shareholders' Equity: | | |
| Preferred stock-no par value; 1,000,000 shares authorized and no shares issued and | — | — |

| | | |
|---|---|---|
| outstanding | | |
| Common stock-no par value; 499,000,000 shares authorized; 54,138,910 shares issued and 49,800,126 and 46,581,370 shares, respectively, outstanding | 177,458 | 174,360 |
| Retained earnings | 167,852 | 152,675 |
| Accumulated other comprehensive loss | (18,685) | (21,040) |
| Treasury stock, at cost, 4,338,784 and 7,557,540 shares, respectively | (32,360) | (56,189) |
| Total shareholders' equity | 294,265 | 249,806 |
| Total liabilities and shareholders' equity | $2,649,905 | $ 2,191,345 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

| | For the Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands, except per share data) | | |
| Interest income | | | |
| Loans | $79,795 | $57,903 | $52,619 |
| Loans held for sale | 3,301 | 1,755 | 1,396 |
| Securities available for sale, nontaxable | 1,668 | 1,129 | 35 |
| Securities available for sale, taxable | 5,579 | 6,915 | 10,141 |
| Securities held to maturity, nontaxable | 214 | 248 | 96 |
| Securities held to maturity, taxable | 1,764 | 1,989 | 590 |
| Federal Home Loan Bank stock dividends | 961 | 723 | 723 |
| Other interest earning assets | 228 | 67 | 35 |
| Total interest income | 93,510 | 70,729 | 65,635 |
| Interest expense | | | |
| Deposits | 8,437 | 5,922 | 6,526 |
| Federal Home Loan Bank advances | 4,699 | 2,486 | 1,334 |
| Repurchase agreements and other | 21 | 20 | 1,253 |
| Total interest expense | 13,157 | 8,428 | 9,113 |
| Net interest income | 80,353 | 62,301 | 56,522 |
| Provision for loan losses | 4,253 | 5,387 | 2,135 |
| Net interest income after provision for loan losses | 76,100 | 56,914 | 54,387 |
| Non-interest income | | | |
| Insurance agency income | 2,006 | 1,686 | — |
| Non-deposit investment income | 1,158 | 1,281 | 1,115 |
| Deposit related fees | 5,636 | 5,486 | 5,384 |
| Mortgage servicing fees | 3,005 | 2,833 | 2,730 |
| Mortgage servicing rights valuation | (9 ) | 39 | 19 |
| Mortgage servicing rights amortization | (1,944 ) | (2,094 ) | (1,800 ) |
| Other service fees | 125 | 135 | 75 |
| Net gains (losses): | | | |
| Securities available for sale (includes $566, $604 and $142, respectively, accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities) | 566 | 604 | 142 |
| Mortgage banking income | 6,503 | 6,444 | 6,841 |
| Real estate owned and other repossessed assets, net | (189 ) | (93 ) | (445 ) |
| Debit/credit card fees | 4,215 | 3,846 | 3,684 |
| Trust fee income | 1,618 | — | — |
| Other income | 2,549 | 1,909 | 1,972 |
| Total non-interest income | 25,239 | 22,076 | 19,717 |
| Non-interest expense | | | |

| | | | |
|---|---|---|---|
| Salaries and employee benefits (includes $0, $1,278 and $315, respectively accumulated other comprehensive income reclassifications for prior service credit on the postretirement plan). | 34,807 | 28,600 | 26,724 |
| Occupancy | 3,943 | 3,373 | 3,249 |
| Equipment and data processing | 8,944 | 7,564 | 6,865 |
| Financial institutions tax | 1,648 | 1,694 | 1,241 |
| Advertising | 991 | 845 | 737 |
| Amortization of intangible assets | 422 | 69 | 54 |
| FDIC insurance premiums | 1,078 | 940 | 1,241 |
| Other insurance premiums | 450 | 328 | 355 |
| Legal and consulting fees | 724 | 953 | 1,227 |
| Other professional fees | 2,151 | 1,046 | 1,733 |
| Prepayment penalty | — | — | 1,280 |
| Real estate owned and other repossessed asset expenses | 135 | 191 | 338 |
| Merger related expenses | 5,001 | 787 | — |
| Other expenses | 7,965 | 5,629 | 4,885 |
| Total non-interest expenses | 68,259 | 52,019 | 49,929 |
| Income before income taxes | 33,080 | 26,971 | 24,175 |
| Income tax expense (includes $198, $147 and $160 income tax expense from reclassification items) | 11,295 | 8,143 | 7,893 |
| Earnings available to common shareholders | $21,785 | $18,828 | $16,282 |

(Continued)

46

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

| | For the Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands, except per share data) | | |
| Net income | $21,785 | $18,828 | $16,282 |
| Other comprehensive income (loss) | | | |
| Unrealized gains (losses) on securities available for sale, net of reclassifications and tax of $1,093, $(344) and $444, respectively | 2,578 | (638) | 824 |
| Accretion of unrealized losses on securities transferred from available for sale to held to maturity, net of tax of $66, $86, and $21, respectively | 129 | 160 | 39 |
| Unrealized gains (losses) and amortization of prior service credit on postretirement plan, net of tax of $0, $(447) and $(46), respectively | — | (831) | (85) |
| Reversal of disproportionate tax effect from postretirement plan upon settlement | — | (511) | — |
| Total other comprehensive income (loss) | $2,707 | $(1,820) | $778 |
| Comprehensive income | $24,492 | $17,008 | $17,060 |
| Earnings per share | | | |
| Basic | $0.44 | $0.40 | $0.34 |
| Diluted | 0.44 | 0.40 | 0.34 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Common Shares Outstanding | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| | (Dollars in thousands, except per share data) | | | | | |
| Balance January 1, 2015 | 49,239,004 | $174,385 | $128,512 | $ (19,998) | $(42,764) | $240,135 |
| Net income | | | 16,282 | | | 16,282 |
| Other comprehensive income | | | | 778 | | 778 |
| Stock option exercises | 14,200 | | (95) | | 123 | 28 |
| Stock option expense | | 24 | | | | 24 |
| Restricted stock grants | 162,711 | (867) | (524) | | 1,391 | — |
| Restricted stock forfeitures | (11,954) | 6 | 13 | | (75) | (56) |
| Restricted stock expense | | 756 | | | | 756 |
| Cash dividend payments ($0.07 per share) | | | (3,369) | | | (3,369) |
| Treasury stock purchases | (1,886,317) | | | | (10,333) | (10,333) |
| Balance December 31, 2015 | 47,517,644 | 174,304 | 140,819 | (19,220) | (51,658) | 244,245 |
| Net income | | | 18,828 | | | 18,828 |
| Other comprehensive loss | | | | (1,820) | | (1,820) |
| Stock option exercises | 199,905 | | (983) | | 1,500 | 517 |
| Stock option expense | | 9 | | | | 9 |
| Restricted stock grants | 200,856 | (1,214) | (330) | | 1,544 | — |
| Restricted stock forfeitures | (2,928) | 13 | 14 | | (27) | — |
| Restricted stock expense | | 970 | | | | 970 |
| Tax benefit of stock option exercises and restricted stock vesting | | 278 | | | | 278 |
| Purchase of James & Sons Insurance | 262,705 | | (501) | | 2,048 | 1,547 |
| Cash dividend payments ($0.11 per share) | | | (5,172) | | | (5,172) |
| Treasury stock purchases | (1,596,812) | | | | (9,596) | (9,596) |
| Balance December 31, 2016 | 46,581,370 | 174,360 | 152,675 | (21,040) | (56,189) | 249,806 |
| Net income | | | 21,785 | | | 21,785 |
| Other comprehensive income | | | | 2,707 | | 2,707 |
| Reclassification of the disproportionate tax effect in accumulated other comprehensive income to retained earnings due to early adoption of ASU 2018-02 | | | 352 | (352) | | — |
| Stock option exercises | 110,085 | (542) | | | 821 | 279 |
| Stock option expense | | 1 | | | | 1 |
| Restricted stock grants | 88,681 | (660) | | | 660 | — |
| Restricted stock expense | | 951 | | | | 951 |
| Vesting of Long-term Incentive Plan | 68,783 | 87 | | | 510 | 597 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Purchase of Ohio Legacy Corp. | 3,033,604 | 3,261 | | | 22,555 | 25,816 |
| Cash dividend payments ($0.14 per share) | | | (6,960) | | | (6,960) |
| Treasury stock purchases | (82,397) | | | | (717) | (717) |
| Balance December 31, 2017 | 49,800,126 | $177,458 | $167,852 | $(18,685) | $(32,360) | $294,265 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Cash Flows from Operating Activities | | | |
| Net income | $21,785 | $18,828 | $16,282 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Provision (recovery) for loan losses | 4,253 | 5,387 | 2,135 |
| Mortgage banking income | (2,610) | (8,213) | (5,322) |
| Changes in fair value on loans held for sale | (3,893) | 1,769 | (1,519) |
| Net losses on real estate owned and other repossessed assets sold | 189 | 93 | 445 |
| Net gain on available for sale securities sold | (566) | (604) | (142) |
| Net loss (gain) on other assets sold | (602) | 6 | (21) |
| Amortization of premiums and accretion of discounts | 4,479 | 6,686 | 5,849 |
| Depreciation and amortization | 2,706 | 2,315 | 2,119 |
| Stock based compensation | 952 | 979 | 780 |
| Excess tax benefit of stock option exercises and restricted stock vesting | — | 278 | — |
| Net principal disbursed on loans originated for sale | (270,080) | (285,577) | (215,026) |
| Proceeds from sale of loans held for sale | 280,956 | 262,586 | 204,845 |
| Net change in deferred tax assets | 11,011 | 7,843 | 7,316 |
| Cash surrender value increase of life insurance and death proceeds in excess of cash surrender value | (1,627) | (1,495) | (1,720) |
| Net change in interest receivable | (611) | (922) | (215) |
| Net change in interest payable | 882 | 92 | (132) |
| Net change in prepaid and other assets | (982) | (5,603) | (572) |
| Net change in other liabilities | 3,476 | 4,059 | (1,529) |
| Net change in interest rate caps | — | 3 | 177 |
| Net cash from operating activities | 49,718 | 8,510 | 13,750 |
| Cash Flows from Investing Activities | | | |
| Proceeds from the principal repayments and maturities of securities available for sale | 21,969 | 26,981 | 31,066 |
| Proceeds from the principal repayments and maturities of securities held to maturity | 14,160 | 15,781 | 3,311 |
| Proceeds from the sale of securities available for sale | 62,906 | 33,701 | 16,627 |
| Proceeds from the sale of real estate owned and other repossessed assets | 1,419 | 1,828 | 2,559 |
| Proceeds from the sale of loans held for investment | 2,250 | 1 | 514 |
| Proceeds from the sale of premises and equipment | 2,297 | 2 | 154 |
| Purchases of securities available for sale | — | (48,985) | (10,865) |
| Purchases of securities held to maturity | — | (3,200) | (10,390) |
| Purchase of bank-owned life insurance | (5,000) | — | (7,000) |
| Purchases of premises and equipment | (2,558) | (2,575) | (1,895) |
| Principal disbursed on loans, net of repayments | (217,570) | (156,475) | (157,982) |

| | | | |
|---|---|---|---|
| Loans purchased | (53,633) | (44,311) | (15,154) |
| Net cash (paid) received in the acquisiton of insurance agencies | (144) | 107 | — |
| Net cash received in acquisition of financial institution | 25,780 | — | — |
| Death benefit proceeds from bank owned life insurance | — | — | 755 |
| Net cash from investing activities | (148,124) | (177,145) | (148,300) |
| Cash Flows from Financing Activities | | | |
| Net increase in checking, savings and money market accounts | 46,744 | 45,782 | 68,247 |
| Net increase in certificates of deposit | 128,946 | 33,466 | 19,660 |
| Net increase in advance payments by borrowers for taxes and insurance | 693 | 2,638 | 1,270 |
| Net change in Federal Home Loan Bank overnight advances | (58,500) | 111,000 | 92,000 |
| Net change in repurchase agreements and other borrowed funds | (11,086) | (23) | (30,023) |
| Proceeds from the exercise of stock options | 279 | 517 | 28 |
| Dividends paid | (6,960) | (5,172) | (3,369) |
| Purchase of treasury stock | (717) | (9,596) | (10,333) |
| Net cash from financing activities | 99,399 | 178,612 | 137,480 |
| Change in cash and cash equivalents | 993 | 9,977 | 2,930 |
| Cash and cash equivalents, beginning of period | 45,887 | 35,910 | 32,980 |
| Cash and cash equivalents, end of period | $46,880 | $45,887 | $35,910 |

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of United Community Financial Corp. (United Community or the Company) and its subsidiaries, Home Savings Bank (Home Savings or the Bank), HSB Insurance, LLC, HSB Capital, LLC and HSB Insurance, Inc. conform to U.S. Generally Accepted Accounting Principles (GAAP) and prevailing practices within the banking and thrift industries. A summary of the more significant accounting policies follows.

Nature of Operations

The business of Home Savings is providing consumer and business banking service to its market area in Ohio, western Pennsylvania and West Virginia. At the end of 2017, Home Savings was doing business through 35 full service banking branches and 13 loan production centers and three wealth management offices. Loans and deposits are primarily generated from the areas where banking branches are located. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the market area. Home Savings derives its income predominantly from interest on loans, securities, and to a lesser extent, non-interest income. Home Savings' principal expenses are interest paid on deposits and Federal Home Loan Bank advances, loan loss provisions and normal operating costs.

On January 29, 2016, United Community acquired James & Sons Insurance. James & Sons Insurance was merged into HSB Insurance, LLC, a wholly-owned subsidiary of United Community. HSB Insurance, LLC d/b/a James & Sons Insurance is an insurance agency that offers a wide variety of insurance products for business and residential customers, which include auto, homeowners, life-health, commercial, surety bonds and aviation. On February 28, 2017, James & Sons Insurance acquired Eich Brothers Insurance. Eich Brothers Insurance is an insurance agency that offers insurance products for business and residential customers, which include auto, commercial, homeowners and life-health. On July 1, 2017, James & Sons Insurance acquired Stevens Insurance Agency that offers insurance products for business and residential customers, which include auto, commercial, homeowners and life-health.

HSB Capital, LLC was formed by United Community during 2016 for the purpose of providing mezzanine funding for customers. Mezzanine loans are offered to customers in United Community's market area and are expected to be repaid from the cash flow from operations of the business.

HSB Insurance, Inc., a wholly-owned subsidiary of the Company which was formed and began operations on June 1, 2017, is a Delaware-based captive insurance company which insures against certain risks unique to the operations of the Company and its subsidiaries and for which insurance may not be currently available or economically feasible in today's insurance marketplace. HSB Insurance, Inc. pools resources with several other insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. HSB Insurance, Inc. is subject to regulations of the State of Delaware and undergoes periodic examinations by the Delaware Division of Insurance.

Basis of Presentation

The consolidated financial statements include the accounts of United Community and its subsidiaries. All material inter-company transactions have been eliminated. Certain prior period data has been reclassified to conform to current

period presentation. These reclassifications had no effect on prior net income or shareholders' equity.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

Cash Flows

For purposes of the statement of cash flows, United Community considers all highly liquid investments with a term of three months or less to be cash equivalents. Net cash flows are reported for loan and deposit transactions, short-term borrowings and advance payments by borrowers for taxes and insurance.

Securities

Securities are classified as available for sale, held to maturity or trading upon their acquisition. Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at estimated fair value with the unrealized holding gain or loss reported in other comprehensive income, net of tax. Securities classified as held to maturity are carried at amortized cost when management has the positive intent and ability to hold them to maturity. Equity securities with readily determinable fair values are classified as available for sale. Restricted securities such as FHLB stock are carried at cost. Interest income includes amortization of purchase premium or discount on debt securities. Premiums or discounts are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of OTTI is recognized through earnings.

Loans Held for Sale

Loans held for sale primarily consist of residential mortgage loans originated for sale and other loans that have been identified for sale. If the fair value option has not been elected, the loans are carried at the lower of cost or fair value, determined in the aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans held for sale, for which the fair value option has been elected, are recorded at fair value as of each balance sheet date with the change in fair value recorded in earnings. The fair value of the Company’s construction perm loans held for sale is determined based on quoted prices for similar loans in active markets. The fair value of permanent construction loans held for sale is determined, based on the committed loan amount, using quoted prices for similar assets, adjusted for specific attributes of that loan and other unobservable market data, such as time it takes to complete the project. The fair value of conventional residential one-to four-family loans held for sale which the fair value option has been elected is determined based on quoted prices for similar loans in active markets. Since January 1, 2016, the Company elected the fair value option for all loans originated and held for sale.

Mortgage loans held for sale are sold with either servicing rights retained or servicing released. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the outstanding principal balance, net of purchase premiums or discounts, deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without

anticipating prepayments.

Interest income includes amortization of net deferred loan fees and costs. Loan fees and costs associated with origination of loans are deferred and amortized to interest income over the contractual lives of the loans using the level yield method. Fees received for loan commitments that are expected to be drawn, based on Home Savings' experience with similar commitments, are deferred and amortized over the lives of the loans using the level-yield method. Fees for other loan commitments are deferred and amortized over the loan commitment period on a straight-line basis. Unamortized deferred loan fees or costs related to loans paid off are included in income. Unamortized net fees or costs on loans sold are included in the basis of the loans in calculating gains and losses. The accrual of interest income and amortization of net deferred fees on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is both well secured and in the process of collection. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for a loan placed on nonaccrual is reversed against interest income. Once a loan is on nonaccrual, it will remain on nonaccrual until the loan becomes current and the borrower demonstrates the ability to pay the loan per the contractual terms for a minimum of six months. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when future payments are reasonably assured.

Home Savings determines the past due status of loans based on the number of calendar months the loan is past due. Impaired loans consist of loans that are non-homogenous and in a nonaccrual status; loans considered troubled debt restructurings and loans that have been individually analyzed for impairment.

Residential mortgage loans. Residential mortgage loans are revalued at the time they reach 180 days past due and any portion of the principal that exceeds the fair value is charged-off. Mortgage loans are considered to be homogenous until the loan is individually evaluated at 180 days past due and charged-down to the fair value of the underlying collateral, at which time the loan becomes non-homogenous and is considered impaired. Residential mortgage loans that have been modified and determined to be a troubled debt restructuring (TDR) are revalued based upon the present value of the modified cash flows of the loan to establish a specific reserve on that loan.

Consumer loans. Consumer loans that are secured by residential real estate are revalued once they reach 180 days past due and charged-down to the fair value if necessary. Consumer loans that are not secured by residential real estate are revalued once they reach 120 days past due and are charged-down to the fair value if necessary. Consumer loans are considered to be homogenous until the loan is individually evaluated and charged-down to the fair value of the underlying collateral, at which time the loan becomes non-homogenous and is considered impaired. Consumer loans that have been modified and determined to be a TDR are revalued based upon the present value of the modified cash flows of the loan to establish a specific reserve on that loan.

Commercial loans. A commercial real estate loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. At this time, the loan is charged-down to the fair value. Commercial and industrial loans are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The repayment of commercial loans typically is dependent on the income stream and successful operation of a business. If there is no underlying collateral to value, the company will calculate the present value of expected future cash flows to determine the amount of impairment, if any.

Concentration of Credit Risk

Most of the Company’s business activity is with customers located within Home Savings’ market area. Therefore, the Company’s exposure to credit risk is significantly affected by changes in the economy in Ohio, Western Pennsylvania and Northern West Virginia.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required based on an analysis using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, general economic conditions in the market area and other factors. Allocations

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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Other loans not reviewed specifically by management are evaluated as a homogenous group of loans (generally single-family residential mortgage loans and all consumer credits except marine loans) using a loss factor applied to the outstanding loan balance to determine the level of reserve required. This loss factor consists of two components, a quantitative and a qualitative component. The quantitative component is based on a historical analysis of all charged-off loans, net of recoveries, looking back 22 quarters as of December 31, 2017. In determining the qualitative component, consideration is given to such attributes as lending policies, economic conditions, nature and volume of the portfolio, management, loan quality trend, loan review, collateral value, concentrations,

economic cycles and other external factors. The quantitative and qualitative components are combined to arrive at the loss factor, which is applied to the average outstanding balance of homogenous loans. At December 31, 2016, the Company evaluated 18 quarters of net charge-off history.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are individually evaluated based on the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to Home Savings. Once a review is completed, a specific reserve is determined and allocated to the loan. These specific reserves on individual loans are reviewed periodically and adjusted as necessary based on subsequent collection, loan upgrades or downgrades, nonperforming trends or actual principal charge-offs. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the facts and circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Troubled debt restructurings (TDRs) are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The Bank's portfolio has the following segments: commercial, which includes commercial real estate secured loans, residential mortgage loans and consumer loans. Residential mortgage loans are made to customers in Home Savings' market area. These loans are secured by the underlying real estate as collateral. Repayment of these loans is dependent on general economic conditions and unemployment levels in Home Savings' market area. To reduce any risk on loans secured by one-to four-family residences, Home Savings underwrites all portfolio loans to Freddie Mac underwriting guidelines.

Consumer loans primarily consist of home equity loans and lines of credit. Similar to residential mortgage loans, repayment of consumer loans depends on the general economic conditions and unemployment levels in Home Savings' market area. The majority of Home Savings' consumer loans consist of closed-end home equity loans and lines of credit in an amount that, when added to the prior indebtedness secured by the real estate, does not exceed 90% of the estimated value of the real estate. Other consumer loans, such as automobiles and recreational vehicles, have a higher degree of risk than home equity loans as the collateral depreciates at a faster rate.

Multifamily and nonresidential real estate loans generally have a higher degree of risk than loans secured by one-to four-family residences. These riskier loans can be affected by economic conditions, operating expenses, debt service and successful operation of income-producing properties. Home Savings tries to reduce this risk by evaluating the credit history of the borrower, location of the real estate, the financial condition of the borrower, obtaining personal guarantees of the principals, the characteristics of the income stream generated by the property and the appraisal supporting the property.

Commercial loans generally entail greater risk than real estate lending. The repayment of commercial loans typically is dependent on the income stream and successful operation of a business, which can be affected by economic conditions. The collateral for commercial loans, if any, often consists of rapidly depreciating assets.

Construction loans involve a higher degree of underwriting and default risk than loans secured by mortgages on existing properties because construction loans are more difficult to appraise and to monitor. Loan funds are advanced based upon the status of the project under construction.

Servicing Assets

Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. Servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as original maturity, interest rate and loan type. Impairment is recognized through a valuation allowance for an individual tranche. If Home Savings later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of mortgage servicing rights is shown separately in non-interest income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Real Estate Owned and Other Repossessed Assets

Real estate owned, including property acquired in settlement of foreclosed loans, is initially transferred at fair value less estimated cost to sell after foreclosure, establishing a new cost basis. Physical possession of residential real estate property collateralizing a residential mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines after acquisition, a valuation allowance is recorded through expense. Costs relating to the development and improvement of real estate owned are capitalized, whereas costs relating to holding and maintaining the properties are charged to expense. Other repossessed assets are carried at estimated fair value less estimated cost to sell after acquisition.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Buildings and related components are depreciated and amortized using the straight-line method over the useful lives, generally ranging from 20 years to 40 years (or term of the lease, if shorter) of the related assets. Furniture and fixtures are depreciated using the straight-line method with useful lives ranging from three to five years.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Cash Surrender Value of Life Insurance

Life insurance is carried on the lives of certain employees where Home Savings is the beneficiary. Life insurance is recorded at its cash surrender value, or the amount currently realizable. Increases in the Home Savings' policy cash surrender value are tax exempt and death benefit proceeds received by Home Savings are tax-free. Income from these

policies and changes in the cash surrender value are recorded in other income. The policies contain no split dollar or postretirement benefits for covered employees.

Goodwill and other Intangible Assets

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of core deposit and customer list intangibles. Core deposit intangible assets arose from whole bank acquisitions. They were initially measured at fair value and are being amortized on an accelerated method over their estimated useful lives. Customer list intangible arose from the acquisition of James & Sons Insurance in January 2016 and Premier Bank and Trust in January 2017 and are amortized on an accelerated basis over its estimated useful life of 10 years.

Derivatives

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when

interest rate locks are entered into in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these derivatives are included in mortgage banking income on the consolidated statements of operations and comprehensive income.

Long-term Assets

Premises and equipment and other long–term assets are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Stock Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees and nonemployee directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation’s common shares at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

401(k) Savings Plan

Employee 401(k) and profit sharing plan expense is the amount of matching contributions and administrative costs to administer the plan.

Postretirement Benefit Plans

In addition to Home Savings’ retirement plans, Home Savings sponsored a defined benefit health care plan that was curtailed in 2000 to provide postretirement medical benefits for employees who worked 20 years and attained a minimum age of 60 by September 1, 2000, while in service with Home Savings. That modified plan was further curtailed in 2015, and medical benefits are no longer provided to plan participants as of December 31, 2016 and the plan was terminated and settled. The plan was unfunded and, as such, had no assets. Furthermore, the plan was contributory and contained minor cost-sharing features such as deductibles and coinsurance. In addition, postretirement life insurance coverage was provided for employees who were participants prior to December 10, 1976. The life insurance plan was non-contributory. Home Savings’ policy was to pay premiums monthly, with no pre-funding. This plan was terminated and settled with participants in 2016. The benefit obligation was measured annually by a third-party actuary.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Earnings Per Share

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See further discussion at Note 13.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and unrealized gains and losses on securities available for sale and changes in unrealized gains and losses on postretirement liabilities, which are also recognized as separate components of equity, net of tax.

Off Balance Sheet Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis.  Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

New Accounting Standards

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606).  The ASU implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally going to be effective on January 1, 2017; however, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 by one year to January 1, 2018. United Community's revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. This ASU 2014-09 requires us to change how we recognize certain insurance commissions and fees; however, these changes do not have a material impact on our financial statements. Additional disclosures will be required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a

valuation allowance on a deferred tax asset related to available-for-sale securities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The impact of the adoption of this guidance on the Company's consolidated financial statements will require revisions to disclosures included in the consolidated financial statements beginning in the first quarter of 2018.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity's leasing activities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements and expects to recognize an increase in other assets and other liabilities for the rights and obligations created by leasing of branch offices. Management also expects minimal impact in the income statement with respect to occupancy expense related to leases.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. The ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Key provisions include the elimination of "windfall pools" and removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable.



---

Additionally, the simplification permits entities to withhold an amount up to the employees' maximum individual tax rate in the relevant jurisdiction without resulting in a liability classification of the award. Entities are now permitted to make accounting policy elections for the impact of forfeitures on the recognition of expense for share-based payment awards. This ASU was adopted on January 1, 2017. The Company recognized a tax benefit of $246,000 in income tax expense during the twelve months ended December 31, 2017 as a result of adoption related to vesting of restricted stock awards and exercised stock options.

In June 2016, FASB Issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU adds a new Topic 326 to the Codification and removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. The guidance in ASU 2016-13 is effective for "public business entities," as defined, that are SEC filers for fiscal years, and for interim periods with those fiscal years, beginning after December 15, 2019. Early adoption of the guidance is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements. Management is aggregating the necessary data requirements and addressing any data-archiving improvements necessary for the implementation of this ASU.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

For public business entities, the guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The adoption of this guidance does not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 from the goodwill impairment test. Instead, under the new guidance, an entity is to perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have an impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This ASU amends the amortization period for certain purchased callable debt securities held at a premium. It shortens the amortization period for the premium to the earliest call date. Under current U.S. GAAP, premiums on callable debt securities generally are amortized to the maturity date. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted for interim or annual periods. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 applies to entities that change the terms or conditions of a share-based payment award. The FASB adopted ASU 2017-09 to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation , to the modification of the terms and conditions of a share-based payment award.

The amendments in ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718.

These amendments require the entity to account for the effects of a modification unless all of the following conditions are met:

- The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or value using an alternative measurement method) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification;
- The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and
- The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The amendments are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for. The amendments should be applied prospectively to an award modified on or after the adoption date. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In July 2017, the FASB ASU No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. ASU 2017-11 simplifies the accounting for certain financial instruments with down round features, a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings.

The new ASU will require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize the effect of the trigger within equity.

The provisions of the new ASU related to down rounds are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. These amendments revise and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are

presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. This ASU is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period (i.e., the initial application date). The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In September 2017, the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The

amendments in ASU No. 2017-13 amends the early adoption date option for certain companies related to the adoption of ASU No. 2014-09 and ASU No. 2016-02. Both of the below entities may still adopt using the public company adoption guidance in the related ASUs, as amended. The SEC staff stated the SEC would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC adopting ASC Topic 606 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The SEC staff stated the SEC would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC adopting ASC Topic 842 for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

In January 2018, the FASB issued ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. The amendments in ASU 2018-01:

- Provide an optional transition practical expedient for the adoption of ASU 2016-02 that, if elected, would not require an organization to reconsider their accounting for existing land easements that are not currently accounted for under the old leases standard; and
- Clarify that new or modified land easements should be evaluated under ASU 2016-02, once an entity has adopted the new standard.

This ASU is effective with ASU 2016-02 for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements and expects to recognize an increase in other assets and other liabilities for the rights and obligations created by leasing of branch offices. Management also expects minimal impact in the income statement with respect to occupancy expense related to leases.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. These amendments provide financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The ASU requires financial statement preparers to disclose:

- A description of the accounting policy for releasing income tax effects from AOCI;
- Whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act; and
- Information about the other income tax effects that are reclassified.

The amendments affect any organization that is required to apply the provisions of Topic 220, Income Statement—Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. This ASU is effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has elected to early-adopt this ASU, and has revised its disclosure related to this action. The adoption of this ASU caused the reclassification of $352,000 from other comprehensive income to retained earnings at December 31, 2017.

2. BUSINESS COMBINATION

On January 31, 2017, United Community completed its acquisition of OLCB pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of September 8, 2016 by and among United Community, the Bank, OLCB and Premier Bank & Trust (the Merger Agreement). Pursuant to the terms of the Merger Agreement, OLCB was merged with and into United Community. Immediately following the merger, Home Savings was merged with and into Premier Bank & Trust, a wholly-owned subsidiary of OLCB, and changed its name to Home Savings Bank.

As a result of the merger and in accordance with the terms of the Merger Agreement, each preferred shareholder of OLCB was deemed to have been converted into OLCB common shares. Each OLCB common share was converted into the right to receive either $18.00 in cash or 2.736 United Community common shares, subject to certain allocation procedures set forth in the Merger Agreement

that ensured that 50% of OLCB's common shares outstanding were converted into United Community common shares and 50% of OLCB's common shares outstanding received the cash consideration. The Company issued cash in lieu of issuing fractional shares.

After the allocation procedures were applied, the Company issued 3,033,604 United Community common shares and paid $20.4 million to OLCB shareholders as a result of the merger. Merger related costs aggregating $5.0 million were included in United Community's Consolidated Statements of Operations for the year ended December 31, 2017. The fair value of the common shares issued as part of the consideration paid for OLCB was determined on the basis of the closing price of United Community's commons shares on the date of consummation of the merger (the merger date).

The following table summarizes the consideration paid for OLCB.

| | (in thousands) |
|---|---|
| Cash | $ 20,379 |
| United Community shares issued | 25,816 |
| Total fair value of consideration paid | $ 46,195 |

At the merger date, United Community added the following to the Company's consolidated statements of financial position:

| | (in thousands) |
|---|---|
| Cash | $ 46,159 |
| Loans | 259,373 |
| Available for sale securities | 9,996 |
| FHLB stock, at cost | 1,256 |
| Premises and equipment | 2,940 |
| Accrued interest | 679 |
| Other intangible assets | 2,426 |
| Other real estate owned | 89 |
| Other assets | 7,240 |
| Total assets acquired | $ 330,158 |
| | |
| Deposits assumed | $ 266,279 |
| Federal Home Loan Bank advances | 23,500 |
| Repurchase agreements and other borrowings | 10,771 |
| Accrued expenses and other liabilities | 2,581 |
| Total liabilities assumed | $ 303,131 |

| | |
|---|---|
| Goodwill created | $ 19,168 |

The fair value of net assets acquired included fair value adjustments to certain receivables that were not considered impaired as of the merger date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the merger date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. The Company has purchased loans, for which there was, at the merger date, evidence of deterioration of credit quality since origination and it was probable, at the merger date, that all contractually required payments would not be collected with a fair value and gross contractual amounts receivable of $1.8 million and $3.3 million, respectively, on the merger date.

Upon adoption of ASU 2016-16, Business Combinations (Topic 805), adjustments to provisional amounts booked in the previous twelve months are to be adjusted through current year goodwill with the full effect of changes to depreciation, amortization, or other income recorded in current year earnings as if the change had been completed as of the merger date.

The following table presents proforma information as if the OLCB merger had occurred at the beginning of 2016. The proforma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related income tax effects. The proforma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates. Net income includes the recognition of $5.0 million in merger related expenses incurred by

United Community and $368,000 in merger related expenses for OLCB during the twelve months ended December 31, 2017. The impact of the acquired insurance agencies is considered immaterial and not included in the table below.

| | For the Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In thousands, except per share data) | |
| Net interest income | $82,286 | $75,443 |
| Net income | 21,430 | 16,770 |
| Basic earnings per share | $0.43 | $0.38 |
| Diluted earnings per share | $0.43 | $0.37 |

Goodwill is recorded arising from the merger, which consisted largely of synergies and the cost savings resulting from combining the operations of the companies. No goodwill is expected to be deductible for income tax purposes.

At the time of the closing, Home Savings' charter changed to a state chartered commercial bank and United Community became a financial holding company.

The merger benefits the Company and its shareholders by enabling the Company to further expand into the markets currently served by OLCB and PB&T and strengthening the competitive position of the combined organization. Furthermore, the Company believes its increased asset size after the merger will create additional economies of scale and provide opportunities for asset and earnings growth in an extremely competitive banking environment. OLCB results of operations were included in the Company's results beginning January 31, 2017.

On February 28, 2017, HSB Insurance, LLC completed the purchase of an insurance agency engaged in the business of selling insurance including auto, commercial, homeowners and life-health insurance. Under the purchase agreement, the Company paid $535,000, of which $107,000 was paid in cash at closing and the remaining $428,000 will be paid in four equal installments in connection with this acquisition. Total assets purchased were $722,000, which includes the customer list intangible and goodwill.

On July 1, 2017, HSB Insurance, LLC completed the purchase of an insurance agency engaged in the business of selling insurance including auto, commercial, homeowners and life-health insurance. Under the purchase agreement, the Company paid $60,000, of which $23,000 was paid in cash at closing and the remaining $37,000 will be paid in two equal installments in connection with this acquisition. Total assets purchased were $81,000, which includes the customer list intangible and goodwill.

3. CASH AND CASH EQUIVALENTS

Federal Reserve Board (FRB) regulations require depository institutions to maintain certain non-interest bearing reserve balances. These reserves, which consisted of vault cash at Home Savings, totaled approximately $12.0 million and $11.2 million at December 31, 2017 and 2016, respectively.

4. SECURITIES

The components of securities available for sale are as follows:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (Dollars in thousands) | | | |
| Available for Sale | | | | |
| U.S. Treasury and government sponsored entities' securities | $124,982 | $ 19 | $ (1,184 ) | $123,817 |
| States of the U.S. and political subdivisions | 58,806 | 955 | (138 ) | 59,623 |
| Mortgage-backed GSE securities: residential | 87,917 | 42 | (838 ) | 87,121 |
| Total | $271,705 | $ 1,016 | $ (2,160 ) | $270,561 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (Dollars in thousands) | | | |
| Available for Sale | | | | |
| U.S. Treasury and government sponsored entities' securities | $188,082 | $ 172 | $ (2,221) | $186,033 |
| States of the U.S. and political subdivisions | 59,415 | 3 | (1,661) | 57,757 |
| Mortgage-backed GSE securities: residential | 100,602 | 50 | (1,158) | 99,494 |
| Total | $348,099 | $ 225 | $ (5,040) | $343,284 |

The components of securities held to maturity are as follows:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (Dollars in thousands) | | | |
| Held to maturity | | | | |
| Mortgage-backed GSE securities: residential | $73,682 | $ — | $ (890) | $72,792 |
| States of the U.S. and political subdivisions | 9,229 | 112 | (7) | 9,334 |
| Total | $82,911 | $ 112 | $ (897) | $82,126 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (Dollars in thousands) | | | |
| Held to maturity | | | | |
| Mortgage-backed GSE securities: residential | $85,065 | $ — | $ (1,300) | $83,765 |
| States of the U.S. and political subdivisions | 12,454 | 17 | (86) | 12,385 |
| Total | $97,519 | $ 17 | $ (1,386) | $96,150 |

Debt securities available for sale by contractual maturity, repricing or expected call date are shown below:

| | December 31, 2017 | |
|---|---|---|
| | Amortized cost | Fair value |
| | (Dollars in thousands) | |
| Due in one year or less | $— | $— |
| Due after one year through five years | 26,497 | 26,193 |

| | | |
|---|---|---|
| Due after five years through ten years | 99,042 | 98,193 |
| Due after ten years | 58,249 | 59,054 |
| Mortgage-backed GSE securities: residential | 87,917 | 87,121 |
| Total | $271,705 | $270,561 |

Debt securities held to maturity by contractual maturity, repricing or expected call date are shown below:

| | December 31, 2017 | |
|---|---|---|
| | Amortized cost | Fair value |
| | (Dollars in thousands) | |
| Due in one year or less | $— | $— |
| Due after one year through five years | — | — |
| Due after five years through ten years | 7,568 | 7,655 |
| Due after ten years | 1,661 | 1,679 |
| Mortgage-backed GSE securities: residential | 73,682 | 72,792 |
| Total | $82,911 | $82,126 |

Proceeds, gross realized gains, losses and impairment charges of available for sale securities were as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Proceeds | $62,906 | $33,701 | $16,627 |
| Gross gains | 610 | 604 | 142 |
| Gross losses | 44 | — | — |

Income tax expense related to net realized gains and losses was $198,000 for 2017 and $211,000 for 2016 and $50,000 for 2015.

Securities pledged for public funds were $129.8 million and $146.5 million at December 31, 2017 and 2016, respectively. See further discussion regarding pledged securities in Note 12.

Securities available for sale that have been in an unrealized loss position for less than twelve months or twelve months or more are as follows at December 31, 2017:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized loss Loss | Fair value | Unrealized loss Loss | Fair value | Unrealized loss Loss |
| | (Dollars in thousands) | | | | | |
| Description of securities: | | | | | | |
| U.S. Treasury and government sponsored entities | $99,766 | $ (734) | $21,222 | $ (450) | $120,988 | $ (1,184) |
| States of the U.S. and political subdivisions | — | | 14,009 | (138) | 14,009 | (138) |
| Mortgage-backed GSE securities: residential | 28,837 | (154) | 57,588 | (684) | 86,425 | (838) |
| Total temporarily impaired securities | $128,603 | $ (888) | $92,819 | $ (1,272) | $221,422 | $ (2,160) |

All of the U.S. Treasury and government sponsored entities, obligations of U.S. states and political subdivisions, and mortgage-backed securities that were temporarily impaired at December 31, 2017, were impaired due to the level of interest rates at that time compared to when securities were purchased. Unrealized losses on these securities have not been recognized into income as of December 31, 2017 because the issuer's securities are of high credit quality (rated AA or higher), management does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

Securities available for sale that have been in an unrealized loss position for less than twelve months or twelve months or more are as follows at December 31, 2016:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized loss Loss | Fair value | Unrealized loss Loss | Fair value | Unrealized loss Loss |
| | (Dollars in thousands) | | | | | |
| Description of securities: | | | | | | |
| U.S. Treasury and government sponsored entities | $171,411 | $ (2,221 ) | $ — | $ — | $171,411 | $ (2,221 ) |
| States of the U.S. and political subdivisions | 53,283 | (1,661 ) | — | — | 53,283 | (1,661 ) |
| Mortgage-backed GSE securities: residential | 98,775 | (1,158 ) | — | — | 98,775 | (1,158 ) |
| Total temporarily impaired securities | $323,469 | $ (5,040 ) | $ — | $ — | $323,469 | $ (5,040 ) |

At December 31, 2016, all of the U.S. Treasury and government sponsored entities, obligations of U.S. states and political subdivisions and mortgage-backed securities that were temporarily impaired were impaired due to the level of interest rates at that time compared to when the securities were purchased. Unrealized losses on these securities have not been recognized into income as of December 31, 2016 because the issuer's securities are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

During the third quarter of 2015, Home Savings transferred mortgage-backed GSE securities with a total amortized cost of $105.3 million with a corresponding fair value of $103.8 million from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of transfer was $999,000. The fair value at the date of transfer becomes the securities' new

cost basis. The unrealized holding loss at the time of transfer continues to be reported in accumulated other comprehensive income, net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the unamortized holding loss reported in accumulated other comprehensive income will directly offset the effect on interest income from the accretion of the reduced amortized cost for the transferred securities. The remaining unaccreted unrealized holding loss totaled $1,035,000 at December 31, 2017 and $1,230,000 at December 31, 2016. Because of this transfer, the total losses less than 12 months and greater than 12 months reported in the table below will not agree to the unrealized losses reported in the inventory of held to maturity securities. The inventory table reports unrealized gains and losses based upon the transferred securities adjusted cost basis and current fair value. The reporting of losses less than 12 months and greater than 12 months represents that actual period of time that these securities have been in an unrealized loss position and the securities amortized cost basis as if the transfer did not occur.

Securities held to maturity that have been in an unrealized loss position for less than twelve months or twelve months or more are as follows at December 31, 2017:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized loss Loss | Fair value | Unrealized Loss | Fair value | Unrealized Loss |
| | (Dollars in thousands) | | | | | |
| Description of securities: | | | | | | |
| Mortgage-backed GSE securities: residential | $— | $ — | $72,792 | $ (1,925) | $72,792 | $ (1,925) |
| States of the U.S. and political subdivisions | 608 | (7) | — | — | 608 | (7) |
| Total temporarily impaired securities | $608 | $ (7) | $72,792 | $ (1,925) | $73,400 | $ (1,932) |

All of the mortgage-backed securities and obligations of U.S. states and political subdivisions that were temporarily impaired at December 31, 2017, were impaired due to the level of interest rates at that time compared to when the securities were purchased. Unrealized losses on these securities have not been recognized into income as of December 31, 2017 because the issuer's securities are of high credit quality (rated AA or higher), management does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

Securities held to maturity that have been in an unrealized loss position for less than twelve months or twelve months or more are as follows at December 31, 2016:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized loss Loss | Fair value | Unrealized Loss | Fair value | Unrealized Loss |
| | (Dollars in thousands) | | | | | |
| Description of securities: | | | | | | |
| Mortgage-backed GSE securities: residential | $57,340 | $ (1,243) | $26,426 | $ (1,287) | $83,766 | $ (2,530) |
| States of the U.S. and political subdivisions | 7,416 | (86) | — | — | 7,416 | (86) |
| Total temporarily impaired securities | $64,756 | $ (1,329) | $26,426 | $ (1,287) | $91,182 | $ (2,616) |

At December 31, 2016, all of the obligations of U.S. states and political subdivisions were impaired due to the level of interest rates at that time compared to when the securities were purchased. Unrealized losses on these securities have not been recognized into income as of December 31, 2016 because the issuer's securities are of high credit quality

(rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

5. LOANS

Portfolio loans consist of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Commercial loans | | |
| Multifamily | $120,480 | $93,597 |
| Nonresidential | 381,611 | 231,401 |
| Land | 15,162 | 8,373 |
| Construction | 116,863 | 68,158 |
| Secured | 177,994 | 95,343 |
| Unsecured | 10,506 | 7,386 |
| Total commercial loans | 822,616 | 504,258 |
| Residential mortgage loans | | |
| One-to four-family | 870,939 | 762,926 |
| Construction | 49,092 | 35,695 |
| Total residential mortgage loans | 920,031 | 798,621 |
| Consumer loans | | |
| Home equity | 195,852 | 165,054 |
| Auto | 64,364 | 39,609 |
| Marine | 1,526 | 1,796 |
| Recreational vehicle | 5,696 | 7,602 |
| Other | 6,056 | 2,537 |
| Total consumer loans | 273,494 | 216,598 |
| Total loans | 2,016,141 | 1,519,477 |
| Less: | | |
| Allowance for loan losses | 21,202 | 19,087 |
| Deferred loan fees, net | (4,938) | (3,187) |
| Total | 16,264 | 15,900 |
| Loans, net | $1,999,877 | $1,503,577 |

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses, may require payment of a fee and may expire unused. Commitments to extend credit at fixed rates expose Home Savings to some degree of interest rate risk. Home Savings evaluates each customer’s creditworthiness on a case-by-case basis. The type or amount of collateral obtained varies and is based on management’s credit evaluation of the potential borrower. Home Savings normally has a number of outstanding commitments to extend credit.

| | December 31, 2017 | | 2016 | |
|---|---|---|---|---|
| | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate |

| | (Dollars in thousands) | | | |
|---|---|---|---|---|
| Commitments to make loans | $80,741 | $ 39,978 | $74,927 | $ 40,908 |
| Undisbursed loans in process | 6,779 | 163,903 | 5,450 | 130,566 |
| Unused lines of credit | 9,503 | 247,891 | 8,538 | 156,032 |

Terms of the commitments in both years extend up to six months, but are generally less than two months. The fixed rate loan commitments have interest rates ranging from 2.75% to 18.00%; and maturities ranging from three months to thirty years. Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated as hedge relationships.

At December 31, 2017 and 2016, there were $239,000 and $1.0 million of outstanding standby letters of credit, respectively. These are issued to guarantee the performance of a customer to a third party. Standby letters of credit are generally contingent upon the failure of the customer to perform according to the terms of an underlying contract with the third party.

At December 31, 2017 and 2016, there were $54.4 million and $50.5 million in outstanding commitments to fund the OverdraftPrivilege™ Program at Home Savings. With OverdraftPrivilege™, Home Savings pays non-sufficient funds checks and fees on checking accounts up to a preapproved limit.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2017 and December 31, 2016 and activity for the years ended December 31, 2017, 2016 and 2015.

| | Commercial Loans | Residential Loans | Consumer Loans | Total |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| 2017 | | | | |
| Beginning balance | $10,824 | $5,538 | $2,725 | $19,087 |
| Provision | 2,590 | 1,305 | 358 | 4,253 |
| Charge-offs | (1,565) | (1,218) | (815) | (3,598) |
| Recoveries | 693 | 235 | 532 | 1,460 |
| Ending balance | $12,542 | $5,860 | $2,800 | $21,202 |
| Period-end amount allocated to: | | | | |
| Loans individually evaluated for impairment | $516 | $1,145 | $398 | $2,059 |
| Loans collectively evaluated for impairment | 11,971 | 4,715 | 2,402 | 19,088 |
| Loans aquired with deteriorated credit quality | 55 | — | — | 55 |
| Ending balance | $12,542 | $5,860 | $2,800 | $21,202 |
| Period-end balances: | | | | |
| Loans individually evaluated for impairment | 3,356 | 16,140 | 6,754 | 26,250 |
| Loans collectively evaluated for impairment | 818,066 | 903,891 | 266,740 | 1,988,697 |
| Loans aquired with deteriorated credit quality | 1,194 | — | — | 1,194 |
| Ending balance | $822,616 | $920,031 | $273,494 | $2,016,141 |

| | Commercial Loans | Residential Loans | Consumer Loans | Total |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| 2016 | | | | |
| Beginning balance | $8,077 | $6,630 | $3,005 | $17,712 |
| Provision | 5,611 | (464) | 240 | 5,387 |
| Charge-offs | (3,722) | (761) | (1,151) | (5,634) |
| Recoveries | 858 | 133 | 631 | 1,622 |
| Ending balance | $10,824 | $5,538 | $2,725 | $19,087 |
| Period-end amount allocated to: | | | | |
| Loans individually evaluated for impairment | $1,271 | $1,245 | $500 | $3,016 |
| Loans collectively evaluated for impairment | 9,553 | 4,293 | 2,225 | 16,071 |
| Ending balance | $10,824 | $5,538 | $2,725 | $19,087 |
| Period-end balances: | | | | |
| Loans individually evaluated for impairment | $6,018 | $17,485 | $8,045 | $31,548 |
| Loans collectively evaluated for impairment | 498,240 | 781,136 | 208,553 | 1,487,929 |
| Ending balance | $504,258 | $798,621 | $216,598 | $1,519,477 |

| | Commercial Loans | Residential Loans | Consumer Loans | Total |
|---|---|---|---|---|

| | (Dollars in thousands) | | | |
|---|---|---|---|---|
| 2015 | | | | |
| Beginning balance | $5,690 | $8,517 | $3,480 | $17,687 |
| Provision | 2,922 | (974) | 187 | 2,135 |
| Charge-offs | (1,268) | (1,301) | (1,257) | (3,826) |
| Recoveries | 733 | 388 | 595 | 1,716 |
| Ending balance | $8,077 | $6,630 | $3,005 | $17,712 |

The unpaid principal balance is the total amount of the loan that is due to the Company. The recorded investment includes the unpaid principal balance less any chargeoffs or partial chargeoffs applied to specific loans. The unpaid principal balance and the recorded investment both exclude accrued interest receivable and deferred loan costs, both of which are immaterial.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required based on an analysis using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, general economic conditions in the market area and other factors. Allocations 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.

Other loans not reviewed specifically by management are evaluated as a homogenous group of loans (generally single-family residential mortgage loans and all consumer credits except marine loans) using a loss factor applied to the outstanding loan balance to determine the level of reserve required. This loss factor consists of two components, a quantitative and a qualitative component. The quantitative component is based on a historical analysis of all charged-off loans, net of recoveries, looking back 22 quarters as of December 31, 2017. In determining the qualitative component, consideration is given to such attributes as lending policies, economic conditions, nature and volume of the portfolio, management, loan quality trend, loan review, collateral value, concentrations, economic cycles and other external factors. The quantitative and qualitative components are combined to arrive at the loss factor, which is applied to the average outstanding balance of homogenous loans. At December 31, 2016, the Company evaluated 18 quarters of net charge-off history.

The following table presents loans individually evaluated for impairment by class of loans for the year ended December 31, 2017:

Impaired Loans

(Dollars in thousands)

| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized | Cash Basis Income Recognized |
|---|---|---|---|---|---|---|
| With no specific allowance recorded | | | | | | |
| Commercial loans | | | | | | |
| Multifamily | $ 41 | $ — | $ — | $ 309 | $ — | $ — |
| Nonresidential | 651 | 144 | — | 482 | 7 | 7 |
| Land | 716 | 9 | — | 9 | — | — |
| Construction | 2,467 | — | — | — | — | — |
| Secured | 1,042 | 894 | — | 371 | 43 | 43 |
| Unsecured | 187 | — | — | — | — | |
| Total commercial loans | 5,104 | 1,047 | — | 1,171 | 50 | 50 |
| Residential mortgage loans | | | | | | |
| One-to four-family | 6,432 | 5,441 | — | 5,695 | 128 | 119 |
| Construction | — | — | — | — | — | — |
| Total residential mortgage loans | 6,432 | 5,441 | — | 5,695 | 128 | 119 |
| Consumer loans | | | | | | |
| Home equity | 1,399 | 1,059 | — | 1,346 | 21 | 21 |
| Auto | 29 | 14 | — | 12 | 1 | 1 |
| Marine | 553 | 181 | — | 179 | 1 | 1 |
| Recreational vehicle | 578 | 151 | — | 228 | 15 | 15 |
| Other | 3 | 3 | — | 1 | — | — |
| Total consumer loans | 2,562 | 1,408 | — | 1,766 | 38 | 38 |
| Total | $ 14,098 | $ 7,896 | $ — | $ 8,632 | $ 216 | $ 207 |
| With a specific allowance recorded | | | | | | |
| Commercial loans | | | | | | |
| Multifamily | $ 422 | $ 275 | $ 28 | $ 69 | $ 4 | $ 4 |
| Nonresidential | 1,455 | 1,423 | 16 | 1,332 | 110 | 102 |
| Land | — | — | — | — | — | — |
| Construction | — | — | — | — | — | — |
| Secured | 893 | 611 | 472 | 153 | 81 | 81 |
| Unsecured | — | — | — | — | — | — |
| Total commercial loans | 2,770 | 2,309 | 516 | 1,554 | 195 | 187 |
| Residential mortgage loans | | | | | | |
| One-to four-family | 10,874 | 10,699 | 1,145 | 10,792 | 493 | 448 |
| Construction | — | — | — | — | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total residential mortgage loans | 10,874 | 10,699 | 1,145 | 10,792 | 493 | 448 |
| Consumer loans | | | | | | |
| Home equity | 4,921 | 4,840 | 377 | 5,049 | 269 | 255 |
| Auto | — | — | — | — | — | — |
| Marine | 100 | 100 | 1 | 103 | 5 | 5 |
| Recreational vehicle | 418 | 406 | 20 | 560 | 22 | 21 |
| Other | — | — | — | — | — | — |
| Total consumer loans | 5,439 | 5,346 | 398 | 5,712 | 296 | 281 |
| Total | 19,083 | 18,354 | 2,059 | 18,058 | 984 | 916 |
| Total impaired loans | $ 33,181 | $ 26,250 | $ 2,059 | $ 26,690 | $ 1,200 | $ 1,123 |

The following table presents loans individually evaluated for impairment by class of loans as of and for the year ended December 31, 2016:

Impaired Loans

(Dollars in thousands)

| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized | Cash Basis Income Recognized |
|---|---|---|---|---|---|---|
| With no specific allowance recorded | | | | | | |
| Commercial loans | | | | | | |
| Multifamily | $ 55 | $ — | $ — | $ — | $ — | $ — |
| Nonresidential | 2,278 | 1,489 | — | 544 | 102 | 101 |
| Land | 3,922 | 34 | — | 234 | — | — |
| Construction | 3,594 | — | — | — | — | — |
| Secured | 242 | 190 | — | 2,823 | — | — |
| Unsecured | 713 | — | — | — | 7 | 7 |
| Total commercial loans | 10,804 | 1,713 | — | 3,601 | 109 | 108 |
| Residential mortgage loans | | | | | | |
| One-to four-family | 8,736 | 6,758 | — | 6,272 | 195 | 177 |
| Construction | — | — | — | — | — | — |
| Total residential mortgage loans | 8,736 | 6,758 | — | 6,272 | 195 | 177 |
| Consumer loans | | | | | | |
| Home equity | 2,159 | 1,583 | — | 1,382 | 66 | 64 |
| Auto | 11 | 3 | — | 7 | — | — |
| Marine | 585 | 267 | — | 293 | 1 | 1 |
| Recreational vehicle | 433 | 120 | — | 251 | 13 | 13 |
| Other | — | — | — | 2 | 1 | 1 |
| Total consumer loans | 3,188 | 1,973 | — | 1,935 | 81 | 79 |
| Total | $ 22,728 | $ 10,444 | $ — | $ 11,808 | $ 385 | $ 364 |
| With a specific allowance recorded | | | | | | |
| Commercial loans | | | | | | |
| Multifamily | $ — | $ — | $ — | $ — | $ — | $ — |
| Nonresidential | 6,930 | 4,133 | 1,193 | 7,698 | 143 | 142 |
| Land | — | — | — | — | — | — |
| Construction | — | — | — | — | — | — |
| Secured | 237 | 172 | 78 | 654 | — | — |
| Unsecured | — | — | — | — | — | — |
| Total commercial loans | 7,167 | 4,305 | 1,271 | 8,352 | 143 | 142 |
| Residential mortgage loans | | | | | | |
| One-to four-family | 10,810 | 10,727 | 1,245 | 11,898 | 497 | 457 |
| Construction | — | — | — | — | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total residential mortgage loans | 10,810 | 10,727 | 1,245 | 11,898 | 497 | 457 |
| Consumer loans | | | | | | |
| Home equity | 5,390 | 5,335 | 426 | 6,117 | 310 | 293 |
| Auto | — | — | — | — | — | — |
| Marine | 108 | 108 | 1 | 144 | 6 | 6 |
| Recreational vehicle | 639 | 629 | 73 | 691 | 26 | 26 |
| Other | — | — | — | — | — | — |
| Total consumer loans | 6,137 | 6,072 | 500 | 6,952 | 342 | 325 |
| Total | 24,114 | 21,104 | 3,016 | 27,202 | 982 | 924 |
| Total impaired loans | $ 46,842 | $ 31,548 | $ 3,016 | $ 39,010 | $ 1,367 | $ 1,288 |

The following table presents loans individually evaluated for impairment by class of loans for the year ended December 31, 2015:

Impaired Loans

(Dollars in thousands)

| | Average Recorded Investment | Interest Income Recognized | Cash Basis Income Recognized |
|---|---|---|---|
| With no specific allowance recorded | | | |
| Commercial loans | | | |
| Multifamily | $ 21 | $ 4 | $ 4 |
| Nonresidential | 1,389 | 6 | 6 |
| Land | 474 | — | — |
| Construction | 69 | — | — |
| Secured | 3,700 | — | — |
| Unsecured | — | — | — |
| Total commercial loans | 5,653 | 10 | 10 |
| Residential mortgage loans | | | |
| One-to four-family | 4,710 | 156 | 149 |
| Construction | — | — | — |
| Total residential mortgage loans | 4,710 | 156 | 149 |
| Consumer loans | | | |
| Home equity | 1,491 | 31 | 29 |
| Auto | 22 | — | — |
| Marine | 280 | 2 | 2 |
| Recreational vehicle | 70 | 4 | 4 |
| Other | 1 | — | — |
| Total consumer loans | 1,864 | 37 | 35 |
| Total | $ 12,227 | $ 203 | $ 194 |
| With a specific allowance recorded | | | |
| Commercial loans | | | |
| Multifamily | $ 21 | $ — | $ — |
| Nonresidential | 5,659 | 119 | 117 |
| Land | — | — | — |
| Construction | 379 | — | — |
| Secured | 324 | — | — |
| Unsecured | — | — | — |
| Total commercial loans | 6,383 | 119 | 117 |
| Residential mortgage loans | | | |
| One-to four-family | 14,324 | 592 | 539 |
| Construction | — | — | — |
| Total residential mortgage loans | 14,324 | 592 | 539 |
| Consumer loans | | | |

| | | | |
|---|---|---|---|
| Home equity | 8,346 | 402 | 381 |
| Auto | 2 | — | — |
| Marine | 41 | 7 | 7 |
| Recreational vehicle | 783 | 33 | 33 |
| Other | 2 | 1 | 1 |
| Total consumer loans | 9,174 | 443 | 422 |
| Total | 29,881 | 1,154 | 1,078 |
| Total impaired loans | $ 42,108 | $ 1,357 | $ 1,272 |

Within secured and nonresidential impaired loans, there are two related credits with a total principal balance outstanding of $7.0 million as of December 31, 2015. The source of repayment for the loan resides in funds held in escrow by a court that has

administered foreclosure and receivership proceedings surrounding the loan. The loan has been subject to protracted litigation and a reserve of $546,000 was placed on one of the loans in 2015. In 2016, this relationship was reclassified as a nonperforming asset within other assets and is no longer included in loan balances. Home Savings believes that the asset that remains no longer represents a loan. Other than the funds held in the Receiver Estate, there are no additional assets to which Home Savings can assert a claim against as the corporate borrowers have been liquidated and dissolved, and the individual guarantors have no remaining assets. In December 2017, an appellate court ruled that a portion of the proceeds should be awarded to another claimant. Subsequently the asset was written down $2.3 million, through other expenses, to $4.1 million to reflect the court ruling. It is the Company's intent to continue to pursue a full recovery. As a result, it is most appropriate to categorize these proceeds as a nonperforming "other asset" identified as a current receivable from the court.

The Company reclassifies a collateralized mortgage loan and consumer loans secured by real estate to real estate owned and other repossessed assets once it has either obtained legal title to the real estate collateral or the borrower voluntarily conveys all interest in the real property to the Bank to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The table below presents loans that are in the process of foreclosure at December 31, 2017 and December 31, 2016, but legal title, deed in lieu of foreclosure or similar legal agreement to the property has not yet been obtained:

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | Unpaid Principal Balance | Recorded Investment |
| Mortgage loans in the process of foreclosure | $2,588 | $ 2,428 | $3,025 | $ 2,576 |
| Consumer loans in the process of foreclosure | 613 | 608 | 1,069 | 795 |

The following tables present the recorded investment in nonaccrual and loans past due over 90 days and still on accrual by class of loans as of December 31, 2017:

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing

As of December 31, 2017

| | Nonaccrual | Loans past due over 90 days and still accruing |
|---|---|---|
| | (Dollars in thousands) | |

| | | |
|---|---|---|
| Commercial loans | | |
| Multifamily | $275 | $ — |
| Nonresidential | 1,218 | — |
| Land | 9 | — |
| Construction | — | — |
| Secured | 1,505 | — |
| Unsecured | — | — |
| Total commercial loans | 3,007 | — |
| Residential mortgage loans | | |
| One-to four-family | 6,076 | — |
| Construction | — | — |
| Total residential mortgage loans | 6,076 | — |
| Consumer Loans | | |
| Home equity | 2,074 | — |
| Auto | 155 | — |
| Marine | 181 | — |
| Recreational vehicle | 208 | — |
| Other | 2 | — |
| Total consumer loans | 2,620 | — |
| Total nonaccrual loans and loans past due over 90 days and still accruing | $11,703 | $ — |

The following tables present the recorded investment in nonaccrual and loans past due over 90 days and still on accrual by class of loans as of December 31, 2016:

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing

As of December 31, 2016

| | Nonaccrual (Dollars in thousands) | Loans past due over 90 days and still accruing |
|---|---|---|
| Commercial loans | | |
| Multifamily | $— | $ — |
| Nonresidential | 3,546 | — |
| Land | 34 | — |
| Construction | — | — |
| Secured | 361 | — |
| Unsecured | — | — |
| Total commercial loans | 3,941 | — |
| Residential mortgage loans | | |
| One-to four-family | 6,084 | — |
| Construction | — | — |
| Total residential mortgage loans | 6,084 | — |
| Consumer Loans | | |
| Home equity | 1,936 | — |
| Auto | 31 | — |
| Marine | 267 | — |
| Recreational vehicle | 178 | — |
| Other | 2 | — |
| Total consumer loans | 2,414 | — |
| Total nonaccrual loans and loans past due over 90 days and still accruing | $12,439 | $ — |

The following tables present an age analysis of past-due loans, segregated by class of loans as of December 31, 2017:

Past Due Loans

(Dollars in thousands)

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current Loans | Total Loans |
|---|---|---|---|---|---|---|
| Commercial loans | | | | | | |
| Multifamily | $— | $— | $275 | $275 | $120,205 | $120,480 |
| Nonresidential | 20 | — | 1,199 | 1,219 | 380,392 | 381,611 |
| Land | — | — | 9 | 9 | 15,153 | 15,162 |
| Construction | — | — | — | — | 116,863 | 116,863 |
| Secured | 114 | 4 | 110 | 228 | 177,766 | 177,994 |
| Unsecured | — | — | — | — | 10,506 | 10,506 |
| Total commercial loans | 134 | 4 | 1,593 | 1,731 | 820,885 | 822,616 |
| Residential mortgage loans | | | | | | |
| One-to four-family | 4,704 | 1,523 | 4,804 | 11,031 | 859,908 | 870,939 |
| Construction | — | — | — | — | 49,092 | 49,092 |
| Total residential mortgage loans | 4,704 | 1,523 | 4,804 | 11,031 | 909,000 | 920,031 |
| Consumer Loans: | | | | | | |
| Home equity | 1,184 | 120 | 1,793 | 3,097 | 192,755 | 195,852 |
| Automobile | 187 | 100 | 82 | 369 | 63,995 | 64,364 |
| Marine | — | — | 181 | 181 | 1,345 | 1,526 |
| Recreational vehicle | 47 | — | 165 | 212 | 5,484 | 5,696 |
| Other | 31 | 3 | 2 | 36 | 6,020 | 6,056 |
| Total consumer loans | 1,449 | 223 | 2,223 | 3,895 | 269,599 | 273,494 |
| Total loans | $6,287 | $1,750 | $8,620 | $16,657 | $1,999,484 | $2,016,141 |

The following tables present an age analysis of past-due loans, segregated by class of loans as of December 31, 2016:

Past Due Loans

(Dollars in thousands)

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current Loans | Total Loans |
|---|---|---|---|---|---|---|
| Commercial loans | | | | | | |
| Multifamily | $— | $— | $— | $— | $93,597 | $93,597 |
| Nonresidential | 3,511 | — | 61 | 3,572 | 227,829 | 231,401 |
| Land | — | — | 34 | 34 | 8,339 | 8,373 |
| Construction | — | — | — | — | 68,158 | 68,158 |
| Secured | — | — | 361 | 361 | 94,982 | 95,343 |
| Unsecured | — | — | — | — | 7,386 | 7,386 |
| Total commercial loans | 3,511 | — | 456 | 3,967 | 500,291 | 504,258 |
| Residential mortgage loans | | | | | | |
| One-to four-family | 3,774 | 1,717 | 5,461 | 10,952 | 751,974 | 762,926 |
| Construction | — | — | — | — | 35,695 | 35,695 |
| Total residential mortgage loans | 3,774 | 1,717 | 5,461 | 10,952 | 787,669 | 798,621 |
| Consumer Loans: | | | | | | |
| Home equity | 941 | 458 | 1,669 | 3,068 | 161,986 | 165,054 |
| Automobile | 130 | — | 3 | 133 | 39,476 | 39,609 |
| Marine | — | — | 267 | 267 | 1,529 | 1,796 |
| Recreational vehicle | 131 | 347 | — | 478 | 7,124 | 7,602 |
| Other | 1 | 3 | 2 | 6 | 2,531 | 2,537 |
| Total consumer loans | 1,203 | 808 | 1,941 | 3,952 | 212,646 | 216,598 |
| Total loans | $8,488 | $2,525 | $7,858 | $18,871 | $1,500,606 | $1,519,477 |

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2017:

| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Recorded Investment |
|---|---|---|---|
| | | (In thousands) | |
| Commercial loans | | | |
| Multifamily | — | $ — | $ — |
| Nonresidential | 2 | 1,379 | 1,379 |
| Land | — | — | — |
| Construction | — | — | — |
| Secured | — | — | — |
| Unsecured | — | — | — |
| Total commercial loans | 2 | 1,379 | 1,379 |
| Residential mortgage loans | | | |
| One-to four-family | 3 | 309 | 350 |
| Construction | — | — | — |
| Total residential mortgage loans | 3 | 309 | 350 |
| Consumer loans | | | |
| Home equity | — | — | — |
| Auto | — | — | — |
| Marine | — | — | — |
| Recreational vehicle | 1 | 115 | 115 |
| Other | — | — | — |
| Total consumer loans | 1 | 115 | 115 |
| Total restructured loans | 6 | $ 1,803 | $ 1,844 |

The TDRs described above increased the allowance for loan losses by $7,000, and resulted in no charge-offs during the twelve months ended December 31, 2017.

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2016:

| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Recorded Investment |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Commercial loans | | | |
| Multifamily | — | $ — | $ — |
| Nonresidential | 4 | 6,134 | 6,140 |
| Land | — | — | — |
| Construction | — | — | — |
| Secured | — | — | — |
| Unsecured | — | — | — |
| Total commercial loans | 4 | 6,134 | 6,140 |
| Residential mortgage loans | | | |
| One-to four-family | 8 | 812 | 853 |
| Construction | — | — | — |
| Total residential mortgage loans | 8 | 812 | 853 |
| Consumer loans | | | |
| Home equity | 4 | 178 | 182 |
| Auto | — | — | — |
| Marine | — | — | — |
| Recreational vehicle | — | — | — |
| Other | — | — | — |
| Total consumer loans | 4 | 178 | 182 |
| Total restructured loans | 16 | $ 7,124 | $ 7,175 |

The TDRs described above increased the allowance for loan losses by $39,000, and resulted in no charge-offs during the twelve months ended December 31, 2016.

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2015:

| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Recorded Investment |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Commercial loans | | | |
| Multifamily | — | $— | $ — |
| Nonresidential | — | — | — |
| Land | — | — | — |
| Construction | — | — | — |
| Secured | — | — | — |
| Unsecured | — | — | — |
| Total commercial loans | — | — | — |
| Residential mortgage loans | | | |
| One-to four-family | 14 | 1,283 | 1,337 |
| Construction | — | — | — |
| Total residential mortgage loans | 14 | 1,283 | 1,337 |
| Consumer loans | | | |
| Home equity | 14 | 844 | 845 |
| Auto | — | — | — |
| Marine | — | — | — |
| Recreational vehicle | — | — | — |
| Other | 1 | 28 | 8 |
| Total consumer loans | 15 | 872 | 853 |
| Total restructured loans | 29 | $ 2,155 | $ 2,190 |

The TDRs described above increased the allowance for loan losses by $135,000, and resulted in no of charge-offs during the twelve months ended December 31, 2015.

During the periods ended December 31, 2017, 2016 and 2015, the terms of certain loans were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of a loan were for periods ranging from six months to 2 years. Modifications involving an extension of the maturity date were for periods ranging from six months to ten years.

As of December 31, 2017 and December 31, 2016, the Company has a recorded investment in troubled debt restructurings of $19.8 million and $26.6 million, respectively. The Company has allocated $1.6 million of specific reserves to customers whose loan terms were modified in TDRs as of December 31, 2017. The Company had allocated $3.0 million of specific reserves to customers whose loan terms were modified in troubled debt

restructurings as of December 31, 2016. The Company committed to lend additional amounts totaling up to $37,000 and $31,000 at December 31, 2017 and December 31, 2016, respectively.

TDR loans that were on nonaccrual status aggregated $2.4 million and $6.6 million at December 31, 2017 and December 31, 2016, respectively. Such loans are considered nonperforming loans. TDR loans that were accruing according to their terms aggregated $17.9 million and $20.0 million at December 31, 2017 and December 31, 2016, respectively.

There were no loans modified as TDRs for which there was a payment default within twelve months following the modification during the period ended December 31, 2017.

A TDR is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The terms of certain other loans were modified during the period ended December 31, 2017, but they did not meet the definition of a TDR. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification during the period ended December 31, 2016:

| | Number of loans | Recorded Investment (Dollars in thousands) |
|---|---|---|
| Commercial loans | | |
| Multifamily | — | $ — |
| Nonresidential | 1 | 3,603 |
| Land | — | — |
| Construction | — | — |
| Secured | — | — |
| Unsecured | — | — |
| Total commercial loans | 1 | 3,603 |
| Residential mortgage loans | | |
| One-to four-family | 1 | 3 |
| Construction | — | — |
| Total residential mortgage loans | 1 | 3 |
| Consumer loans | | |
| Home equity | — | — |
| Auto | — | — |
| Marine | — | — |
| Recreational vehicle | — | — |
| Other | — | — |
| Total consumer loans | — | — |
| Total restructured loans | 2 | $ 3,606 |

The TDRs that subsequently defaulted described above resulted in $350,000 charge-offs during the twelve months ended December 31, 2016, and an $820,000 increase in the provision for loan losses. The TDR's described above were resolved in January 2017, and are no longer in the Company's loan portfolio.

The terms of certain other loans were modified during the period ended December 31, 2016, but they did not meet the definition of a TDR. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification during the period ended December 31, 2015:

| | Number of loans | Recorded Investment (Dollars in thousands) |
|---|---|---|
| Commercial loans | | |
| Multifamily | — | $ — |
| Nonresidential | — | — |
| Land | — | — |
| Construction | — | — |
| Secured | — | — |
| Unsecured | — | — |
| Total commercial loans | — | — |
| Residential mortgage loans | | |
| One-to four-family | 2 | 29 |
| Construction | — | — |
| Total residential mortgage loans | 2 | 29 |
| Consumer loans | | |
| Home equity | 1 | 40 |
| Auto | — | — |
| Marine | — | — |
| Recreational vehicle | — | — |
| Other | 1 | 8 |
| Total consumer loans | 2 | 48 |
| Total restructured loans | 4 | $ 77 |

The TDRs that subsequently defaulted described above resulted in no charge-offs during the twelve months ended December 31, 2015, and had no effect on the provision for loan losses.

The terms of certain other loans were modified during the period ended December 31, 2015, but they did not meet the definition of a TDR. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company’s internal underwriting policy.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes homogeneous loans past due 90 cumulative days, and all

non-homogeneous loans including commercial loans and commercial real estate loans. Smaller balance homogeneous loans are primarily monitored by payment status.

Asset quality ratings are divided into two groups: Pass (unclassified) and Classified. Within the unclassified group, loans that display potential weakness are risk rated as special mention. In addition, there are three classified risk ratings: substandard, doubtful and loss. These specific credit risk categories are defined as follows:

Special Mention. Loans classified as special mention have potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Loans may be housed in this category for no longer than 12 months during which time information is obtained to determine if the credit should be downgraded to the substandard category.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the

liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss. Loans classified as loss are considered uncollectible and of such little value, that continuance as assets is not warranted. Although there may be a chance of recovery on these assets, it is not practical or desirable to defer writing off the asset.

The Company monitors loans on a monthly basis to determine if they should be included in one of the categories listed above. All impaired non-homogeneous credits classified as Substandard, Doubtful or Loss are analyzed on an individual basis for a specific reserve requirement. This analysis is performed on each individual credit at least annually or more frequently if warranted.

As of December 31, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2017

(Dollars in thousands)

| | Unclassified | | Classified | | | | |
|---|---|---|---|---|---|---|---|
| | | Special | | | | Total | |
| | Unclassified | Mention | Substandard | Doubtful | Loss | Classified | Total Loans |
| Commercial Loans | | | | | | | |
| Multifamily | $118,716 | $1,334 | $430 | $ — | $ — | $430 | $120,480 |
| Nonresidential | 367,553 | 6,394 | 7,664 | — | — | 7,664 | 381,611 |
| Land | 15,153 | — | 9 | — | — | 9 | 15,162 |
| Construction | 116,460 | 403 | — | — | — | — | 116,863 |
| Secured | 149,912 | 6,092 | 21,990 | — | — | 21,990 | 177,994 |
| Unsecured | 10,412 | — | 94 | — | — | 94 | 10,506 |
| Total commercial loans | 778,206 | 14,223 | 30,187 | — | — | 30,187 | 822,616 |
| Residential mortgage loans | | | | | | | |
| One-to four-family | 861,971 | 1,585 | 7,383 | — | — | 7,383 | 870,939 |
| Construction | 49,092 | — | — | — | — | — | 49,092 |
| Total residential mortgage loans | 911,063 | 1,585 | 7,383 | — | — | 7,383 | 920,031 |
| Consumer Loans | | | | | | | |
| Home equity | 193,733 | — | 2,119 | — | — | 2,119 | 195,852 |
| Auto | 64,209 | — | 155 | — | — | 155 | 64,364 |
| Marine | 1,345 | — | 181 | — | — | 181 | 1,526 |
| Recreational vehicle | 5,488 | — | 208 | — | — | 208 | 5,696 |
| Other | 6,051 | — | 5 | — | — | 5 | 6,056 |
| Total consumer loans | 270,826 | — | 2,668 | — | — | 2,668 | 273,494 |
| Total loans | $1,960,095 | $15,808 | $40,238 | $ — | $ — | $40,238 | $2,016,141 |

December 31, 2016

82

(Dollars in thousands)

| | Unclassified | | Classified | | | | |
|---|---|---|---|---|---|---|---|
| | | Special | | | | Total | |
| | Unclassified | Mention | Substandard | Doubtful | Loss | Classified | Total Loans |
| Commercial Loans | | | | | | | |
| Multifamily | $89,468 | $3,564 | $565 | $ — | $ — | $ 565 | $93,597 |
| Nonresidential | 217,204 | 6,037 | 8,160 | — | — | 8,160 | 231,401 |
| Land | 8,339 | — | 34 | — | — | 34 | 8,373 |
| Construction | 68,158 | — | — | — | — | — | 68,158 |
| Secured | 89,756 | 3,420 | 2,167 | — | — | 2,167 | 95,343 |
| Unsecured | 7,291 | — | 95 | — | — | 95 | 7,386 |
| Total commercial loans | 480,216 | 13,021 | 11,021 | — | — | 11,021 | 504,258 |
| Residential mortgage loans | | | | | | | |
| One-to four-family | 754,996 | 104 | 7,826 | — | — | 7,826 | 762,926 |
| Construction | 35,695 | — | — | — | — | — | 35,695 |
| Total residential mortgage loans | 790,691 | 104 | 7,826 | — | — | 7,826 | 798,621 |
| Consumer Loans | | | | | | | |
| Home equity | 163,101 | — | 1,953 | — | — | 1,953 | 165,054 |
| Auto | 39,577 | 1 | 31 | — | — | 31 | 39,609 |
| Marine | 1,530 | — | 266 | — | — | 266 | 1,796 |
| Recreational vehicle | 7,424 | — | 178 | — | — | 178 | 7,602 |
| Other | 2,535 | — | 2 | — | — | 2 | 2,537 |
| Total consumer loans | 214,167 | 1 | 2,430 | — | — | 2,430 | 216,598 |
| Total loans | $1,485,074 | $13,126 | $21,277 | $ — | $ — | $ 21,277 | $1,519,477 |

Directors and officers of the Company are loan customers in the ordinary course of business. The following describes loans to officers and/or directors of the Company:

| | (Dollars in thousands) |
|---|---|
| Balance as of December 31, 2016 | $ 927 |
| New loans to officers and/or directors | 7,532 |
| Loan payments during 2017 | (89 ) |
| Increase due to changes in officers and/or directors | 189 |
| Balance as of December 31, 2017 | $ 8,559 |

Purchased Credit Impaired Loans:

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.  The carrying amount of those loans is as follows:

| | December 31, 2017 (Dollars in thousands) |
| --- | --- |
| Commercial loans | $ 1,194 |
| Residential mortgage loans | — |
| Consumer loans | — |
| Outstanding balance | $ 1,194 |
| | |
| Carrying amount, net of allowance of $55 | $ 1,139 |

83

Accretable yield, or income expected to be collected, is as follows:

| | Year Ended December 31, 2017 (Dollars in thousands) |
|---|---|
| Beginning of period | $ — |
| New loans purchased | 158 |
| Accretion of income | 64 |
| Balance at December 31 | $ 94 |

For the purchased credit impaired loans disclosed above, there was an increase of $55,000 in the allowance for loan losses for the year ended December 31, 2017.

Purchased credit impaired loans purchased during the year ended December 31, 2017 for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

| | December 31, 2017 (Dollars in thousands) |
|---|---|
| Contractually required payments receivable of loans purchased during the year: | |
| Commercial loans | $ 4,499 |
| Residential mortgage loans | — |
| Consumer loans | — |
| | $ 4,499 |
| | |
| Cash flow expected to be collected at acquisition | $ 1,955 |
| Fair value of acquired loans at acquisition | 1,797 |

Income is not recognized on purchased credit impaired loans if the Company cannot reasonable estimate cash flows expected to be collected. The carrying amounts of such loans are as follows:

| | December 31, 2017 |
|---|---|

| | (Dollars in thousands) |
|---|---|
| Loans at beginning of year | $ — |
| Loans purchased during the year | 1,797 |
| Loans at end of period | 1,194 |

6. MORTGAGE BANKING ACTIVITIES

Mortgage loans serviced for others, which are not reported in United Community's assets, totaled $1.3 billion at December 31, 2017 and $1.2 billion as of December 31, 2016. Mortgage banking income is comprised of gains recognized on the sale of loans and changes in fair value of mortgage banking derivatives and changes in fair value of loans held for sale carried at fair value.

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans at year-end are as follows:

| | 2017 | 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Mortgage loan portfolios serviced for: | | |
| FHLMC | $1,003,441 | $956,278 |
| FNMA | 242,444 | 208,114 |
| Private investor | 23,404 | - |

Customer escrow balances in connection with loans serviced for FHLMC and FNMA totaled $15.3 million and $14.3 million at year-end 2017 and 2016.

Activity for capitalized mortgage servicing rights, included in other assets, was as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Balance, beginning of period | $6,070 | $5,686 | $5,535 |
| Originations | 2,555 | 2,478 | 1,951 |
| Amortized to expense | (1,944) | (2,094) | (1,800) |
| Balance, end of period | 6,681 | 6,070 | 5,686 |
| Less valuation allowance | (9) | — | (39) |
| Net balance | $6,672 | $6,070 | $5,647 |

Fair value of mortgage servicing rights was $10.9 million, $10.2 million and $9.1 million at December 31, 2017, 2016, and 2015, respectively.

Activity in the valuation allowance for mortgage servicing rights was as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Balance, beginning of period | $— | $(39) | $(58) |
| Impairment charges | (15) | (727) | (299) |
| Recoveries | 6 | 766 | 318 |
| Balance, end of period | $(9) | $— | $(39) |

Key economic assumptions used in measuring the value of mortgage servicing rights at December 31, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Weighted average prepayment rate | 181 PSA | 165 PSA |
| Weighted average life (in years) | 6.35 | 6.64 |
| Weighted average discount rate | 9 % | 9 % |

At year-end 2017, the Company had approximately $40.2 million of interest rate lock commitments and $155.0 million of forward commitments for the future delivery of residential mortgage loans, including construction perm loans that are held in available for sale. At year-end 2016, the Company had approximately $30.2 million of interest

rate lock commitments and $124.0 million of forward commitments for the future delivery of residential mortgage loans, including construction perm loans that are held in available for sale. The fair value of these mortgage banking derivatives was not material at year-end 2017 or 2016.

Home Savings may receive requests for reimbursements from Freddie Mac and Fannie Mae, both of whom in the normal course purchase loans originated by Home Savings, for the purpose of making them whole on certain loans sold in the secondary market. These sold loans may have certain identified weaknesses such that, in the opinion of management, a settlement to the investor might be required. For the twelve months ended December 31, 2017, Home Savings recognized no expenses associated with such repurchases. Home Savings had no liability reserve for future make-whole settlements at December 31, 2017 and 2016 because management believed no reserve was necessary given the recent historical losses incurred to date, there were no loans in the pipeline to be repurchased and the probability that future losses will not occur. For the twelve months ended December 31, 2016, Home Savings recognized no expenses associated with such repurchases. For the twelve months ended December 31, 2015, Home Savings recognized a recovery of expenses of $554,000 associated with such repurchases.

## 7. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at December 31, 2017 and 2016 was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Real estate owned and other repossessed assets | $1,656 | $ 2,789 |
| Valuation allowance | (403 ) | (1,012 ) |
| End of period | $1,253 | $ 1,777 |

Activity in the valuation allowance was as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Beginning of year | $1,012 | $1,229 | $1,423 |
| Additions (recoveries) charged to expense | 37 | (16 ) | 287 |
| Sales of real estate owned with a valuation allowance | (646 ) | (201 ) | (481 ) |
| End of year | $403 | $1,012 | $1,229 |

Expenses related to foreclosed and repossessed assets include:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Net loss on sales | $152 | $109 | $158 |
| Provision for (recovery of) unrealized losses | 37 | (16 ) | 287 |
| Operating expenses, net of rental income | 135 | 191 | 338 |
| Total Expenses | $324 | $284 | $783 |

## 8. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |

| | | |
|---|---|---|
| Land | $7,427 | $6,993 |
| Buildings | 25,814 | 23,907 |
| Leasehold improvements | 1,857 | 1,222 |
| Furniture and equipment | 29,034 | 26,323 |
| | 64,132 | 58,445 |
| Less: Accumulated depreciation and amortization | 42,038 | 37,482 |
| Total | $22,094 | $20,963 |

Depreciation expense was $2.7 million for 2017, $2.3 million for 2016 and $2.1 million for 2015.

Rent expense was $790,000 for 2017, $597,000 for 2016 and $338,000 for 2015. Rent commitments under noncancelable operating leases for offices were as follows, before considering renewal options that generally are present:

| | (Dollars in thousands) |
|---|---|
| 2018 | $ 1,014 |
| 2019 | 897 |
| 2020 | 824 |
| 2021 | 787 |
| 2022 | 693 |
| Thereafter | 2,978 |
| Total | $ 7,193 |

9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The change in goodwill during the periods presented is as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In thousands) | |
| Beginning of the year | $ 208 | $ — |
| Acquired goodwill-OLCB | 19,168 | — |
| Acquired goodwill-Insurance Agencies | 209 | 208 |
| Effect of Adjustments-James & Sons Insurance | 636 | — |
| Impairment | — | — |
| End of the year | $ 20,221 | $ 208 |

The changes to goodwill for the twelve months ended December 31, 2017 are primarily due to changes in the final market value for the customer list intangible asset, the related tax effect from those adjustments related to the James & Sons acquisition in January 2016 and the acquired goodwill from the OLCB merger.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. If the carrying amount of a reporting unit is zero or less than zero, a qualitive analysis of whether it is more likely than not that the reporting unit goodwill is impaired will be performed. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. The Company did not have any reporting unites with a carrying amount of zero or less than zero at December 31, 2017 or 2016.

Acquired Intangible Assets

| | As of December 31, 2017 | | 2016 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Core deposit intangibles | $ 11,184 | $ 9,250 | $ 8,952 | $ 8,947 |
| Customer list intangible | 2,222 | 162 | 1,400 | 44 |
| Total | $ 13,406 | $ 9,412 | $ 10,352 | $ 8,991 |

Aggregate amortization expense for 2017 was $422,000, for 2016 was $69,000 and for 2015 was $54,000. Estimated amortization expense for the next five years is as follows:

| | Estimated Amortization Expense |
|---|---|
| 2018 | $ 448,000 |
| 2019 | 448,000 |
| 2020 | 448,000 |
| 2021 | 448,000 |
| 2022 | 448,000 |

10. DEPOSITS

Deposits consist of the following:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (Dollars in thousands) | |
| Checking accounts: | | |
| Interest bearing | $170,478 | $158,270 |
| Non-interest bearing | 354,970 | 256,918 |
| Savings accounts | 301,716 | 294,564 |
| Money market accounts | 424,234 | 316,813 |
| Certificates of deposit | 705,341 | 488,426 |
| Total deposits | $1,956,739 | $1,514,991 |

Included in total deposits above are related-party deposits of $6.1 million and $3.5 million at December 31, 2017 and 2016, respectively.

Interest expense on deposits is summarized as follows:

| | December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Interest bearing demand deposits and money market accounts | $1,874 | $1,012 | $1,006 |
| Savings accounts | 112 | 124 | 161 |
| Certificates of deposit | 6,451 | 4,786 | 5,359 |
| Total | $8,437 | $5,922 | $6,526 |

A summary of certificates of deposit by maturity follows:

| | December 31, 2017 |
|---|---|
| | (Dollars in thousands) |
| 2018 | $ 433,136 |
| 2019 | 179,430 |
| 2020 | 33,050 |
| 2020 | 17,820 |
| 2021 | 25,772 |
| Thereafter | 16,133 |
| Total | $ 705,341 |

A summary of certificates of deposit with balances greater than $250,000 by maturity is as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (Dollars in thousands) | |
| Three months or less | $12,670 | $1,552 |
| Over three months to six months | 7,255 | 10,346 |
| Over six months to twelve months | 19,105 | 35,234 |
| Over twelve months | 18,306 | 14,151 |
| Total | $57,336 | $61,283 |

Home Savings had $156.5 million in brokered deposits at December 31, 2017. Home Savings had $76.5 million in brokered deposits at December 31, 2016.

Home Savings offers an equity-linked time deposit product (the Power CD). The Power CD is a time deposit that provides the purchaser a guaranteed return of principal at maturity plus a potential equity return. Home Savings had $12.7 million in Power CDs

that were included in certificates of deposit at December 31, 2017. Home Savings had $12.9 million in Power CDs that were included in certificates of deposit at December 31, 2016.

11. FEDERAL HOME LOAN BANK ADVANCES

The following is a summary of FHLB advances:

| | December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | (Dollars in thousands) | | | |
| Year of maturity | Amount | Weighted average rate | Amount | Weighted average rate |
| 2017 | $— | 0.00 % | $343,000 | 0.64 % |
| 2018 | 308,000 | 1.42 % | — | 0.00 % |
| 2019 | 48,536 | 3.26 % | 47,756 | 2.73 % |
| | $356,536 | 1.67 % | $390,756 | 0.90 % |

At December 31, 2017, Home Savings has remaining available credit, subject to collateral requirements, with the FHLB of approximately $256.8 million. At December 31, 2016, Home Savings had remaining available credit, subject to collateral requirements, with the FHLB of approximately $172.1 million. All advances must be secured by eligible collateral as specified by the FHLB. Accordingly, Home Savings had a blanket pledge of its one-to four-family mortgages as collateral for the advances outstanding at December 31, 2017 and 2016. The required minimum ratio of collateral to advances is 120% for one-to four-family loans. Additional changes in value can be applied to one-to four-family mortgage collateral based upon characteristics such as loan-to-value ratios and FICO scores.

On November 18, 2014, Home Savings modified a $50.0 million fixed-rate term advance with the FHLB. The modification reduced the weighted average interest rate paid on the debt from 4.20% fixed-rate to a floating rate, and extended the weighted average maturity from 2.0 years to 5.0 years. A $3.9 million prepayment penalty was incurred by Home Savings as part of the modification which will be amortized using a level yield method over the five-year remaining term of the modified borrowing as a yield adjustment. The floating rate was 1.70% at December 31, 2017 and 1.16% at December 31, 2016. The effective rate on the modified borrowing was 3.26% at December 31, 2017 and 2.73% at December 31, 2016, including the impact of the prepayment penalty amortization. FHLB term advances are subject to prepayment penalties.

12. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE AND OTHER BORROWINGS

The following is a summary of securities sold under an agreement to repurchase and other borrowings:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | (Dollars in thousands) | | | | | |
| | Amount | Weighted average rate | | Amount | Weighted average rate | |
| Securities sold under agreement to repurchase | $197 | 0.25 | % | $— | 0.00 | % |
| Other borrowings | — | 0.00 | % | 512 | 4.00 | % |
| Total borrowings | $197 | 0.25 | % | $512 | 4.00 | % |

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| | (Dollars in thousands) | | | | | |
| Average daily balance during the year | $3,584 | | $523 | | $29,891 | |
| Average interest rate during the year | 0.59 | % | 4.00 | % | 4.19 | % |
| Maximum month end balance during the year | $12,643 | | $535 | | $30,556 | |
| Weighted average interest rate at year end | 0.25 | % | 4.00 | % | 4.00 | % |

Securities sold under agreements to repurchase are secured primarily by U.S. agency securities with a fair value of $4.9 million at December 31, 2017 and $0 at December 31, 2016. These securities are held by an independent third party and are for retail customers.

Other borrowings consist of a match-funding advance related to a commercial participation loan aggregating $0 at December 31, 2017 and $512,000 at December 31, 2016.

## 13. LOSS CONTINGENCIES

United Community and Home Savings are parties to litigation arising in the normal course of business. While it is difficult to determine the ultimate resolution of these matters, management believes any resulting liability would not have a material effect upon United Community's financial statements.

## 14. INCOME TAXES

The income tax expense (benefit) consists of the following components:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Current | $284 | $300 | $577 |
| Deferred | 9,466 | 7,843 | 7,316 |
| Enactment of Federal Tax reform | 1,545 | — | — |
| Total | $11,295 | $8,143 | $7,893 |

Effective tax rates differ from the statutory federal income tax rate of 35% due to the following:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| | Dollars | Rate | Dollars | Rate | Dollars | Rate |
| | (Dollars in thousands) | | | | | |
| Tax at statutory rate | $11,578 | 35.0% | $9,440 | 35.0% | $8,461 | 35.0% |
| Increase (decrease) due to: | | | | | | |
| Tax exempt income | (553) | (1.7)% | (471) | (1.7)% | (45) | (0.2)% |
| Life insurance | (569) | (1.7)% | (523) | (1.9)% | (602) | (2.5)% |
| Tax exempt insurance premiums | (303) | (0.9)% | — | —% | — | —% |
| Equity compensation | (246) | (0.7)% | — | —% | — | —% |
| Enactment of federal tax reform | 1,545 | 4.6% | — | —% | — | —% |
| Disproportionate tax reversal | — | —% | (511) | (1.9)% | — | —% |
| Other | (157) | (0.5)% | 208 | 0.7% | 79 | 0.3% |
| Income tax provision | $11,295 | 34.1% | $8,143 | 30.2% | $7,893 | 32.6% |

Significant components of the deferred tax assets and liabilities are as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Loan loss reserves | $4,452 | $6,680 |
| Depreciation | 413 | 748 |
| Other real estate owned valuation | 85 | 354 |
| Tax credits carryforward | 2,193 | 1,471 |
| Unrealized loss on securities available for sale | 241 | 1,685 |
| Unrealized loss on securities held to maturity | 217 | 431 |
| Interest on nonaccrual loans | 482 | 1,039 |
| Net operating loss carryforward | 914 | 8,574 |
| Purchase accounting adjustment | 442 | — |
| Accrued bonuses | 551 | 812 |
| Other | 176 | 221 |
| Deferred tax assets | 10,166 | 22,015 |
| Deferred tax liabilities: | | |
| Deferred loan fees | 1,145 | 1,275 |
| Federal Home Loan Bank stock dividends | 2,787 | 4,585 |
| Mortgage servicing rights | 1,401 | 2,124 |
| FHLB prepayment penalty | 307 | 786 |
| Purchase accounting adjustment | — | 371 |
| Prepaid expenses | 306 | 139 |
| Deferred tax liabilities | 5,946 | 9,280 |
| Net deferred tax asset | $4,220 | $12,735 |

The Company’s ultimate realization of the DTA is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the nature and amount of projected future taxable income, the scheduled reversal of deferred tax assets and liabilities, and available tax planning strategies in making this assessment. The amount of deferred taxes recognized could be impacted by changes to any of these variables.

United Community’s net operating loss of $4.4 million will be carried forward to use against future taxable income. The net operating loss carryforwards begin to expire in the year ending December 31, 2027. In addition, United Community is carrying forward $2.2 million of alternative minimum tax credits. The alternative minimum tax credits are carried forward indefinitely. Certain of these tax benefits are subject to annual limitation under Internal Revenue Code section 382; however, United Community and Home Savings expect to utilize the full amount of the benefit.

Retained earnings at December 31, 2017 included approximately $21.1 million for which no provision for federal income taxes has been made. This amount represents the tax bad debt reserve at December 31, 1987, which is the end of United Community’s base year for purposes of calculating the bad debt deduction for tax purposes. If this portion of retained earnings is used in the future for any purpose other than to absorb bad debts, the amount used will be added to future taxable income. The unrecorded deferred tax liability on the above amount at December 31, 2017 was approximately $4.4 million. At December 31, 2017, Home Savings had approximately $17.6 million deficit in tax earnings and profits. Any distribution from Home Savings to United Community, other than current period earnings,

in excess of tax earnings and profits, including any distributions made by Home Savings in direct redemption of stock from United Community, could result in recapture of proportionate amounts of these bad debt reserves and, as a result, recording of the related tax liability.

As of December 31, 2017 and December 31, 2016, United Community had no unrecognized tax benefits or accrued interest and penalties recorded. United Community does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. United Community will record interest and penalties as a component of income tax expense.

United Community and Home Savings are subject to U.S. federal income tax. United Community and Home Savings are subject to tax in Ohio based upon its net worth. United Community and Home Savings also file state income tax returns in Pennsylvania, Indiana, West Virginia and Florida. United Community is no longer subject to examination by taxing authorities for years prior to 2014.

On December 22, 2017, H.R. 1, commonly known as the Tax Cuts and Jobs Act (the "Act"), was signed into law. The Act includes several provisions that will affect the Company's federal income tax expense, including reducing the federal income tax rate to 21% effective January 1, 2018. As a result of the rate reduction, the Company is required to re-measure, through income tax expense in the period of enactment, the deferred tax assets and liabilities using the enacted rate at which these items are expected to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional 2017 income tax expense of $1.5 million.

## 15. SHAREHOLDERS' EQUITY

### Dividends

United Community's source of funds for dividends to its shareholders is earnings on its investments and dividends from Home Savings. During the year ended December 31, 2017, United Community paid total cash dividends of $0.14 per common share. While Home Savings' primary regulator is the FDIC, the FRB has regulations that impose certain restrictions on payments of dividends to United Community as of December 31, 2017.

Home Savings must file an application with, and obtain approval from, the FRB if (i) the proposed distribution would cause total distributions for the calendar year to exceed net income for that year-to-date plus retained net income (as defined) for the preceding two years; (ii) Home Savings would not be at least adequately capitalized following the capital distribution; or (iii) the proposed distribution would violate a prohibition contained in any applicable statute, regulation or agreement between Home Savings and the FRB or the FDIC, or any condition imposed on Home Savings in an FRB-approved application or notice. If Home Savings is not required to file an application, it must file a notice of the proposed capital distribution with the FRB. As of December 31, 2017, Home Savings had no retained earnings that could be distributed based on cumulative dividends and net income over the aforementioned period. Home Savings paid a $15.0 million dividend to United Community from current period earnings during 2017.

### Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) included in the consolidated statements of shareholders' equity consists of unrealized gains and losses on available for sale securities, unrealized losses on securities transferred from available for sale to held to maturity, accretion of unrealized losses on securities transferred from available for sale to held to maturity, disproportional tax effects and changes in unrealized gains and losses on the postretirement plan. The change includes reclassification of net gains or (losses) on sales of securities of $566,000, $604,000 and $142,000 for the years ended December 31, 2017, 2016 and 2015.

The following is a summary of accumulated other comprehensive income (loss) to net income balances:

| | Unrealized | Disproportionate | Unrealized | Total |
|---|---|---|---|---|
| | Gains | Tax Effect | Gains | |
| | (Losses) | from | (Losses) | |
| | on | Securities | on Held to | |

| 2017 | Securities Available for Sale | Available for Sale | Maturity | |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Balances at beginning of period, net of tax | $(3,130) | $ (17,110) | $ (800) | $(21,040) |
| Other comprehensive loss before reclassifications | 2,946 | — | — | 2,946 |
| Accretion of unrealized losses transferred from available for sale to held to maturity recognized in other comprehensive income | — | — | 129 | 129 |
| Reclassification adjustment for gains realized in income | (368) | — | — | (368) |
| Net current period other comprehensive income | 2,578 | — | 129 | 2,707 |
| Reclassification from adoption of ASU 2018-02 | (352) | — | — | (352) |
| Balances at end of period, net of tax | $(904) | $ (17,110) | $ (671) | $(18,685) |

92

| 2016 | Unrealized Gains (Losses) on Securities Available for Sale | Disproportionate Tax Effect from Securities Available for Sale | Unrealized Gains (Losses) on Held to Maturity | Unrealized Gains (Losses) from Postretirement Plan | Disproportionate Tax Effect from Postretirement Plan | Total |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| Balances at beginning of period, net of tax | $(2,492) | $ (17,110) | $ (960) | $ 831 | $ 511 | $(19,220) |
| Transfer of losses from available for sale to held to maturity | (245) | — | — | — | — | (245) |
| Other comprehensive income before reclassifications | — | — | — | (831) | (511) | (1,342) |
| Accretion of unrealized losses transferred from available for sale to held to maturity recognized in other comprehensive income | — | — | 160 | — | — | 160 |
| Reclassification adjustment for gains realized in income | (393) | — | — | | — | (393) |
| Net current period other comprehensive income | (638) | — | 160 | (831) | (511) | (1,820) |
| Balances at end of period, net of tax | $(3,130) | $ (17,110) | $ (800) | $ — | $ — | $(21,040) |

| | Unrealized Gains (Losses) on Securities Available for Sale | Disproportionate Tax Effect from Securities Available for Sale | Unrealized Gains (Losses) on Held to Maturity | Unrealized Gains (Losses) from Postretirement Plan | Disproportionate Tax Effect from Postretirement Plan | Total |
|---|---|---|---|---|---|---|

| 2015 | for Sale (Dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| Balances at beginning of period, net of tax | $(4,315) | $ (17,110) | $ — | $ 916 | $ 511 | $(19,998) |
| Transfer of losses from available for sale to held to maturity | 999 | — | (999) | — | — | — |
| Other comprehensive income before reclassifications | 916 | — | — | 120 | — | 1,036 |
| Accretion of unrealized losses transferred from available for sale to held to maturity recognized in other comprehensive income | — | — | 39 | — | — | 39 |
| Reclassification adjustment for gains realized in income | (92) | — | — | (205) | — | (297) |
| Net current period other comprehensive income | 1,823 | — | (960) | (85) | — | 778 |
| Balances at end of period, net of tax | $(2,492) | $ (17,110) | $ (960) | $ 831 | $ 511 | $(19,220) |

As of June 30, 2014, management concluded it was more likely than not that the Company's net deferred tax asset (DTA) would be realized and accordingly determined a full deferred tax valuation allowance was no longer required. Upon reversal of the former full deferred tax valuation allowance as of June 30, 2014, certain disproportionate tax effects are retained in accumulated other comprehensive income (loss) totaling approximately a ($16.6) million loss. Almost the entire disproportionate tax effect is attributable to valuation allowance expense recorded through other comprehensive income (loss) on the tax benefit of losses sustained on the available for sale securities portfolio while the Company was in a full deferred tax valuation allowance. This valuation allowance was appropriately reversed through continuing operations at June 30, 2014, leaving the original expense in accumulated other comprehensive income (loss), where it will remain in accordance with the Company's election of the "portfolio approach", until such time as the Company would cease to have an available for sale security portfolio. During 2016, with the termination and settlement of the postretirement plans, the disproportionate tax effect associated with these plans was reversed and recorded as a tax benefit.

The following is significant amounts reclassified out of each component of accumulated comprehensive income (loss) to net income for the year ended December 31, 2017:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified From Accumulated Other Comprehensive Income to Net Income (Dollars in thousands) | Affected Line Item on the Statement Where Net Income is Presented |
|---|---|---|
| Realized net gains on the sale of available for sale securities | $ 566 | Net gains on securities available for sale |
| | (198) | Tax (expense) benefit |
| Total reclassification during the period | $ 368 | Increase to net income |

The following is significant amounts reclassified out of each component of accumulated comprehensive income (loss) to net income for the year ended December 31, 2016:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified From Accumulated Other Comprehensive Income to Net Income (Dollars in thousands) | Affected Line Item on the Statement Where Net Income is Presented |
|---|---|---|
| Realized net gains on the sale of available for sale securities | $ 604 | Net gains on securities available for sale |
| | (211) | Tax (expense) benefit |
| | 393 | Net of tax |
| Amortization of postretirement benefits prior service costs | 1,278 | Reduction of salaries & employee benefits expense |
| | (447) | Tax (expense) benefit |
| | 511 | Disproportionate tax benefit effect from plan settlement |
| | 1,342 | Net of tax |
| Total reclassification during the period | $ 1,735 | Increase to net income |

The following is significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the year ended December 31, 2015:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified From Accumulated Other Comprehensive Income to Net Income | Affected Line Item on the Statement Where Net Income is Presented |
|---|---|---|
| | (Dollars in thousands) | |
| Realized net gains on the sale of available for sale securities | $ 142 | Net gains on securities available for sale |
| | (50) | Tax (expense) benefit |
| | 92 | Net of tax |
| Amortization of postretirement benefits prior service costs | 315 | Reduction of salaries & employee benefits expense |
| | (110) | Tax (expense) benefit |
| | 205 | Net of tax |
| Total reclassification during the period | $ 297 | Increase to net income |

Liquidation Account

At the time of the Conversion, Home Savings established a liquidation account, totaling $141.4 million, which was equal to its regulatory capital as of the latest practicable date prior to the Conversion. In the event of a complete liquidation, each eligible depositor will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for the accounts then held.

16. REGULATORY CAPITAL MATTERS

Home Savings and United Community are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Home Savings and United Community. The regulations require Home Savings to meet specific capital adequacy guidelines in keeping with the regulatory framework for prompt corrective action that involve quantitative measures of Home Savings' assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. Home Savings' capital classification is also subject to qualitative judgments by the regulators about components of capital, risk weightings, and other factors.

The Basel III Capital Rules establish a common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), a minimum Tier 1 capital to risk-based assets requirement (6% of risk-weighted assets) and assigns a risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rules also require unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. In connection with the adoption of the Basel III Capital Rules, United Community and Home Savings elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital risk-based weighted assets in addition to the amount necessary to meeting its minimum risk-based capital requirements.

The capital conservation buffer requirement is being phased in through January 1, 2019, when the full capital conservation buffer requirement will be effective. The capital conservation buffer for 2017 was 1.25% and the capital conservation buffer for 2018 is 1.875%. The final rule also implemented consolidated capital requirements.

Quantitative measures established by regulation for capital adequacy require Home Savings to maintain minimum ratios of Tier 1 (or Core) capital (as defined in the regulations) to average total assets (as defined) and of total risk-based capital (as defined) to risk-weighted assets (as defined). United Community and Home Savings' Common Equity Tier 1 capital consists of common stock and related paid-in capital, net of treasury stock, and retained earnings. Common Equity Tier 1 for both United Community and Home Savings is reduced by intangible assets, net of associated deferred tax liabilities and subject to transition provisions. Actual and regulatory required capital ratios for Home Savings, along with the dollar amount of capital implied by such ratios, are presented below.

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum Capital Requirements For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| Total capital (to risk-weighted assets) | $292,928 | 14.70% | $184,235 | 9.25% | $199,173 | 10.00% |
| Tier 1 capital (to risk-weighted assets) | 271,777 | 13.64% | 144,400 | 7.25% | 159,338 | 8.00% |
| Common equity Tier 1 capital (to risk-weighted | 271,777 | 13.64% | 114,525 | 5.75% | 129,463 | 6.50% |

| | | | | | | |
|---|---|---|---|---|---|---|
| assets) | | | | | | |
| Tier 1 capital (to average assets)** | 271,777 | 10.42 % | 104,308 | 4.00 % | 130,385 | 5.00 % |

**Tier 1 Leverage Capital Ratio

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum Capital Requirements For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| Total capital (to risk-weighted assets) | $ 248,861 | 16.47 % | $ 130,292 | 8.63 % | $ 151,063 | 10.00 % |
| Tier 1 capital (to risk-weighted assets) | 229,938 | 15.22 % | 100,079 | 6.63 % | 120,850 | 8.00 % |
| Common equity Tier 1 capital (to risk-weighted assets) | 229,938 | 15.22 % | 77,420 | 5.13 % | 98,191 | 6.50 % |
| Tier 1 capital (to average assets)** | 229,938 | 10.65 % | 86,360 | 4.00 % | 107,950 | 5.00 % |

95

**Tier 1 Leverage Capital Ratio

The components of Home Savings' regulatory capital are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Total shareholders' equity | $276,494 | $ 216,475 |
| Add (deduct) | | |
| Accumulated other comprehensive loss | 18,701 | 21,056 |
| Intangible assets | (20,903 ) | (3 ) |
| Disallowed deferred tax assets | (2,515 ) | (7,590 ) |
| Disallowed capitalized mortgage loan servicing rights | — | — |
| Tier 1 Capital | 271,777 | 229,938 |
| Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets | 21,151 | 18,923 |
| Total risk-based capital | $292,928 | $ 248,861 |

Actual and regulatory required consolidated capital ratios for United Community, along with the dollar amount of capital implied by such ratios, are presented below.

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum Capital Requirements For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| Total capital (to risk-weighted assets) | $306,946 | 15.35 % | $184,881 | 9.25 % | $ 199,872 | 10.00 % |
| Tier 1 capital (to risk-weighted assets) | 285,744 | 14.29 % | 144,907 | 7.25 % | 159,897 | 8.00 % |
| Common equity Tier 1 capital (to risk-weighted assets) | 285,744 | 14.29 % | 114,926 | 5.75 % | 119,923 | 6.50 % |
| Tier 1 capital (to average assets)** | 285,744 | 10.93 % | 104,588 | 4.00 % | 130,735 | 5.00 % |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | Minimum Capital | | To Be Well Capitalized Under Prompt | |

| | Actual | | Requirements For Capital Adequacy Purposes | | Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| Total capital (to risk-weighted assets) | $277,817 | 18.38% | $130,369 | 8.63 % | $ 151,153 | 10.00 % |
| Tier 1 capital (to risk-weighted assets) | 258,869 | 17.13% | 100,139 | 6.63 % | 120,922 | 8.00 % |
| Common equity Tier 1 capital (to risk-weighted assets) | 258,869 | 17.13% | 77,466 | 5.13 % | 98,249 | 6.50 % |
| Tier 1 capital (to average assets)** | 258,869 | 11.98% | 86,425 | 4.00 % | 108,031 | 5.00 % |

The components of United Community's consolidated regulatory capital are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Total shareholders' equity | $294,265 | $ 249,806 |
| Add (deduct) | | |
| Accumulated other comprehensive loss | 18,701 | 21,040 |
| Intangible assets | (23,416 ) | (1,567 ) |
| Disallowed deferred tax assets | (3,806 ) | (10,410 ) |
| Disallowed capitalized mortgage loan servicing rights | — | — |
| Tier 1 Capital | 285,744 | 258,869 |
| Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets | 21,202 | 18,948 |
| Total risk-based capital | $306,946 | $ 277,817 |

Management believes that as of December 31, 2017 and 2016, Home Savings and United Community meets all capital adequacy requirements to which they were subject. As of December 31, 2017 and 2016, Home Savings and United Community were considered well capitalized. Management is not aware of any changes to this classification since that date.

## 17. BENEFIT PLANS

### Postretirement Benefit Plans

In addition to Home Savings' retirement plans, Home Savings sponsored a defined benefit health care plan that was curtailed in 2000 to provide postretirement medical benefits only for these employees who worked 20 years and attained a minimum age of 60 by September 1, 2000, while in service with Home Savings. That plan was curtailed again in 2015, and medical benefits are no longer provided to plan participants as of December 31, 2016. The curtailment resulted in a gain of $1.1 million recognized in salaries and employee benefits during 2015 and the recognition of unrealized gains as a reduction of salaries and employee benefits of $1.2 million during 2016. The plan was unfunded and, as such, had no assets. Furthermore, the plan was contributory and contained minor cost-sharing features such as deductibles and coinsurance. In addition, postretirement life insurance coverage was provided for employees who were participants prior to December 10, 1976. The life insurance plan was non-contributory. Home Savings' policy was to pay premiums monthly, with no pre-funding. The life insurance portion of the plan was terminated and the plan was settled in the fourth quarter of 2016. The benefit obligation measurement date was December 31. Information about changes in obligations of the benefit plan follows:

| | For the year ended December 31, 2016 |
|---|---|

| | (Dollars in thousands) | |
|---|---|---|
| Change in Benefit Obligation: | | |
| Benefit obligation at beginning of year | $ | 333 |
| Service cost | | — |
| Net periodic benefit cost (benefit) | | (1,268) |
| Actuarial gain | | 1,268 |
| Benefits paid | | (333) |
| Curtailment gain | | — |
| Benefit obligation at end of the year | | — |
| Funded status of the plan | $ | — |

Components of net periodic benefit cost/(benefit) were as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Service cost | $— | $— |
| Interest cost | 10 | 53 |
| Expected return on plan assets | — | — |
| Net amortization of prior service cost (benefit) | (228) | (228) |
| Amortization of net actuarial gain | (1,050) | (86) |
| Curtailment gain | — | (1,072) |
| Net periodic benefit cost | (1,268) | (1,333) |
| Net (gain) loss | — | (184) |
| Prior service credit | — | — |
| Amortization of prior service cost and net actuarial gain | 1,278 | 315 |
| Total recognized in other comprehensive income | 1,278 | 131 |
| Total recognized in net periodic benefit cost and other comprehensive income | $10 | $(1,202) |
| Assumptions used in the valuations were as follows: | | |
| Weighted average discount rate | 3.90 % | 3.90 % |

401(k) Savings Plan

Home Savings sponsors a defined contribution 401(k) savings plan, which covers substantially all employees. Under the provisions of the plan, Home Savings' matching contribution is discretionary and may be changed from year to year. For 2017, 2016 and 2015, Home Savings' match was 50% of pretax contributions up to a maximum of 6%. Participants become 100% vested in Home Savings contributions upon completion of three years of service. For the years ended 2017, 2016 and 2015, the expense related to this plan was approximately $619,000, $480,000 and $465,000, respectively.

Stock-based Compensation: Stock Options

On April 30, 2015, shareholders approved the United Community Financial Corp. 2015 Long Term Incentive Compensation Plan (the 2015 Plan). The purpose of the 2015 Plan is to provide a means through which United Community may attract and retain employees and non-employee directors, to provide incentives that align their interest with those of United Community's shareholders and promote the success of United Community's business. All employees and non-employee directors are eligible to participate in the 2015 Plan. The 2015 Plan provides for the issuance of up to 1,200,000 shares that are to be used for awards of stock options, stock awards, stock units, stock appreciation rights, annual bonus awards and long-term incentive awards.

On April 26, 2007, shareholders approved the United Community Financial Corp. 2007 Long-Term Incentive Plan (as amended, the 2007 Plan). The purpose of the 2007 Plan was to promote and advance the interests of United Community and its shareholders by enabling United Community to attract, retain and reward directors, directors emeritus, managerial and other key employees of United Community, including Home Savings, by facilitating their purchase of an ownership interest in United Community. The 2007 Plan was terminated on April 30, 2015 upon the

adoption of the 2015 Plan, although the 2007 Plan survives so long as awards issued under the 2007 Plan remain outstanding and exercisable. The 2007 Plan provided for the issuance of up to 2,000,000 shares that were to be used for awards of restricted stock, stock options, performance awards, stock appreciation rights (SARs), or other forms of stock-based incentive awards.

On July 12, 1999, shareholders approved the United Community Financial Corp. 1999 Long-Term Incentive Plan (as amended, the 1999 Plan). The purpose of the 1999 Plan was the same as the 2007 Plan. The 1999 Plan terminated on May 20, 2009, although the 1999 Plan survives so long as options issued under the 1999 Plan remain outstanding and exercisable.

The 1999 Plan provided for the grant of either incentive or nonqualified stock options. Options were awarded at exercise prices that were not less than the fair market value of the share at the grant date. The maximum number of common shares that could be issued under the 1999 Plan was 3,569,766. Because the 1999 Plan terminated, no additional options may be issued under it. All of the options awarded became exercisable on the date of grant except that options granted in 2009 became exercisable over three years beginning on December 31, 2009. All options expire 10 years from the date of grant.

There were no stock options granted in 2017 and 2016 and there were 6,618 stock options granted in 2015. The options must be exercised within 10 years from the date of grant. Expenses related to stock option grants are included with salaries and employee benefits. All of the Company's stock options are vested at December 31, 2017. The Company recognized $1,000 and $9,000, in stock option expense for the twelve months ended December 31, 2017 and 2016, respectively.

A summary of activity in the plans is as follows:

| | For the year ended December 31, 2017 | | |
|---|---|---|---|
| | Shares | Weighted average exercise price | Aggregate intrinsic value (Dollars in thousands) |
| Outstanding at beginning of year | 371,218 | $ 2.55 | |
| Granted | — | — | |
| Exercised | (110,085) | 2.53 | |
| Forfeited | (600) | 2.10 | |
| Outstanding at end of period | 260,533 | 2.55 | $ 1,697 |
| Options exercisable at end of period | 260,533 | 2.55 | 1,697 |

Information related to the stock options granted and exercised during each year follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Intrinsic value of options exercised | $702,000 | $883,000 | $48,000 |
| Cash received from option exercises | 279,000 | 517,000 | 28,000 |
| Tax benefit realized from option exercises | 120,000 | 82,000 | — |
| Weighted average fair value of options granted | — | — | 1.70 |

There were no options granted in 2017 and 2016. The fair value of options granted in 2015 was determined using the following weighted-average assumptions as of the grant date:

| | 2015 |
|---|---|
| Risk-free interest rate | 1.49 % |
| Expected term (years) | 5 |

| | |
|---|---|
| Expected stock volatility | 35.95 % |
| Dividend yield | 0.74 % |

Outstanding stock options have a weighted average remaining life of 2.56 years and may be exercised in the range of $1.20 to $5.89.

Stock-based Compensation: Restricted Stock Awards

The 2015 and 2007 Plans permit the issuance of restricted stock awards to employees and nonemployee directors. Nonvested shares at December 31, 2017 aggregated 277,035, of which 135,635 will vest in 2018, 107,260 will vest in 2019 and 34,140 will vest in 2020. Expenses related to restricted stock awards are charged to salaries and employee benefits and are recognized over the vesting period of the awards based on the market value of the shares at the grant date. The Company recognized approximately $951,000, $970,000 and $756,000 in restricted stock award expenses, including expenses for shares issued under the annual incentive plan, for the twelve months ended December 31, 2017, 2016 and 2015, respectively. The Company expects to recognize additional expenses of approximately $784,000 in 2018, $362,000 in 2019, and $154,000 in 2020.

A summary of changes in the Company's nonvested restricted shares for the year is as follows:

| | Shares | Weighted average exercise price |
|---|---|---|
| Nonvested shares at January 1, 2017 | 341,184 | $ 5.50 |
| Granted | 88,681 | 8.77 |
| Vested | (152,830) | 5.20 |
| Forfeited | — | — |
| Nonvested shares at December 31, 2017 | 277,035 | 6.73 |

The total average per share fair value of shares vested during the years ended December 31, 2017, 2016 and 2015 was $8.61, $5.97 and $5.48, respectively.

Annual Incentive Plan

The Annual Incentive Plan ("AIP") provides incentive compensation awards to certain officers of the Company. The incentive awards are based upon the actual performance of the Company, and personal performance for the twelve months ending December 31, compared to the actual performance of a peer group and plan during the same twelve month period. The target incentive awards for each year are measured as a percentage of the base salary of participating officers. Once the awards under the AIP are calculated, they are paid either in cash or 80% cash and 20% restricted stock, depending on the particpant. The restricted stock granted will vest equally over three years, beginning on the first anniversary of the date the restricted stock is issued. The Company incurred $315,000, $356,000 and $269,000 in expense for the restricted stock portion of the AIP and $1.7 million, $1.3 million and $804,000 for the cash portion of the AIP for the twelve months ended December 31, 2017, 2016 and 2015, respectively. Restricted stock expenses for the AIP are included in the total restricted stock expenses discussed above.

Long-Term Incentive Plan

The Long-Term Incentive Plan ("LTIP") provides a long-term incentive compensation opportunity to certain executive officers. Each participant in the LTIP will be granted a target number of Performance Share Units ("PSUs"). Target PSUs will be determined as a percentage of base salary and translated into share units based on the Company's average stock price at the appropriate measurement date. The performance period for the annual grant for a given year will be from January 1, year 1 through December 31, year 3. The Company incurred $230,000, $693,000 and $199,000 in expense for the LTIP for the twelve months ended December 31, 2017, 2016 and 2015, respectively. The increase in expense for 2016 was driven by the rise in United Community's share price during the performance period.

## 18. FAIR VALUE

Fair value is the exchange price that would be received for an asset if paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own beliefs about the assumptions that market participants would use in pricing an asset or liability.

United Community uses the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Available for sale securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Impaired loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and

knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other real estate owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are individually evaluated at least annually for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Home Savings. Once received, a member of the Special Assets Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with the independent data sources such as recent market data or industry-wide statistics. On an annual basis, Home Savings compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. At the time a property is acquired and classified as real estate owned, the fair value is determined utilizing the most appropriate method. A fair value in excess of $250,000 will be supported by an appraisal. After determination of fair value, each property will be recorded at the lower of cost (i.e., recorded investment in the loan) or the estimated net realizable value on the date of transfer to real estate owned. In determining net realizable value, reductions to fair market value may be taken for estimated costs of sale, conditions that must be remedied immediately upon acquisition, and other factors that negatively impact the marketability and prompt sale of the property.

Mortgage servicing rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2).

Loans held for sale: Loans held for sale for which the fair value option has not been elected are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Loans held for sale, at fair value: The Company elected the fair value option for all conventional residential one-to four-family loans held for sale originated after January 1, 2016 and all permanent construction loans held for sale originated after January 1, 2015. The fair value of conventional loans held for sale is determined using the current 15 day forward contract price for either 15 or 30 year conventional mortgages and the 60 day forward contract price for either 15 or 30 year Federal Housing Authority mortgages (Level 2).

The fair value of permanent construction loans held for sale is determined using the current 60 day forward contract price for 30 year conventional mortgages which is then adjusted by extrapolating this rate to the estimated time period remaining until construction is complete. The fair value is also adjusted for unobservable market data such as estimated fall out rates and the estimated time from origination to completion of construction (Level 3).

Interest rate caps: Home Savings interest rate caps matured in the fourth quarter of 2016.  Home Savings used an independent third party that performs a market valuation analysis for interest rate caps. The methodology used consisted of a discounted cash flow model, all future floating cash flows were projected and both floating and fixed cash flows were discounted to the valuation date. The yield curve utilized for discounting and projecting was built by obtaining publicly available third party market quotes from Reuters, which handle up to 30-year swap maturities (Level 3) Assumptions used in the valuation of interest rate caps were back-tested for reasonableness on a quarterly basis using an independent source along with a third party service.

Purchased and written certificate of deposit option: Home Savings periodically enters into written and purchased option derivative instruments to facilitate the Power CD. The written and purchased options are mirror derivative instruments which are carried at fair value on the consolidated balance sheets. Home Savings uses an independent third party that performs a market valuation analysis for purchased and written certificate of deposit options. (Level 2)

Assets and Liabilities Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

| | December 31, 2017 | Fair Value Measurements at December 31, 2017 Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Available for sale securities | | | | |
| US Treasury and government sponsored entities' securities | $ 123,817 | $ — | $ 123,817 | $ — |
| States of the U.S. and political subdivisions | 59,623 | — | 59,623 | — |
| Mortgage-backed GSE securities: residential | 87,121 | — | 87,121 | — |
| Loans held for sale, at fair value | 83,541 | — | 18,525 | 65,016 |
| Purchased certificate of deposit option | 809 | — | 809 | — |
| Liabilities | | | | |
| Written certificate of deposit option | 809 | — | 809 | — |

| | December 31, 2016 | Fair Value Measurements at December 31, 2016 Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Available for sale securities | | | | |
| US Treasury and government sponsored entities' securities | $ 186,033 | $ — | $ 186,033 | $ — |
| States of the U.S. and political subdivisions | 57,757 | — | 57,757 | — |
| Mortgage-backed GSE securities: residential | 99,494 | — | 99,494 | — |
| Loans held for sale, at fair value | 62,593 | — | 8,832 | 53,761 |

| | | | | |
|---|---|---|---|---|
| Purchased certificate of deposit option | 882 | — | 882 | — |
| Liabilities | | | | |
| Written certificate of deposit option | 882 | — | 882 | — |

There were no transfers between Level 1 and Level 2 during 2017 and 2016.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2017 and 2016, in thousands:

| | Construction loans held for sale | |
|---|---|---|
| | Twelve months ended December 31, 2017 | Twelve months ended December 31, 2016 |
| | (Dollars in thousands) | |
| Balance of recurring Level 3 assets at beginning of period | $ 53,761 | $ 26,716 |
| Total gains (losses) for the period | | |
| Included in change in fair value of loans held for sale | 3,893 | (1,769) |
| Originations | 108,617 | 82,878 |
| Sales | (101,255) | (54,064) |
| Balance of recurring Level 3 assets at end of period | $ 65,016 | $ 53,761 |

102

| | Interest Rate Caps Twelve months ended December 31, 2016 (Dollars in thousands) |
|---|---|
| Balance of recurring Level 3 assets at beginning of period | $ 3 |
| Total gains (losses) for the period | |
| Included in other income | 385 |
| Included in other comprehensive income | — |
| Purchases | — |
| Amortization | (388 ) |
| Sales | — |
| Balance of recurring Level 3 assets at end of period | $ — |

There were no interest rate caps as of December 31, 2017 or 2016.

There were no transfers between Level 2 and Level 3 during 2017 or 2016.

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2017:

| | Fair Value (Dollars in thousands) | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Construction loans held for sale | $65,016 | Comparable sales | Time discount using the 60 day forward contract | 0.00%-1.96% |

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2016:

| | Fair Value (Dollars in thousands) | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Construction loans held for sale | $53,761 | Comparable sales | Time discount using the 60 day forward contract | 0.00%-1.80% |

The significant unobservable inputs used in the fair value measurement of interest rate caps was determined using proprietary models from third-party sources taking into account such factors as size of the transaction, the lack of a quoted market and the custom-tailored nature of the transaction. The fair value is inclusive of interest accruals, as applicable. Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower/(higher) fair value measurement.

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

| | | Fair Value Measurements at December 31, 2017 Using: | | |
|---|---|---|---|---|
| | December 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs Significant Unobservable Inputs (Level 3) |
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Impaired loans | | | | |
| Commercial loans | | | | |
| Multifamily | $247 | $ — | $ — | $ 247 |
| Nonresidential | 2 | — | — | 2 |
| Secured | 40 | — | — | 40 |
| Residential loans | | | | |
| One-to four-family residential | 1,010 | — | — | 1,010 |
| Consumer loans | | | | |
| Home Equity | 89 | — | — | 89 |
| Auto | 13 | — | — | 13 |
| Marine | 169 | — | — | 169 |
| Recreational vehicle | 86 | — | — | 86 |
| Mortgage servicing rights | 382 | — | 382 | — |
| Other real estate owned, net | | | | |
| Commercial loans | | | | |
| Construction loans | 354 | — | — | 354 |
| Residential loans | | | | |
| One-to four-family residential | 82 | — | — | 82 |

| | | Fair Value Measurements at December 31, 2016 Using: | | |
|---|---|---|---|---|
| | December 31, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs Significant Unobservable Inputs (Level 3) |

| | (Dollars in thousands) | | | |
|---|---|---|---|---|
| Assets: | | | | |
| Impaired loans | | | | |
| Commercial loans | | | | |
| Nonresidential | $2,257 | $ — | $ — | $ 2,257 |
| Secured | 284 | — | — | 284 |
| Residential loans | | | | |
| One-to four-family residential | 919 | — | — | 919 |
| Consumer loans | | | | |
| Home Equity | 228 | — | — | 228 |
| Auto | 177 | — | — | 177 |
| Recreational vehicle | 89 | — | — | 89 |
| Other real estate owned, net | | | | |
| Commercial loans | | | | |
| Construction loans | 748 | — | — | 748 |
| Residential loans | | | | |
| One-to four-family residential | 281 | — | — | 281 |

Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net carrying amount of $1.7 million at December 31, 2017, that includes a specific valuation allowance of $491,000. This resulted in an increase of the provision for loan losses of $938,000 during the twelve months ended December 31, 2017. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net carrying amount of $4.0 million at December 31, 2016, that includes a specific valuation allowance of $1.3 million. This resulted in an increase of the provision for loan losses of $4.1million during the twelve months ended December 31, 2016.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral dependent impaired loans included in the above table primarily relate to the adjustment between carrying value versus appraised value. During the reported periods, discounts applied to appraisals for estimated selling costs were 10%.

At December 31, 2017, mortgage servicing rights that were carried at fair value was $382,000, resulting in additional expense of $9,000 for the year ended December 31, 2017. At December 31, 2016, no mortgage servicing rights were carried at fair value, resulting in a net recovery of $39,000 for the year ended December 31, 2016. Mortgage servicing rights are valued by an independent third party that is active in purchasing and selling these instruments. The value reflects the characteristics of the underlying loans discounted at a market multiple.

At December 31, 2017, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs and had a net carrying amount of $436,000 that includes a valuation allowance of $403,000. This resulted in additional expenses of $37,000 during the twelve months ended December 31, 2017. At December 31, 2016, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs and had a net carrying amount of $1.0 million, with a valuation allowance of $1.0 million. This resulted in a recovery of expenses of $16,000 during the twelve months ended December 31, 2016.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2017:

| | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range (Average) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Impaired loans | | | | |
| Commercial loans | | | | |
| Multifamily | $ 247 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-35.00% (15.00%) |
| Nonresidential | 2 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-35.00% (15.00%) |
| Secured | 40 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-64.00% (16.00%) |
| Residential loans | | | | |
| One-to four-family residential | 1,010 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-10.77% (4.27%) |
| Consumer loans | | | | |
| Home Equity | 89 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-17.85% (8.93%) |
| Other real estate owned, net | | | | |
| Commercial loans | | | | |
| Construction loans | 354 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00%-52.90% (52.41%) |
| Residential loans | | | | |
| One-to four-family residential | 82 | Sales comparison approach | Adjustment for differences between | 0.00-13.43% (13.43%) |

comparable sales

Auto and recreational vehicle loans were excluded from the table above as their value is considered immaterial.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2016:

| | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range (Average) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Impaired loans | | | | |
| Commercial loans | | | | |
| Nonresidential | $ 2,257 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-35.00% (15.00%) |
| Secured | 284 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-64.00% (16.00%) |
| Residential loans | | | | |
| One-to four-family residential | 919 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00%-10.77% (4.27%) |
| Consumer loans | | | | |
| Home Equity | 228 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00%-17.85% (8.93%) |
| Other real estate owned, net | | | | |
| Commercial loans | | | | |
| Construction loans | 748 | Sales comparison approach<br>Cost approach | Adjustment for differences between comparable sales Adjustment for differences in cost | 0.00-90.40% (27.46%)<br>0.00-33.33% (16.67%) |
| Residential loans | | | | |
| One-to four-family residential | 281 | Sales comparison approach | Adjustment for differences between comparable sales | 0.00-27.00% (7.74%) |

The Company has elected the fair value option for all conventional residential one-to four-family loans originated after January 1, 2016 and all permanent construction loans held for sale an originated after January 1, 2015. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 days or more past due nor on nonaccrual as of December 31, 2017 and 2016.

As of December 31, 2017 and 2016, the aggregate fair value, contractual balance and gain or loss was as follows:

| | December 31, 2017 (Dollars in thousands) | December 31, 2016 (Dollars in thousands) |
|---|---|---|
| Aggregate fair value | $ 83,541 | $ 62,593 |
| Contractual balance | 79,898 | 62,843 |
| Gain (loss) | 3,643 | (250) |

The total amount of gains (losses) from changes in fair value included in earnings for the years ended December 31, 2017, 2016 and 2015 were $3.9 million, $(1.8) million, and $1.5 million, respectively.

The carrying value and estimated fair values of financial instruments at December 31, 2017 and December 31, 2016, were as follows:

| | December 31, 2017 Carrying Value | Fair Value Measurements at December 31, 2017 Using: | | |
|---|---|---|---|---|
| | | (Level 1) | (Level 2) | (Level 3) |
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | $46,880 | $ 46,880 | $ — | $ — |
| Available for sale securities | 270,561 | — | 270,561 | — |
| Held to maturity securities | 82,911 | — | 82,126 | — |
| Loans held for sale at lower of cost or market | 211 | — | 217 | — |
| Loans held for sale at fair value | 83,541 | — | 18,525 | 65,016 |
| Loans, net | 1,999,877 | — | — | 1,990,289 |
| FHLB stock | 19,324 | n/a | n/a | n/a |
| Accrued interest receivable | 8,190 | — | 2,244 | 5,946 |
| Purchased certificate of deposit option | 809 | — | 809 | — |
| Liabilities: | | | | |
| Deposits: | | | | |
| Checking, savings and money market accounts | (1,251,398) | (1,251,398) | — | — |
| Certificates of deposit | (705,341) | — | (705,238) | — |
| FHLB advances | (356,536) | — | (356,521) | — |
| Repurchase agreements and other | (197) | — | (190) | — |
| Advance payments by borrowers for taxes and insurance | (25,038) | (25,038) | — | — |
| Accrued interest payable | (1,097) | — | (1,097) | — |
| Written certificate of deposit option | (809) | — | (809) | — |

| | December 31, 2016 Carrying Value | Fair Value Measurements at December 31, 2016 Using: | | |
|---|---|---|---|---|
| | | (Level 1) | (Level 2) | (Level 3) |
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | $45,887 | $ 45,887 | $ — | $ — |
| Available for sale securities | 343,284 | — | 343,284 | — |
| Held to maturity securities | 97,519 | — | 92,940 | 3,210 |
| Loans held for sale at lower of cost or market | 165 | — | 169 | — |
| Loans held for sale at fair value | 62,593 | — | 8,832 | 53,761 |
| Loans, net | 1,503,577 | — | — | 1,494,534 |
| FHLB stock | 18,068 | n/a | n/a | n/a |
| Accrued interest receivable | 6,900 | — | 2,624 | 4,276 |
| Purchased certificate of deposit option | 882 | — | 882 | — |

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Deposits: | | | | |
| Checking, savings and money market accounts | (1,026,565) | (1,026,565) | — | — |
| Certificates of deposit | (488,426) | — | (491,278) | — |
| FHLB advances | (390,756) | — | (390,750) | — |
| Repurchase agreements and other | (512) | — | (513) | — |
| Advance payments by borrowers for taxes and insurance | (23,812) | (23,812) | — | — |
| Accrued interest payable | (145) | — | (145) | — |
| Written certificate of deposit option | (882) | — | (882) | — |

108

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

(b) FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(c) Held to maturity securities

Fair values for held to maturity securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows.

(d) Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(e) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts approximate their fair values at the reporting date resulting in a Level 1 classification. Fair values for fixed and variable rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(f) Short-term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within 90 days, approximate their fair values resulting in a Level 2 classification.

(g) Other Borrowings

The fair values of Home Savings long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(h) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification, depending on the classification of the underlying asset or liability.

(i) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The fair value of commitments is not material.

19. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest on deposits and borrowings | $12,205 | $8,336 | $9,245 |
| Income taxes | 1,725 | 475 | 375 |
| Supplemental schedule of noncash activities: | | | |
| Securities transferred from available for sale to held to maturity, at fair value | — | — | 103,768 |
| Accretion of securities held to maturity | 195 | 247 | 131 |
| Transfers from premises and equipment to other assets, held for sale | 1,720 | — | — |
| Transfers from loans to real estate owned | 996 | 971 | 2,264 |
| Transfers from loans to loans held for sale | 27,921 | — | — |
| Transfers from loans to other assets | — | 6,384 | — |
| Issuance of common stock-James & Sons acquisition | — | 1,547 | — |
| Issuance of common stock-Ohio Legacy Corp. acquisition | 25,816 | — | — |
| Net assets acquired from Ohio Legacy Corp., excluding cash and cash equivalents | 1,247 | — | — |

20. DERIVATIVES

Home Savings utilizes interest rate cap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. Home Savings entered into an interest rate cap agreement in October 2011 with an outside counterparty. Home Savings receives proceeds from the counterparty if interest rates exceed the cap rate computed based on the underlying notional amounts. The notional amount of the interest rate caps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate cap agreements. The interest rate caps are carried as freestanding derivatives, considered an economic hedge and classified as an other asset with a carrying value of $0 at December 31, 2017 and $0 at December 31, 2016 with changes in fair value of approximately $0, $(3,000) and $(177,000) during 2017, 2016 and 2015 reported in current earnings through other noninterest income.

Home Savings periodically enters into written and purchased option derivative instruments to facilitate an equity linked time deposit product (the Power CD). The Power CD is a time deposit that provides the purchaser a guaranteed return of principal at maturity plus a potential equity return (a written option), while Home Savings receives a known stream of funds based on the equity return (a purchased option). The written and purchased options are mirror derivative instruments which are carried at fair value on the consolidated statements of financial condition.

Summary information about purchased and written options is as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Notional amount of purchased/written option | $13,405 | $ 13,789 |
| Weighted average maturity | 2.6 years | 3.9 years |
| Fair value of purchased/written option | $809 | $ 882 |

Purchased and written options are mirror derivative instruments and as such the changes in fair value are recorded through noninterest income, and offset each other. These options decreased in value $79,000 in 2017 and increased in value by $77,000 in 2016.

The following table reflects the fair value and location in the consolidated statement of financial condition of interest rate caps, along with purchased and written certificates of deposit options:

Included in other assets:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Freestanding derivative assets not designated as hedges: | | |
| Purchased certificate of deposit option | $ 809 | $ 882 |

Included in other liabilities:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Freestanding derivative liabilities not designated as hedges: | | |
| Written certificate of deposit option | $ 809 | $ 882 |

Home Savings is subject to counterparty risk. Counterparty risk is the risk to Home Savings that the counterparty will not live up to its contractual obligations. The ability of Home Savings to realize the benefit of the derivative contracts is dependent on the creditworthiness of the counterparty, which Home Savings expects will perform in accordance with the terms of the contracts.

## 21. PARENT COMPANY FINANCIAL STATEMENTS

Condensed Statements of Financial Condition

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (Dollars in thousands) | |
| Assets | | |
| Cash and deposits with banks | $ 4,974 | $ 25,924 |
| Total cash and cash equivalents | 4,974 | 25,924 |
| Investment in subsidiary-Home Savings | 276,494 | 216,475 |

| | | |
|---|---|---|
| Investment in subsidiary-HSB Capital LLC | 5,095 | 3,014 |
| Investment in subsidiary-HSB Insurance LLC | 2,463 | 2,168 |
| Investment in subsidiary-HSB Insurance Inc. | 1,316 | — |
| Other assets | 3,935 | 2,878 |
| Total assets | $294,277 | $250,459 |
| Liabilities and Shareholders’ Equity | | |
| Accrued expenses and other liabilities | $12 | $653 |
| Total liabilities | 12 | 653 |
| Total shareholders’ equity | 294,265 | 249,806 |
| Total liabilities and shareholders’ equity | $294,277 | $250,459 |

Condensed Statements of Income and Comprehensive Income

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Income | | | |
| Interest income | $— | $— | $— |
| Non-interest income | — | — | — |
| Total income | — | — | — |
| Expenses | | | |
| Interest expenses | 1 | — | — |
| Non-interest expenses | 1,046 | 1,658 | 1,017 |
| Total expenses | 1,047 | 1,658 | 1,017 |
| Loss before income taxes | (1,047 ) | (1,658 ) | (1,017 ) |
| Income tax benefit | (353 ) | (481 ) | (356 ) |
| Income before equity in undistributed net earnings of subsidiaries | (694 ) | (1,177 ) | (661 ) |
| Earnings distributed by subsidiaries | 15,000 | 23,500 | 15,000 |
| Undistributed earnings (loss) of subsidiaries | 7,479 | (3,495 ) | 1,943 |
| Net income | $21,785 | $18,828 | $16,282 |
| Comprehensive income | $24,492 | $17,008 | $17,060 |

Condensed Statements of Cash Flows

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | |
| Cash Flows from Operating Activities | | | |
| Net income | $21,785 | $18,828 | $16,282 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| (Increase) decrease in undistributed earnings of the subsidiaries | (7,479 ) | 3,495 | (1,943 ) |
| Decrease (increase) in deferred tax assets | 682 | (481 ) | (356 ) |
| (Increase) decrease in other assets | (5,666 ) | 16 | 4 |
| Increase (decrease) in other liabilities | (642 ) | 154 | 86 |
| Net cash from operating activities | 8,680 | 22,012 | 14,073 |
| Cash Flows from Investing Activities | | | |
| Net cash disbursed in the acquisition of Ohio Legacy Corp. | (20,379) | — | — |
| Equity investment in HSB Insurance, Inc. | (450 ) | — | — |
| Equity investment in HSB Capital, LLC | (2,000 ) | (3,000 ) | — |
| Net cash from investing activities | (22,829) | (3,000 ) | — |
| Cash Flows from Financing Activities | | | |
| Issuance of common stock, Long-term Incentive Plan | 597 | — | — |
| Purchase of treasury stock | (717 ) | (9,596 ) | (10,333) |

| | | | |
|---|---|---|---|
| Dividends paid | (6,960 ) | (5,172 ) | (3,369 ) |
| Proceeds from the exercise of stock options | 279 | 517 | 28 |
| Net cash from financing activities | (6,801 ) | (14,251) | (13,674) |
| Change in cash and cash equivalents | (20,950) | 4,761 | 399 |
| Cash and cash equivalents, beginning of year | 25,924 | 21,163 | 20,764 |
| Cash and cash equivalents, end of year | $4,974 | $25,924 | $21,163 |

## 22. SEGMENT INFORMATION

The Company's management monitors the revenue streams of the various Company products and services. The identifiable segments are not material, operations are managed, and financial performance is evaluated on a Company-wide basis. All of Home Savings' financial service operations are considered by management to be aggregated in one reportable operating segment, which is banking services.

## 23. EARNINGS PER SHARE

Earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares determined for the basic computation plus the dilutive effect of potential common shares that could be issued under outstanding stock options and performance share units. There were no stock options that were anti-dilutive for the years ended December 31, 2017 and 2016, respectively. Stock options for 76,317 shares were anti-dilutive for the year ended December 31, 2015.

| | Twelve months ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (In thousands, except per share data) | | |
| Net income per consolidated statements of income | $21,785 | $18,828 | $16,282 |
| Net income allocated to participating securities | (136) | (121) | (81) |
| Net income allocated to common stock | $21,649 | $18,707 | $16,201 |
| Basic earnings per common share computation: | | | |
| Distributed earnings allocated to common stock | $6,919 | $5,140 | $3,350 |
| Undistributed earnings allocated to common stock | 14,730 | 13,567 | 12,851 |
| Net earnings allocated to common stock | $21,649 | $18,707 | $16,201 |
| Weighted average common shares outstanding, including shares considered participating securities | 49,459 | 46,967 | 48,320 |
| Less: Average participating securities | (309) | (301) | (242) |
| Weighted average shares | 49,150 | 46,666 | 48,078 |
| Basic earnings per common share | $0.44 | $0.40 | $0.34 |
| Diluted earnings per common share computation: | | | |
| Net earnings allocated to common stock | $21,649 | $18,707 | $16,201 |
| Weighted average common shares outstanding for basic earnings per common share | 49,150 | 46,666 | 48,078 |
| Add: Dilutive potential common shares | 342 | 371 | 272 |
| Weighted average shares and dilutive potential common shares | 49,492 | 47,037 | 48,350 |
| Diluted earnings per common share | $0.44 | $0.40 | $0.34 |

24. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents summarized quarterly data for each of the years indicated.

| 2017: | Unaudited<br>First<br>Quarter | | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | | Total |
|---|---|---|---|---|---|---|---|
| | (Dollars in thousands, except per share data) | | | | | | |
| Interest income | $21,060 | | $23,553 | $24,048 | $24,849 | | $93,510 |
| Interest expense | 2,584 | | 3,059 | 3,545 | 3,969 | | 13,157 |
| Net interest income | 18,476 | | 20,494 | 20,503 | 20,880 | | 80,353 |
| Provision for loan losses | 1,475 | | 842 | 721 | 1,215 | | 4,253 |
| Net interest income after provision for loan losses | 17,001 | | 19,652 | 19,782 | 19,665 | | 76,100 |
| Non-interest income | 5,384 | | 7,090 | 6,305 | 6,460 | | 25,239 |
| Non-interest expenses | 20,290 | (1) | 15,176 | 15,464 | 17,329 | (2) | 68,259 |
| Income before taxes | 2,095 | | 11,566 | 10,623 | 8,796 | | 33,080 |
| Income tax expense | 557 | | 3,377 | 3,067 | 4,294 | (3) | 11,295 |
| Net income | $1,538 | | $8,189 | $7,556 | $4,502 | | $21,785 |
| Earnings per share: | | | | | | | |
| Basic earnings | $0.03 | | $0.16 | $0.15 | $0.09 | | $0.44 |
| Diluted earnings | 0.03 | | 0.16 | 0.15 | 0.09 | | 0.44 |

1. Non-interest expense was higher for the first quarter of 2017 as a result of the recognition of $5.0 million associated with the Ohio Legacy acquisition discussed above.
2. During the fourth quarter 2017, the Company recognized a $2.3 million other asset impairment charge. In 2003, Home Savings entered into two development loans on which the borrower subsequently filed bankruptcy, and a Court appointed receiver liquidated the collateral. The proceeds from the sale of the collateral have remained in escrow with the Court since 2007 as a number of competing claims were made against the proceeds. In 2011, a lower court affirmed Home Savings' priority position in the proceeds, and its lien validity was affirmed by the same Court in 2016. However, in December 2017, an Appellate Court ruled that a portion of the proceeds should be awarded to another claimant. The $2.3 million charge reflects the Appellate court ruling. It is the Company’s intent to continue to pursue a full recovery.
3. Includes $1.5 million in additional tax expense due to the remeasurement of net deferred tax assets as part of the Tax Cuts and Job Act.

| 2016: | Unaudited<br>First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | | Total |
|---|---|---|---|---|---|---|
| | (Dollars in thousands, except per share data) | | | | | |
| Interest income | $17,020 | $17,399 | $17,815 | $18,495 | | $70,729 |
| Interest expense | 2,147 | 2,065 | 2,055 | 2,161 | | 8,428 |
| Net interest income | 14,873 | 15,334 | 15,760 | 16,334 | | 62,301 |
| Provision for loan losses | 2,155 | 395 | 1,344 | 1,493 | | 5,387 |
| Net interest income after provision for loan losses | 12,718 | 14,939 | 14,416 | 14,841 | | 56,914 |
| Non-interest income | 4,658 | 5,780 | 6,003 | 5,635 | | 22,076 |
| Non-interest expenses | 12,464 | 12,860 | 12,978 | 13,717 | (1) | 52,019 |

| | | | | | |
|---|---|---|---|---|---|
| Income before taxes | 4,912 | 7,859 | 7,441 | 6,759 | 26,971 |
| Income tax expense (benefit) | 1,592 | 2,529 | 2,288 | 1,734 | 8,143 |
| Net income | $3,320 | $5,330 | $5,153 | $5,025 | $18,828 |
| Earnings per share: | | | | | |
| Basic earnings | $0.07 | $0.11 | $0.11 | $0.11 | $0.40 |
| Diluted earnings | 0.07 | 0.11 | 0.11 | 0.11 | 0.40 |

1. Non-interest expense was higher for the fourth quarter of 2016 as a result of the recognition of $787,000 in merger related expenses associated with the Ohio Legacy acquisition discussed above.

## 25. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in qualified affordable housing projects.  At December 31, 2017, and 2016, the balance of the investment for qualified affordable housing projects was $6.0 million and $3.0 million, respectively.  These balances are reflected in other assets on the consolidated balance sheet.  Total unfunded commitments related to the investments in qualified affordable housing projects totaled $5.3 million and $2.9 million at December 31, 2017, and 2016, respectively.  The Company expects to fulfill these commitments during the year ending 2018.

During the year ended December 31, 2017 the Company recognized amortization expense of $156,000, which was included within income tax expense on the consolidated statements of income and the Company recognized $21,000 and $0 amortization expense for the years ended December 31, 2016 and 2015.

Additionally, during the years ended December 31, 2017, 2016, and 2015, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $191,000, $26,000, and $0, respectively.  During the years ending December 31, 2017, 2016, and 2015, the Company incurred no impairment losses.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

United Community Financial Corp.

Youngstown, Ohio

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of United Community Financial Corp. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the

Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

We have served as the Company's auditor since 2001.

Cleveland, Ohio
March 14, 2018

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of United Community Financial Corp. (United Community) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934). United Community's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. United Community's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of United Community; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of United Community are being made only in accordance with authorizations of management and directors of United Community; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of United Community's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of United Community's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that United Community maintained effective internal control over financial reporting as of December 31, 2017.

United Community's independent registered public accounting firm has issued its report on the effectiveness of United Community's internal control over financial reporting as of December 31, 2017, as stated in their report dated March 14, 2018.

| | |
|---|---|
| /s/ Gary M. Small | /s/ Timothy W. Esson |
| Gary M. Small, Chief Executive Officer | Timothy W. Esson, Chief Financial Officer |
| March 14, 2018 | March 14, 2018 |

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As of December 31, 2017, United Community's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of United Community's disclosure controls and procedures, as defined in Rule 13a-15 under the Exchange Act. Based on this evaluation, United Community's Chief Executive Officer and Chief Financial Officer concluded that United Community's disclosure controls and procedures as of December 31, 2017 were effective.

### Management's Report on Internal Control over Financial Reporting

The Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, both of which are contained in Item 8 of this Annual Report on Form 10-K, are incorporated herein by reference.

### Changes in Internal Control over Financial Reporting

There were no changes in United Community's internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, United Community's internal control over financial reporting.

## Item 9B. Other Information

None.

# PART III

## Item 10. Directors, Executive Officers and Corporate Governance

Information relating to United Community's directors, nominees for directorship, executive officers and board committees is provided in, and incorporated by reference from, the proxy statement for the 2018 Annual Meeting of Shareholders of United Community (Proxy Statement) to be filed with the SEC on or about March 16, 2018, under the heading "EXECUTIVE OFFICERS" and under the captions "Nominees for Director," "Continuing Directors" and "Board Committees" following the heading "PROPOSAL 1 – ELECTION OF DIRECTORS." Information regarding compliance with Section 16(a) of the Securities Act of 1934 is provided in the Proxy Statement under the heading "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and is incorporated herein by reference. United

Community has adopted a code of ethics applicable to all directors, officers and employees of United Community, a copy of which is available under the tab “Corporate Information – Corporate Governance” on our investor relations web page at http://ir.ucfconline.com/govdocs. There have been no material changes to the procedures by which shareholders may recommend nominees to the board of directors.

Item 11. Executive Compensation

Information relating to director compensation is set forth in the Proxy Statement under the caption “Compensation of Non-Employee Directors,” following the heading “PROPOSAL 1—ELECTION OF DIRECTORS,” and information relating to executive compensation is set forth in the Proxy Statement under the headings “COMPENSATION DISCUSSION AND ANALYSIS” and “COMPENSATION OF EXECUTIVE OFFICERS.” Information relating to compensation committee interlocks is set forth in the Proxy Statement under the “Compensation Committee” subsection following the caption “Board Committees” under the heading “PROPOSAL 1 – ELECTION OF DIRECTORS,” and information relating to the compensation committee report is set forth in the Proxy Statement under the heading “COMPENSATION COMMITTEE REPORT." Such information from the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters
The information contained in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

United Community maintains the United Community Financial Corp. 1999 Long-Term Incentive Plan (1999 Plan), under which it issued equity securities to its directors, officers and employees in exchange for goods or services. The 1999 Plan was approved by United Community's shareholders at the 1999 Special Meeting of Shareholders.

On April 26, 2007, shareholders approved the United Community Financial Corp. 2007 Long-Term Incentive Plan (2007 Plan). The purpose of the 2007 Plan is the same as that of the 1999 Plan. The 2007 Plan provided for the issuance of up to 2,000,000 shares and is to be used for awards of restricted stock shares, stock options, performance awards, stock appreciation rights (SARs) or other forms of stock-based incentive awards.

On April 30, 2015, shareholders approved the United Community Financial Corp. 2015 Long Term Incentive Compensation Plan (the 2015 Plan). The purpose of the 2015 Plan is to provide a means through which United Community may attract and retain employees and non-employee directors, to provide incentives that align their interests with those of United Community's shareholders and to promote the success of United Community's business. The 2015 Plan provides for the issuance of up to 1,200,000 shares that are to be used for awards of stock options, stock awards, stock units, stock appreciation rights, annual bonus awards and long-term incentive awards.

Further description of the 1999 Plan, 2007 Plan and 2015 Plan is included in Note 17 to the consolidated financial statements and incorporated herein by reference.

The following table shows, as of December 31, 2017, the number of common shares issuable upon the exercise of outstanding stock options, the weighted average exercise price of those stock options, the number of common shares issued under restricted stock grants, the weighted average share price of those grants and the number of common shares remaining for future issuance under the 2007 Plan, excluding shares issuable upon exercise of outstanding stock options.

Equity Compensation Plan Information

| Plan Category | (a) Number of securities to be issued upon exercise of outstanding options | (b) Weighted-average exercise price of outstanding options | (a) Number of securities to be issued upon vesting of restricted stock awards | (b) Weighted-average grant price of restricted stock awards | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|---|---|
| Equity compensation plans approved by security holders | 260,533 | $ 2.55 | 277,035 | $ 6.73 | 684,868 |

Item 13. Certain Relationships and Related Transactions and Director Independence

The information contained in the Proxy Statement under the captions “Director Independence,” “Board Committee” and “Related Person Transactions” is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information relating to audit fees and pre-approval of services provided by United Community’s principal accountant in the Proxy Statement under the captions “Audit Fees” and “Audit and Non-Audit Pre-Approval Policy” following the heading “PROPOSAL 3 – RATIFICATION OF THE SELECTION OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM” is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

a) Exhibits

(1) The financial statements filed as part of this Annual Report on Form 10-K are listed below:

1. Consolidated Statements of Financial Condition as of December 31, 2016 and 2017.
2. Consolidated Statements of Operations and Comprehensive Income (Loss) for 2015, 2016, and 2017.
3. Consolidated Statements of Shareholders' Equity as of December 31, 2014, 2015, 2016, and 2017.
4. Consolidated Statements of Cash Flows for 2015, 2016, and 2017.
5. Notes to Consolidated Financial Statements.
6. Report of Independent Registered Public Accounting Firm, dated March 14, 2018.
7. Management's Report on Internal Control over Financial Reporting.

(2) Financial Statement Schedules. All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3)

| Exhibit Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger by and among United Community Financial Corp., The Home Savings and Loan Company of Youngstown, Ohio, Ohio Legacy Corp. and Premier Bank & Trust, dated as of September 8, 2016 (incorporated by reference to the Form 10-Q filed by United Community on November 8, 2016 (File No. 000-24399), Exhibit 2.1)* |
| 3.1 | Articles of Incorporation (incorporated by reference to the Registration Statement on Form S-1 filed by United Community on March 13, 1998 (S-1) (Film No. 98565717) with SEC, Exhibit 3.1) |
| 3.2 | Amendment to Articles of Incorporation (incorporated by reference to the Form 8-A12G filed by United Community on June 5, 1998 (Film No. 98642962) with the SEC, Exhibit 2(b)) |
| 3.3 | Amended Code of Regulations (incorporated by reference to the 1998 Form 10-K filed by United Community on March 31, 1999 via Edgar, film number 99582343, Exhibit 3.2) |
| 10.1 | The Home Savings and Loan Company of Youngstown, Ohio Employee Stock Ownership Plan (incorporated by reference to the 2001 Form 10-K filed by United Community on March 29, 2002 via Edgar, film number 02593161, Exhibit 10.1) |
| 10.2 | Employment Agreement between Home Savings Bank and Gary M. Small, dated March 17, 2014(incorporated by reference to the Form 8-K filed by United Community on March 21, 2014 via Edgar, film number 14709682, Exhibit 10.2) |
| 10.3 | |

| | |
|---|---|
| | Severance and Change in Control Agreement with Timothy W. Esson (incorporated by reference to the Form 8-K filed by United Community on July 7, 2017 via Edgar, film number 17955395, Exhibit 10.1) |
| 10.4 | Severance and Change in Control Agreement with Matthew T. Garrity (incorporated by reference to the Form 8-K filed by United Community on July 7, 2017 via Edgar, film number 17955395, Exhibit 10.2) |
| 10.5 | Severance and Change in Control Agreement with Jude J. Nohra (incorporated by reference to the Form 8-K filed by United Community on July 7, 2017 via Edgar, film number 17955395, Exhibit 10.3) |
| 10.6 | Severance and Change in Control Agreement with Barbara J. Radis (incorporated by reference to the Form 8-K filed by United Community on July 7, 2017 via Edgar, film number 17955395, Exhibit 10.4) |
| 10.7 | Amended and Restated 2014 Executive Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on September 29, 2014 via Edgar, film number 141127272, Exhibit 10.1) |
| 10.8 | 2014 Long-Term Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on January 27, 2014 via Edgar, film number 14549383, Exhibit 10.2) |
| 10.9 | United Community 2015 Long-Term Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on May 5, 2015 via Edgar, film number 15833578, Exhibit 10.1) |

10.10 United Community 2016 Annual Incentive Plan Award Agreement (incorporated by reference to the Form 8-K filed by United Community on March 14, 2016 via Edgar, film number 161503302, Exhibit 10.1)

10.11 United Community 2016 Long-Term Incentive Plan Award Agreement (incorporated by reference to the Form 8-K filed by United Community on March 14, 2016 via Edgar, film number 161503302, Exhibit 10.2)

10.12 United Community 2015 Performance Share Units Grant Agreement to the 2015 Long-Term Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on June 2, 2015 via Edgar, film number 15904676, Exhibit 10.1)

10.13 United Community 2015 Annual Incentive Award Grant Agreement to the 2015 Long-Term Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on June 2, 2015 via Edgar, film number 15904676, Exhibit 10.2)

10.14 United Community 2014 Performance Share Units Grant Agreement to the 2017 Long-Term Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on June 2, 2015 via Edgar, film number 15904676, Exhibit 10.3)

10.15 United Community 2014 Annual Incentive Award Grant Agreement to the 2017 Long-Term Incentive Plan (incorporated by reference to the Form 8-K filed by United Community on June 2, 2015 via Edgar, film number 15904676, Exhibit 10.4)

10.16 United Community Financial Corp. Deferred Compensation Plan, Amended and Restated Effective January 1, 2017 (incorporated by reference to the Form 8-K filed by United Community on January 6, 2017 via Edgar, film number 17514915, Exhibit 10.1)

10.17 2017 Annual Incentive Award Agreement (incorporated by reference to the Form 8-K filed by United Community on March 9, 2017 via Edgar, film number 17679398, Exhibit 10.1)

10.18 2017 Long-Term Incentive Award Agreement (incorporated by reference to the Form 8-K filed by United Community on March 9, 2017 via Edgar, film number 17679398, Exhibit 10.2)

11 Statement Regarding Computation of Per Share Earnings (incorporated by reference to Note 23 to the Consolidated Financial Statements under Item 8 herein)

21 Subsidiaries of Registrant **

23 Crowe Horwath LLP Consent **

31.1 Section 302 Certification by Chief Executive Officer **

31.2 Section 302 Certification by Chief Financial Officer **

32 Certification of Financial Statements by Chief Executive Officer and Chief Financial Officer **

101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language); (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Consolidated Statements of Changes in Shareholders'

Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Audited Consolidated Financial Statements

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

** Filed herewith.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED COMMUNITY FINANCIAL CORP.

/s/ Gary M. Small
Gary M. Small

Chief Executive Officer, Principal

Executive Officer and Director
(Duly Authorized Representative)
Date: March 14, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Richard J. Schiraldi
Richard J. Schiraldi
Chairman of the Board and Director

Date: March 14, 2018

/s/ Gary M. Small
Gary M. Small
Chief Executive Officer, Principal Executive Officer and Director
Date: March 14, 2018

/s/ Timothy W. Esson
Timothy W. Esson
Chief Financial Officer and Principal Financial Officer
Date: March 14, 2018

/s/ Marty E. Adams
Marty E. Adams
Director
Date: March 14, 2018

/s/ Louis M. Altman
Louis M. Altman
Director
Date: March 14, 2018

/s/ Patrick W. Bevack
Patrick W. Bevack
Director
Date: March 14, 2018

/s/ Lee Burdman
Lee Burdman
Director
Date: March 14, 2018

/s/ Scott N. Crewson
Scott N. Crewson
Director
Date: March 14, 2018

/s/ Scott D. Hunter
Scott D. Hunter
Director
Date: March 14, 2018

/s/ Ellen Tressel
Ellen Tressel
Director
Date: March 14, 2018

123