UNITED COMMUNITY FINANCIAL CORP
Form 10-Q
May 17, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

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

UNITED COMMUNITY FINANCIAL CORP.
(Exact name of the registrant as specified in its charter)

OHIO	0-024399	34-1856319
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer I.D. No.)

275 West Federal Street, Youngstown, Ohio 44503-1203
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (330) 742-0500
Not Applicable
(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 o No o

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. See definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Small reporting company þ

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 30,897,825 common shares as of April 30, 2010.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
Assets:		
Cash and deposits with banks	$ 20,609	$ 22,330
Federal funds sold and other	19,446	22,744
Total cash and cash equivalents	40,055	45,074
Securities:		
Available for sale, at fair value	272,239	281,348
Loans held for sale	4,318	10,497
Loans, net of allowance for loan losses of $47,768 and $42,287, respectively	1,823,899	1,866,018
Federal Home Loan Bank stock, at cost	26,464	26,464
Premises and equipment, net	22,697	23,139
Accrued interest receivable	8,405	9,090
Real estate owned and other repossessed assets	35,418	30,962
Core deposit intangible	613	661
Cash surrender value of life insurance	26,475	26,198
Other assets	19,136	18,976
Total assets	$ 2,279,719	$ 2,338,427
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Interest bearing	$ 1,602,851	$ 1,642,722
Non-interest bearing	125,741	126,779
Total deposits	1,728,592	1,769,501
Borrowed funds:		
Federal Home Loan Bank advances	214,099	221,323
Repurchase agreements and other	96,553	96,833
Total borrowed funds	310,652	318,156
Advance payments by borrowers for taxes and insurance	13,761	19,791
Accrued interest payable	1,751	1,421
Accrued expenses and other liabilities	10,481	9,775
Total liabilities	2,065,237	2,118,644

Shareholders Equity		
Preferred stock-no par value; 1,000,000 shares authorized and unissued		
Common stock-no par value; 499,000,000 shares authorized; 37,804,457 shares issued and 30,897,825 shares outstanding	145,586	145,775
Retained earnings	143,532	148,674
Accumulated other comprehensive income	3,685	4,110
Unearned employee stock ownership plan shares	(5,366)	(5,821)
Treasury stock, at cost, 6,906,632 shares	(72,955)	(72,955)
Total shareholders equity	214,482	219,783
Total liabilities and shareholders equity	$ 2,279,719	$ 2,338,427

See Notes to Consolidated Financial Statements.

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UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended March 31, 2010	2009
	(Dollars in thousands, except per share data)	
Interest income		
Loans	$ 25,843	$ 31,067
Loans held for sale	70	263
Available for sale securities	2,585	2,770
Federal Home Loan Bank stock dividends	300	299
Other interest earning assets	7	29
Total interest income	28,805	34,428
Interest expense		
Deposits	9,318	12,651
Federal Home Loan Bank advances	848	1,858
Repurchase agreements and other	923	1,190
Total interest expense	11,089	15,699
Net interest income	17,716	18,729
Provision for loan losses	12,450	8,444
Net interest income after provision for loan losses	5,266	10,285
Non-interest income		
Non-deposit investment income	428	304
Service fees and other charges	1,751	1,512
Net gains (losses):		
Securities available for sale	2,843	
Other -than-temporary loss in equity securities		
Total impairment loss		(150)
Loss recognized in other comprehensive income		
Net impairment loss recognized in earnings		(150)
Mortgage banking income	386	1,140
Real estate owned and other repossessed assets	(1,484)	(1,138)
Gain on sale of retail branch	1,387	
Other income	1,249	1,075
Total non-interest income	6,560	2,743
Non-interest expense		
Salaries and employee benefits	8,174	8,023
Occupancy	1,004	984

Equipment and data processing		1,667		1,730
Franchise tax		511		592
Advertising		222		229
Amortization of core deposit intangible		48		60
Deposit insurance premiums		1,461		1,783
Professional fees		1,033		716
Real estate owned and other repossessed asset expenses		607		951
Other expenses		2,241		1,331
Total non-interest expenses		16,968		16,399
Income (loss) from continuing operations before income taxes		(5,142)		(3,371)
Income tax expense (benefit)				(1,692)
Net income (loss) from continuing operations		(5,142)		(1,679)
Discontinued operations				
Net income of Butler Wick Corp., net of tax				4,949
Net income (loss)	$	(5,142)	$	3,270

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(Continued)

UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended March 31,	
	2010	2009
Comprehensive income (loss)	$ (5,567)	$ 4,180
Earnings (loss) per share		
Basic continuing operations	$ (0.17)	$ (0.06)
Basic discontinued operations		0.17
Basic net income (loss)	(0.17)	0.11
Diluted continuing operations	(0.17)	(0.06)
Diluted discontinued operations		0.17
Diluted net income (loss)	(0.17)	0.11

See Notes to Consolidated Financial Statements.

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UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

	Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total
	(Dollars in thousands, except share data)						
Balance December 31, 2009	30,898	$ 145,775	$ 148,674	$ 4,110	$ (5,821)	$ (72,955)	$ 219,783
Comprehensive loss:							
Net loss			(5,142)				(5,142)
Change in net unrealized gain on securities, net of tax expense of $230				(425)			(425)
Comprehensive loss							(5,567)
Shares allocated to ESOP participants		(220)			455		235
Stock based compensation		31					31
Balance March 31, 2010	30,898	$ 145,586	$ 143,532	$ 3,685	$ (5,366)	$ (72,955)	$ 214,482

	Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total
	(Dollars in thousands, except share data)						
Balance December 31, 2008	30,898	$ 146,439	$ 165,447	$ 3,635	$ (7,643)	$ (72,955)	$ 234,923
Comprehensive income:							
Net income			3,270				3,270
Change in net unrealized gain on securities, net of tax expense of $490				910			910

Comprehensive income							4,180
Shares allocated to ESOP participants		(261)			455		194
Balance March 31, 2009	30,898	$ 146,178	$ 168,717	$ 4,545	$ (7,188)	$ (72,955)	$ 239,297

See Notes to Consolidated Financial Statements

UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income (loss)	$ (5,142)	$ 3,270
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	12,450	8,444
Mortgage banking income	(386)	(1,140)
Net losses on real estate owned and other repossessed assets sold	1,484	1,138
Net gain on retail branch sold	(1,387)	
Net gain on available for sale securities sold	(2,843)	
Net gains on other assets sold	(3)	(21)
Other than temporary impairment of securities available for sale		150
Amortization of premiums and accretion of discounts	971	1,061
Depreciation and amortization	509	586
Decrease in interest receivable	685	845
(Decrease) increase in interest payable	330	(38)
Increase in prepaid and other assets	(1,366)	(4,150)
Increase in other liabilities	882	2,436
Stock based compensation	31	
Net principal disbursed on loans originated for sale	(39,870)	(134,445)
Proceeds from sale of loans originated for sale	44,650	137,447
ESOP Compensation	235	194
Operating cash flows from discontinued operations		(4,949)
Net cash from operating activities	11,230	10,828
Cash Flows from Investing Activities		
Proceeds from principal repayments and maturities of:		
Securities available for sale	14,136	10,011
Proceeds from sale of:		
Securities available for sale	118,947	
Real estate owned and other repossessed assets	3,222	3,085
Fixed assets	20	
Purchases of:		
Securities available for sale	(122,131)	(42,050)
Net change in loans	21,576	76,035
Loans purchased	(1,206)	(1,476)
Purchases of premises and equipment	(75)	(190)
Sale of retail branch	(22,503)	
Investing cash flows from discontinued operations		11,921
Net cash from investing activities	11,986	57,336
Cash Flows from Financing Activities		

Net increase in checking, savings and money market accounts		14,474		19,872
Net decrease in certificates of deposit		(29,175)		(70,288)
Net decrease in advance payments by borrowers for taxes and insurance		(6,030)		(5,739)
Proceeds from Federal Home Loan Bank advances		257,000		172,000
Repayment of Federal Home Loan Bank advances		(264,224)		(174,775)
Net change in repurchase agreements and other borrowed funds		(280)		(5,868)
Net cash from financing activities		(28,235)		(64,798)
Change in cash and cash equivalents		(5,019)		3,366
Cash and cash equivalents, beginning of period		45,074		43,417
Cash and cash equivalents, end of period	$	40,055	$	46,783

See Notes to Consolidated Financial Statements

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UNITED COMMUNITY FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

United Community Financial Corp. (United Community or the Company) was incorporated under Ohio law in February 1998 by The Home Savings and Loan Company of Youngstown, Ohio (Home Savings) in connection with the conversion of Home Savings from an Ohio mutual savings and loan association to an Ohio capital stock savings association (Conversion). Upon consummation of the Conversion on July 8, 1998, United Community became the unitary thrift holding company for Home Savings. Home Savings, a state-chartered savings bank, conducts business from its main office located in Youngstown, Ohio, 38 full-service branches and six loan production offices located throughout Ohio and western Pennsylvania.

The accompanying consolidated financial statements of United Community have been prepared in accordance with instructions relating to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods.

The results of operations for the three months ended March 31, 2010, are not necessarily indicative of the results to be expected for the year ending December 31, 2010. The consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2009, contained in United Community s Form 10-K for the year ended December 31, 2009.

Some items in the prior year financial statements were reclassified to conform to the current presentation.

2. REGULATORY ENFORCEMENT ACTION

On August 8, 2008, the board of directors of United Community approved a Stipulation and Consent to Issuance of Order to Cease and Desist (OTS Order) with the OTS. Simultaneously, the board of directors of Home Savings approved a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Bank Order) with the FDIC and the Ohio Division. Because of the consent to the Bank Order, Home Savings is deemed adequately capitalized for regulatory capital purposes, as discussed in Notes 3 and 17 of the December 31, 2009 Consolidated Financial Statements.

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3. DISCONTINUED OPERATIONS

On August 12, 1999, United Community acquired Butler Wick Corp. (Butler Wick), the parent company for two wholly owned subsidiaries: Butler Wick & Co., Inc. and Butler Wick Trust Company. On December 31, 2008, the Company completed the sale of Butler Wick & Co., Inc., to Stifel Financial Corp. for $12.0 million. On March 31, 2009, the Company completed the sale of Butler Wick Trust to Farmers National Banc Corp. for $12.1 million. As a result, Butler Wick has been reported as a discontinued operation and consolidated financial statement information for all periods presented has been reclassified to reflect this presentation. Butler Wick s results of operations summarized are as follows:

	Three Months Ended March 31, 2009
Income	
Interest income	$ 32
Brokerage commissions	
Service fees and other charges	1,287
Underwriting and investment banking	
Gain on the sale of Butler Wick Trust	7,904
Other income	
Total income	9,223
Expenses	
Interest expense on borrowings	
Salaries and employee benefits	1,198
Occupancy expenses	68
Equipment and data processing	84
Other expenses	258
Total expenses	1,608
Income before taxes	7,615
Income tax	2,666
Net income	$ 4,949

4. RECENT ACCOUNTING DEVELOPMENTS

Accounting for Transfers of Financial Assets: In June 2009, the FASB amended previous guidance relating to transfers of financial assets. This removes the concept of a qualifying special-purpose entity from existing GAAP and removes the exception from applying FASB ASC 810-10, *Consolidation* (FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities) to qualifying special purpose entities. The objective of this new guidance is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets (which includes loan participations); the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. The Company s adoption of this new guidance on January 1, 2010, did not have a material impact on United Community s consolidated financial statements.

Amendments to FASB Interpretation No. 46(R) (ASC 810-10): In June 2009, FASB issued guidance with the objective to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Company s adoption of this new guidance on January 1, 2010 had no impact on United Community s consolidated financial statements.

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Improving Disclosures About Fair Value Measurements: In January 2010, the FASB issued an amendment to, Fair Value Measurements and Disclosures, Topic 820, *Improving Disclosures About Fair Value Measurements*. This amendment requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This amendment also requires that a reporting entity should present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. This amendment also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASC 820 did not have a material effect on the Company s consolidated financial statements.

5. STOCK COMPENSATION

On July 12, 1999, shareholders approved the United Community Financial Corp. 1999 Long-Term Incentive Plan (1999 Plan). The purpose of the 1999 Plan is 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 1999 Plan terminated on May 20, 2009.

The 1999 Plan provides for the grant of options, which may qualify as either incentive or nonqualified stock options. The incentive plan provided that option prices will not be less than the fair market value of the share at the grant date. The maximum number of common shares that may be issued under the plan is 3,569,766. There were 312,000 stock options granted in 2009 under the 1999 plan, however, no additional options may be issued under the 1999 Plan. All of the previous options awarded became exercisable on the date of grant. For the options granted in 2009, one third of the total options granted became exercisable on December 31, 2009, with the remaining two-thirds vesting equally on December 31, 2010 and 2011. The option period for each grant expires 10 years from the date of grant.

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 provides for the issuance of up to 2,000,000 shares that are to be used for awards of restricted stock, stock options, performance awards, stock appreciation rights (SARs), or other forms of stock-based incentive awards. There were 32,000 stock options granted in 2009 and there were 243,721 stock options granted in 2008 under the 2007 Plan. All of the options awarded in 2008 became exercisable on the date of grant. For the options granted in 2009, one third of the total options granted became exercisable on December 31, 2009, with the remaining two-thirds vesting equally on December 31, 2010 and 2011. The option period for each grant expires 10 years from the date of grant.

Expenses related to stock option grants is included with salaries and employee benefits. The Company recognized $31,000 in stock option expenses for the three months ended March 31, 2010. The Company will recognize additional expenses of $92,000 for the remainder of 2010 and $122,000 in 2011.

A summary of activity in the plans is as follows:

	For the three months ended March 31, 2010		
	Shares	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	2,200,672	$ 7.95	
Granted			

Exercised					
Forfeited	(337,147)		8.45		
Outstanding at end of period	1,863,525	$	7.76	$	5
Options exercisable at end of period	1,647,540	$	8.64	$	2

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Information related to the stock option plans during the year follows (dollars in thousands, except per share amount):

	March 31, 2010
Intrinsic value of options exercised	n/a
Cash received from option exercises	n/a
Tax benefit realized from option exercises	n/a
Weighted average fair value of options granted, per share	n/a

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions including the risk-free interest rate, expected term, expected stock volatility, and dividend yield. Expected volatilities are based on historical volatilities of United Community s common shares. United Community uses historical data to estimate option exercises and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Outstanding stock options have a weighted average remaining life of 4.55 years and may be exercised in the range of $1.30 to $12.38.

6. SECURITIES

Components of the available for sale portfolio are as follows:

	March 31, 2010 *(Dollars in thousands)*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government sponsored entities securities	$ 48,534	$ 95	$	$ 48,629
Equity securities	293	157		450
Mortgage-backed securities GSE issued: residential	218,090	5,138	(68)	223,160
Total	$ 266,917	$ 5,390	$ (68)	$ 272,239

	December 31, 2009 *(Dollars in thousands)*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government sponsored entities securities	$ 48,717	$ 313	$ (108)	$ 48,922
Equity securities	472	236		708
Mortgage-backed securities GSE issued: residential	226,182	5,536		231,718
Total	$ 275,371	$ 6,085	$ (108)	$ 281,348

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

	March 31, 2010 (Dollars in thousands) Amortized Cost	Fair Value
Due in one year or less	$ 499	$ 509
Due after one year through five years	40,034	40,034
Due after five years through ten years	8,001	8,086
Mortgage-backed securities: residential	218,090	223,160
Total	$ 266,624	$ 271,789

Securities pledged for the Company s investment in VISA stock were approximately $1.1 million at March 31, 2010 and $1.2 million at December 31, 2009. Securities pledged for public funds deposits were approximately $1.9 million at March 31, 2010, and $1.8 million at December 31, 2009. Securities sold under an agreement to repurchase are secured primarily by mortgage-backed securities with a fair value of approximately $115.3 million at March 31, 2010, and $125.7 million at December 31, 2009.

United Community had no securities classified as trading as of March 31, 2010 or December 31, 2009.

The following table summarizes the investment securities with unrealized losses at March 31, 2010 and December 31, 2009 by aggregated major security type and length of time in a continuous unrealized loss position:

	March 31, 2010 (Dollars in thousands)					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and government sponsored entities securities	$	$	$	$	$	$
Equity securities						
Mortgage-backed securities GSE issued: residential	27,141	(68)			27,141	(68)
Total	$ 27,141	$ (68)	$	$	$ 27,141	$ (68)

	December 31, 2009 (Dollars in thousands)					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and government sponsored entities securities	$ 27,898	$ (108)	$	$	$ 27,898	$ (108)
Equity securities						
Mortgage-backed securities GSE issued: residential	6				6	
Total	$ 27,905	$ (108)	$	$	$ 27,905	$ (108)

All of the mortgage-related securities that are temporarily impaired at March 31, 2010, are impaired due to the current level of interest rates. All of these securities continue to pay on schedule and management expects to receive all principal and interest owed on the securities.

Proceeds from sales of securities available for sale were $118.9 million and $0 for the three months ended March 31, 2010 and 2009, respectively. Gross gains of $2.9 million and $0 and gross losses of $25,000 and $0 were realized on these sales during 2010 and 2009, respectively.

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary-impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model.

The first segment represents securities classified as available for sale or held to maturity. In evaluating this segment, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment represents securities purchased that, on the purchase date, were rated below AA. The Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be 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 an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

The Company evaluates its equity securities for impairment on a quarterly basis. In general, if a security has been in an unrealized loss position for more than twelve months, the Company will realize an OTTI charge on the security. If the security has been in an unrealized loss position for less that twelve months, the Company examines the capital levels, nonperforming asset ratios, and liquidity position of the institution to determine whether or not an OTTI charge is appropriate.

As of March 31, 2010, the Company s security portfolio consisted of 45 securities, three of which were in an unrealized loss position totaling $68,100.

Mortgage-backed Securities

At March 31, 2010, 100% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2010.

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7. LOANS

Portfolio loans consist of the following:

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
Real Estate:		
One- to four-family residential	$ 777,380	$ 773,831
Multifamily residential	143,992	150,480
Nonresidential	389,407	397,895
Land	25,122	23,502
Construction:		
One- to four-family residential	161,625	178,095
Multifamily and non-residential	14,682	13,741
Total real estate	1,512,208	1,537,544
Consumer	301,457	309,202
Commercial	56,726	60,217
Total loans	1,870,391	1,906,963
Less:		
Allowance for loan losses	47,768	42,287
Deferred loan fees, net	(1,276)	(1,342)
Total	46,492	40,945
Loans, net	$ 1,823,899	$ 1,866,018

Changes in the allowance for loan loss are as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
	(Dollars in thousands)	
Balance, beginning of period	$ 42,287	$ 35,962
Provision for loan losses	12,450	8,444
Amounts charged off	(7,140)	(6,691)
Recoveries	171	141
Balance, end of period	$ 47,768	$ 37,856

Non-accrual loans were $138.0 million and $112.2 million at March 31, 2010, and December 31, 2009, respectively. Restructured loans were $31.9 million at March 31, 2010 and $22.6 million at December 31, 2009. Loans greater than 90 days past due and still accruing interest were $536,000 and $3.7 million at March 31, 2010 and December 31, 2009, respectively.

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Impaired loans consist of the following:

	As of or for the Three Months Ended March 31, 2010	As of or for the Year Ended December 31, 2009
	(Dollars in thousands)	
Impaired loans on which no specific valuation allowance was provided	$ 97,340	$ 83,443
Impaired loans on which a specific valuation allowance was provided	51,617	36,362
Total impaired loans at period-end	$ 148,957	$ 119,805
Specific valuation allowances on impaired loans at period-end	$ 9,040	$ 4,064
Average impaired loans during the period	133,881	103,026
Interest income recognized on impaired loans during the period	294	2,056
Interest income received on impaired loans during the period	294	2,056

8. MORTGAGE BANKING ACTIVITIES

Mortgage loans serviced for others, which are not reported in United Community s assets, totaled $1.1 billion at March 31, 2010, and December 31, 2009.

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

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
	(Dollars in thousands)	
Balance, beginning of year	$ 6,228	$ 5,562
Originations	446	3,220
Amortized to expense	(551)	(2,554)
Balance, end of period	6,123	6,228
Less valuation allowance	(319)	(423)
Net balance	$ 5,804	$ 5,805

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

	Three Months Ended	Year Ended

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
Balance, beginning of year	$ (423)	$ (2,233)
Impairment charges		
Recoveries	104	1,810
Balance, end of period	$ (319)	$ (423)

Fair value of mortgage servicing rights as of March 31, 2010 was approximately $8.0 million and at December 31, 2009 was approximately $8.0 million.

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Key economic assumptions in measuring the value of mortgage servicing rights at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010	December 31, 2009
Weighted average prepayment rate	322 PSA	325 PSA
Weighted average life (in years)	3.55	3.65
Weighted average discount rate	8%	8%

9. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
Real estate owned and other repossessed assets	$ 44,369	$ 38,829
Valuation allowance	(8,951)	(7,867)
End of period	$ 35,418	$ 30,962

Activity in the valuation allowance was as follows:

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
Beginning of year	$ 7,867	$ 2,754
Additions charged to expense	1,646	7,925
Direct write-downs	(562)	(2,812)
End of period	$ 8,951	$ 7,867

Expenses related to foreclosed and repossessed assets include:

	Three months ended March 31,	
	2010	2009
	(Dollars in thousands)	
Net loss on sales	$ 100	$ 425
Provision for unrealized losses	1,384	713
Operating expenses, net of rental income	607	951
Total expenses	$ 2,091	$ 2,089

10. OTHER POSTRETIREMENT BENEFIT PLANS

Home Savings sponsors a defined benefit health care plan. The plan was curtailed in 2000, but continues to provide postretirement medical benefits for employees who had worked 20 years and attained a minimum age of 60 by September 1, 2000, while in service with Home Savings. The plan is contributory and contains minor cost-sharing features such as deductibles and coinsurance. In addition, postretirement life insurance coverage is provided for employees who were participants prior to December 10, 1976. The life insurance plan is non-contributory. Home Savings policy is to pay premiums monthly, with no pre-funding.

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Components of net periodic benefit cost are as follows:

	Three Months Ended March 31,	
	2010	2009
	(Dollars in thousands)	
Service cost	$	$
Interest cost	47	47
Expected return on plan assets		
Net amortization of prior service cost		
Net amortization of actuarial gain		(4)
Net periodic benefit cost	$ 47	$ 43

Assumptions used in the valuations were as follows:

Weighted average discount rate	5.75%	6.00%

11. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or 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. Furthermore, a fair value hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that are used to measure fair values:

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 assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally 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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at March 31, 2010 Using:		
	March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Available for sale securities				
US Treasury and government sponsored entities securities	$ 48,629	$	$ 48,629	$
Equity securities	450	450		
Mortgage-backed securities: residential	223,160		223,160	

		Fair Value Measurements at December 31, 2009 Using:		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Available for sale securities				
US Treasury and government sponsored entities securities	$ 48,922	$	$ 48,922	$
Equity securities	708	708		
Mortgage-backed securities: residential	231,718		231,718	

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

		Fair Value Measurements at March 31, 2010 Using:		
	March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				

Impaired loans	$ 42,577			$ 42,577
Mortgage servicing assets	1,753		1,753	
Foreclosed assets	19,924			19,924

		Fair Value Measurements at December 31, 2009 Using:		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Impaired loans	$ 32,298			$ 32,298
Mortgage servicing rights	1,865		1,865	
Foreclosed assets	19,534			19,534

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 carrying amount of $51.6 million at March 31, 2010, with a specific valuation allowance of $9.0 million, resulting in additional provision for loan losses of $5.8 million during the period.

Mortgage servicing rights had a carrying amount of $2.1 million with a valuation allowance of $319,000, at March 31, 2010, resulting in no additional expenses during the period. 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.

Foreclosed assets, carried at fair value, which are measured for impairment using the fair value of the property less estimated selling costs, had a carrying amount of $28.9 million, with a valuation allowance of $9.0 million at March 31, 2010, resulting in additional expenses of $1.4 million during the period.

In accordance with generally accepted accounting principles, the carrying amounts and estimated fair values of financial instruments, at March 31, 2010 and December 31, 2009 are as follows:

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 40,055	$ 40,055	$ 45,074	$ 45,074
Securities:				
Available for sale	272,239	272,239	281,348	281,348
Loans held for sale	4,318	4,351	10,497	10,551
Loans, net	1,823,899	1,835,045	1,866,018	1,873,776
Federal Home Loan Bank stock	26,464	n/a	26,464	n/a
Accrued interest receivable	8,405	8,405	9,090	9,090
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(737,510)	(737,510)	(729,512)	(729,512)
Certificates of deposit	(991,082)	(1,000,982)	(1,039,989)	(1,051,133)
Federal Home Loan Bank advances	(214,099)	(220,160)	(221,323)	(227,350)
Repurchase agreements and other	(96,553)	(103,242)	(96,833)	(105,546)
Advance payments by borrowers for taxes and insurance	(13,761)	(13,761)	(19,791)	(19,791)
Accrued interest payable	(1,751)	(1,751)	(1,421)	(1,421)

Fair value of financial instruments:

The estimated fair values of financial instruments have been determined by United Community using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that United Community could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material affect on the estimated fair value amounts.

Cash and cash equivalents, accrued interest receivable and payable and advance payments by borrowers for taxes and insurance The carrying amounts as reported in the Statements of Financial Condition are a reasonable estimate of fair value due to their short-term nature.

Securities Fair values are based on quoted market prices, dealer quotes, and prices obtained from independent pricing services.

Loans held for sale The fair value of loans held for sale is based on market quotes.

Loans The fair value is estimated by discounting the future cash flows using the current market rates for loans of similar maturities with adjustments for market and credit risks.

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Federal Home Loan Bank stock It is not practical to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

Deposits The fair value of demand deposits, savings accounts and money market deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities.

Borrowed funds For short-term borrowings, fair value is estimated to be carrying value. The fair value of other borrowings is based on current rates for similar financing.

Limitations Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time United Community s entire holdings of a particular financial instrument. Because no market exists for a significant portion of United Community s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, a significant asset not considered a financial asset is premises and equipment. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

12. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below.

	March 31, 2010	March 31, 2009
	(Dollars in thousands)	
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 10,759	$ 15,738
Income taxes		
Supplemental schedule of noncash activities:		
Transfers from loans to real estate owned and other repossessed assets	8,119	5,395

13. SEGMENT INFORMATION

United Community monitors the revenue streams of the various Company products and services. The identifiable segments and operations are managed, and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company s financial service operations are considered by management to be aggregated in one reportable operating segment, which is banking services.

Discontinued operations are essentially the results of operations from Butler Wick Corp. which were previously reported as a separate segment, investment services. Refer to Note 3 for a discussion on discontinued operations and its impact on segment reporting.

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14. 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. Stock options for 1,863,525 shares were anti-dilutive for the three months ended March 31, 2010. There were 1,687,388 stock options for shares that were anti-dilutive for the three months ended March 31, 2009.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(Dollars in thousands, except per share data)	
Numerator:		
Loss from continuing operations	$ (5,142)	$ (1,679)
Income from discontinued operations		4,949
Net loss	$ (5,142)	$ 3,270
Denominator:		
Weighted average common shares outstanding basic	29,955	29,632
Dilutive effect of stock options		
Weighted average common shares outstanding dilutive	29,955	29,632
Basic earnings (loss) per share:		
Basic loss per common share continuing operations	$ (0.17)	$ (0.06)
Basic earnings per common share discontinued operations		0.17
Basic loss per common share	(0.17)	0.11
Dilutive earnings (loss) per share:		
Dilutive loss per common share continuing operations	(0.17)	(0.06)
Dilutive earnings per common share discontinued operations		0.17
Dilutive loss per common share	(0.17)	0.11

15. BROKERED CERTIFICATES OF DEPOSIT

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. Under the terms of the Bank Order, Home Savings cannot obtain additional brokered deposits without prior consent of the FDIC and Ohio Division. Home Savings had brokered deposits of $2.3 million with a weighted average rate of 4.20% at March 31, 2010, maturing in July 2010. Home Savings had brokered deposits of $15.0 million with a weighted average rate of 4.35% at December 31, 2009.

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16. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) included in the Consolidated Statements of Shareholders Equity consists of unrealized gains and losses on available for sale securities and changes in unrealized gains and losses on postretirement liability. The change includes reclassification of gains on sales of securities of $2.8 million at March 31, 2010, and impairment charges of $150,000 at March 31, 2009.

Other comprehensive income (loss) components and related tax effects for the three month periods are as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
	(Dollars in thousands)	
Unrealized holding gain (loss) on securities available for sale	$ 2,188	$ 1,250
Unrealized holding gain (loss) on postretirement benefits		
Reclassification adjustment for (gains) losses realized in income	(2,843)	150
Net unrealized gains (losses)	(655)	1,400
Tax effect (35%)	230	(490)
Net of tax amount	$ (425)	$ 910

The following is a summary of accumulated other comprehensive income balances, net of tax:

	Balance at December 31, 2009	Current Period Change	Balance at March 31, 2010
Unrealized gains (losses) on securities available for sale	$ 3,885	$ (425)	$ 3,460
Unrealized gains (losses) on post-retirement benefits	225		225
Total	$ 4,110	$ (425)	$ 3,685

17. REGULATORY CAPITAL REQUIREMENTS

Home Savings is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly 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 and 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, risk weightings, and other factors.

Quantitative measures established by regulation for capital adequacy require Home Savings to maintain minimum amounts and ratios of Tier 1 (or Core) and Tangible 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). Actual and statutory required capital amounts and ratios for Home Savings are presented below.

	As of March 31, 2010		
	Actual	Minimum Capital Requirements	To Be Well Capitalized Under Prompt Corrective Action Provisions

	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
Total risk-based capital to risk-weighted assets	$ 215,407	12.73%	$ 135,320	8.00%	$ 169,151	10.00%
Tier 1 capital to risk-weighted assets	193,934	11.47%	*	*	101,490	6.00%
Tier 1 capital to average total assets (leverage ratio)	193,934	8.47%	91,539	4.00%	114,423	5.00%

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	As of December 31, 2009					
	Actual		Minimum Capital Requirements		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(In thousands)					
Total risk-based capital to risk-weighted assets	$ 220,395	12.08%	$ 137,783	8.00%	$ 172,229	10.00%
Tier 1 capital to risk-weighted assets	198,610	11.53%	*	*	103,337	6.00%
Tier 1 capital to average total assets (leverage ratio)	198,610	8.22%	96,658	4.00%	120,822	5.00%

* *Ratio is not required under regulations.*

As of March 31, 2010 and December 31, 2009, the FDIC and OTS, respectively, categorized Home Savings as adequately capitalized pursuant to the Bank Order and OTS Order, as previously disclosed. The Bank Order provided for Home Savings to increase its Tier 1 leverage ratio to 8.0% and total risk-based capital ratio to 12.0%. As depicted in the previous tables, Home Savings continues to exceed this requirement.

Management believes, as of March 31, 2010, that Home Savings meets all capital requirements to which it is subject, inclusive of the Bank Order. 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.

18. OTHER EVENTS

On November 30, 2009, Home Savings entered into an agreement with The Union Bank Company, a wholly-owned subsidiary of United Bancshares, Inc. for the sale of Home Savings Findlay, Ohio branch. The transaction closed in the first quarter of 2010. In the transaction, Union Bank assumed deposit liabilities, including accrued interest, aggregating $26.5 million and acquired approximately $1.8 million in loans and $709,000 in related fixed assets of the branch.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS UNITED COMMUNITY FINANCIAL CORP.

	At or For the Three Months Ended March 31, 2010	2009
Selected financial ratios and other data: (1)		
Performance ratios:		
Return on average assets (2)	-0.90%	0.50%
Return on average equity (3)	-9.18%	5.30%
Interest rate spread (4)	3.00%	2.74%
Net interest margin (5)	3.28%	3.04%
Noninterest expense to average assets	2.96%	2.51%
Efficiency ratio (6)	78.59%	71.85%
Average interest-earning assets to average interest-bearing liabilities	113.36%	111.51%
Capital ratios:		
Average equity to average assets	9.77%	9.45%
Equity to assets, end of period	9.41%	9.34%
Tier 1 leverage ratio	8.47%	8.33%
Tier 1 risk-based capital ratio	11.47%	11.22%
Total risk-based capital ratio	12.73%	12.48%
Asset quality ratio:		
Nonperforming loans to total loans at end of period (7)	7.60%	4.83%
Nonperforming assets to average assets (8)	7.59%	5.08%
Nonperforming assets to total assets at end of period	7.63%	5.17%
Allowance for loan losses as a percent of loans	2.55%	1.76%
Allowance for loan losses as a percent of nonperforming loans (7)	34.47%	37.05%
Texas ratio (9)	66.50%	47.99%
Total classified assets as a percent of Tier 1 Capital	119.22%	59.95%
Net chargeoffs as a percent of average loans	1.51%	1.21%
Total 90+ days past due as a percent of total loans	7.26%	4.31%
Office data:		
Number of full service banking offices	38	39
Number of loan production offices	6	6
Per share data:		
Basic loss from continuing operations (10)	$ (0.17)	$ (0.06)
Basic earnings from discontinued operations (10)		0.17
Basic earnings (loss) (10)	(0.17)	0.11
Diluted loss from continuing operations (10)	(0.17)	(0.06)
Diluted earnings from discontinued operations (10)		0.17
Diluted earnings (loss) (10)	(0.17)	0.11
Book value (11)	6.94	7.74
Tangible book value (12)	6.92	7.72

Notes:

1. Ratios for the three month

periods are annualized where appropriate

2. Net income (loss) divided by average total assets

3. Net income (loss) divided by average total equity

4. Difference between weighted average yield on interest-earning assets and weighted average cost of interest-bearing liabilities

5. Net interest income as a percentage of average interest-earning assets

6. Noninterest expense, excluding the amortization of core deposit intangible, divided by the sum of net interest income and noninterest income, excluding gains and losses on securities, other than temporary impairment charges, gains and losses on

foreclosed assets, and gain on the sale of a retail branch

7. Nonperforming loans consist of nonaccrual loans and loans past due ninety days and still accruing

8. Nonperforming assets consist of nonperforming loans and real estate owned and other repossessed assets

9. Nonperforming assets divided by the sum of tangible common equity and the allowance for loan losses

10. Net income (loss) divided by the number of basic or diluted shares outstanding

11. Shareholders equity divided by number of shares outstanding

12. Shareholders equity minus core deposit intangible divided by number of shares

outstanding

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Forward Looking Statements

When used in this Form 10-Q the words or phrases will likely result, are expected to, will continue, is anticipate 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 changes in economic conditions in United Community s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in Home Savings market area, and competition, that could cause actual results to differ materially from results presently anticipated or projected. United Community cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. United Community advises readers that the factors listed above could affect United Community s financial performance and could cause United Community s 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 undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made.

On April 21, 2010, United Community issued an earnings release regarding the quarter ending March 31, 2010, in which it reported a net loss of $3.0 million for the quarter. In the process of finalizing the Form 10-Q, management determined that an additional $2.1 million provision for loan loss should be made in the first quarter of 2010. This provision expense was the result of a decline in the value of collateral supporting an impaired construction loan. Because the appraisal establishing this value utilized a valuation date as of March 29, 2010, management determined that the most prudent course of action would be to establish an additional valuation reserve and to realize the associated provision expense in the first quarter. As a result of this $2.1 million provision expense, the financial statements previously released have been revised to reflect a net loss of $5.1 million in the first quarter, as reflected in this Form 10-Q.

Comparison of Financial Condition at March 31, 2010 and December 31, 2009

Total assets decreased $58.7 million, or 2.5%, to $2.3 billion at March 31, 2010, compared to December 31, 2009. Contributing to the change were decreases in net loans of $42.1 million, securities available for sale of $9.1 million, and cash and cash equivalents of $5.0 million. These decreases were partially offset by increases in real estate owned and other repossessed assets of $4.5 million.

Cash and cash equivalents decreased $5.0 million to $40.1 million at March 31, 2010, compared to $45.1 million at December 31, 2009. This change is primarily the result of a decrease in checks awaiting deposit at the Federal Reserve Bank, along with a decline in required cash to fund ATM card transactions on behalf of customers.

Available for sale securities decreased $9.1 million during the first three months of 2010 as a result of various security transactions initiated in the first quarter. During the first quarter of 2010, the Company sold approximately $116.1 million in securities, realizing $2.8 million in gains on the sales. These sales were undertaken to monetize a portion of the gains in the portfolio due to continued spread tightening on mortgage-backed and agency securities. The Company offset these sales with $122.1 million in purchases of additional securities. The additional purchases were primarily made in higher coupon mortgage-backed securities which will afford the Company some yield protection should longer term rates begin to rise and/or prepayment speeds begin to slow. Maturities and paydowns of $14.1 million accounted for the remainder of the change.

Net loans decreased $42.1 million during the first three months of 2010. The primary source of the decrease was the overall decline in originations of construction loans and commercial real estate loans. Home Savings has made a conscious effort to decrease its construction and commercial real estate portfolios.

The allowance for loan losses increased to $47.8 million, or 2.55% of the net loan portfolio and 34.47% of nonperforming loans as of March 31, 2010, up from $42.3 million or 2.22% of the net loan portfolio and 36.49% of nonperforming loans as of December 31, 2009. Loan loss provisions totaling $12.5 million during the three months ended March 31, 2010 were partially offset by net charge-offs totaling $7.0 million. The allowance for loan losses is a valuation allowance for probable credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses. Management estimates the required allowance balance 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. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component of the allowance covers pools of loans not reviewed specifically by management that are evaluated as a homogeneous group of loans (e.g., performing single-family residential mortgage loans) using a historical charge-off experience ratio applied to each pool of loans. The historical charge-off experience ratio considers historical loss rates adjusted for certain environmental factors. The entire allowance is available for any loan or portion thereof that, in management s judgment, should be charged-off.

Allowance For Loan Losses
(Dollars in thousands)

	December 31, 2009	Provision	Recovery	Chargeoff	March 31, 2010
Real Estate Loans					
Permanent					
One-to four-family residential	$ 6,546	$ 1,729	$ 15	$ (1,013)	$ 7,277
Multifamily residential	2,182	1,703		(1,585)	2,300
Nonresidential	5,894	3,061	11	(1,962)	7,004
Land	666	430		(318)	778
Total	15,288	6,923	26	(4,878)	17,359
Construction Loans					
One-to four-family residential	18,787	3,389		(1,018)	21,158
Multifamily and nonresidential	233	22			255
Total	19,020	3,411		(1,018)	21,413
Consumer Loans					
Home Equity	2,390	266	26	(362)	2,320
Auto	162	(18)	2	(3)	143
Marine	701	46		(165)	582
Recreational vehicle	1,392	269	18	(338)	1,341
Other	314	56	99	(181)	288
Total	4,959	619	145	(1,049)	4,674
Commercial Loans					

Secured		1,084		325				(140)		1,269
Unsecured		1,936		1,172				(55)		3,053
Total		3,020		1,497				(195)		4,322
Total	$	42,287	$	12,450	$	171	$	(7,140)	$	47,768

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 and the loan is non-homogeneous in nature. 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 of 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 either 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. The following table summarizes the change in impaired loans during the first three months of 2010.

Impaired Loans
(Dollars in thousands)

	March 31, 2010	December 31, 2009	Change
Real Estate Loans			
Permanent			
One-to four-family residential	$ 21,658	$ 18,764	$ 2,894
Multifamily residential	10,696	7,863	2,833
Nonresidential	38,255	25,686	12,569
Land	13,045	5,160	7,885
Total	83,654	57,473	26,181
Construction Loans			
One-to four-family residential	56,556	53,666	2,890
Multifamily and nonresidential	382	392	(10)
Total	56,938	54,058	2,880
Consumer Loans			
Home Equity	1,711	2,088	(377)
Auto	36	30	6
Boat	632	1,103	(471)
Recreational vehicle	283	353	(70)
Other	50	8	42
Total	2,712	3,582	(870)
Commercial Loans			
Secured	2,663	3,365	(702)
Unsecured	2,990	327	2,663
Total	5,653	3,692	1,961
Total Impaired Loans	$ 148,957	$ 118,805	$ 30,152

Included in impaired loans above are certain loans Home Savings considers troubled debt restructurings. A loan is considered a troubled debt restructuring if Home Savings grants a concession to a borrower that would otherwise not be considered based on economic or legal reasons related to the borrowers financial difficulties. The objective of a troubled debt restructuring is to make the best of a bad situation. A troubled debt restructuring may include, but is not necessarily limited to, one or a combination of the following:

Transfer from the borrower to Home Savings of receivables from third parties, real estate, or other assets to fully or partially satisfy a debt (including a transfer resulting from foreclosure or repossession).

Issuance or other granting of an equity interest to Home Savings by the borrower to satisfy fully or partially a debt unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest.

Modification of terms of a debt, such as one or a combination of:

Reduction of the stated interest rate for the remaining original life of the debt.

Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.

Reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.

Reduction of accrued interest.

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A debt restructuring is not necessarily a troubled debt restructuring for purposes of this definition even if the borrower is experiencing some financial difficulties. In general, a borrower that can obtain funds from other sources at market interest rates at or near those for non-troubled debt is not involved in a troubled debt restructuring. A troubled debt restructuring is not involved if:

- the fair value of cash, other assets, or an equity interest accepted by Home Savings from a borrower in full satisfaction of its receivable at least equals the recorded investment in the loan;
- the fair value of cash, other assets, or an equity interest transferred by a borrower to Home Savings in full settlement of its loan at least equals the carrying amount of the loan;
- Home Savings reduces the effective interest rate on the loan primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a borrower that can readily obtain funds from other sources at the current market interest rate; or
- Home Savings issues, in exchange for the original loan, a new marketable loan having an effective interest rate based on its market price that is at or near the current market interest rates of loans with similar maturity dates and stated interest rates issued by other banks.

The change in troubled debt restructurings for the three months ended March 31, 2010 is as follows:

Troubled Debt Restructurings

	March 31, 2010	December 31, 2009	Change
		(In thousands)	
Real Estate Loans			
Permanent			
One-to four-family	$ 4,941	$ 2,167	$ 2,774
Multifamily residential	2,411		2,411
Nonresidential	7,756	3,595	4,161
Land	2,152	1,050	1,102
Total	17,260	6,812	10,448
Construction Loans			
One-to four-family residential	13,867	15,213	(1,346)
Multifamily and nonresidential			
Total	13,867	15,213	(1,346)
Consumer Loans			
Home Equity	270	240	30
Auto	15	18	(3)
Marine			
Recreational vehicle			
Other	50	8	42
Total	335	266	69
Commercial Loans			
Secured	355	357	(2)

Unsecured	100		100
Total	455	357	98
Total Restructured Loans	$ 31,917	$ 22,648	$ 9,269

Once a restructured loan has fallen into nonaccrual status, the restructured loan will remain on nonaccrual status for a period of at least six months until the borrower has demonstrated a willingness and ability to make the restructured loan payments. Troubled debt restructured loans that were on nonaccrual status aggregated $8.7 million and $5.0 million at March 31, 2010 and December 31, 2009, respectively. Such loans are considered nonperforming loans. Troubled debt restructured loans that were accruing according to their terms aggregated $23.2 million and $17.6 million at March 31, 2010 and December 31, 2009, respectively.

Nonperforming loans consist of loans past due 90 days or more and loans past due less than 90 days that are on nonaccrual status. Nonperforming loans were $138.6 million, or 7.59% of net loans, at March 31, 2010, compared to $115.9 million, or 6.21% of net loans, at December 31, 2009. The schedule below summarizes the change in nonperforming loans for the first three months of 2010.

Nonperforming Loans
(Dollars in thousands)

	March 31, 2010	December 31, 2009	Change
Real Estate Loans			
Permanent			
One-to four-family residential	$ 30,054	$ 26,766	$ 3,288
Multifamily residential	7,885	7,863	22
Nonresidential	36,083	24,091	11,992
Land	11,627	5,160	6,467
Total	85,649	63,880	21,769
Construction Loans			
One-to four-family residential	42,963	42,819	144
Multifamily and nonresidential	382	392	(10)
Total	43,345	43,211	134
Consumer Loans			
Home Equity	2,478	3,168	(690)
Auto	133	148	(15)
Marine	632	1,103	(471)
Recreational vehicle	622	900	(278)
Other	33	64	(31)
Total	3,898	5,383	(1,485)
Commercial Loans			
Secured	2,424	3,061	(637)
Unsecured	3,248	352	2,896
Total	5,672	3,413	2,259
Total Nonperforming Loans	$ 138,564	$ 115,887	$ 22,677

During the first three months of 2010, eight loans in excess of $1.0 million each, aggregating $20.5 million, became nonperforming. Commercial real estate had the most significant increase in nonperforming loans, with four loans aggregating $16.0 million becoming nonperforming.

Loans held for sale decreased $6.2 million, or 58.9%, to $4.3 million at March 31, 2010, compared to $10.5 million at December 31, 2009. The decrease was primarily attributable to the timing of sales during the period. Home Savings sells a portion of newly originated loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future. Home Savings no longer purchases other loans to be sold in the secondary market.

Federal Home Loan Bank stock remained at $26.5 million for March 31, 2010, and December 31, 2009. During the first three months of 2010, the Federal Home Loan Bank paid a cash dividend in lieu of a stock dividend to its member banks.

Accrued interest receivable decreased $685,000, or 7.5%, to $8.4 million at March 31, 2010, compared to $9.1 million at December 31, 2009. Interest accrued on mortgage loans decreased $1.3 million due to an increase in reserves for uncollected interest. Interest accrued on installment loans decreased $21,000, due primarily to a decrease in the average balance of that portfolio. Interest accrued on commercial loans decreased $385,000, due primarily to an increase in reserves for uncollected interest on commercial loans of $1.4 million. The increase in the reserves for uncollected interest is affected directly by the increase in loans on nonaccrual status. Interest accrued on securities available for sale decreased $348,000, due primarily to the timing of interest payments on these securities.

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Real estate owned and other repossessed assets increased $4.5 million, or 14.4%, during the three months ended March 31, 2010, as compared to the year ended December 31, 2009. The following table summarizes the activity in real estate owned and other repossessed assets during the period.

	Real Estate Owned	Repossessed Assets	Total
		(In thousands)	
Balance at December 31, 2009	$ 30,340	$ 622	$ 30,962
Acquisitions	8,632	637	9,269
Sales	(2,983)	(446)	(3,429)
Change in valuation allowance	(1,384)		(1,384)
Balance at March 31, 2010	$ 34,605	$ 813	$ 35,418

The following table depicts the type of property secured in the satisfaction of loans and the valuation allowance associated with each type as of March 31, 2010:

	Balance	Valuation Allowance	Net Balance
		(In thousands)	
Real estate owned			
One-to four-family	$ 3,574	$ (171)	$ 3,403
Multifamily residential	10,206	(2,579)	7,627
Nonresidential	8,022	(1,246)	6,776
One-to four-family residential construction	21,498	(4,955)	16,543
Land	256		256
Total real estate owned	43,556	(8,951)	34,605
Repossessed assets			
Auto	1		1
Marine	414		414
Recreational vehicle	398		398
Total repossessed assets	813		813
Total real estate owned and other repossessed assets	$ 44,369	$ (8,951)	$ 35,418

Property acquired in the settlement of loans is recorded at the lower of (a) the loan s acquisition balance less cost to sell or (b) the fair market value of the property secured less costs to sell. Appraisals are obtained at least annually when the Company believes there is sufficient evidence to suggest deterioration in an asset s value. Based on current appraisals, a valuation allowance may be established to properly reflect the asset at fair market value. The increase in the valuation allowance on property acquired in relation to one-to four-family residential construction loans was due to the decline in market value of those properties. Home Savings engages experienced professionals to sell real estate owned and other repossessed assets in a timely manner.

Total deposits decreased $40.9 million to $1.7 billion at March 31, 2010, compared to $1.8 billion at December 31, 2009. The primary cause for the decline in deposits is the sale of Home Savings Findlay, Ohio branch, discussed below. Also affecting the change was the maturity and paydown of $12.7 million in brokered certificates of deposit during the first three months of 2010.

Federal Home Loan Bank advances decreased $7.2 million during the first three months of 2010, due primarily to the paydown of approximately $15.2 million in term advances due to maturity. A portion of these term advances were replaced with overnight advances of approximately $8.0 million. Home Savings had approximately $192.0 million in unused borrowing capacity at the FHLB at March 31, 2010.

Advance payments by borrowers for taxes and insurance decreased $6.0 million during the first three months of 2010. Remittance of real estate taxes and property insurance made on behalf of customers of Home Savings account for $2.9 million of the decrease. In addition, funds held for payments received on loans sold where servicing was retained by Home Savings decreased $3.2 million.

Accrued expenses and other liabilities increased $706,000 to $10.5 million at March 31, 2010, from $9.8 million at December 31, 2009. Home Savings had an increase in liabilities of $467,000 due to issuing official checks for customers and accounts payable remittances.

Shareholders equity decreased $5.3 million to $214.5 million at March 31, 2010, from $219.8 million at December 31, 2009. The change occurred primarily due to the net loss recognized by the Company in the period.

Comparison of Operating Results for the Three Months Ended March 31, 2010 and March 31, 2009

Net Income. United Community recognized a net loss for the three months ended March 31, 2010, of $5.1 million, or $(0.17) per diluted share, compared to a net income of $3.3 million, or $0.11 per diluted share, for the three months ended March 31, 2009. The primary cause of the change is the recognition of a higher provision for loan losses along with lower net interest income recognized during the first quarter of 2010. Compared with the first quarter of 2009, net interest income decreased $1.0 million, the provision for loan losses increased $4.0 million, non-interest income increased $3.8 million, and non-interest expense increased $569,000. United Community s annualized return on average assets and return on average equity were (0.90)% and (9.18)%, respectively, for the three months ended March 31, 2010. The annualized return on average assets and return on average equity for the comparable period in 2009 were 0.50% and 5.30%, respectively.

Net Interest Income. Net interest income for the three months ended March 31, 2010, was $17.7 million, compared to $18.7 million for the same period last year. Both interest income and interest expense decreased, with a larger decline in interest income. Total interest income decreased $5.6 million in the first quarter of 2010 compared to the first quarter of 2009. The change in interest income was primarily the result of a decline of $5.2 million in interest earned on loans, which was a result of a decrease of $311.5 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 16 basis points. The Company s construction and commercial loan portfolios declined due to the strategic objective of reducing specific concentrations in these portfolios.

Total interest expense decreased $4.6 million for the quarter ended March 31, 2010, as compared to the same quarter last year. The change was due primarily to reductions of $3.3 million in interest paid on deposits, $1.0 million in interest paid on Federal Home Loan Bank advances and $267,000 in interest paid on repurchase agreements and other borrowings. The overall decrease in interest expense is attributable to a decline in the average outstanding balances of certificates of deposit of $154.2 million, as well as a reduction of 59 basis points in the cost of those liabilities. Also contributing to the change was a decrease in the cost of interest bearing checking accounts of 40 basis points.

The primary cause of the decrease in interest expense on Federal Home Loan Bank advances was a decrease in the average balance of those funds of $168.8 million, as well as a rate decrease on those borrowings of 25 basis points in the first quarter of 2010 compared to the same quarter in 2009. The rate on short term advances from the Federal Home Loan Bank has decreased due to the Federal Reserve s action to keep the Federal Funds rate low. The decrease in interest expense on repurchase agreements and other borrowings was due primarily to a decrease in the average balances of $27.3 million.

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The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the first quarter of last year. The interest rate spread for the three months ended March 31, 2010, grew to 3.00% compared to 2.74% for the quarter ended March 31, 2009. The net interest margin increased 24 basis points to 3.28% for the three months ended March 31, 2010 compared to 3.04% for the same quarter in 2009.

	For the Three Months Ended March 31, 2010 vs. 2009		
	Increase (decrease) due to		Total Increase (decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ (846)	$ (4,378)	$ (5,224)
Loans held for sale	(32)	(161)	(193)
Investment securities:			
Available for sale	(414)	229	(185)
Federal Home Loan Bank stock	1		1
Other interest earning assets	(34)	12	(22)
Total interest earning assets	$ (1,325)	$ (4,298)	$ (5,623)
Interest bearing liabilities:			
Savings accounts	(68)	31	(37)
Checking accounts	(411)	85	(326)
Certificates of deposit	(1,605)	(1,365)	(2,970)
Federal Home Loan Bank advances	(201)	(809)	(1,010)
Repurchase agreements and other	(7)	(260)	(267)
Total interest bearing liabilities	$ (2,292)	$ (2,318)	(4,610)
Change in net interest income			$ (1,013)

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 provision for loan losses increased to $12.5 million in the first quarter of 2010, compared to $8.4 million in the first quarter of 2009. The increase in the provision for loan losses in the first quarter of 2010 is primarily the result of credit downgrades within the commercial real estate portfolio and specific reserves assigned to a number of commercial real estate properties. Also contributing to the increase is the effect of charge-offs to record foreclosed and repossessed assets at fair market value before the Company takes possession of the properties in satisfaction of loans. The remaining increase in the provision for loan losses taken in the first quarter related primarily to the application of the Company s elevated historical charge-off experience to the various pools of loans in the Company s portfolio.

Non-interest Income. Noninterest income increased in the first quarter of 2010 to $6.6 million, as compared to the first quarter of 2009 of $2.7 million. Driving the increase in noninterest income was the recognition of gains on the sale of available for sale securities of $2.8 million along with a gain recognized on the sale of Home Savings Findlay, Ohio branch of $1.4 million.

On November 30, 2009, Home Savings entered into an agreement for the sale of Home Savings Findlay, Ohio branch. The sale was completed on March 26, 2010, at which time Home Savings recognized a $1.4 million gain on the transaction. In the transaction, the buyer assumed deposit liabilities, including accrued interest, of $26.5 million and acquired approximately $1.8 million in loans and $709,000 in related fixed assets of the branch.

Non-interest Expense. Noninterest expense was $17.0 million in the first quarter of 2010, compared to $16.4 million in the first quarter of 2009. The increase in noninterest expense was driven by higher professional fees associated with legal expenses paid by the Company during the first quarter of 2010 as compared to the first quarter of 2009. Professional fees include legal, audit, tax consulting and other professional services obtained by the Company. Legal fees were elevated during the first quarter of 2010 primarily because of the continued resolution of asset quality issues.

UNITED COMMUNITY FINANCIAL CORP.
AVERAGE BALANCE SHEETS

The following table presents the total dollar amounts of interest income and interest expense on the indicated amounts of average interest-earning assets or interest-bearing liabilities together with the weighted average interest rates for the three month periods ended March 31, 2010 and 2009. Average balance calculations were based on daily balances.

	Three Months Ended March 31,					
	2010			2009		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Cost	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Net loans (1)	$ 1,847,443	$ 25,843	5.60%	$ 2,158,931	$ 31,067	5.76%
Net loans held for sale	7,459	70	3.75%	24,172	263	4.35%
Investment securities:						
Available for sale	256,748	2,585	4.03%	239,656	2,770	4.62%
Federal Home Loan Bank stock	26,464	300	4.53%	26,464	299	4.52%
Other interest-earning assets	24,246	7	0.12%	18,927	29	0.61%
Total interest-earning assets	2,162,360	28,805	5.33%	2,468,150	34,428	5.58%
Noninterest-earning assets	129,270			137,183		
Assets of discontinued operations				4,468		
Total assets	$ 2,291,630			$ 2,609,801		
Interest-bearing liabilities:						
NOW and money market accounts	$ 399,624	$ 876	0.88%	$ 375,113	$ 1,202	1.28%
Savings accounts	207,438	208	0.40%	187,566	245	0.52%
Certificates of deposit	1,021,843	8,234	3.22%	1,176,028	11,204	3.81%
Federal Home Loan Bank advances	181,637	848	1.87%	350,427	1,858	2.12%
Repurchase agreements and other	96,987	923	3.81%	124,306	1,190	3.83%
Total interest-bearing liabilities	1,907,529	11,089	2.33%	2,213,440	15,699	2.84%
Noninterest-bearing liabilities	160,162			147,172		
Liabilities of discontinued operations				2,449		
Total liabilities	2,067,691			2,363,061		

Equity	223,939			246,740		
Total liabilities and equity	$ 2,291,630			$ 2,609,801		
Net interest income and interest rate spread		$ 17,716	3.00%		$ 18,729	2.74%
Net interest margin			3.28%			3.04%
Average interest-earning assets to average interest-bearing liabilities			113.36%			111.51%

(1) Nonaccrual loans are included in the average balance at a yield of 0%.

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ITEM 3. 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 a company s earnings and net asset values to changes in interest rates. As part of its efforts to monitor and manage the interest rate risk, Home Savings, which accounts for most of the assets and liabilities of United Community, has adopted an interest rate risk policy that requires the Home Savings Board to review quarterly reports related to interest rate risk and to 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) 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 a 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 inherently are uncertain and, as a result, the model cannot measure precisely 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. Due to the current low level of treasury rates, values for a decline in rates of 100, 200 and 300 basis points are not calculated for the quarter ended March 31, 2010. As noted, for the quarter ended March 31, 2010, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings as the minimum NPV ratio, the maximum change in the 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.

Quarter ended March 31, 2010							
	NPV as % of portfolio value of assets				Next 12 months net interest income *(Dollars in thousands)*		
		Internal policy limitations				Internal policy limitations on	
Change in rates (Basis points)	NPV Ratio	Minimum level	Maximum change	Change in %	$ Change	maximum change	% Change
300	9.11%	6.00%	-35.00%	-1.19%	$ (3,046)	-15.00%	-3.84%
200	9.83%	7.00%		-0.47%	(1,275)	-10.00%	-1.61%
100	10.46%	7.00%		0.16%	(210)	-5.00%	-0.26%
Static	10.30%	8.00%					

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Year Ended December 31, 2009

	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 Minimum level	Maximum change	Change in %	$ Change	Internal policy limitations on maximum change	% Change
300	8.19%	6.00%	-35.00%	-1.76%	$ (4,414)	-15.00%	-5.67%
200	9.31%	7.00%		-0.64%	(2,125)	-10.00%	-2.73%
100	10.03%	7.00%		0.80%	(640)	-5.00%	-0.82%
Static	9.95%	8.00%					

Due to a low interest rate environment, it was not possible to calculate results for a drop in interest rates.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the NPV 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.

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 affected significantly by changes in market interest rates and other economic factors beyond its control.

In the last twelve months, Home Savings has experienced the positive impact of a steeper yield curve. The net interest margin has benefited from the repricing of certificates of deposit at lower levels as loan yields have stabilized.

ITEM 4. Controls and Procedures

An evaluation was carried out by United Community s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of United Community s disclosure controls and procedures (as defined in Rules 13a-15(e)/15d-15(e) of the Securities Exchange Act of 1934) as of March 31, 2010. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that United Community s disclosure controls and procedures were effective as of March 31, 2010. During the quarter ended March 31, 2010, there were no changes in United Community s internal controls over financial reporting that have materially affected or are reasonably likely to materially affect United Community s internal controls over financial reporting.

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PART II. OTHER INFORMATION
UNITED COMMUNITY FINANCIAL CORP.

ITEM 1 Legal Proceedings

United Community and its subsidiaries are parties to litigation arising in the normal course of business. 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 1A Risk Factors

There have been no significant changes in United Community s risk factors as outlined in United Community s Form 10-K for the period ended December 31, 2009. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company s business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by the Company or any of its directors, officers, employees or other representatives, unless and until any such revisions or updates are expressly required to be disclosed by securities laws or regulations.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

There were no purchases of UCFC shares during the quarter ended March 31, 2010.

ITEM 6 Exhibits

Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation
3.2	Amended Code of Regulations
31.1	Section 302 Certification by Chief Executive Officer
31.2	Section 302 Certification by Chief Financial Officer
32	Certification of Statements by Chief Executive Officer and Chief Financial Officer

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UNITED COMMUNITY FINANCIAL CORP.
SIGNATURES

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

	UNITED COMMUNITY FINANCIAL CORP.
Date: May 17, 2010	*/s/ Douglas M. McKay* Douglas M. McKay Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: May 17, 2010	*/s/ James R. Reske* James R. Reske, CFA Treasurer and Chief Financial Officer (Principal Financial Officer)

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UNITED COMMUNITY FINANCIAL CORP.

Exhibit 3.1

Incorporated by reference to the Registration Statement on Form S-1 filed by United Community on March 13, 1998 with the Securities and Exchange Commission (SEC), Exhibit 3.1.

Exhibit 3.2

Incorporated by reference to the 1998 Form 10-K filed by United Community on March 31, 1999 with the SEC, film number 99582343, Exhibit 3.2.