UNITED COMMUNITY FINANCIAL CORP
Form 10-Q
November 14, 2011

Table of Contents

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 September 30, 2011

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 þ 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	Smaller 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. 31,000,472 common shares as of October 31, 2011.

TABLE OF CONTENTS

	PAGE
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Statements of Financial Condition as of September 30, 2011 (Unaudited) and December 31, 2010	1
Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2011 and 2010 (Unaudited)	2
Consolidated Statement of Shareholders Equity for the Nine Months ended September 30, 2011 and 2010 (Unaudited)	4
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6 - 42
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	43-55
Item 3. Quantitative and Qualitative Disclosures about Market Risk	56
Item 4. Controls and Procedures	57
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings	58
Item 1A. Risk Factors	58
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3. Defaults Upon Senior Securities (None)	
Item 4. (Removed and Reserved)	
Item 5. Other Information (None)	
Item 6. Exhibits	58
Signatures	59

EX-10.1
EX-31.1
EX-31.2
EX-32
EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Assets:		
Cash and deposits with banks	$ 21,355	$ 18,627
Federal funds sold	27,803	18,480
Total cash and cash equivalents	49,158	37,107
Securities:		
Available for sale, at fair value	416,460	362,042
Loans held for sale	38,366	10,870
Loans, net of allowance for loan losses of $44,162 and $50,883	1,437,575	1,649,486
Federal Home Loan Bank stock, at cost	26,464	26,464
Premises and equipment, net	19,213	22,076
Accrued interest receivable	7,016	7,720
Real estate owned and other repossessed assets	38,316	40,336
Core deposit intangible	379	485
Cash surrender value of life insurance	28,089	27,303
Other assets	9,965	13,409
Total assets	$ 2,071,001	$ 2,197,298
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Interest bearing	$ 1,535,365	$ 1,551,210
Non-interest bearing	152,576	138,571
Total deposits	1,687,941	1,689,781
Borrowed funds:		
Federal Home Loan Bank advances	88,324	202,818
Repurchase agreements and other	90,623	97,797
Total borrowed funds	178,947	300,615
Advance payments by borrowers for taxes and insurance	13,202	20,668
Accrued interest payable	793	809
Accrued expenses and other liabilities	7,421	9,370
Total liabilities	1,888,304	2,021,243

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 30,984,344 and 30,937,704 shares, respectively, outstanding	142,694	142,318
Retained earnings	102,903	111,049
Accumulated other comprehensive income (loss)	9,141	(4,778)
Treasury stock, at cost, 6,820,113 and 6,866,753 shares, respectively	(72,041)	(72,534)
Total shareholders equity	182,697	176,055
Total liabilities and shareholders equity	$ 2,071,001	$ 2,197,298

See Notes to Consolidated Financial Statements.

Table of Contents

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

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
	(Dollars in thousands, except per share data)			
Interest income				
Loans	$ 19,558	$ 24,589	$ 63,489	$ 75,350
Loans held for sale	163	109	270	248
Available for sale securities	3,323	3,235	9,264	8,716
Federal Home Loan Bank stock dividends	264	297	858	891
Other interest earning assets	13	10	35	25
Total interest income	23,321	28,240	73,916	85,230
Interest expense				
Deposits	5,972	7,528	18,384	25,254
Federal Home Loan Bank advances	793	984	2,414	2,707
Repurchase agreements and other	931	942	2,781	2,796
Total interest expense	7,696	9,454	23,579	30,757
Net interest income	15,625	18,786	50,337	54,473
Provision for loan losses	11,836	17,116	22,272	39,876
Net interest income after provision for loan losses	3,789	1,670	28,065	14,597
Non-interest income				
Non-deposit investment income	389	388	1,050	1,300
Service fees and other charges	203	1,563	3,244	3,738
Net gains (losses):				
Securities available for sale	1,958	781	3,500	7,295
Other -than-temporary loss in equity securities				
Total impairment loss	(35)	(44)	(73)	(44)
Loss recognized in other comprehensive income				
Net impairment loss recognized in earnings	(35)	(44)	(73)	(44)
Mortgage banking income	682	1,419	4,432	2,456
Real estate owned and other repossessed assets	(2,627)	(1,273)	(4,981)	(4,512)
Gain on sale of retail branch				1,387
Other income	1,346	1,281	4,032	3,800
Total non-interest income	1,916	4,115	11,204	15,420
Non-interest expense				
Salaries and employee benefits	7,927	7,568	23,297	24,847
Occupancy	854	850	2,615	2,693

Equipment and data processing	1,592	1,562	4,910	4,949
Franchise tax	370	498	1,241	1,512
Advertising	204	205	466	574
Amortization of core deposit intangible	33	43	106	136
Deposit insurance premiums	1,111	1,391	3,573	4,311
Professional fees	1,290	948	2,545	2,921
Real estate owned and other repossessed asset expenses	361	1,027	2,125	2,658
Other expenses	827	1,608	6,089	5,358
Total non-interest expenses	14,569	15,700	46,967	49,959
Loss before income taxes	(8,864)	(9,915)	(7,698)	(19,942)
Income tax expense (benefit)				
Net loss	$ (8,864)	$ (9,915)	$ (7,698)	$ (19,942)

2

Table of Contents

(Continued)

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	$ (8,864)	$ (9,915)	$ (7,698)	$ (19,942)
Other comprehensive income				
Unrealized gains (losses) on securities, net	8,218	(1,569)	13,919	(1,488)
Comprehensive income (loss)	$ (646)	$ (11,484)	$ 6,221	$ (21,430)
Loss per share				
Basic	$ (0.29)	$ (0.32)	$ (0.25)	$ (0.66)
Diluted	(0.29)	(0.32)	(0.25)	(0.66)

See Notes to Consolidated Financial Statements.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS 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 per share data)						
Balance December 31, 2010	30,938	$ 142,318	$ 111,049	$ (4,778)	$	$ (72,534)	$ 176,055
Comprehensive income:							
Net loss			(7,698)				(7,698)
Change in net unrealized gain/(loss) on securities, net of taxes				13,919			13,919
Comprehensive income							6,221
Stock based compensation	46	376	(448)			493	421
Balance September 30, 2011	30,984	$ 142,694	$ 102,903	$ 9,141	$	$ (72,041)	$ 182,697
Balance December 31, 2009	30,898	$ 145,775	$ 148,674	$ 4,110	$ (5,821)	$ (72,955)	$ 219,783
Comprehensive income:							
Net loss			(19,942)				(19,942)
Change in net unrealized gain/(loss) on securities, net of taxes				(1,488)			(1,488)
Comprehensive loss							(21,430)
Shares allocated to ESOP participants		(3,078)			5,821		2,743
Stock based compensation	27	202	(256)			291	237
Balance September 30, 2010	30,925	$ 142,899	$ 128,476	$ 2,622	$	$ (72,664)	$ 201,333

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net loss	$ (7,698)	$ (19,942)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	22,272	39,876
Mortgage banking income	(4,432)	(2,456)
Net losses on real estate owned and other repossessed assets sold	4,981	4,512
Net gain on retail branch sold		(1,387)
Net gain on available for sale securities sold	(3,500)	(7,295)
Net loss (gain) on other assets	161	(3)
Other than temporary impairment of securities available for sale	73	44
Amortization of premiums and accretion of discounts	(405)	(649)
Depreciation and amortization	1,314	1,484
Decrease in interest receivable	704	127
Decrease in interest payable	(16)	(493)
Decrease in prepaid and other assets	7,308	3,174
(Decrease) increase in other liabilities	(1,948)	1,179
Stock based compensation	421	237
Net principal disbursed on loans originated for sale	(108,389)	(157,723)
Proceeds from sale of loans originated for sale	204,852	153,515
ESOP compensation		2,743
Net change in interest rate caps		95
Net cash from operating activities	115,698	17,038
Cash Flows from Investing Activities		
Proceeds from principal repayments and maturities of:		
Securities available for sale	27,037	68,368
Proceeds from sale of:		
Securities available for sale	201,856	247,129
Real estate owned and other repossessed assets	14,058	14,931
Premises and equipment	11	20
Purchases of:		
Securities available for sale	(268,032)	(421,856)
Interest rate caps		(2,126)
Principal disbursed on loans, net of repayments	55,947	75,281
Loans purchased	(3,202)	(4,729)
Purchases of premises and equipment	(348)	(487)
Sale of retail branch		(22,158)
Net cash from investing activities	27,327	(45,627)
Cash Flows from Financing Activities		

Net increase in checking, savings and money market accounts		70,566		33,952
Net decrease in certificates of deposit		(72,406)		(92,212)
Net decrease in advance payments by borrowers for taxes and insurance		(7,466)		(3,754)
Proceeds from Federal Home Loan Bank advances		306,000		745,200
Repayment of Federal Home Loan Bank advances		(420,494)		(659,917)
Net change in repurchase agreements and other borrowed funds		(7,174)		969
Net cash from financing activities		(130,974)		24,238
Change in cash and cash equivalents		12,051		(4,351)
Cash and cash equivalents, beginning of period		37,107		45,074
Cash and cash equivalents, end of period	$	49,158	$	40,723

See Notes to Consolidated Financial Statements.

Table of Contents

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 seven 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 and nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011. 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, 2010, contained in United Community s Form 10-K for the year ended December 31, 2010.

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

2. REGULATORY ENFORCEMENT ACTION

Before July 21, 2011, the OTS was the federal regulator of savings associations and their holding companies. On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law, substantially altering the regulation of savings associations and savings and loan holding companies. The Dodd-Frank Act required the transfer of OTS functions to the Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System (FRB), as of July 21, 2011. More specifically, as of July 21, 2011, United Community ceased to be regulated by the OTS and is now regulated by the FRB.

As previously disclosed, on August 8, 2008, the board of directors of United Community approved a Stipulation and Consent to the Issuance of an Order to Cease and Desist (the OTS Order) with the Office of Thrift Supervision (OTS), predecessor to United Community s current primary federal regulator, the Federal Reserve Board. Simultaneously, the board of directors of Home Savings approved a Stipulation and Consent to the Issuance of an Order to Cease and Desist (the Bank Order) with the Federal Deposit Insurance Corporation (FDIC) and the Division of Financial Institutions of the Ohio Department of Commerce (Ohio Division). Although United Community and Home Savings have agreed to the issuance of the OTS Order and the Bank Order, respectively, neither has admitted or denied any allegations of unsafe or unsound banking practices, or any legal or regulatory violations. No monetary penalties were assessed by the OTS, the FDIC, or the Ohio Division.

The OTS Order required United Community to obtain OTS approval prior to: (i) incurring or increasing its debt position; (ii) repurchasing any United Community stock; or (iii) paying any dividends. The OTS Order also required United Community to develop a debt reduction plan and submit the plan to the OTS for approval.

The Bank Order required Home Savings, within specified timeframes, to take or refrain from certain actions, including: (i) retaining a bank consultant to assess Home Savings management needs and submitting a management plan that identifies officer positions needed, identifies and establishes board and internal operating committees, evaluates Home Savings senior officers, and provides for the hiring of any additional personnel; (ii) seeking regulatory approval prior to adding any individuals to the board of directors or employing any individual as a senior executive officer of Home Savings; (iii) not extending additional credit to classified borrowers; (iv) establishing a compliant Allowance for Loan and Lease Loss methodology; (v) enhancing its risk management policies and procedures; (vi) adopting and implementing plans to reduce its classified assets and delinquent loans, and to reduce

loan concentrations in nonowner-occupied commercial real estate and construction, land development, and land loans; (vii) establishing board of directors committees to evaluate and approve certain loans and oversee Home Savings compliance with the Bank Order; (viii) revising its loan policy and enhancing its underwriting and credit administration functions; (ix) developing a strategic plan and budget and profit plan; (x) correcting all violations of laws, rules, and regulations and implementing procedures to ensure future compliance; (xi) increasing its Tier 1 leverage ratio to 8.0% and its total risk-based capital ratio to 12.0% by December 31, 2008; and (xii) seeking regulatory approval prior to declaring or paying any cash dividend. See Note 15 for details on current capital levels of Home Savings.

Both the OTS Order and the Bank Order remain in effect. Since the issuance of the Bank Order, there has been no change in the requirements of that Order. The OTS Order, however, was subsequently amended effective November 5, 2010. This amendment removed a requirement in the original OTS Order to provide the OTS with a debt reduction plan and added a requirement to provide the OTS with a capital plan. This capital plan is consistent with and incorporated into the strategic planning process that Home Savings has already been undertaking for the past two years under the terms of the Bank Order. The capital plan was submitted to the OTS in December 2010.

3. RECENT ACCOUNTING DEVELOPMENTS

The Financial Accounting Standards Board (FASB) issued new Accounting Standards Updates (ASU) during 2011. Below is a summary of each new ASU.

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. The effective interest method discounts estimated future cash payments through the expected life of the loan to the net carrying amount of the loan. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor s ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendment should be applied prospectively for the first interim period beginning on or after June 15, 2011. The adoption of this guidance did not have a material effect on the Company s financial statements.

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is not expected to have a significant impact on the Company s financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The adoption of this amendment will have no impact on the consolidated financial statements as the current presentation of comprehensive income is already in compliance with this amendment.

4. STOCK COMPENSATION

Stock Options:

On April 26, 2007, shareholders approved the United Community Financial Corp. 2007 Long-Term Incentive Plan (as amended, the 2007 Plan). The purpose of the 2007 Plan 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 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 3,866 stock options granted in the first quarter of 2011, all of which become exercisable on January 6, 2013. There were 12,746 stock options granted in the second quarter of 2011, 4,000 of which become exercisable on December 31, 2011, 4,000 of which become exercisable on December 31, 2012 and the remaining 4,746 of which become exercisable on April 7, 2013. There were 4,411 shares granted in the third quarter of 2011, all of which become exercisable on July 7, 2013. There were 423,695 stock options granted in 2010 and 32,000 stock options granted in 2009 under the 2007 Plan. For 418,000 of the options granted in 2010, one-half of the total options granted become exercisable on each of December 31, 2010 and 2011. The remainder of the options granted in 2010 become exercisable on October 7, 2012. For the options granted in 2009, one third of the total options granted became exercisable on each of December 31, 2009, and 2010, respectively. The remaining one third of the

total options granted becomes exercisable on each of December 31, 2011. The options must be exercised within 10 years from the date of grant.

Table of Contents

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

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

Expenses related to stock option grants are included with salaries and employee benefits. The Company recognized $92,000 in stock option expenses for the three months ended September 30, 2011. The Company recognized $251,000 in stock option expense for the nine months ended September 30, 2011. The Company expects to recognize additional expense of $98,000 for the remainder of 2011.

A summary of activity in the 1999 and 2007 Plans is as follows:

	For the nine months ended September 30, 2011				
	Shares		Weighted average exercise price		Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	2,237,322	$	6.88		
Granted	21,023		1.35		
Exercised					
Forfeited	(265,674)		8.09		
Outstanding at end of period	1,992,671	$	6.65	$	
Options exercisable at end of period	1,670,187	$	7.65	$	

Information related to the stock option plans for the nine months ended September 30, 2011 follows:

		September 30, 2011
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	$	0.88

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.

Table of Contents

The fair value of options granted during the third quarter 2011 was determined using the following weighted-average assumptions as of the grant date.

	July 7, 2011
Risk-free interest rate	1.74%
Expected term (years)	5
Expected stock volatility	81.3
Dividend yield	%

Outstanding stock options have a weighted average remaining life of 4.38 years and may be exercised in the range of $1.20 to $12.38.

Restricted Stock Awards:

The 2007 Plan permits the issuance of awards to nonemployee directors. Compensation expense is recognized over the vesting period of the awards based on the market value of the shares at the issue date. A total of 86,519 restricted shares have been issued under the 2007 Plan; 46,640 of which were issued in 2011 and 39,879 of which were issued in 2010. These restricted shares vest on the first anniversary of the grant date. Expenses related to restricted stock awards are included with salaries and employee benefits. The cost will be recognized over a weighted average period of one year. The Company recognized approximately $21,000 in restricted stock award expenses for the three months ended September 30, 2011. The Company recognized approximately $61,000 in restricted stock award expenses for the nine months ended September 30, 2011. The Company expects to recognize additional expenses of approximately $19,000 for the remainder of 2011.

A summary of changes in the Company s nonvested restricted shares for the first nine months of 2011 is as follows:

	Shares	Weighted average grant date fair value
Nonvested shares at January 1, 2011	39,879	$ 1.32
Granted	46,640	1.32
Vested	(33,068)	1.29
Forfeited		
Nonvested shares at September 30, 2011	53,451	$ 1.34

5. SECURITIES

Components of the available for sale portfolio are as follows:

	September 30, 2011 *(Dollars in thousands)*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government sponsored entities securities	$ 67,045	$ 1,488	$	$ 68,533
Equity securities	129	118		247
Mortgage-backed securities GSE issued: residential	338,949	8,731		347,680
Total	$ 406,123	$ 10,337	$	$ 416,460

Table of Contents

	December 31, 2010 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government sponsored entities securities	$ 65,099	$	$ (2,164)	$ 62,935
Equity securities	235	159		394
Mortgage-backed securities GSE issued: residential	300,290	1,688	(3,265)	298,713
Total	$ 365,624	$ 1,847	$ (5,429)	$ 362,042

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

	September 30, 2011	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$	$
Due after one year through five years		
Due after five years through ten years	67,045	68,533
Mortgage-related securities	338,949	347,680
Total	$ 405,994	$ 416,213

Securities pledged for the Company s investment in VISA stock were approximately $6.1 million at September 30, 2011 and $5.7 million at December 31, 2010. Securities pledged for participation in the Ohio Linked Deposit Program were $419,000 at September 30, 2011, and $864,000 at December 31, 2010. Securities sold under an agreement to repurchase are secured primarily by mortgage-backed securities with a fair value of approximately $115.6 million at September 30, 2011, and $129.4 million at December 31, 2010.

Proceeds from sales of securities available for sale were $85.9 million and $73.1 million for the three months ended September 30, 2011 and 2010, respectively. Gross gains of $2.0 million and $781,000 and no gross losses were realized on these sales during the three months of 2011 and 2010, respectively.

Proceeds from sales of securities available for sale were $201.9 million and $247.1 million for the nine months ended September 30, 2011 and 2010, respectively. Gross gains of $3.5 million and $7.3 million and no gross losses were realized on these sales during the nine months of 2011 and 2010, respectively.

There were no securities with unrealized losses at September 30, 2011.

The following table summarizes the investment securities with unrealized losses at September 30, 2011 and December 31, 2010 by aggregated major security type and length of time in a continuous unrealized loss position:

	December 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	$ 62,935	$ (2,164)	$	$	$ 62,935	$ (2,164)

Mortgage-backed securities						
GSE issued: residential	203,569	(3,265)			203,569	(3,265)
Total	$ 266,504	$ (5,429)	$	$	$ 266,504	$ (5,429)

Table of Contents

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 Other Than Temporary Impairment (OTTI) charge on the security. If the security has been in an unrealized loss position for less than twelve months, the Company examines the capital levels, nonperforming asset ratios, and liquidity position of the issuer to determine whether or not an OTTI charge is appropriate.

The Company recognized a $35,000 OTTI charge on equity investments with holdings of four other financial institutions in the third quarter of 2011. One financial institution consented to a regulatory enforcement action, diminishing the chance of fair value recovery in the foreseeable future. The other investments were trading below book value and management was not able to determine with reasonable certainty that recovery would occur in the near-term. The Company recognized a $73,000 OTTI charge on equity investments in four other financial institutions in the first nine months of 2011.

As of September 30, 2011, the Company s security portfolio consisted of 48 securities, none of which was in an unrealized loss position.

6. LOANS

Portfolio loans consist of the following:

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Real Estate:		
One-to four-family residential	$ 677,708	$ 757,426
Multi-family residential	125,370	135,771
Nonresidential	303,165	331,390
Land	22,172	25,138
Construction:		
One-to four-family residential and land development	66,761	108,583
Multi-family and nonresidential	4,528	15,077
Total real estate	1,199,704	1,373,385
Consumer		
Home equity	195,131	220,582
Auto	9,918	11,525
Marine	5,983	7,285
Recreational vehicles	30,908	35,671
Other	3,427	4,390
Total consumer	245,367	279,453
Commercial		
Secured	27,227	28,876
Unsecured	8,050	17,428
Total commercial	35,277	46,304
Total loans	1,480,348	1,699,142
Less:		
Allowance for loan losses	44,162	50,883
Deferred loan costs, net	(1,389)	(1,227)

Total	42,773	49,656
Loans, net	$ 1,437,575	$ 1,649,486

Table of Contents

Changes in the allowance for loan losses are as follows:

	Three Months ended September 30, 2011	Three Months ended September 30, 2010
	(Dollars in thousands)	
Balance, beginning of period	$ 46,223	$ 40,728
Provision for loan losses	11,836	17,116
Amounts charged off	(14,320)	(17,307)
Recoveries	423	347
Balance, end of period	$ 44,162	$ 40,884

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in thousands)	
Balance, beginning of period	$ 50,883	$ 42,287
Provision for loan losses	22,272	39,876
Amounts charged off	(30,576)	(42,005)
Recoveries	1,583	726
Balance, end of period	$ 44,162	$ 40,884

The following tables present activity and the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of and for the three and nine months ended September 30, 2011 and the year ended December 31, 2010.

Allowance For Loan Losses
(Dollars in thousands)

	Permanent Real Estate Loans	**Construction Loans**	**Consumer Loans**	**Commercial Loans**	**Unallocated**	**Total**
For the three months ended September 30, 2011						
Beginning balance (6/30/11)	$ 31,371	$ 6,529	$ 4,544	$ 3,779	$	$ 46,223
Provision	7,065	4,734	1,105	(1,068)		11,836
Chargeoffs	(5,536)	(6,832)	(1,000)	(952)		(14,320)
Recoveries	168	95	136	24		423
Net chargeoffs	(5,368)	(6,737)	(864)	(928)		(13,897)

Ending balance (9/30/11)	$	33,068	$	4,526	$	4,785	$	1,783	$	$	44,162
For the nine months ended September 30, 2011											
Beginning balance (12/31/10)	$	28,066	$	8,533	$	5,260	$	9,024	$	$	50,883
Provision		17,057		6,285		1,887		(2,957)			22,272
Chargeoffs		(12,709)		(10,589)		(2,797)		(4,481)			(30,576)
Recoveries		654		297		435		197			1,583
Net chargeoffs		(12,055)		(10,292)		(2,362)		(4,284)			(28,993)
Ending balance (9/30/11)	$	33,068	$	4,526	$	4,785	$	1,783	$	$	44,162

(Continued)
(Dollars in thousands)

	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Unallocated	Total
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 9,265	$ 2,861	$	$ 111	$	$ 12,237
Loans collectively evaluated for impairment	23,803	1,665	4,785	1,672		31,925
Ending balance	$ 33,068	$ 4,526	$ 4,785	$ 1,783	$	$ 44,162
Period-end balances:						
Loans individually evaluated for impairment	$ 117,428	$ 34,322	$ 1,172	$ 8,563	$	$ 161,485
Loans collectively evaluated for impairment	1,010,987	36,967	244,195	26,714		1,318,863
Ending balance	$ 1,128,415	$ 71,289	$ 245,367	$ 35,277	$	$ 1,480,348

Allowance For Loan Losses
(Dollars in thousands)

For the twelve months ended December 31, 2010	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Unallocated	Total
Beginning balance (12/31/09)	$ 15,288	$ 19,020	$ 4,959	$ 3,020	$	$ 42,287
Provision	40,595	10,028	4,079	7,725		62,427
Chargeoffs	(28,153)	(20,648)	(4,316)	(1,962)		(55,079)
Recoveries	336	133	538	241		1,248
Net chargeoffs	(27,817)	(20,515)	(3,778)	(1,721)		(53,831)
Ending balance (12/31/10)	$ 28,066	$ 8,533	$ 5,260	$ 9,024	$	$ 50,883
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 7,509	$ 3,360	$	$ 2,575	$	$ 13,444
Loans collectively evaluated for impairment	20,557	5,173	5,260	6,449		37,439
Ending balance (12/31/10)	$ 28,066	$ 8,533	$ 5,260	$ 9,024	$	$ 50,883

Period-end balances:						
Loans individually evaluated for impairment**	$ 101,410	$ 47,054	$ 1,547	$ 6,444	$	$ 156,455
Loans collectively evaluated for impairment	1,148,315	76,606	277,906	39,860		1,542,687
Ending balance (12/31/10)	$ 1,249,725	$ 123,660	$ 279,453	$ 46,304	$	$ 1,699,142

** Revised to include impaired loans without specific allocations.

Table of Contents

Impaired loans are defined as loans, 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. Impaired loans can be divided into two categories: those with a specific valuation and those without a specific valuation. In general, impaired loans without a specific valuation either has sufficient collateral to support the loan balance, or any collateral shortfall that did exist has been charged off such that the remaining loan balance is dully supported by collateral value (less costs to sell).
Impaired loans consisted of the following:

	As of or for the nine months ended September 30, 2011	As of or for the twelve months ended December 31, 2010	As of or for the nine months ended September 30, 2010
	(Dollars in thousands)		
Impaired loans on which no specific valuation allowance was provided	$ 74,561	$ 71,853	$ 73,027
Impaired loans on which specific valuation allowance was provided	86,924	84,602	68,865
Total impaired loans at end of period	$ 161,485	$ 156,455	$ 141,892
Specific valuation allowances on impaired loans at period-end	12,237	13,444	10,657
Average impaired loans during period	162,521	144,977	130,349
Interest income recognized on impaired loans during the period **	3,469	1,778	1,453
Interest income received on impaired loans during the period **	7,008	4,570	1,453

** Interest income recognized may be less than interest income received on an impaired loan if, for example, payments received on nonaccrual impaired loans are applied to principal reduction.

Table of Contents

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

The following table presents loans individually evaluated for impairment by class of loans as of and for the nine months ended September 30, 2011:

Impaired Loans
(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded						
Permanent real estate						
One-to four-family residential	$ 28,584	$ 24,878	$	$ 25,002	$ 510	$ 1,004
Multifamily residential	5,170	4,331		3,441		148
Nonresidential	27,445	26,780		22,847	524	1,247
Land	7,465	5,887		6,244	15	126
Total	68,664	61,876		57,534	1,049	2,525
Construction loans						
One-to four-family residential	17,258	10,465		17,939	219	280
Multifamily and nonresidential	707			191		
Total	17,965	10,465		18,130	219	280
Consumer loans						
Home Equity	2,535	1,050		1,194	2	29
Auto	88	68		67	1	9
Marine						
Recreational vehicle	113	47		47		2
Other	7	7		7		
Total	2,743	1,172		1,315	3	40
Commercial loans						
Secured	1,272	574		1,270	35	43
Unsecured	16,795	474		407	13	163
Total	18,067	1,048		1,677	48	206
Total	$ 107,439	$ 74,561	$	$ 78,656	$ 1,319	$ 3,051

Table of Contents

(Continued)
Impaired Loans
(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded						
Permanent real estate						
One-to four-family residential	$ 5,080	$ 4,475	$ 586	$ 2,809	$ 111	$ 168
Multifamily residential	4,883	2,847	223	5,175		170
Nonresidential	47,710	42,246	6,452	40,139	1,527	1,888
Land	6,421	5,984	2,004	1,960	382	527
Total	64,094	55,552	9,265	50,083	2,020	2,753
Construction loans						
One-to four-family residential	40,701	23,857	2,861	25,472	110	694
Multifamily and nonresidential						
Total	40,701	23,857	2,861	25,472	110	694
Consumer loans						
Home Equity						
Auto						
Marine						
Recreational vehicle						
Other						
Total						
Commercial loans						
Secured	7,463	7,114	74	6,146	20	473
Unsecured	401	401	37	2,164		37
Total	7,864	7,515	111	8,310	20	510
Total	112,659	86,924	12,237	83,865	2,150	3,957
Total	$ 220,098	$ 161,485	$ 12,237	$ 162,521	$ 3,469	$ 7,008

The difference between the unpaid principal balance of $220,098 and the recorded investment of $161,485 (i.e., $58,613) represents amounts previously charged off by Home Savings. This amount, plus any existing reserves of

$12,237, totals $70,850, or 32.2% of the unpaid principal balance of these loans.

Table of Contents

The following table presents the average recorded investment and interest income associated with impaired loans for the three months ended September 30, 2011:

Impaired Loans
(Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	$ 24,302	$ 177	$ 502
Multifamily residential	4,249		
Nonresidential	25,770	206	544
Land	6,678	(30)	24
Total	60,999	353	1,070
Construction loans			
One-to four-family residential	14,976	89	13
Multifamily and nonresidential			
Total	14,976	89	13
Consumer loans			
Home Equity	1,045	(3)	5
Auto	72	1	4
Marine			
Recreational vehicle	47		
Other	7		
Total	1,171	(2)	9
Commercial loans			
Secured	957	15	21
Unsecured	429	8	126
Total	1,386	23	147
Total	$ 78,532	$ 463	$ 1,239

Table of Contents

(Continued)
Impaired Loans
(Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	$ 4,589	$ 72	$ 101
Multifamily residential	2,853		133
Nonresidential	39,583	794	864
Land	3,494	370	504
Total	50,519	1,236	1,602
Construction loans			
One-to four-family residential	24,858	(9)	349
Multifamily and nonresidential			
Total	24,858	(9)	349
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle			
Other			
Total			
Commercial loans			
Secured	7,242	(107)	192
Unsecured	869		1
Total	8,111	(107)	193
Total	$ 83,488	$ 1,120	$ 2,144
Total	$ 162,020	$ 1,583	$ 3,383

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no specific allowance recorded			
Permanent real estate	$ 60,516	$ 44,666	$
Construction loans	31,715	23,465	
Consumer loans	3,407	1,547	
Commercial loans	16,148	2,175	
Total	111,786	71,853	
With a specific allowance recorded			
Permanent real estate	65,869	56,744	7,509
Construction loans	35,777	23,589	3,360
Consumer loans			
Commercial loans	5,419	4,269	2,575
Total	107,065	84,602	13,444
Total	$ 218,851	$ 156,455	$ 13,444

Table of Contents

The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans as of September 30, 2011:

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing
(Dollars in thousands)

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	$ 27,250	$
Multifamily residential	6,517	
Nonresidential	44,242	
Land	11,655	
Total	89,664	
Construction Loans		
One-to four-family residential	31,166	
Multifamily and nonresidential		
Total	31,166	
Consumer Loans		
Home Equity	3,273	
Auto	146	
Marine		
Recreational vehicle	2,460	3
Other	7	
Total	5,886	3
Commercial Loans		
Secured	6,642	
Unsecured	719	
Total	7,361	
Total	$ 134,077	$ 3

Table of Contents

The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans as of December 31, 2010:

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing
(Dollars in thousands)

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	$ 27,417	$
Multifamily residential	10,983	
Nonresidential	39,838	
Land	5,188	
Total	83,426	
Construction Loans		
One-to four-family residential	40,077	3,944
Multifamily and nonresidential	382	2,032
Total	40,459	5,976
Consumer Loans		
Home Equity	3,179	210
Auto	89	
Marine		
Recreational vehicle	93	144
Other	10	
Total	3,371	354
Commercial Loans		
Secured	1,822	
Unsecured	4,123	
Total	5,945	
Total	$ 133,201	$ 6,330

Table of Contents

The following tables present an age analysis of past-due loans, segregated by class of loans as of September 30, 2011:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Real Estate Loans						
Permanent						
One-to four-family residential	$ 2,495	$ 3,768	$ 20,825	$ 27,088	$ 650,620	$ 677,708
Multifamily residential			5,455	5,455	119,915	125,370
Nonresidential	10,424	1,770	33,162	45,356	257,809	303,165
Land		417	10,108	10,525	11,647	22,172
Total	12,919	5,955	69,550	88,424	1,039,991	1,128,415
Construction Loans						
One-to four-family residential	2,396	900	29,917	33,213	33,548	66,761
Multifamily and nonresidential					4,528	4,528
Total	2,396	900	29,917	33,213	38,076	71,289
Consumer Loans						
Home Equity	1,788	924	2,263	4,975	190,156	195,131
Auto	60	15	68	143	9,775	9,918
Marine	142	523		665	5,318	5,983
Recreational vehicle	1,767	341	806	2,914	27,994	30,908
Other	17	5	7	29	3,398	3,427
Total	3,774	1,808	3,144	8,726	236,641	245,367
Commercial Loans						
Secured	34	64	73	171	27,056	27,227
Unsecured		146	209	355	7,695	8,050
Total	34	210	282	526	34,751	35,277
Total	$ 19,123	$ 8,873	$ 102,893	$ 130,889	$ 1,349,459	$ 1,480,348

Table of Contents

The following table presents an age analysis of past-due loans, segregated by class of loans as of December 31, 2010:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Real Estate Loans						
Permanent						
One-to four-family residential	$ 6,620	$ 2,351	$ 24,914	$ 33,885	$ 723,541	$ 757,426
Multifamily residential	326		9,898	10,224	125,547	135,771
Nonresidential	1,888	13,146	30,382	45,416	285,974	331,390
Land	12	426	5,188	5,626	19,512	25,138
Total	8,846	15,923	70,382	95,151	1,154,574	1,249,725
Construction Loans						
One-to four-family residential	3,688	7,579	42,855	54,122	54,461	108,583
Multifamily and nonresidential			2,414	2,414	12,663	15,077
Total	3,688	7,579	45,269	56,536	67,124	123,660
Consumer Loans						
Home Equity	2,003	880	2,519	5,402	215,180	220,582
Auto	194	56	87	337	11,188	11,525
Marine	61			61	7,224	7,285
Recreational vehicle	1,693	618	188	2,499	33,172	35,671
Other	25	10	9	44	4,346	4,390
Total	3,976	1,564	2,803	8,343	271,110	279,453
Commercial Loans						
Secured	163		1,822	1,985	26,891	28,876
Unsecured	43		3,554	3,597	13,831	17,428
Total	206		5,376	5,582	40,722	46,304
Total	$ 16,716	$ 25,066	$ 123,830	$ 165,612	$ 1,533,530	$ 1,699,142

Troubled Debt Restructurings:

Restructured loans were $47.7 million and $44.6 million at September 30, 2011 and December 31, 2010, respectively. The Company has allocated $2.0 million of specific reserves to customers whose loan terms were modified in troubled

debt restructurings as of September 30, 2011. The Company had allocated $1.2 million of specific reserves to customers whose loan terms were modified in troubled debt restructurings as of December 31, 2010. Troubled debt restructurings are considered impaired and are included in the table above.

The Company has committed to lend additional amounts totaling up to $26.9 million as of September 30, 2011.

During the period ended September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of a loan were for periods ranging from six months to 28 years. Modifications involving an extension of the maturity date were for periods ranging from six months to three years.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended September 30, 2011:

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(Dollars in thousands)	
Real Estate Loans			
Permanent			
One-to four-family	15	$ 1,311	$ 1,260
Multifamily residential			
Nonresidential			
Land			
Total	15	1,311	1,260
Construction Loans			
One-to four-family residential			
Multifamily and nonresidential			
Total			
Consumer Loans			
Home Equity	1	93	93
Auto			
Marine			
Recreational vehicle			
Other			
Total		93	93
Commercial Loans			
Secured			
Unsecured			
Total			
Total Restructured Loans	16	$ 1,404	$ 1,353

The troubled debt restructurings described above increased the allowance for loan losses by $9,000 and resulted in no charge offs during the three months ending September 30, 2011.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2011:

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(Dollars in thousands)	
Real Estate Loans			
Permanent			
One-to four-family	38	$ 4,521	$ 4,491
Multifamily residential	2	2,246	2,246
Nonresidential			
Land	1	2,027	1,476
Total	41	8,794	8,213
Construction Loans			
One-to four-family residential	6	2,890	2,343
Multifamily and nonresidential			
Total	6	2,890	2,343
Consumer Loans			
Home Equity	1	93	93
Auto	1	21	21
Marine			
Recreational vehicle			
Other			
Total	2	114	114
Commercial Loans			
Secured	2	8,809	8,803
Unsecured			
Total	2	8,809	8,803
Total Restructured Loans	51	$ 20,607	$ 19,473

The troubled debt restructurings described above increased the allowance for loan losses by $158,000 and resulted in charge offs of $439,000 during the nine months ended September 30, 2011.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended September 30, 2011:

	Number of loans	Recorded Investment
	(Dollars in thousands)	
Real Estate Loans		
Permanent		
One-to four-family	36	$ 3,825
Multifamily residential	3	3,275
Nonresidential	4	2,343
Land	3	1,369
Total	46	10,812
Construction Loans		
One-to four-family residential	6	1,696
Multifamily and nonresidential		
Total	6	1,696
Consumer Loans		
Home Equity		
Auto	1	5
Marine		
Recreational vehicle		
Other		
Total	1	5
Commercial Loans		
Secured	1	6,569
Unsecured	1	
Total	2	6,569
Total Restructured Loans	55	$ 19,082

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

The troubled debt restructurings that subsequently defaulted described above resulted in chargeoffs of $3.1 million during the period ended September 30, 2011, but had no effect on the allowance for loan losses.

The terms of certain other loans were modified during the period ended September 30, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of September 30, 2011 of $15.4 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company s internal underwriting policy.
Certain loans which were modified during the nine months ended September 30, 2011 did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment that was considered to be insignificant had delays in payment ranging from 180 days to 24 months.

Table of Contents

Credit Quality Indicators:

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

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

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

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

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

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

Table of Contents

As of September 30, 2011 and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loans
(Dollars in thousands)

	Unclassified		Classified				
	Unclassified	Special Mention	Substandard	Doubtful	Loss	Total Classified	Total Loans
Real Estate Loans							
Permanent							
One-to four-family residential	$ 641,918	$ 3,948	$ 31,842	$	$	$ 31,842	$ 677,708
Multifamily residential	99,408	7,227	18,735			18,735	125,370
Nonresidential	172,853	18,890	111,422			111,422	303,165
Land	8,890	1,211	12,071			12,071	22,172
Total	923,069	31,276	174,070			174,070	1,128,415
Construction Loans							
One-to four-family residential	29,243	3,214	31,117	3,187		34,304	66,761
Multifamily and nonresidential	4,528						4,528
Total	33,771	3,214	31,117	3,187		34,304	71,289
Consumer Loans							
Home Equity	191,615		3,516			3,516	195,131
Auto	9,467	293	158			158	9,918
Marine	5,970	13					5,983
Recreational vehicle	28,397		2,511			2,511	30,908
Other	3,413		14			14	3,427
Total	238,862	306	6,199			6,199	245,367
Commercial Loans							
Secured	17,632	258	9,337			9,337	27,227
Unsecured	5,393	171	2,486			2,486	8,050
Total	23,025	429	11,823			11,823	35,277
Total	$ 1,218,727	$ 35,225	$ 223,209	$ 3,187	$	$ 226,396	$ 1,480,348

Table of Contents

As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loans
(Dollars in thousands)

	Unclassified		Classified				
	Unclassified	Special Mention	Substandard	Doubtful	Loss	Total Classified	Total Loans
Real Estate Loans							
Permanent							
One-to four-family residential	$ 723,814	$ 2,404	$ 31,208	$	$	$ 31,208	$ 757,426
Multifamily residential	106,839	6,900	22,032			22,032	135,771
Nonresidential	200,816	55,197	75,377			75,377	331,390
Land	9,677	1,100	14,361			14,361	25,138
Total	1,041,146	65,601	142,978			142,978	1,249,725
Construction Loans							
One-to four-family residential	47,308	6,122	55,021	132		55,153	108,583
Multifamily and nonresidential	1,091	13,604	382			382	15,077
Total	48,399	19,726	55,403	132		55,535	123,660
Consumer Loans							
Home Equity	216,994		3,588			3,588	220,582
Auto	11,420		105			105	11,525
Marine	7,285		0				7,285
Recreational vehicle	35,430		241			241	35,671
Other	4,375		15			15	4,390
Total	275,504		3,949			3,949	279,453
Commercial Loans							
Secured	14,608	1,327	12,134	807		12,941	28,876
Unsecured	9,327	2,132	4,304	1,665		5,969	17,428
Total	23,935	3,459	16,438	2,472		18,910	46,304
Total	$ 1,388,984	$ 88,786	$ 218,768	$ 2,604	$	$ 221,372	$ 1,699,142

Table of Contents

7. MORTGAGE BANKING ACTIVITIES

Mortgage loans serviced for others, which are not reported in United Community s assets, totaled $1.1 billion at both September 30, 2011, and December 31, 2010.

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

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
	(Dollars in thousands)	
Balance, beginning of year	$ 6,400	$ 6,228
Originations	1,409	2,621
Amortized to expense	(1,560)	(2,449)
Balance, end of period	6,249	6,400
Less valuation allowance	(1,415)	(285)
Net balance	$ 4,834	$ 6,115

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

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010
		(Dollars in thousands)	
Balance, beginning of year	$ (58)	$ (285)	$ (423)
Impairment charges	(1,357)	(1,357)	(1,279)
Recoveries		227	1,417
Balance, end of period	$ (1,415)	$ (1,415)	$ (285)

Fair value of mortgage servicing rights as of September 30, 2011 was approximately $6.4 million and at December 31, 2010 was approximately $8.2 million.

Key economic assumptions in measuring the value of mortgage servicing rights at June 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Weighted average prepayment rate	421 PSA	322 PSA
Weighted average life (in years)	3.65	3.71
Weighted average discount rate	8%	8%

30

Table of Contents

8. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Real estate owned and other repossessed assets	$ 46,668	$ 47,668
Valuation allowance	(8,352)	(7,332)
End of period	$ 38,316	$ 40,336

Activity in the valuation allowance related to real estate owned was as follows:

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Beginning of year	$ 7,332	$ 7,867
Additions charged to expense	4,040	4,572
Direct write-downs	(3,020)	(5,107)
End of period	$ 8,352	$ 7,332

Expenses related to foreclosed and repossessed assets include:

	For the three months ended September 30,	
	2011	2010
	(Dollars in thousands)	
Net loss on sales	$ 395	$ 407
Provision for unrealized losses, net	2,232	866
Operating expenses, net of rental income	361	1,027
Total expenses	$ 2,988	$ 2,300

	For the nine months ended September 30,	
	2011	2010
	(Dollars in thousands)	
Net loss on sales	$ 941	$ 1,282
Provision for unrealized losses, net	4,040	3,230
Operating expenses, net of rental income	2,125	2,658
Total expenses	$ 7,106	$ 7,170

Table of Contents

9. OTHER 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.

The benefit obligation was measured on December 31, 2010. Information about changes in obligations of the benefit plan follows:

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 2,778	$ 3,405
Service cost		
Interest cost	41	185
Actuarial (gain)/loss		(670)
Benefits paid	(124)	(142)
Benefit obligation at end of the year	$ 2,695	$ 2,778
Funded status of the plan	$ (2,695)	$ (2,778)

The amounts recognized in accumulated other comprehensive income, net of tax consist of the following:

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Net gains (losses)	$	$ 1,015
Prior service credit (cost)		1
	$	$ 1,016

Components of net periodic benefit cost are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Service cost	$	$	$	$
Interest cost	33	46	99	140
Expected return on plan assets				
Net amortization of prior service cost	(1)	(1)	(1)	(1)
Recognized net actuarial gain	(19)		(57)	
Net periodic benefit cost/(gain)	$ 13	$ 45	$ 41	$ 139

Assumptions used in the valuations were as follows	5.00%	5.75%	5.00%	5.75%

401(k) Savings Plan:

Home Savings sponsors a defined contribution 401(k) savings plan, which covers substantially all employees. Under the provisions of the plan, Home Savings matching contribution is discretionary and may be changed from year to year. For 2011, Home Savings did not match employee contributions. For 2010, Home Savings match was 50% of pre-tax contributions, up to a maximum of 6% of the employees base pay. Participants become 100% vested in Home Savings contributions upon completion of three years of service. For the three and nine months ended September 30, 2010, the expense related to this plan were approximately $127,000 and $369,000, respectively.

Employee Stock Ownership Plan:

In conjunction with the Conversion, United Community established an Employee Stock Ownership Plan (ESOP) for the benefit of the employees of United Community and Home Savings. All full-time employees who meet certain age and years of service criteria are eligible to participate in the ESOP. The ESOP is a tax-qualified retirement plan designed to invest primarily in the stock of United Community. The ESOP borrowed $26.8 million from United Community to purchase 2,752,615 shares in conjunction with the Conversion. The term of the loan was 15 years and was being repaid primarily with contributions from Home Savings to the ESOP. Additionally, 1,643,817 shares were purchased with the return of capital distribution in 1999. During 2008, 42,890 shares were added to the plan from the stock dividend paid in the fourth quarter of that year.

The loan was collateralized by the common shares held by the ESOP. As the note was repaid, shares were released from collateral based on the proportion of the payment in relation to total payments required to be made on the loan. The shares released from collateral were then allocated to participants on the basis of compensation as described in the plan. Compensation expense is determined by multiplying the per share market price of United Community s shares at the end of the period by the number of shares to be released. On June 29, 2010, the ESOP paid in full the remaining balance of the loan and Home Savings recognized $1.3 million in additional compensation expense in the second quarter as shares were allocated to plan participants. Proceeds from the ESOP loan prepayment gave United Community the opportunity to infuse approximately $9.0 million of capital into Home Savings, in addition to taking advantage of certain tax benefits available for these types of plans.

There are no shares left to be released for allocation in 2011. During the year ended December 31, 2010, 631,946 shares were released or committed to be released for allocation.

Employee Stock Purchase Plan:

During 2005, United Community established an employee stock purchase plan (ESPP). Under this plan, United Community provides employees of Home Savings the opportunity to purchase United Community Financial Corporation s common shares through payroll deduction. Participation in the plan is voluntary and payroll deductions are made on an after-tax basis. The maximum amount an employee can have deducted is nine hundred dollars per biweekly pay. Shares are purchased on the open market and administrative fees are paid by United Community. Expense related to this plan is a component of the Shareholder Dividend Reinvestment Plan and the expense recognized is considered immaterial.

Executive Incentive Plan:

On April 28, 2011, the Compensation Committee and the Board of Directors of UCFC approved the 2011 Executive Incentive Plan (the EIP). The EIP provides incentive compensation awards to certain named executive officers (the Named Executive Officers as defined in the proxy statement filed on March 25, 2011) of UCFC and Home Savings. Executive incentive awards are dependent upon UCFC recognizing net income for the year. The amount of award paid to executives is based upon the actual performance of UCFC for the 12 months ending September 30 compared to the actual performance of a peer group during the same 12 month period. As of September 30, 2011, no expense has been recognized for this plan.

Stay Bonus and Retention Plan:

On April 28, 2011, the Compensation Committee (the Committee) and the Boards of Directors of UCFC and Home Savings adopted the Stay Bonus and Retention Plan (the Retention Plan) for the purpose of recruiting and retaining qualified officers and employees. The officers and employees recommended for participation by the Committee must be approved by at least a majority of the independent members of the Board. As of the effective date of the Retention Plan, there were twenty-eight participants in the plan. The list of participants may be amended from time to time by the Board and the Committee in their sole and absolute discretion. Each participant must be actively employed by UCFC or Home Savings at the time any award is granted and/or paid.

Each eligible participant will receive a cash award of $1,000 on the first regular pay date occurring in January 2012, subject to all applicable Federal, state and local payroll taxes. If the Board of Home Savings receives official notice that the Bank Order has been terminated, each eligible participant will also be paid a cash award (50% of total award) and granted an equity award (50% of total award). Equity awards will be granted in the form of restricted shares issued under the 2007 Plan and vest one year after the grant date. The total award upon termination of the Bank Order

is based upon a specified percentage of each participant s base salary, which percentage is determined by the Board and may be amended from time to time by the Board and the Committee in their sole and absolute discretion. In the event that a participant s employment is terminated for cause prior to the date upon which a cash award is actually paid to the participant or the participant s equity award has vested, the participant forfeits all his or her rights, title or interest in any such cash or equity award, and the participant shall not be entitled to receive all or any part of the cash or equity award.

Subject to any limitations contained in the 2007 Plan, the Board may, at any time and from time to time, amend, modify or suspend the Retention Plan and all rules and guidelines under the Retention Plan; provided, however, that no such amendment, modification, suspension or termination shall impair or adversely alter any cash award or equity award previously granted under the Retention Plan without the consent of the affected participant.

For the three and nine months ended September 30, 2011, the expense recognized for this plan was approximately $215,000. Home Savings expects to recognize an additional $129,000 in expense associated with this plan for the remainder of 2011.

10. FAIR VALUE MEASUREMENT

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

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

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

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

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

Available for sale securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) 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).

Impaired loans: 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.

Foreclosed assets: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage servicing rights: Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income.

Loans held for sale: Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors.

Table of Contents

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

		Fair Value Measurements at September 30, 2011 Using:		
	September 30, 2011	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	$ 68,533	$	$ 68,533	$
Equity securities	247	247		
Mortgage-backed GSE securities: residential	347,680		347,680	

		Fair Value Measurements at December 31, 2010 Using:		
	December 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	$ 62,935	$	$ 62,935	$
Equity securities	394	394		
Mortgage-backed GSE securities: residential	298,713		298,713	

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

		Fair Value Measurements at September 30, 2011 Using:		
	September 30, 2011	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				
Permanent real estate loans	$ 46,287	$	$	$ 46,287
Construction loans	20,996			20,996
Commercial loans	7,404			7,404
Mortgage servicing assets	4,014		4,014	
Foreclosed assets				
Permanent real estate loans	7,431			7,431
Construction loans	7,144			7,144

		Fair Value Measurements at December 31, 2010 Using:		
	December 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				
Permanent real estate loans	$ 49,235	$	$	$ 49,235
Construction loans	20,229			20,229
Commercial loans	1,694			1,694
Loans held for sale	10,845		10,845	
Mortgage servicing assets	2,278		2,278	
Foreclosed assets				
Permanent real estate loans	3,930			3,930
Construction loans	10,527			10,527

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 $86.9 million at September 30, 2011, with a specific valuation allowance of $12.2 million. This resulted in an additional provision for loan losses of $1.8 million during the three months ended September 30, 2011 and $12.6 million for the nine months ended September 30, 2011. 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 $68.9 million at September 30, 2010, with a specific valuation allowance of $10.7 million, resulting in additional provision for loan losses of $131,000 during three months ended September 30, 2010, and $7.2 million for the nine months ended September 30, 2010. 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 $84.6 million at December 31, 2010, with a specific valuation allowance of $13.4 million, resulting in additional provision for loan losses of $47.9 million during 2010.

Table of Contents

Mortgage servicing rights had a carrying amount of $5.4 million with a valuation allowance of $1.4 million at September 30, 2011, resulting in additional expenses of $1.4 million during the three and nine months ended September 30, 2011. 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 $22.9 million, with a valuation allowance of $8.4 million at September 30, 2011. This resulted in additional expenses of $2.2 million during the three months ended September 30, 2011 and $4.0 million for the nine months ended September 30, 2011.

In accordance with generally accepted accounting principles, the carrying value and estimated fair values of financial instruments, at September 30, 2011 and December 31, 2010, were as follows:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 49,158	$ 49,158	$ 37,107	$ 37,107
Available for sale securities	416,460	416,460	362,042	362,042
Loans held for sale	38,366	38,691	10,870	10,870
Loans, net	1,437,575	1,462,125	1,649,486	1,675,610
Federal Home Loan Bank stock	26,464	n/a	26,464	n/a
Accrued interest receivable	7,016	7,016	7,720	7,720
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(849,869)	(849,869)	(779,301)	(779,301)
Certificates of deposit	(838,072)	(852,192)	(910,480)	(925,325)
Federal Home Loan Bank advances	(88,324)	(97,089)	(202,818)	(210,497)
Repurchase agreements and other	(90,623)	(103,096)	(97,797)	(107,299)
Advance payments by borrowers for taxes and insurance	(13,202)	(13,202)	(20,668)	(20,668)
Accrued interest payable	(793)	(793)	(809)	(809)

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 effect 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.

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.

37

Table of Contents

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.

11. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below.

	For the nine months ended	
	September 30, 2011	September 30, 2010
	(Dollars in thousands)	
Supplemental disclosures of cash flow information		
Cash paid (refunded) during the period for:		
Interest on deposits and borrowings	$ 23,595	$ 31,250
Income taxes	(3,537)	(984)
Supplemental schedule of noncash activities:		
Transfers from loans to real estate owned and other repossessed assets	17,017	28,777
Transfers from loans to loans held for sale	96,845	
Transfers from premises and equipment to other assets	1,750	

12. SEGMENT INFORMATION

All of the Company s financial service operations are considered by management to be aggregated in one reportable operating segment, which is banking services.

Table of Contents

13. 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 1,992,671 shares were anti-dilutive for the three months ended September 30, 2011. There were 2,251,575 stock options for shares that were anti-dilutive for the three months ended September 30, 2010. Stock options for 1,992,497 shares were anti-dilutive for the nine months ended September 30, 2011. There were 2,227,827 stock options for shares that were anti-dilutive for the nine months ended September 30, 2010.

	Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Numerator:		
Net loss	$ (8,864)	$ (9,915)
Denominator:		
Weighted average common shares outstanding basic	30,953	30,899
Dilutive effect of stock options		
Weighted average common shares outstanding dilutive	30,953	30,099
Basic loss per share:	(0.29)	(0.32)
Dilutive loss per share:	(0.29)	(0.32)

	Nine Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Numerator:		
Net loss	$ (7,698)	$ (19,942)
Denominator:		
Weighted average common shares outstanding basic	30,936	30,301
Dilutive effect of stock options		
Weighted average common shares outstanding dilutive	30,936	30,301
Basic loss per share:	(0.25)	(0.66)
Dilutive loss per share:	(0.25)	(0.66)

Table of Contents

14. 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 $3.5 million and impairment charges of $73,000 at September 30, 2011, and gains on sales of securities of $7.3 million and impairment charges of $44,000 at September 30, 2010.

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

	Three months ended	
	September 30, 2011	September 30, 2010
	(Dollars in thousands)	
Unrealized holding gain (loss) on securities available for sale	$ 10,141	$ (1,677)
Reclassification adjustment for net gains realized in income	(1,923)	(737)
Net unrealized gain/(loss)	8,218	(2,414)
Tax effect		845
Net of tax amount	$ 8,218	$ (1,569)

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

	Nine months ended	
	September 30, 2011	September 30, 2010
	(Dollars in thousands)	
Unrealized holding gain on securities available for sale	$ 17,346	$ 4,962
Reclassification adjustment for net gains realized in income	(3,427)	(7,251)
Net unrealized gains/(loss)	13,919	(2,289)
Tax effect		801
Net of tax amount	$ 13,919	$ (1,488)

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

	Balance at December 31, 2010	Current Period Change	Balance at September 30, 2011
Unrealized gains (losses) on securities available for sale	$ (5,673)	$ 13,919	$ 8,246
Unrealized gains on post-retirement benefits	895		895
Total	$ (4,778)	$ 13,919	$ 9,141

15. 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.

Table of Contents

Quantitative measures established by regulation for capital adequacy require Home Savings to maintain minimum amounts and ratios of Tier 1 (or Core) capital (as defined in the regulations) to average total assets (as defined) and of total risk-based capital (as defined) to risk-weighted assets (as defined). Actual and statutory required capital amounts and ratios for Home Savings are presented below.

	As of September 30, 2011			
	Actual		Minimum Capital Requirements Per Bank Order	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total risk-based capital to risk-weighted assets	$ 189,362	13.25%	$ 171,471	12.00%
Tier 1 capital to risk-weighted assets	171,176	11.98%	*	*
Tier 1 capital to average total assets (Tier 1 leverage ratio)	171,176	8.13%	168,369	8.00%

	As of September 30, 2011			
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total risk-based capital to risk-weighted assets	$ 114,314	8.00%	$ 142,892	10.00%
Tier 1 capital to risk-weighted assets	*	*	85,735	6.00%
Tier 1 capital to average total assets (Tier 1 leverage ratio)	84,184	4.00%	105,230	5.00%

	As of December 31, 2010			
	Actual		Minimum Capital Requirements Per Bank Order	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total risk-based capital to risk-weighted assets	$ 197,891	12.54%	$ 189,412	12.00%
Tier 1 capital to risk-weighted assets	177,776	11.26%	*	*
Tier 1 capital to average total assets (Tier 1 leverage ratio)	177,776	7.84%	181,513	8.00%

	As of December 31, 2010			
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total risk-based capital to risk-weighted assets	$ 126,274	8.00%	$ 157,843	10.00%
Tier 1 capital to risk-weighted assets	*	*	94,706	6.00%
	90,757	4.00%	113,446	5.00%

Tier 1 capital to average total assets (Tier 1 leverage ratio)

* *Amount/Ratio is not required under the Bank Order or regulations.*

** *As of September 30, 2011 and December 31, 2010, respectively, the FDIC categorized Home Savings as adequately capitalized pursuant to the Bank Order and OTS Order (as amended) discussed in Note 2. Home Savings cannot be considered well capitalized while the Bank Order is in place.*

As of September 30, 2011 and December 31, 2010, respectively, the FDIC categorized Home Savings as adequately capitalized pursuant to the Bank Order discussed in Note 2. Home Savings cannot be considered well capitalized while the Bank Order is in place. The Bank Order requires Home Savings to measure its Tier 1 Leverage Ratio and Total Risk-based Capital Ratio at the end of every quarter. Under the terms of the Bank Order, if Home Savings Tier 1 Leverage Ratio falls below 8.0% or if its Total Risk-based Capital Ratio falls below 12.0% at the end of any given quarter, then Home Savings must restore its capital ratios to the required levels within 90 days. At December 31, 2010, Home Savings Tier 1 Leverage Ratio was 7.84% and its Total Risk-based Capital Ratio was 12.54%. Under the terms of the Bank Order, Home Savings was required to and successfully achieved the 8.0% Tier 1 Leverage Ratio by March 31, 2011.

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. Refer to Note 2 for a complete discussion of the regulatory enforcement actions.

16. INCOME TAXES

Management recorded a valuation allowance against deferred tax assets at September 30, 2011 and December 31, 2010, based on its estimate of future reversal and utilization. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income, and projected future reversals of deferred tax items. Based on these criteria, the Company determined that it was necessary to establish a full valuation allowance against the entire net deferred tax asset. As of September 30, 2011, the Company has a deferred tax asset of $18.0 million and a deferred tax asset valuation of $18.0 million, resulting in a net deferred tax asset of $0.

17. OTHER EVENTS

On August 31, 2011, Home Savings entered into a Purchase and Assumption Agreement with The Croghan Colonial Bank (Croghan), a wholly-owned subsidiary of Croghan Bancshares, Inc., for the sale of four of its western-most branches, located in Fremont, Clyde, Tiffin (Westgate) and downtown Tiffin, Ohio. In the transaction, Croghan will assume all of the deposit liabilities and buy the related fixed assets of the branches. Croghan will pay a premium of 4.0% (or approximately $4.5 million) on all non-jumbo, non-brokered and non-public deposits, which together represent all of the deposits at the branches. In addition, Croghan will acquire performing consumer and residential loans associated with the branches. As of September 30, 2011, there were approximately $111.3 million in deposits and $26.2 million in performing consumer and residential loans at the branches. Home Savings also reclassified $1.8 million in fixed assets from premises and equipment to other assets on the balance sheet at the time of the announcement. Croghan anticipates retaining the Home Savings employees at the branches. The transaction, which is subject to regulatory approval and certain closing conditions, is expected to be completed during the fourth quarter of 2011.

In October 2011, the Investment and Asset/Liability Committees of Home Savings approved the sale of approximately $230.0 million in existing 20-year mortgage-backed securities with a weighted average coupon of 4.30%. The sale of these securities resulted in the recognition of a gain in October of $4.5 million. Proceeds from the sale were reinvested throughout October, in 30-year mortgage-backed securities with a coupon of 4.0%. The Bank also purchased $100.0 million notional value of interest rate caps as part of this strategy to hedge the additional interest rate risk. The caps are for five years and have a strike price of 1.50% on 3 month LIBOR.

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 September 30,		At or For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Selected financial ratios and other data: (1)				
Performance ratios:				
Return on average assets (2)	-1.69%	-1.70%	-0.48%	-1.15%
Return on average equity (3)	-18.98%	-18.41%	-5.61%	-12.11%
Interest rate spread (4)	2.97%	3.22%	3.15%	3.10%
Net interest margin (5)	3.18%	3.42%	3.36%	3.33%
Non-interest expense to average assets	2.78%	2.69%	2.94%	2.88%
Efficiency ratio (6)	79.67%	66.80%	74.27%	75.76%
Average interest-earning assets to average interest-bearing liabilities	113.30%	112.07%	112.86%	112.78%
Capital ratios:				
Average equity to average assets	8.90%	9.23%	8.60%	9.49%
Equity to assets, end of period	8.82%	8.69%	8.82%	8.69%
Tier 1 leverage ratio	8.13%	8.23%	8.13%	8.23%
Tier 1 risk-based capital ratio	11.98%	11.85%	11.98%	11.85%
Total risk-based capital ratio	13.25%	13.21%	13.25%	13.12%
Asset quality ratios:				
Non-performing loans to total loans at end of period (7)	9.33%	8.27%	9.33%	8.27%
Non-performing assets to average assets (8)	8.22%	8.74%	8.10%	7.91%
Non-performing assets to total assets at end of period (8)	8.32%	7.90%	8.32%	7.90%
Allowance for loan losses as a percent of loans	2.98%	2.31%	2.98%	2.31%
Allowance for loan losses as a percent of nonperforming loans (7)	32.94%	28.65%	32.94%	28.65%
Texas ratio (9)	76.12%	75.72%	76.12%	75.72%
Total classified assets as a percent of Tier 1 capital	132.26%	108.87%	132.26%	108.87%
Total classified loans as a percent of Tier 1 capital and ALLL	105.14%	89.73%	105.14%	89.73%
Total classified assets as a percent of Tier 1 capital and ALLL	122.93%	107.06%	122.93%	107.06%
Net charge-offs as a percent of average loans	3.75%	3.85%	2.46%	3.05%
Total 90+ days past due as a percent of total loans	7.59%	7.81%	7.59%	7.81%
Office data:				
Number of full service banking offices	38	38	38	38
Number of loan production offices	7	6	7	6
Per share data:				
Basic earnings (loss) (10)	$ (0.29)	$ (0.32)	$ (0.25)	$ (0.66)
Diluted earnings (loss) (10)	(0.29)	(0.32)	(0.25)	(0.66)

Book value (11)	5.90	6.51	5.90	6.51
Tangible book value (12)	5.88	6.48	5.88	6.48

Notes:

1. Ratios for the three and nine 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, 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 the number of shares outstanding

Table of Contents

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.

Comparison of Financial Condition at September 30, 2011 and December 31, 2010

Total assets decreased $126.3 million to $2.1 billion at September 30, 2011, compared to December 31, 2010. Contributing to the change were decreases in net loans of $211.9 million, premises and equipment of $2.9 million, real estate owned and other repossessed assets of $2.0 million and other assets of $3.4 million. These decreases were partially offset by increases in available for sale securities of $54.4 million and net loans held for sale of $27.5 million.

Net loans decreased $211.9 million during the first nine months of 2011. The primary source of the decrease was a bulk mortgage loan sale that took place in the second quarter of 2011. The Company sold $70.4 million in fixed rate 15 and 30-year residential mortgage loans and subsequently realized a $2.7 million gain. These mortgage loans were specifically identified based on seasoned loan guidelines using Fannie Mae eligibility criteria and designated for sale in response to the protracted period of lower rates and prepayment speeds being experienced eroded the value of these loans. In addition, reinvestment of proceeds into investment securities provides the Company with more liquidity options. Further contributing to the decline was the reduction in the Company s construction and segments of its commercial real estate loan portfolios as a result of executing its strategic objective of reducing these portfolios in the current economic environment.

Available for sale securities increased $54.4 million during the first nine months of 2011 as a result of various securities transactions initiated in the first nine months of 2011. During the first nine months of 2011, the Company sold approximately $198.4 million in securities, recognizing $3.5 million in gains. These sales were completed in part to capture 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 $268.0 million in purchases of additional securities. These purchases of higher coupon mortgage-backed securities were made to partially offset the effect of the bulk loan sale. This action 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 $27.1 million accounted for the remainder of the change.

The allowance for loan losses decreased to $44.2 million, which is 2.98% of the net loan portfolio and 32.94% of nonperforming loans as of September 30, 2011, down from $50.9 million or 2.99% of the net loan portfolio and 36.47% of nonperforming loans as of December 31, 2010. A loan loss provision totaling $22.3 million during the nine months ended September 30, 2011 was offset by net charge-offs totaling $29.0 million. Loan losses are charged against the allowance when the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are added back to the allowance. Home Savings allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, Receivables and allowance allocations calculated in accordance with ASC Topic 450, Contingencies . Accordingly, the methodology is based on 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 evaluated as a homogeneous group using a historical charge-off experience factor applied to each pool of loans. The historical charge-off experience factor is also adjusted for certain

environmental factors. Home Savings process for determining the appropriate level of the allowance for possible loan losses is designed to account for credit deterioration as it occurs. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, classified loans and net charge-offs or recoveries, among other factors.

	Allowance For Loan Losses (Dollars in thousands)				
Real Estate Loans	December 31, 2010	Provision	Recovery	Chargeoff	September 30, 2011
Permanent					
One-to four-family residential	$ 8,139	$ 2,454	$ 348	$ (3,153)	$ 7,788
Multifamily residential	5,082	(933)	85	(1,713)	2,521
Nonresidential	12,559	12,994	112	(6,716)	18,949
Land	2,286	2,542	109	(1,127)	3,810
Total	28,066	17,057	654	(12,709)	33,068
Construction Loans					
One-to four-family residential	8,260	6,364	297	(10,488)	4,433
Multifamily and nonresidential	273	(79)		(101)	93
Total	8,533	6,285	297	(10,589)	4,526
Consumer Loans					
Home Equity	2,964	145	73	(1,246)	1,936
Auto	104	(43)	29	(12)	78
Marine	361	428	1	(576)	214
Recreational vehicle	1,519	1,537	85	(694)	2,447
Other	312	(180)	247	(269)	110
Total	5,260	1,887	435	(2,797)	4,785
Commercial Loans					
Secured	2,611	(968)	56	(1,087)	612
Unsecured	6,413	(1,989)	141	(3,394)	1,171
Total	9,024	(2,957)	197	(4,481)	1,783
Total	$ 50,883	$ 22,272	$ 1,583	$ (30,576)	$ 44,162

In the first nine months of 2011, the level of the allowance for loan losses decreased $6.7 million when compared to December 31, 2010. During the first nine months of 2011, the level of net loans charged off exceeded the loan loss provision by approximately $6.7 million. Timing differences can exist between the period in which an initial provision is recognized and the subsequent period in which the loss is confirmed and the resulting charge-off recognized. As a result, it is possible to have charge-offs exceed the provision for loan losses in the various loan categories. There were three major categories, multifamily residential real estate, one-to four-family residential construction and commercial loans (both secured and unsecured), where the level of charge-offs exceeded the provision recognized in 2011. In the fourth quarter of 2010, Home Savings incurred substantial provision expense to increase both the general and specific

reserves based on deterioration experienced in the loan portfolio in these three loan categories. In the first nine months of 2011, certain loans were charged off where reserves were established in a previous period. Many of these loans were resolved through note sales, where chargeoffs of $1.8 million in the third quarter of 2011 and $5.4 million in the first nine months of 2011 were necessary to bring the loan balance down to an agreed upon value for resolution. These actions caused the level of loan charge-offs to exceed the provision expense in the current reporting period.

The $1.7 million in charge-offs in multifamily residential loans exceeded the provision by $780,000, and was comprised of three relationships that had $991,000 in specific reserves at December 31, 2010 related to probable incurred losses in connection with these loans. Additionally, the principal balance of loans in this category declined $10.4 million during the first nine months of 2011 resulting in reduced general reserves being required. The historical charge-off factor has also decreased in this category during the first nine months of 2011.

One-to four-family residential construction loan charge-offs exceeded provision expense by approximately $4.1 million in 2011. With regard to the $10.5 million in charge-offs, the Bank had reserved $4.3 million at December 31, 2010. These one-to four-family residential construction loan principal balances have declined $33.9 million, and the historical loss experience has resulted in a decrease in the historical charge-off experience factor through the first nine months of 2011.

Table of Contents

A total of 31 loans comprise the $4.5 million in secured and unsecured commercial loan charge-offs, which exceeded the provision for this loan loss category by $1.5 million during the first nine months of 2011. As of December 31, 2010, Home Savings had set aside $4.8 million in reserves on these loans. Principal balances in this category have declined $11.0 million since December 31, 2010, to $35.3 million, of which $8.2 million has been individually evaluated for impairment by the Bank. Additionally, a majority of the decline in this portfolio was in the unsecured category, which typically requires higher allowance for loan loss allocation than secured loans, resulting in a reduction to the estimated allowance for loan losses at September 30, 2011.

Accordingly, as a result of reserves being established in previous periods, a decline in principal balances and changes in historical loss factors, the level of charge-offs for the year has exceeded the provision for loan losses in these loan categories.

A nonhomogeneous loan is considered impaired when, based on current information and events, it is probable that Home Savings will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the strength of guarantors (if any). Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all 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, the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by the fair value of the collateral if the loan is collateral dependent, the present value of expected future cash flows discounted at the loan s effective interest rate, or the market value of the loan. The following table summarizes the change in impaired loans during the first nine months of 2011.

Impaired Loans

(Dollars in thousands)

Real Estate Loans	**September 30, 2011**	**December 31, 2010**	**Change**
Permanent			
One-to four-family residential	$ 29,353	$ 25,493	$ 3,860
Multifamily residential	7,178	11,487	(4,309)
Nonresidential	69,026	59,243	9,783
Land	11,871	5,569	6,302
Total	117,428	101,792	15,636
Construction Loans			
One-to four-family residential	34,322	46,672	(12,350)
Multifamily and nonresidential			
Total	34,322	46,672	(12,350)
Consumer Loans			
Home Equity	1,050	1,438	(388)
Auto	68	55	13
Boat			
Recreational vehicle	47	47	
Other	7	7	

Total	1,172	1,547	(375)
Commercial Loans			
Secured	7,688	2,171	5,517
Unsecured	875	4,273	(3,398)
Total	8,563	6,444	2,119
Total Impaired Loans	$ 161,485	$ 156,455	$ 5,030

Table of Contents

The increase in impaired loans is primarily attributable to nine loans aggregating $30.3 million, for which, in the opinion of management, Home Savings will not be able to collect all payments of principal or interest due thereon according to their respective contractual terms. These loans were partially offset by twelve loans aggregating $24.4 million being resolved and removed from impaired status. A loan may be resolved through foreclosure and repossession by Home Savings, charged off, sold to a third-party, or by long-term performance according to contractual terms. Over the course of the first nine months of 2011, loans identified for impairment have diminished. During all of 2010, 386 loans aggregating $121.1 million were evaluated and identified as being impaired. During 2011, 216 loans aggregating $68.3 million were evaluated and identified as impaired.

The change in troubled debt restructurings for the nine months ended September 30, 2011 is as follows:

Troubled Debt Restructurings

	September 30, 2011	December 31, 2010	Change
		(Dollars in thousands)	
Real Estate Loans			
Permanent			
One-to four-family	$ 13,896	$ 10,830	$ 3,066
Multifamily residential	3,275	2,410	865
Nonresidential	19,203	22,313	(3,110)
Land	1,474	1,344	130
Total	37,848	36,897	951
Construction Loans			
One-to four-family residential	2,666	6,879	(4,213)
Multifamily and nonresidential			
Total	2,666	6,879	(4,213)
Consumer Loans			
Home Equity	148	347	(199)
Auto	23	9	14
Marine			
Recreational vehicle			
Other	7	7	
Total	178	363	(185)
Commercial Loans			
Secured	6,965	348	6,617
Unsecured	59	84	(25)
Total	7,024	432	6,592
Total Restructured Loans	$ 47,716	$ 44,571	$ 3,145

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 $16.9 million and $11.2 million at September 30, 2011 and December 31, 2010, respectively. Such loans are considered nonperforming loans. The increase in nonaccruing troubled debt restructured loans can largely be attributed to two loans aggregating $2.8 million, for which, in the opinion of management, Home Savings will not be able to collect all payments of principal or interest due according to contractual terms. Troubled debt restructured loans that were accruing according to their terms aggregated $30.8 million and $33.3 million at September 30, 2011 and December 31, 2010, respectively.

Table of Contents

Nonperforming loans consist of nonaccrual loans and loans past due ninety days and still accruing. Nonperforming loans were $134.1 million, or 9.33% of net loans, at September 30, 2011, compared to $139.5 million, or 8.46% of net loans, at December 31, 2010. The schedule below summarizes the change in nonperforming loans over the first nine months of 2011.

Nonperforming Loans
(Dollars in thousands)

	September 30, 2011	December 31, 2010	Change
Real Estate Loans			
Permanent			
One-to four-family residential	$ 27,250	$ 27,417	$ (167)
Multifamily residential	6,517	10,983	(4,466)
Nonresidential	44,243	39,838	4,405
Land	11,655	5,188	6,467
Total	89,665	83,426	6,239
Construction Loans			
One-to four-family residential	31,166	44,022	(12,856)
Multifamily and nonresidential		2,413	(2,413)
Total	31,166	46,435	(15,269)
Consumer Loans			
Home Equity	3,273	3,389	(116)
Auto	147	89	58
Marine			
Recreational vehicle	2,463	237	2,226
Other	7	10	(3)
Total	5,890	3,725	2,165
Commercial Loans			
Secured	6,642	1,822	4,820
Unsecured	719	4,122	(3,403)
Total	7,361	5,944	1,417
Total Nonperforming Loans	$ 134,082	$ 139,530	$ (5,448)

During the first nine months of 2011, two nonresidential loan relationships (consisting of five loans in total), four land loans, three recreational vehicle loans and one secured commercial loan, aggregating $25.8 million, became nonperforming. This was offset by a total of 51 loans (two multifamily loans, three nonresidential loans, 42 construction loans, two nonresidential construction loans and two unsecured commercial loans) being resolved

through foreclosure, sales and chargeoffs.

Loans held for sale increased $27.5 million, to $38.4 million at September 30, 2011, compared to $10.9 million at December 31, 2010. During the third quarter, Home Savings has entered into an agreement with another financial institution to sell four of its branches. Part of this sale includes loans aggregating $26.2 million, which were moved from the portfolio to held for sale as of September 30, 2011. The settlement of that branch sale is expected to occur in the fourth quarter of 2011. Home Savings also continues to sell a portion of newly originated mortgage loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

Federal Home Loan Bank stock remained at $26.5 million for September 30, 2011, and December 31, 2010. During the first nine months of 2011, the Federal Home Loan Bank paid a cash dividend in lieu of a stock dividend to its member banks.

Table of Contents

Real estate owned and other repossessed assets decreased $2.0 million, or 5.0%, during the nine months ended September 30, 2011, as compared to the year ended December 31, 2010. The following table summarizes the activity in real estate owned and other repossessed assets during the period:

	(Dollars in thousands)		
	Real Estate Owned	Repossessed Assets	Total
Balance at Beginning of period	$ 39,914	$ 422	$ 40,336
Acquisitions	16,255	1,054	17,309
Sales, net of gains/(losses)	(14,432)	(857)	(15,289)
Additions in valuation allowance charged to expense	(4,040)		(4,040)
Balance at End of period	$ 37,697	$ 619	$ 38,316

The following table depicts the type of property secured in the satisfaction of loans and the valuation allowance associated with each type as of September 30, 2011:

	Balance	Valuation Allowance	Net Balance
	(Dollars in thousands)		
Real estate owned			
One-to four-family	$ 10,430	$ (362)	$ 10,068
Multifamily residential	4,599	(276)	4,323
Nonresidential	6,331	(730)	5,601
One-to four-family residential construction	23,040	(6,984)	16,060
Land	1,645		1,645
Total real estate owned	46,049	(8,352)	37,697
Repossessed assets			
Auto			
Marine	200		200
Recreational vehicle	419		419
Total repossessed assets	619		619
Total real estate owned and other repossessed assets	$ 46,668	$ (8,352)	$ 38,316

Property acquired in the settlement of loans is recorded at the fair market value of the property secured less costs to sell. Appraisals are obtained at least annually on properties that exceed $1.0 million in value. Based on current appraisals, a valuation allowance may be established to reflect properly the asset at fair market value. The $2.6 million in losses and valuation adjustments recognized on certain real estate owned properties in the third quarter included valuation adjustments of $1.5 million for three specific properties. Home Savings engages experienced professionals to sell real estate owned and other repossessed assets in a timely manner.

Total deposits decreased $1.8 million to $1.7 billion at September 30, 2011, compared to December 31, 2010. The primary cause for the decrease in deposits was due to an overall decline in certificates of deposit. As certificates of deposit mature, the Company was able to successfully retain some of these deposits in other interest-bearing non-time deposit accounts. As of September 30, 2011, Home Savings had no brokered deposits.

Federal Home Loan Bank advances decreased $114.5 million during the first nine months of 2011, due primarily to lower funding needs during the period. Home Savings had approximately $218.7 million in unused borrowing

capacity at the FHLB at September 30, 2011.

Advance payments by borrowers for taxes and insurance decreased $7.5 million during the first nine months of 2011. Remittance of real estate taxes and property insurance made on behalf of customers of Home Savings accounted for $3.3 million of the decrease. In addition, funds held for payments received on loans sold where servicing was retained by Home Savings decreased $4.1 million.

Table of Contents

Shareholders equity increased $6.6 million to $182.7 million at September 30, 2011, from $176.1 million at December 31, 2010. The change occurred primarily due to the adjustment to other comprehensive income for the valuation of available for sale securities during the period which was offset partially by the net loss recognized by the Company in the period.

As previously disclosed, the Company filed a capital plan with the OTS in December 2010. In keeping with that capital plan, the Company may seek to raise additional equity capital. The type, timing, amount, and terms of possible securities that would be issued in such an offering have yet to be determined. There can be no assurances that such an offering will be completed or that the Company will succeed in this endeavor. However, the Company anticipates that following any such capital raise, it may give existing shareholders an opportunity to participate through a rights offering.

Comparison of Operating Results for the Three Months Ended September 30, 2011 and September 30, 2010

Net Income (Loss). United Community recognized a net loss for the three months ended September 30, 2011, of $8.9 million, or $(0.29) per diluted share, compared to a net loss of $9.9 million, or $(0.32) per diluted share, for the three months ended September 30, 2010. The primary cause of the change was lower provision for loan losses recognized during the third quarter of 2011. Compared with the third quarter of 2010, net interest income decreased $3.2 million, the provision for loan losses decreased $5.3 million, non-interest income decreased $2.2 million, and non-interest expense decreased $1.1 million. United Community s annualized return on average assets and return on average equity were (1.69)% and (18.98)%, respectively, for the three months ended September 30, 2011. The annualized return on average assets and return on average equity for the comparable period in 2010 were (1.70)% and (18.41)%, respectively.

Net Interest Income. Net interest income for the three months ended September 30, 2011 was $15.6 million compared to $18.8 for the three months ended September 30, 2010. Total interest income decreased $4.9 million in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of a decrease of $279.3 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 31 basis points. The change was driven, in part, by the bulk mortgage loan sale in the second quarter of 2011. Further contributing to the decline was the reduction in the Company s construction and segments of its commercial real estate loan portfolios as a result of executing its strategic objective of reducing these portfolios in the current economic environment.

Total interest expense decreased $1.8 million for the quarter ended September 30, 2011, as compared to the same quarter last year. The change was due primarily to reductions of $1.6 million in interest paid on deposits. The overall decrease in interest expense was attributable to a shift in deposit balances from certificates of deposit to relatively less expensive non-time deposits. The average outstanding balance of certificates of deposit declined by $76.0 million, while non-time deposits increased by $61.3 million. Also contributing to the change was a reduction of 29 basis points in the cost of certificates of deposit, as well as a decrease in the cost of non-time deposits of 29 basis points.

Primarily in the third quarter of 2008, Home Savings offered a 42-month time deposit product (the Step CDs) to it customers in order to maintain adequate levels of liquidity as Home Savings entered into the Bank order with regulators. While the Step CDs offered a blended rate over the 42-month term consistent with other 42-month certificates of deposit being offered in Home Savings market at that time, the interest rate paid on Step CDs increases in regular intervals over the life of the deposit, such that in the final six months of the deposit prior to maturity, the rate paid is 6.50%. This product generated approximately $140.0 million in deposits, substantially all of which will mature in the first quarter of 2012.

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 $201.7 million, despite an increase in the average rate on those borrowings of 193 basis points in the third quarter of 2011 compared to the same quarter in 2010. The increase in rate is due to the change in the mix of borrowings, in that Home Savings had minimal overnight advances in the third quarter of 2011 with the FHLB. The decrease in interest expense on repurchase agreements and other borrowings was due primarily to a decrease in the average balance of those liabilities of $5.9 million despite a increase in the cost of those liabilities of 20 basis points.

The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the third quarter of last year. The interest rate spread for the three months ended September 30, 2011, compressed to 2.97% compared to 3.22% for the quarter ended September 30, 2010. The net interest margin decreased 24 basis points to 3.18% for the three months ended September 30, 2011 compared to 3.42% for the same quarter in 2010.

	For the Three Months Ended September 30, 2011 vs. 2010		
	Increase (decrease) due to		Total increase (decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ (1,293)	$ (3,738)	$ (5,031)
Loans held for sale	(17)	71	54
Investment securities:			
Available for sale	(155)	243	88
FHLB stock	(33)		(33)
Other interest-earning assets	(1)	4	3
Total interest-earning assets	$ (1,499)	$ (3,420)	$ (4,919)
Interest-bearing liabilities:			
Savings accounts	(144)	41	(103)
NOW and money market accounts	(352)	55	(297)
Certificates of deposit	(646)	(510)	(1,156)
Federal Home Loan Bank advances	(353)	162	(191)
Repurchase agreements and other	67	(78)	(11)
Total interest-bearing liabilities	$ (1,428)	$ (330)	(1,758)
Change in net interest income			$ (3,161)

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 decreased to $11.8 million in the third quarter of 2011, compared to $17.1 million in the third quarter of 2010. This $5.3 million decrease in the provision for loan losses was primarily a result of decreases in the provision attributable to the permanent real estate portfolio of $3.0 million, and the commercial loan portfolio of $2.6 million as compared to the third quarter of 2010. These decreases were driven primarily by decreases in the volume of outstanding loans as of September 30, 2011, compared to balance outstanding at December 31, 2010.

Despite the decrease in the provision for loan losses in the third quarter of 2011, as compared to the third quarter of 2010, the Bank incurred a specific provision for loan losses of $4.4 million in the third quarter of 2011 for a single nonresidential real estate loan associated with an out-of-state construction project. Moreover, during the third quarter of 2011, an additional loan loss provision of $1.7 million was necessary for one nonresidential loan relationship that had been downgraded. Finally, Home Savings established a specific reserve of $2.1 million for two nonresidential loan relationships during the same time period.

Noninterest Income. Noninterest income decreased in the third quarter of 2011 to $1.9 million, as compared to $4.1 million in the third quarter of 2010. Affecting this comparison was the recognition of lower service fees due to a valuation allowance adjustment of $1.4 million for mortgage servicing rights being established in the third quarter of 2011. The third quarter of 2011 also reflected higher losses for valuation adjustments on three real estate owned properties. This valuation adjustment negatively impacted noninterest income by $3.1 million. These declines in

income were offset partially by an increase in gains recognized on the sale of available for sale securities.

Noninterest Expense. Noninterest expense was $14.6 million in the third quarter of 2011, compared to $15.7 million in the third quarter of 2010. The decrease in noninterest expense was driven by lower deposit insurance premiums. Regulatory changes resulting from the enactment of the Dodd-Frank Act revised the calculation of deposit insurance premiums and caused those expenses to decline. Also positively affecting the comparison was the fact that United Community recognized fewer expenses associated with the maintenance of real estate owned and other repossessed assets during the third quarter of 2011 as compared to the same quarter last year. Finally, lower expenses due to the acceleration of expenses associated with negative escrow on loans in bankruptcy or foreclosure were recognized during the period.

Comparison of Operating Results for the Nine Months Ended September 30, 2011 and September 30, 2010

Net Income (Loss). United Community recognized a net loss for the nine months ended September 30, 2011, of $7.7 million, or $(0.25) per diluted share, compared to a net loss of $19.9 million, or $(0.66) per diluted share, for the nine months ended September 30, 2010. The primary cause of the change was lower provision for loan losses recognized during the first nine months of 2011. Compared with the first nine months of 2010, net interest income decreased $4.1 million, the provision for loan losses decreased $17.6 million, non-interest income decreased $4.2 million, and non-interest expense decreased $3.0 million. United Community s annualized return on average assets and return on average equity were (0.48)% and (5.61)%, respectively, for the nine months ended September 30, 2011. The annualized return on average assets and return on average equity for the comparable period in 2010 were (1.15)% and (12.11)%, respectively.

Net Interest Income. Net interest income for the nine months ended September 30, 2011, was $50.3 million compared to $54.5 million for the nine months ended September 30, 2010. Total interest income decreased $11.3 million in the first nine months of 2011 compared to the first nine months of 2010, primarily as a result of a decrease of $231.5 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 19 basis points. The Company s construction and segments of its commercial real estate loan portfolios declined as a result of executing its strategic objective of reducing specific concentrations in these portfolios in the current economic environment. The bulk mortgage loan sale also decreased the average balance of net loans during the period.

Total interest expense decreased $7.2 million for the nine months ended September 30, 2011, as compared to the same period last year. The change was due primarily to reductions of $6.9 million in interest paid on deposits. The overall decrease in interest expense was attributable to a shift in deposit balances from certificates of deposit to relatively less expensive non-time deposits. The average outstanding balance of certificates of deposit declined by $88.7 million, while non-time deposits increased by $53.5 million. Also contributing to the change was a reduction of 59 basis points in the cost of certificates of deposit.

Primarily in the third quarter of 2008, Home Savings offered a 42-month time deposit product (the Step CDs) to its customers in order to maintain adequate levels of liquidity as Home Savings entered into the Bank order with regulators. While the Step CDs offered a blended rate over the 42-month term consistent with other 42-month certificates of deposit being offered in Home Savings market at that time, the interest rate paid on Step CDs increases in regular intervals over the life of the deposit, such that in the final six months of the deposit prior to maturity, the rate paid is 6.50%. This product generated approximately $140.0 million in deposits, substantially all of which will mature in the first quarter of 2012.

The primary cause of the decrease in interest expense on Federal Home Loan Bank advances was an increase in the average rate on those borrowings of 123 basis points in the first nine months of 2011 compared to the same period in 2010. The increase in rate is due to the change in the mix of borrowings, in that Home Savings had no overnight advances with the FHLB at September 30, 2011.

The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the first nine months of last year. The interest rate spread for the nine months ended September 30, 2011, grew to 3.15% compared to 3.10% for the nine months ended September 30, 2010. The net interest margin increased three basis points to 3.36% for the nine months ended September 30, 2011 compared to 3.33% for the same period in 2010.

	For the Nine Months Ended September 30, 2011 vs. 2010		
	Increase (decrease) due to		Total increase
	Rate	Volume	(decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ (2,451)	$ (9,410)	$ (11,861)
Loans held for sale	9	13	22
Investment securities:			
Available for sale	(548)	1,096	548
FHLB stock	(33)		(33)
Other interest-earning assets	4	6	10
Total interest-earning assets	$ (3,019)	$ (8,295)	$ (11,314)
Interest-bearing liabilities:			
Savings accounts	(296)	97	(199)
NOW and money market accounts	(896)	168	(728)
Certificates of deposit	(4,041)	(1,902)	(5,943)
Federal Home Loan Bank advances	(771)	478	(293)
Repurchase agreements and other	9	(24)	(15)
Total interest-bearing liabilities	$ (5,995)	$ (1,183)	(7,178)
Change in net interest income			$ (4,136)

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 decreased to $22.3 million in the first nine months of 2011, compared to $39.9 million in the first nine months of 2010. This $17.6 million decrease in the provision for loan losses is primarily a result of a decrease in most loan portfolio segments. Specifically, the provision for loan losses recognized on the permanent real estate portfolio decreased $6.3 million, the consumer portfolio decreased $1.5 million, and the commercial portfolio decreased $6.0 million. These decreases are being driven primarily by a decrease in the volume of outstanding loans. An increase in the provision for loan losses recognized on the construction portfolio of $1.1 million partially offset these changes.

Noninterest Income. Noninterest income decreased in the first nine months of 2011 to $11.2 million, as compared to noninterest income in the first nine months of 2010 of $15.4 million. Driving the decrease in noninterest income was the recognition of lower gains on the sale of fewer available for sale securities and the gain recognized on the sale of Home Savings Findlay, Ohio branch in the prior year. Partially offsetting these declines was an increase in mortgage banking income due to the $2.7 million gain recognized on the aforementioned bulk mortgage loan sale.

Noninterest Expense. Noninterest expense was $47.0 million in the first nine months of 2011, compared to $50.0 million in the first nine months of 2010. The decrease in noninterest expense was driven by lower salaries and employee benefits paid to employees. This decrease was driven primarily because of the suspension of a matching contribution to the 401(k) plan for 2011 and, to a lesser extent, the Employee Stock Ownership Plan s repayment in 2010 of the loan made by the Company to the ESOP. Partially offsetting this change was an increase in other expenses due to the acceleration of expenses associated with negative escrow on loans in bankruptcy or foreclosure. Home Savings began recognizing expenses associated with negative escrow sooner than before after determining the possibility of collection was remote.

Table of Contents

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 September 30, 2011 and 2010. Average balance calculations were based on daily balances.

	Three Months Ended September 30,					
	2011			2010		
	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)	$ 1,483,257	$ 19,558	5.27%	$ 1,762,551	$ 24,589	5.58%
Net loans held for sale	15,083	163	4.32%	7,966	109	5.47%
Investment securities:						
Available for sale	405,542	3,323	3.28%	372,280	3,235	3.48%
Federal Home Loan Bank stock	26,464	264	3.99%	26,464	297	4.49%
Other interest-earning assets	36,627	13	0.14%	25,631	10	0.16%
Total interest-earning assets	1,966,973	23,321	4.74%	2,194,892	28,240	5.15%
Noninterest-earning assets	130,852			139,605		
Total assets	$ 2,097,825			$ 2,334,497		
Interest-bearing liabilities:						
NOW and money market accounts	$ 445,043	$ 493	0.44%	$ 417,983	$ 790	0.76%
Savings accounts	247,497	104	0.17%	213,269	207	0.39%
Certificates of deposit	853,516	5,375	2.52%	929,513	6,531	2.81%
Federal Home Loan Bank advances	97,675	793	3.25%	299,384	984	1.31%
Repurchase agreements and other	92,390	931	4.03%	98,322	942	3.83%
Total interest-bearing liabilities	1,736,121	7,696	1.77%	1,958,471	9,454	1.93%
Noninterest-bearing liabilities	174,928			160,578		
Total liabilities	1,911,049			2,119,049		
Equity	186,776			215,448		
Total liabilities and equity	$ 2,097,825			$ 2,334,497		

Net interest income and interest rate spread	$ 15,625	2.97%	$ 18,786	3.22%
Net interest margin		3.18%		3.42%
Average interest-earning assets to average interest-bearing liabilities		113.30%		112.07%

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

Table of Contents

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 nine month periods ended September 30, 2011 and 2010. Average balance calculations were based on daily balances.

	Nine Months Ended September 30,					
	2011			2010		
	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)	$ 1,573,394	$ 63,489	5.38%	$ 1,804,936	$ 75,350	5.57%
Net loans held for sale	6,964	270	5.17%	6,632	248	4.99%
Investment securities:						
Available for sale	361,911	9,264	3.41%	315,365	8,716	3.69%
Federal Home Loan Bank stock	26,464	858	4.32%	26,464	891	4.49%
Other interest-earning assets	30,200	35	0.15%	24,504	25	0.14%
Total interest-earning assets	1,998,933	73,916	4.93%	2,177,901	85,230	5.22%
Noninterest-earning assets	130,012			134,836		
Total assets	$ 2,128,945			$ 2,312,737		
Interest-bearing liabilities:						
NOW and money market accounts	$ 435,599	$ 1,749	0.54%	$ 409,788	$ 2,477	0.81%
Savings accounts	238,635	418	0.23%	210,975	617	0.39%
Certificates of deposit	881,906	16,217	2.45%	970,766	22,160	3.04%
Federal Home Loan Bank advances	118,343	2,414	2.72%	242,214	2,707	1.49%
Repurchase agreements and other	96,615	2,781	3.84%	97,431	2,796	3.83%
Total interest-bearing liabilities	1,771,098	23,579	1.78%	1,931,174	30,757	2.12%
Noninterest-bearing liabilities	174,776			162,062		
Total liabilities	1,945,874			2,093,236		
Equity	183,071			219,501		
Total liabilities and equity	$ 2,128,945			$ 2,312,737		

Net interest income and interest rate spread	$ 50,337	3.15%	$ 54,473	3.10%
Net interest margin		3.36%		3.33%
Average interest-earning assets to average interest-bearing liabilities		112.86%		112.78%

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

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 United Community s earnings and net asset values to changes in interest rates. As part of its efforts to monitor and manage the interest rate risk, the Board of Directors of Home Savings has adopted an interest rate risk policy that requires the Home Savings Board to review quarterly reports related to interest rate risk and annually set exposure limits for Home Savings as a guide to management in setting and implementing day to day operating strategies.

Quantitative Aspects of Market Risk. As part of its interest rate risk analysis, Home Savings uses the net portfolio value (NPV) and net interest income methodology. Generally, NPV is the discounted present value of the difference between incoming cash flows on interest earning and other assets and outgoing cash flows on interest bearing and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the NPV and net interest income that would result from various levels of theoretical basis point changes in market interest rates. Home Savings uses an NPV and earnings simulation model prepared internally as its primary method to identify and manage its interest rate risk profile. The model is based on actual cash flows and repricing characteristics for all financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on future volumes and the prepayment rate of applicable financial instruments. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates also are incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure NPV or net interest income or precisely predict the impact of fluctuations in interest rates on net interest rate changes as well as changes in market conditions and management strategies.

Presented below are analyses of Home Savings interest rate risk as measured by changes in NPV and net interest income for instantaneous and sustained parallel shifts of 100 basis point increments in market interest rates. As noted, for the quarter ended September 30, 2011, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings as the minimum NPV ratio and the maximum change in interest income the Home Savings Board deems advisable in the event of various changes in interest rates. See the table below for Board adopted policy limits.

Quarter Ended September 30, 2011

	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	Change in %	Internal policy limitations on NPV Change	$ Change	Internal policy limitations	% Change
300	10.15%	6.00%	0.84%	25.00%	$ 3,279	-15.00%	5.40%
200	10.69	7.00	1.38	25.00	3,129	-10.00	5.15
100	10.60	7.00	1.29	25.00	2,349	-5.00	3.87
Static	9.31	8.00					

Year Ended December 31, 2010

Change in rates (Basis points)	NPV as % of portfolio value of assets				Next 12 months net interest income (Dollars in thousands)		
	NPV Ratio	Internal policy limitations	Change in %	Internal policy limitations on NPV Change	$ Change	Internal policy limitations	% Change
300	7.37%	6.00%	-2.04%	25.00%	$ (121)	-15.00%	-0.17%
200	8.33	7.00	-1.08	25.00	123	-10.00	0.17
100	9.08	7.00	-0.33	25.00	215	-5.00	0.30
Static	9.41	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 September 30, 2011. 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 September 30, 2011. During the quarter ended September 30, 2011, 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.

Table of Contents

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, 2010. 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 September 30, 2011.

ITEM 6 Exhibits

Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation
3.2	Amended Code of Regulations
10.1	Purchase and Assumption Agreement
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
101	Interactive Data File

Table of Contents

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: November 14, 2011 *∕S∕ Patrick W. Bevack*

Patrick W. Bevack
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2011 *∕S∕ James R. Reske*

James R. Reske, CFA
Treasurer and Chief Financial Officer
(Principal Financial Officer)

Table of Contents

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.