UNITED COMMUNITY FINANCIAL CORP
Form 10-K
March 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from______________to___________________

Commission File Number: 0-024399

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

Ohio	34-1856319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

275 Federal Plaza West, Youngstown, Ohio	44503
(Address of principal executive offices)	(Zip Code)

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

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

None	None
(Title of Class)	(Name of each exchange on which registered)

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

Common shares, no par value per share
(Title of Class)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the last reported sale on June 30, 2005 was $333.0 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of March 13, 2006, there were 31,092,963 of the Registrant's Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K - Portions of 2005 Annual Report to Shareholders
Part III of Form 10-K - Portions of Proxy Statement for the 2006 Annual Meeting of Shareholders

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ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

United Community Financial Corp. (United Community) was incorporated in the State of Ohio in February 1998 for the purpose of owning all of the outstanding capital stock of The Home Savings and Loan Company of Youngstown, Ohio (Home Savings) issued upon the conversion of Home Savings from a mutual savings association to a permanent capital stock savings association (Conversion). The Conversion was completed on July 8, 1998. On August 12, 1999, Butler Wick Corp. (Butler Wick) became a wholly-owned subsidiary of United Community.

United Community's Internet site, http://www.ucfconline.com, contains a hyperlink to the Securities and Exchange Commission (SEC) where United Community's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 Insider Reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after United Community has filed the report with the SEC.

As a savings and loan holding company, United Community is subject to regulation, supervision and examination by the Office of Thrift Supervision (OTS), the Division of Financial Institutions of the Ohio Department of Commerce (Division) and the SEC. United Community's primary activity is holding the common shares of Home Savings and Butler Wick. Consequently, the following discussion focuses primarily on the business of Home Savings and Butler Wick.

Home Savings was organized as a mutual savings association under Ohio law in 1889. During 2003, Home Savings changed its charter from a state-chartered savings and loan association to a state-chartered savings bank. Home Savings is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC) and the Division. Home Savings is a member of the Federal Home Loan Bank of Cincinnati (FHLB) and the deposits of Home Savings are insured up to applicable limits by the FDIC in the Savings Association Insurance Fund (SAIF).

Home Savings conducts business from its main office located in Youngstown, Ohio, 37 full-service branches and six loan production offices located throughout northern Ohio and western Pennsylvania. The principal business of Home Savings is the origination of mortgage loans, including construction loans on residential and nonresidential real estate located in Home Savings' primary market area, which consists of Ashland, Columbiana, Cuyahoga, Erie, Geauga, Hancock, Huron, Lake, Mahoning, Montgomery, Richland, Sandusky, Seneca, Summit and Trumbull Counties in Ohio and Beaver County in Pennsylvania. In addition to real estate lending, Home Savings originates commercial loans and various types of consumer loans. For liquidity and interest rate risk management purposes, Home Savings invests in various financial instruments as discussed below under "Investment Activities." Funds for lending and other investment activities are obtained primarily from savings deposits, which are insured up to applicable limits by the FDIC, principal repayments of loans, borrowings from the FHLB and maturities of securities.

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

Butler Wick is the parent company for two wholly-owned subsidiaries: Butler Wick & Co., Inc. and Butler Wick Trust Company. Butler Wick conducts business from its main office located in Youngstown, Ohio and 20 offices located in northeastern Ohio, western Pennsylvania and Illinois. The principal business of Butler Wick is to sell common and preferred stocks, an array of government, corporate and municipal bonds, unit trusts, mutual funds, IRAs, money market accounts and certificates of deposit. Butler Wick also offers investments in a full line of life insurance and annuity products, personal and corporate financial planning, fiduciary services, estate planning, pension and profit sharing and precious metals.

Butler Wick's primary source of income is commissions earned on trades initiated by customers and its primary expense is salaries and employee benefits. Commissions earned by Butler Wick, which are a component of non-interest income, may be affected by general economic conditions in its market area as well as policy changes by various regulatory agencies.

DISCUSSION OF FORWARD-LOOKING STATEMENTS

When used in this Form 10-K the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including 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, demand for investments in Butler Wick's 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 does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

LENDING ACTIVITIES

GENERAL. Home Savings' principal lending activity is the origination of conventional real estate loans secured by real estate located in Home Savings' primary market area, including single family residences. Home Savings also originates loans secured by multifamily residences and nonresidential real estate, including construction projects. In addition to real estate lending, Home Savings originates commercial loans and various types of consumer loans, including home equity loans, education loans, loans secured by savings accounts, motor vehicles, boats and recreational vehicles and unsecured loans.

LOAN PORTFOLIO COMPOSITION. The following table presents certain information regarding the composition of United Community's loan portfolio at the dates indicated:

				At December 31,			
	2005		2004		2003		
	Amount	Percent of total loans	Amount	Percent of total loans	Amount	Percent of total loans	Amo
				(Dollars in thousands)			
Real estate loans:							
Permanent loans:							
One- to four-family residential	$ 749,362	35.44%	$ 690,413	37.68%	$ 599,370	37.62%	$ 88
Multifamily residential	154,702	7.32	153,011	8.35	148,362	9.31	7
Non-residential	314,124	14.86	289,755	15.81	291,588	18.30	22
Land	14,979	0.71	14,701	0.80	14,147	0.89	
Total permanent	1,233,167	58.33	1,147,880	62.64	1,053,467	66.12	1,19
Construction loans:							
One- to four-family residential	389,558	18.43	301,193	16.44	244,837	15.37	7
Multifamily and non-residential	66,788	3.16	47,230	2.58	27,586	1.73	2
Total construction	456,346	21.59	348,423	19.01	272,423	17.10	10
Total real estate loans	1,689,513	79.92	1,496,303	81.65	1,325,890	83.22	1,29
Consumer loans:							
Home equity	196,986	9.32	133,441	7.28	134,053	8.41	10
Auto	42,975	2.03	58,148	3.17	48,219	3.03	3

Marine	23,434	1.11	31,622	1.73	22,987	1.44	
RV	48,108	2.27	27,330	1.49	15	0.00	
Other (1)	12,012	.57	17,105	.94	13,488	.85	1
Total consumer	323,515	15.30	267,646	14.61	218,762	13.73	15
Commercial loans	100,977	4.78	68,523	3.74	48,570	3.05	4
Total loans	2,114,005	100.00%	1,832,472	100.00%	1,593,222	100.00%	1,49
Less net items	16,572		16,496		16,728		1
Total loans, net	$2,097,433		$1,815,976		$1,576,494		$1,47

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

LOAN MATURITY. The following table sets forth certain information as of December 31, 2005, regarding the dollar amount of construction loans and commercial loans maturing in Home Savings' portfolio based on their contractual terms to maturity. Demand loans and other loans having no stated schedule of repayments or no stated maturity are reported as due in one year or less. Mortgage loans originated by Home Savings generally include due-on-sale clauses that provide Home Savings with the contractual right to deem the loan immediately due and payable in the event the borrower transfers the ownership of the property without Home Savings' consent. The table does not include the effects of possible prepayments or scheduled repayments.

	Principal repayments contractually due in the years en December 31,			
	2006	2007-2010	2011 and thereafter	Tota
	(Dollars in thousands)			
Construction loans:				
One- to four-family residential	$ 304,165	$ 837	$ 84,556	$ 389,
Multifamily and non-residential	12,988	13,823	39,977	66,
	317,153	14,660	124,533	456,
Commercial loans	53,237	41,836	5,904	100,
Total	$ 370,390	$ 56,496	$130,437	$ 557,

The next table sets forth the dollar amount of all loans reported above as due after December 31, 2006, which have fixed or adjustable interest rates:

	Due after December 31, 2006 (Dollars in thousands)
Fixed rate	$ 29,024
Adjustable rate	157,909
	$ 186,933

LOANS SECURED BY ONE- TO FOUR-FAMILY REAL ESTATE. Home Savings originates conventional loans secured by first mortgages on one- to four-family residences located within Home Savings' primary market area. At December 31, 2005, Home Savings' one- to four-family residential real estate loans totaled approximately $749.4 million, or 35.4% of total loans. At December 31, 2005, $6.9 million, or 0.9%, of Home Savings' one- to four-family loans, were nonperforming.

Home Savings currently offers fixed-rate mortgage loans and adjustable-rate mortgage loans (ARMs) for terms of up to 40 years. Although Home Savings' loan portfolio includes a significant amount of 30-year fixed-rate loans, since 200_ most fixed rate loans are originated for sale. The interest rate adjustment periods on ARMs are typically one, three or five years. The maximum interest rate adjustment on most of the ARMs is 2.0% on any adjustment date and a total of 6.0% over the life of the loan. The interest rate adjustments on three-year and five-year ARMs presently offered by Home Savings are indexed to the weekly average rate on the one-year U.S. Treasury securities. Rate adjustments are computed by adding a stated margin to the index.

FDIC regulations and Ohio law limit the amount that Home Savings may lend in relationship to the appraised value of the real estate and improvements that secure the loan at the time of loan origination. In accordance with such regulations, Home Savings makes loans on one- to four-family residences of up to 97% of the value of the real estate and improvements (LTV). Home Savings typically requires private mortgage insurance on the portion of the principal amount of the loan that exceeds 85% of the appraised value of the property securing the loan.

Under certain circumstances, Home Savings will offer 85% LTV loans without private mortgage insurance. Such loans involve a higher degree of risk because in the event of a borrower default, the value of the underlying collateral may not satisfy the principal and interest outstanding on the loan. To reduce this risk, Home Savings underwrites all such loans to Freddie Mac and Fannie Mae underwriting guidelines. At December 31, 2005, these loans totaled $113.2 million, $705,000 of which was nonperforming.

From time-to-time, Home Savings originates interest-only loans, but these loans are sold immediately after origination. Currently, no interest-only loans are contained in Home Savings portfolio.

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

LOANS SECURED BY MULTIFAMILY RESIDENCES. Home Savings originates loans secured by multifamily properties that contain more than four units. Multifamily loans are offered with adjustable rates of interest, which adjust according to a specified index, and typically have terms ranging from five to ten years and LTVs of up to 80%.

Multifamily lending generally is considered to involve a higher degree of risk than one- to four-family residential lending because the borrower typically depends upon income generated by the project to cover operating expenses and debt service. The profitability of a project can be affected by economic conditions, government policies and other factors beyond the control of the borrower. Home Savings attempts to reduce the risk associated with multifamily lending by evaluating the creditworthiness of the borrower and the projected income from the project and by obtaining personal guaranties on loans made to corporations and partnerships. Home Savings requires borrowers to submit financial statements annually to enable management to monitor the loan and requires an assignment of rents from borrowers.

At December 31, 2005, loans secured by multifamily properties totaled approximately $154.7 million, or 7.3% of total loans. The largest loan had a principal balance of $12.1 million and was performing according to its terms. There were approximately $725,000 in multifamily loans that were considered nonperforming at December 31, 2005.

LOANS SECURED BY NONRESIDENTIAL REAL ESTATE. Home Savings originates loans secured by nonresidential real estate including shopping centers, office buildings, hotels and motels. Home Savings' nonresidential real estate loans have adjustable rates, terms of up to 25 years and, generally, LTVs of up to 75%. The majority of such properties are located within Home Savings' primary lending area.

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

At December 31, 2005, Home Savings' largest loan secured by nonresidential real estate had a balance of $11.2 million and was performing according to its terms. At December 31, 2005, approximately $314.1 million, or 14.9%, of Home Savings' total loans were secured by mortgages on nonresidential real estate, of which $5.6 million were considered nonperforming at December 31, 2005.

LOANS SECURED BY VACANT LAND. Home Savings also originates a limited number of loans secured by vacant land for the construction of single-family houses. Home Savings' land loans generally are fixed-rate loans for terms up to five years and require a LTV of 75% or less. At December 31, 2005, approximately $15.0 million, or 0.71%, of Home Savings' total loans were land loans, a majority of which were loans to individuals intending to construct and occupy single-family residences on the properties. Nonperforming land loans totaled $3.7 million at December 31, 2005.

CONSTRUCTION LOANS. Home Savings originates loans for the construction of one- to four-family residences, multifamily properties and nonresidential real estate projects. Residential construction loans are made to both owner-occupants and to builders on a speculative (unsold) basis. Construction loans to owner-occupants are structured as permanent loans with fixed or adjustable rates of interest and terms of up to 30 years. During the first year, while the residence is being constructed, the borrower is required to pay interest only. Construction loans for one- to four-family residences have LTVs of up to 95%, and construction loans for multifamily and nonresidential properties have LTVs of up to 80%, with the value of the land included as part of the owner's equity.

At December 31, 2005, Home Savings had approximately $456.3 million, or 21.6% of its total loans, invested in construction loans, including $389.6 million in one- to four-family residential construction and approximately $66.8 million in multifamily and nonresidential construction loans. Approximately 87.5% of Home Savings' construction loans are made to

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builders for homes for which the builder does not have a contract with a buyer. Home Savings, however, limits the number of outstanding loans to each builder on unsold homes under construction.

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

Nonperforming construction loans at December 31, 2005, totaled $1.2 million.

CONSUMER LOANS. Home Savings originates various types of consumer loans, including home equity loans, vehicle loans, education loans, recreational vehicle loans, marine loans, overdraft protection loans, loans to individuals secured by demand accounts, deposits and other consumer assets and unsecured loans. Consumer loans are made at fixed and adjustable rates of interest and for varying terms based on the type of loan. At December 31, 2005, Home Savings had approximately $323.5 million, or 15.3% of its total loans, invested in consumer loans.

Home Savings generally makes closed-end home equity loans in an amount which, when added to the prior indebtedness secured by the real estate, does not exceed 95% of the estimated value of the real estate. Home equity loans typically are secured by a second mortgage on the real estate. Home Savings frequently holds the first mortgage, although Home Savings will make home equity loans in cases where another lender holds the first mortgage. Home Savings also offers home equity loans with a line of credit feature. Home equity loans are made with adjustable and fixed rates of interest. Fixed-rate home equity loans have terms of ten years but can be called after five years. Rate adjustments on adjustable home equity loans are determined by adding a 1.25% margin to the current prime interest rate for loans on residences of up to 80% LTV or by adding a 1.50% margin to the current prime interest rate for loans on residences of up to 90% LTV to the one-year U.S. Treasury index. At December 31, 2005, approximately $197.0 million, or 60.9%, of Home Savings' consumer loan portfolio consisted of home equity loans. Consumer loans secured by a deposit or savings account are made for up to 100% of the principal balance of the account and generally have adjustable rates, which adjust based on the weekly average yield on U.S. Treasury securities plus a margin.

For new automobiles, loans are originated for up to 110% of the MSRP value of the car with terms of up to 72 months, and, for used automobiles, loans are made for up to the National Automobile Dealers Association (N.A.D.A) retail value of the car model and a term of up to 66 months. Most automobile loans are originated indirectly by approved auto dealerships. At December 31, 2005, automobile loans totaled $43.0 million, or 13.3%, of Home Savings' consumer loan portfolio.

Loans for recreational vehicles may be either originated or purchased by

Home Savings. Recreational vehicle loans are originated for up to 85% of the selling price on new vehicles and 90% of the N.A.D.A retail value of used units with terms of up to 20 years. Loans are generally fixed for the first seven years and change to an adjustable rate loan for the remaining term. During 2005, Home Savings purchased a pool of recreational vehicle loans totaling $19.9 million. At December 31, 2005, recreational vehicle loans totaled $48.1 million, or 14.9%, of Home Savings' consumer loan portfolio.

Nonperforming consumer loans at December 31, 2005, amounted to $2.7 million.

COMMERCIAL LOANS. Home Savings makes commercial loans to businesses in its primary market area, including traditional lines of credit, revolving lines of credit, term loans and acquisition and development loans. The LTV ratios for commercial loans depend upon the nature of the underlying collateral, but generally commercial loans are made with LTVs of 50% to 90% and have adjustable interest rates. Lines of credit and revolving credits generally are priced on a floating rate basis, which is tied to the prime interest rate or U.S. Treasury bill rate. Term loans usually have adjustable rates, but can have fixed rates of interest, and have terms of one to five years.

At December 31, 2005, Home Savings had approximately $101.0 million, or 4.8% of total loans, invested in commercial loans. The majority of these loans are secured by inventory, accounts receivable, machinery, investment property, vehicles or other assets of the borrower. Home Savings also originates unsecured commercial loans including lines of credit for periods of less than 12 months, short-term loans and, occasionally, term loans for periods of up to 36 months. These loans are underwritten based on the creditworthiness of the borrower and the guarantors, if any. Home Savings had $33.5 million in unsecured commercial loans as of December 31, 2005.

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

Nonperforming commercial loans at December 31, 2005, amounted to $3.6 million.

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

Each of Home Savings' 37 offices and six loan production offices have loan personnel who can accept loan applications, which are then forwarded to Home Savings' Underwriting Department for processing and approval. In underwriting real estate loans, Home Savings typically obtains a credit report, verification of employment and other documentation concerning the creditworthiness of the borrower. An appraisal of the fair market value of the real estate that will be given as security for the loan is prepared by one of Home Savings' in-house licensed appraisers or an approved independent fee appraiser. For certain large nonresidential real estate loans, the appraisal is conducted by an outside fee appraiser whose report is reviewed by Home Savings' chief appraiser. Upon the completion of the appraisal and the receipt of information on the credit history of the borrower, the loan application is submitted for review to the appropriate persons. Commercial, residential and nonresidential real estate loans up to $1.0 million may be approved by an authorized executive officer. Loan requests of $1.0 million to $15.0 million require the approval of the Loan Committee. All loans of $15.0 million or more require approval by three executive officers and a majority of the Board.

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

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

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

LOAN ORIGINATIONS, PURCHASES AND SALES. Home Savings' residential loans generally are made on terms and conditions and documented to conform to the secondary market guidelines for sale to the Federal Home Loan Mortgage Company (FHLMC) and other institutional investors in the secondary market. Education loans are sold, once the borrower leaves school, to the Student Loan Marketing Association. Home Savings does not originate first mortgage loans insured by the Federal Housing Authority or guaranteed by the Veterans Administration, but it has purchased such loans as well as participation interests in such loans.

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

At December 31, 2005, Home Savings had $96.6 million of outstanding commitments to make loans and $142.5 million available to borrowers under consumer and commercial lines of credit. At December 31, 2005, Home Savings had $264.1 million in undisbursed funds related to construction loans in process.

During 2003, Home Savings entered into an agreement to purchase one- to four-family construction loans from another institution. Loans purchased under this agreement earn a floating rate of interest, are guaranteed as to principal and interest by a third party and are for the purpose of constructing either pre-sold or market homes. At December 31, 2005, approximately $101.7 million was outstanding under this program. Home Savings anticipates continuing purchases of loans under this program in 2006.

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

Based on such limits, Home Savings could lend approximately $32.8 million to one borrower at December 31, 2005. The largest amount Home Savings had outstanding to one borrower at December 31, 2005, was $20.1 million, which consisted of nine loans secured primarily by mortgages on non-residential property. At December 31, 2005, these loans were performing in accordance with their terms.

DELINQUENT LOANS, NONPERFORMING ASSETS AND CLASSIFIED ASSETS. Home Savings attempts to maintain a high level of asset quality through sound underwriting policies and aggressive collection practices.

The following table reflects the amount of all loans in a delinquent status as of the dates indicated:

	At December 31,			
	2005			
	Number	Amount	Percent of net loans	Number
			(Dollars in thousands)	
Loans delinquent for:				
30-59 days	295	$ 19,098	0.90%	258
60-89 days	81	14,193	0.67	73
90 days or over	220	24,391	1.15	221
Total delinquent loans	596	$ 57,682	2.72%	552

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

Loans are reviewed through monthly reports to the Board and management and are placed on nonaccrual status when collection in full is considered doubtful by management. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income. Subsequent cash payments generally are applied to interest income unless, in the opinion of management, the collection of principal and interest is doubtful. In those cases, subsequent cash payments are applied to principal.

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

	At December 31		
	2005	2004	2003

(Dollars in thousand

Nonperforming loans:			
Nonaccrual loans			
Real estate loans:			
One- to four-family residential	$ 6,795	$ 6,511	$ 7,121
Multifamily and nonresidential	6,368	2,880	1,315
Construction (net of loans in process) and land	4,732	1,350	1,724
Total real estate loans	17,895	10,741	10,160
Consumer	2,495	5,152	888
Commercial	3,889	4,960	1,933
Total nonaccrual loans	24,279	20,853	12,981
Restructured loans	825	1,329	1,853
Past due 90 days and still accruing	563	377	1,300
Total nonperforming loans	25,667	22,559	16,134
Real estate acquired through foreclosure and other repossessed assets	2,514	1,682	1,299
Total nonperforming assets	$ 28,181	$ 24,241	$ 17,433
Nonperforming loans as a percent of loans, net	1.22%	1.24%	1.02%
Nonperforming assets as a percent of total assets	1.11	1.06	0.84
Allowance for loan losses as a percent of nonperforming loans	61.26	70.38	93.66
Allowance for loan losses as a percent of loans, net	0.74	0.87	0.96

For 2005, approximately $2.6 million in additional interest income would have been recorded had nonaccrual and restructured loans been accruing pursuant to contractual terms. During 2005, interest collected on such loans and included in net income was approximately $561,000.

Nonperforming assets increased approximately $3.9 million, or 16.3%, to $28.2 million at December 31, 2005, from $24.2 million at December 31, 2004. At December 31, 2005, total nonperforming loans accounted for 1.22% of net loans receivable, compared to 1.24% at December 31, 2004. Total nonperforming assets were 1.11% of total assets as of December 31, 2005 from 1.06% as of December 31, 2004.

Real estate acquired in settlement of loans is classified separately on the balance sheet at the lower of cost or net realizable value as of the date of acquisition. At foreclosure, the loan is written down to the value of the underlying collateral by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income or loss on disposition, are included in other expenses. At December 31, 2005, the carrying value of real estate and other repossessed assets acquired in settlement of loans was $2.5 million and consisted of $1.7 million in single-family properties and $807,000 in boats and automobiles.

In addition to the nonperforming loans identified above, other loans may be identified as having potential credit problems that result in those loans being classified by our internal loan review function. These potential problem loans, which have not exhibited the more severe weaknesses generally present in nonperforming loans, amounted to $15.5 million, net of applicable reserves, at December 31, 2005.

ALLOWANCE FOR LOAN LOSSES. Management establishes the allowance for loan losses at a level it believes adequate to absorb probable losses incurred in the loan portfolio. Management bases its determination of the adequacy of the allowance upon estimates derived from an analysis of individual credits, prior and current loss experience, loan portfolio delinquency levels, overall growth in the loan portfolio and current economic conditions. Furthermore, in determining the level of the

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allowance for loan loss, management reviews and evaluates on a monthly basis the necessity of a reserve for individual loans classified by management. The specifically allocated reserve for a classified loan is determined based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to Home Savings. Once a review is completed, the need for a specific reserve is determined by the Home Savings Asset Review Committee and allocated to the loan. Other loans not reviewed specifically by management are evaluated as a homogeneous group of loans (single-family residential mortgage loans and all consumer credit except marine loans) using the historical charge-off experience ratio calculated by type of loan. The historical charge-off experience ratio factors into account the homogeneous nature of the loans, the geographical lending areas involved, regulatory examination findings, specific grading systems applied and any other known factors that may impact the ratios used. Specific reserves on individual loans and historical ratios are reviewed periodically and adjusted as necessary based on subsequent collections, loan upgrades or downgrades, nonperforming trends or actual principal charge-offs. When evaluating the adequacy of the allowance for loan losses, consideration is given to geographic concentration and the effect changing economic conditions have on Home Savings. These estimates are particularly susceptible to changes that could result in a material adjustment to results of operations. The provision for loan losses represents a charge against current earnings in order to maintain the allowance for loan losses at an appropriate level.

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

	Year ended December 31,			
	2005	2004	2003	2002
	(Dollars in thousands)			
Balance at beginning of period	$ 15,877	$ 15,111	$ 15,099	$ 11,4
Provision for loan losses	3,028	9,370	3,179	3,5
Charge-offs:				
Real estate	(996)	(1,016)	(2,111)	(3
Consumer	(2,848)	(6,177)	(650)	(4
Commercial	(241)	(1,867)	(579)	(1,2
Total charge-offs	(4,085)	(9,060)	(3,340)	(1,9
Recoveries:				
Real estate	53	325	94	
Consumer	848	72	41	
Commercial	2	59	38	

Total recoveries	903	456	173	1
Net charge-offs	(3,182)	(8,604)	(3,167)	(1,8
Acquisition of Industrial Savings	-	-	-	
Acquisition of Potters Bank	-	-	-	1,8
Balance at end of year	$ 15,723	$ 15,877	$ 15,111	$ 15,0
Ratio of net charge-offs to average net loans	(0.16)%	(0.50)%	(0.21)%	(0.

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

	At December 31,							
	2005		2004		2003		2	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	l to
	(Dollars in thousands)							
Real estate loans	$ 9,683	79.92%	$10,559	81.65%	$10,796	83.22%	$11,017	
Consumer loans	3,378	15.30	3,615	14.61	2,670	13.73	1,947	
Commercial loans	2,662	4.78	1,703	3.74	1,645	3.05	2,135	
Total	$15,723	100.00%	$15,877	100.00%	$15,111	100.00%	$15,099	

INVESTMENT ACTIVITIES

GENERAL. Investment securities are classified upon acquisition as available for sale, held to maturity or trading. Securities classified as available for sale are carried at estimated fair value with the unrealized holding gain or loss, net of taxes, reflected as a component of retained earnings. Securities classified as held to maturity are carried at amortized cost. Securities classified as trading are carried at estimated fair value with the unrealized holding gain or loss reflected as a component of income. United Community, Home Savings and Butler Wick recognize premiums and discounts in interest income over the period to maturity or call by the level yield method and realized gains or losses on the sale of debt securities based on the amortized cost of the specific securities sold.

HOME SAVINGS INVESTMENT ACTIVITIES. Federal regulations and Ohio law permit Home Savings to invest in various types of marketable securities, including interest-bearing deposits in other financial institutions, federal funds, U.S. Treasury and agency obligations, mortgage-related securities, and certain other specified investments. The Board has adopted an investment policy that authorizes management to make investments in U.S. Treasury obligations, U.S. Federal agency and federally-sponsored corporation obligations, mortgage-related securities issued or sponsored by Federal National Mortgage Association (FNMA), FHLMC, Government National Mortgage Association (GNMA), as well as private issuers, investment-grade municipal obligations, creditworthy, unrated securities issued by municipalities in which an office of Home Savings is located, investment-grade corporate debt securities, investment-grade asset-backed securities, certificates of deposit that are fully-insured by the FDIC, bankers' acceptances, federal funds and money market funds. Home Savings' investment policy is designed primarily to provide and maintain liquidity within regulatory guidelines, to maintain a balance of high quality investments to minimize risk, and to maximize return without sacrificing liquidity and safety.

Home Savings maintains a significant portfolio of mortgage-backed securities and collateralized mortgage obligations (CMOs) that are rated the highest credit quality by a nationally recognized rating agency. Both types of securities are issued by FNMA, GNMA and FHLMC. Mortgage-backed securities generally entitle Home Savings to receive a portion of the cash flows from an identified pool of mortgages. CMOs are a type of debt security issued by a special-purpose entity that aggregates pools of mortgages and mortgage-backed securities and creates different classes of securities with varying maturities and amortization schedules, as well as a residual interest, with each class possessing different risk characteristics. The cash flows from the underlying collateral generally are divided into tranches or classes that have descending priorities with respect to the distribution of principal and interest repayment of the underlying mortgages, as opposed to pass through mortgage-backed securities where cash flows are distributed pro rata to all security holders. In contrast to mortgage-backed securities from which cash flow is received (and hence, prepayment risk is shared) pro rata by all securities holders, the cash flow from the mortgages or mortgage-related securities underlying CMOs is paid in accordance with predetermined priority to investors holding various tranches of such securities or obligations. A particular tranche of CMOs may, therefore, carry prepayment risk that differs from that of both the underlying collateral and other tranches. Accordingly, CMOs attempt to moderate risks associated with conventional mortgage-backed securities resulting from unexpected prepayment activity.

Home Savings is exposed to prepayment risk and reinvestment risk to the extent that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Mortgage-related securities enable Home Savings to generate positive interest rate spreads with minimal administrative expense and

reduce credit risk due to either guarantees provided by the issuer or the high credit rating of the issuer. Mortgage-related securities classified as available for sale also provide Home Savings with an additional source of liquid funds.

BUTLER WICK INVESTMENT ACTIVITIES. Butler Wick holds securities through two subsidiaries, Butler Wick & Co., Inc. and Butler Wick Trust Company. Butler Wick & Co., Inc. invests in municipal securities and government agency securities for sale to clients. Butler Wick & Co., Inc.'s securities are carried at fair value with gains and losses recognized currently. Butler Wick & Co., Inc. does not make markets in equity securities.

In order to qualify as a fiduciary in the State of Ohio, Butler Wick Trust Company deposited United States Government obligations having a principal value of $100,000 with the Federal Reserve Bank for the state. In addition to these deposits, Butler Wick Trust Company owns U.S. Government obligations.

UNITED COMMUNITY INVESTMENT ACTIVITIES. Funds maintained by United Community for general corporate purposes, including possible acquisitions, primarily are invested in an account with Home Savings. United Community also owns a small portfolio of bank equities.

The following table presents the amortized cost, fair value and weighted average yield of securities at December 31, 2005 by maturity:

	At December 31, 20				
	No stated maturity		One year or less		Afte throug
	Amortized cost	Average yield	Amortized cost	Average yield	Amorti cost
	(Dollars in thousan				
Securities:					
U.S Government agencies and corporations	$ -	-%	$ 24,147	2.71%	$ 56,
States and political subdivisions	-	-	3	12.74	
Mortgage-related securities	-	-	18	7.60	1,
Other securities (a)	2,301	1.24	-	-	
Total securities	$ 2,301	1.24%	$ 24.168	2.71%	$ 57,

	After ten years	
	Amortized cost	Avera yiel
		(Do
Securities:		
U.S. Government agencies and corporations	$ -	
States and political subdivisions	-	
Mortgage-related securities	109,028	4.5
Other securities (a)	-	
Total securities	$ 109,028	4.5

(a) Yield on equity securities only; mutual funds excluded

SOURCES OF FUNDS

GENERAL. Deposits traditionally have been the primary source of Home Savings' funds for use in lending and other investment activities. In addition to deposits, Home Savings derives funds from interest payments and principal repayments on loans and income on other earning assets. Loan payments are a relatively stable source of funds, while deposit inflows and outflows fluctuate in response to general interest rates and money market conditions. Home Savings also may borrow from the FHLB, as well as other suitable lenders, as a source of funds.

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

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

	At December 31, 2005			For the Year End	
	Amount	Percent of total deposits	Weighted average rate	Average balance	P of d
			(Dollars in thousands)		
Noninterest bearing demand	$ 96,918	5.76%	-%	$ 89,483	
Checking and money market accounts	258,998	15.40	1.76	269,652	
Savings accounts	259,811	15.45	0.41	287,714	
Certificates of deposit	1,066,117	63.39	3.88	938,957	
Total deposits	$1,681,844	100.00%	2.79%	$1,585,806	

	For the Year Ended December 31, 2004			For the Year End	
	Average balance	Percent of average deposits	Weighted average rate	Average balance	P of d
			(Dollars in thousands)		
Noninterest bearing demand	$ 75,157	5.13%	-%	61,273	
Checking and money market accounts	302,936	20.67	0.79	308,816	
Savings accounts	314,588	21.46	0.43	335,843	
Certificates of deposit	773,019	52.74	3.18	763,704	

Total deposits	$ 1,465,700	100.00%	1.93%	1,469,636

The following table shows rate and maturity information for Home Savings' certificates of deposit at December 31, 2005:

Rate	Up to one year	Over 1 year to 2 years	Over 2 years to 3 years	There
		(Dollars in thousands)		
2.00% or less	$ 41,255	$ 3,486	$ 1,351	$
2.01% to 4.00%	285,693	92,718	58,424	1
4.01% to 6.00%	213,013	172,200	37,756	14
Greater than 6.00%	1,653	31	16	
Total certificates of deposit	$541,614	$ 268,435	$ 97,547	$ 15
Percent of total certificates of deposit	50.80%	25.18%	9.15%	

At December 31, 2005, approximately $541.6 million of Home Savings' certificates of deposit mature within one year. Based on past experience and Home Savings' prevailing pricing strategies, management believes that a substantial percentage of such certificates will be renewed with Home Savings at maturity. If, however, Home Savings is unable to renew the maturing certificates for any reason, borrowings of up to $132.5 million are available from the FHLB.

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The following table presents the amount of Home Savings' certificates of deposit of $100,000 or more by the time remaining until maturity at December 31, 2005:

Maturity	Amount
	(Dollars in thousands)
Three months or less	$ 35,900
Over 3 months to 6 months	34,033
Over 6 months to 12 months	40,200
Over 12 months	102,550
Total	$ 212,683

Based on past experience, management believes that a substantial percentage of the above certificates will be renewed with Home Savings at maturity.

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

	Year ended December 31, 2005	2004
	(Dollars in thousands)	
Beginning balance	$ 1,522,952	$ 1,423,698
Net increase (decrease) in deposits	122,020	71,060
Net deposits before interest credited	1,644,972	1,494,758
Interest credited	36,872	28,194
Ending balance	$ 1,681,844	$ 1,522,952
Net increase (decrease)	$ 158,892	$ 99,254
Percent increase (decrease)	10.43%	6.97%

BORROWINGS. The FHLB system functions as a central reserve bank providing credit for its member institutions and certain other financial institutions. As a member in good standing of the FHLB, Home Savings is authorized to apply for advances, provided certain standards of creditworthiness have been met. Under current regulations, an association must meet certain qualifications to be eligible for FHLB advances. The extent to which an association is eligible for such advances will depend upon whether it meets the Qualified Thrift Lender (QTL) test. If an association meets the QTL test, the association will be eligible for 100% of the advances it would otherwise be eligible to receive. If an association does not meet the QTL test, the association will be eligible for such advances only to the extent it holds specified QTL test assets. At December 31, 2005, Home Savings was in compliance with the QTL test. Home Savings may borrow up to $608.6 million from the FHLB, and had $475.5 million in outstanding advances at December 31, 2005. Of the $475.5 million, a total of $35.0 million is callable, $25.0 million matured in February 2006 and $10.0 is callable quarterly and matures in February 2009.

Butler Wick borrows on a secured basis to fund client receivables. Short-term bank loans bear interest at the federal funds rate plus 1% and are payable on demand. The loans are collateralized fully by marketable securities from both customers' margin accounts and securities owned by Butler Wick. Short-term borrowings also take the form of securities loaned to other broker/dealers. Short-term borrowings are available to Butler Wick to the extent of the loan value of the marketable securities.

COMPETITION

Home Savings faces competition for deposits and loans from other savings and loan associations, credit unions, banks and mortgage originators in Home Savings' primary market area. The primary factors in competition for deposits are customer service, convenience of office location and interest rates. Home Savings competes for loan originations primarily through the interest rates and loan fees it charges and through the efficiency and quality of service it provides to borrowers.

Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors, which are not readily predictable.

Butler Wick offers retail brokerage, asset management, and trust services to clients primarily in northeastern Ohio and western Pennsylvania. In each of these businesses, Butler Wick competes with both regional and national firms. As a full service broker, Butler Wick competes based on personal service rather than price. Butler Wick Trust Company is the only such locally owned and managed financial services provider.

EMPLOYEES

At December 31, 2005, Home Savings and Butler Wick had 631 and 193 full-time equivalent employees, respectively. Home Savings and Butler Wick believe that relations with their employees are good. Home Savings offers health, life and disability benefits to all employees, a 401(k) plan and an employee stock ownership plan for its eligible employees. Butler Wick offers health, life and disability benefits to all employees, a 401(k) plan, a profit sharing plan and a retention plan for its eligible employees.

REGULATION

United Community is a unitary savings and loan holding company within the meaning of the Home Owners Loan Act, as amended (HOLA), and is subject to regulation, examination, and oversight by the OTS, although there generally are no restrictions on the activities of United Community unless the OTS determines that there is reasonable cause to believe that an activity constitutes a serious risk to the financial safety, soundness, or stability of Home Savings. Home Savings is subject to regulation, examination, and oversight by the Division and the FDIC, and it also is subject to certain provisions of the Federal Reserve Act. Butler Wick is subject to regulation, examination and oversight by the SEC and NASD and the Division. United Community, Home Savings and Butler Wick are also subject to the provisions of the Ohio Revised Code applicable to corporations generally, including laws that restrict takeover bids, tender offers and control-share acquisitions involving public companies which have significant ties to Ohio.

The OTS, the FDIC, the Division, the SEC and the NASD each have various powers to initiate supervisory measures or formal enforcement actions if United Community or the subsidiary they regulate does not comply with applicable regulations. If the grounds provided by law exist, the FDIC or the Division may place Home Savings in conservatorship or receivership. Home Savings is also subject to regulatory oversight under various consumer protection and fair lending laws which govern, among other things, truth-in-lending disclosures, equal credit opportunity, fair credit reporting and community reinvestment. Failure to abide by federal laws and regulations governing community reinvestment could limit the ability of Home Savings to open a new branch or engage in a merger.

Federal law prohibits Home Savings from making a capital distribution to anyone or paying management fees to any person having control of Home Savings if, after such distribution or payment, Home Savings would be undercapitalized. In addition, each company controlling an undercapitalized institution will comply with its capital restoration plan until the institution has been adequately capitalized on average during each of the four preceding calendar quarters and must provide adequate assurances of performance.

Federal Reserve Board regulations currently require savings associations to maintain reserves of 3% of net transaction accounts (primarily checking accounts) up to $48.3 million (subject to an exemption of up to $7.8 million), and of 10% of net transaction accounts in excess of $48.3 million. At December 31, 2005, Home Savings was in compliance with its reserve requirements.

Loans by Home Savings to executive officers, directors, and principal shareholders and their related interests must conform to the lending limit on loans to one borrower, and the total of such loans to executive officers, directors, principal shareholders, and their related interests cannot exceed specified limits. Most loans to directors, executive officers, and principal shareholders must be approved in advance by a majority of the "disinterested" members of the Board with any "interested" director not participating. All loans to directors, executive officers, and principal shareholders must be made on terms substantially the same as offered in comparable transactions with the general public or as offered to all employees in a company-wide benefit program, and loans to executive officers are subject to additional limitations. All other transactions between Home Savings and its affiliates must comply with Sections 23A and 23B of the Federal Reserve Act. United Community and Butler Wick are affiliates of Home Savings for this purpose.

Under federal law and regulations, no person, directly or indirectly, or acting in concert with others, may acquire control of Home Savings or United Community without 60 days' prior notice to the OTS. "Control" is generally defined as having more than 25% ownership or voting power; however, ownership or voting power of more than 10% may be deemed "control" if certain factors are in place. If the acquisition of control is by a company, the acquirer must obtain approval, rather than give notice, of the acquisition as a savings and loan holding company.

In addition, a statutory limitation on the acquisition of control of an Ohio savings bank requires the written approval of the Division prior to the acquisition by any person or entity of a controlling interest in an Ohio association. Control exists, for purposes of Ohio law, when any person or entity which, either directly or indirectly, or acting in concert with one or more other persons or entities, owns, controls, holds with power to vote, or holds proxies representing, 15% or more of the voting shares or rights of an association, or controls in any manner the election or appointment of a majority of the directors. Ohio law also requires that certain acquisitions of voting securities that would result in the acquiring shareholder owning 20%, 33 1/3% or 50% of the outstanding voting securities of United Community must be approved in advance by the holders of at least a majority of the outstanding voting shares represented at a meeting at which a quorum is present and a majority of the portion of the outstanding voting shares represented at such a meeting, excluding the voting shares by the acquiring shareholder.

Federal law generally prohibits a savings and loan holding company, such as United Community, from controlling any other savings association or savings and loan holding company, without prior approval of the OTS, or from acquiring or retaining more than 5% of the voting shares of a savings association or holding company thereof, which is not a subsidiary. Except with the prior approval of the OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such holding company's stock also may acquire control of any savings institution, other than a subsidiary institution, or any other savings and loan holding company.

ITEM 1A. RISK FACTORS

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

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

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

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

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

Credit risks could adversely affect our results of operations.

There are inherent risks associated with our lending activities, including credit risk, which is the risk that borrowers may not repay outstanding loans or the value of the collateral securing loans will decrease. We attempt to manage credit risk through a program of underwriting standards, the review of certain credit decisions and an on-going process of assessment of the quality of the credit already extended. However, conditions such as inflation, recession, unemployment, changes in

interest rates, money supply and other factors beyond our control may increase our credit risk. Such changes in the economy may have a negative impact on the ability of borrowers to repay their loans. Because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of our collateral. In addition, a substantial portion of our loans are to individuals and businesses in Ohio. Consequently, any decline in the state's economy could have a materially adverse effect on our financial condition and results of operations.

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

In our market area, we encounter significant competition from savings and loan associations, banks, credit unions, mortgage banking firms, securities brokerage firms, asset management firms and insurance companies. Many of our competitors have substantially greater resources and lending limits than we do and may offer services that we do not or cannot provide.

Legislative or regulatory changes or actions could adversely impact the financial services industry.

The financial services industry is extensively regulated. Federal and state banking laws and regulations are primarily intended for the protection of consumers, depositors and the deposit insurance funds, and are not necessarily intended to benefit our shareholders. Changes to laws and regulations or other actions by regulatory agencies may negatively impact us. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. The significant federal and state banking regulations that affect us are described in this 10-K under the heading "Regulation."

Our ability to pay cash dividends is limited.

We are dependent primarily upon the earnings of our operating subsidiaries for funds to pay dividends on our common shares. The payment of dividends by Home Savings is subject to certain regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on our ability to satisfy these regulatory restrictions and Home Savings' earnings, capital requirements, financial condition and other factors. Although our financial earnings and financial condition have allowed us to declare and pay periodic cash dividends to our shareholders, there can be no assurance that dividend payments will continue or increase in the future.

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

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

We face risks with respect to future expansion.

We may acquire other financial institutions in the future and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. Also, we may issue equity securities in connection with future acquisitions, which would dilute current shareholders' ownership interests.

If we acquire other businesses, we may not be able to achieve fully the cost savings and synergies that we expect to result from any acquisition. In addition, because the markets in which we operate are highly competitive, we may lose customers or the customers of acquired entities as a result of an acquisition. We also may lose key personnel, either from the acquired entity or from United Community, as a result of an acquisition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Home Savings owns it corporate headquarters building located in Youngstown, Ohio. Of Home Savings' 37 branch offices thirty are owned and the remaining offices are leased. Loan origination offices are leased under long-term lease agreements. Butler Wick leases its corporate headquarters located in Youngstown, Ohio under a long-term lease agreement. Its branch office locations and operations centers are also leased under long-term lease agreements. The information contained in Note 7 "Premises and Equipment" is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

United Community and its subsidiaries are not parties to any other material litigation other than those 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information contained in the 2005 Annual Report to Shareholders of United Community (Annual Report) under the caption "Market Price and Dividends" is incorporated herein by reference and attached hereto as part of Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA

The information contained in the Annual Report under the caption "Selected Financial and Other Data" is incorporated herein by reference and attached hereto as part of Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in the Annual Report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference and attached hereto as part of Exhibit 13.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in the Annual Report under the caption "Asset and Liability Management and Market Risk" is incorporated herein by reference and attached hereto as part of Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements appearing in the Annual Report and the report of Crowe Chizek and Company LLC dated February 1, 2006, are incorporated herein by reference and attached hereto as part of Exhibit 13.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

United Community's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2005, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, management concluded that disclosure controls and procedures as of December 31, 2005 were effective in ensuring material information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized and reported on a timely basis. Additionally, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2005, that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting. See "Management's Report on Internal Control Over Financial Reporting" contained in the 2005 Annual Report attached hereto as part of Exhibit 13.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Proxy Statement for the 2006 Annual Meeting of Shareholders of United Community (Proxy Statement), to be filed with the Securities and Exchange Commission (Commission) on or about March 29, 2006, under the captions "Election of Directors," "Incumbent Directors," "Board Meeting and Compensation," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Audit Committee Report" is incorporated herein by reference.

United Community has adopted a code of ethics applicable to all officers, directors and employees that complies with SEC requirements. A copy of the code may be obtained upon written request to Patrick A. Kelly, Chief Financial Officer, United Community Financial Corp., 275 Federal Plaza West, Youngstown, Ohio 44503.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Proxy Statement under the captions "Board Meetings, Committees and Compensation" and "Compensation of Executive Officers," is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

RELATED SHAREHOLDER MATTERS

The information contained in the Proxy Statement under the caption "Ownership of UCFC Shares" is incorporated herein by reference.

United Community maintains the United Community Financial Corp. 1999 Long-Term Incentive Plan ("Incentive Plan") and the United Community Financial Corp. Recognition and Retention Plan and Trust Agreement ("RRP") under which it may issue equity securities to its directors, officers and employees in exchange for goods or services. The Incentive Plan and the RRP were approved by United Community's shareholders at the 1999 Special Meeting of Shareholders.

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The following table shows, as of December 31, 2005, the number of common shares issuable upon the exercise of outstanding stock options, the weighted average exercise price of those stock options, and the number of common shares remaining for future issuance under the Incentive Plan and the RRP, excluding shares issuable upon exercise of outstanding stock options.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	(a) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS	(b) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS	NUMBER REMAINI FUTURE EQUITY C (EXCLU REFLECTE
Equity compensation plans approved by security holders	2,217,216	$9.59	

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Proxy Statement under the caption "Compensation of Executive Officers --Certain Transactions" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the Proxy Statement under the caption "Audit Fees" is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(C) EXHIBITS

3.1 Articles of Incorporation

3.2 Amended Code of Regulations

10 Material Contracts

11	Statement Regarding Computation of Per Share Earnings
13	Portions of the 2005 Annual Report to Shareholders
20	Proxy Statement for 2006 Annual Meeting of Shareholders
21	Subsidiaries of Registrant
23	Crowe Chizek and Company LLC Consent
31.1	Section 302 Certification by Chief Executive Officer

31.2	Section 302 Certification by Chief Financial Officer
32	Certification of Financial Statements by Chief Executive Officer and Chief Financial Officer

(a) FINANCIAL STATEMENT SCHEDULES. All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED COMMUNITY FINANCIAL CORP.

/s/ Douglas M. McKay

Douglas M. McKay, President
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

/s/ Douglas M. McKay Douglas M. McKay, President and Director Date: March 15, 2006	/s/ Richard M. Barrett Richard M. Barrett, Director Date: March 15, 2006
/s/ Richard J. Schiraldi Richard J. Schiraldi, Director Date: March 15, 2006	/s/ David C. Sweet David C. Sweet, Director Date: March 15, 2006
/s/ Herbert F. Schuler, Sr. Herbert F. Schuler, Sr., Director Date: March 15, 2006	/s/ Patrick A. Kelly Patrick A. Kelly, Treasurer (Principal Financial Officer) Date: March 15, 2006

/s/ Thomas J. Cavalier	/s/ David G. Lodge
Thomas J. Cavalier, Director Date: March 15, 2006	David G. Lodge, Director Date: March 15, 2006
/s/ Eugenia C. Atkinson	/s/ Clarence R. Smith, Jr
Eugenia C. Atkinson, Director Date: March 15, 2006	Clarence R. Smith, Director Date: March 15, 2006

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INDEX TO EXHIBITS

Exhibit Number		
3.1	Articles of Incorporation	Incorporated by referenc on Form S-1 filed by Uni (S-1) with the Securitie (SEC), Exhibit 3.1
3.2	Amended Code of Regulations	Incorporated by referenc United Community on Marc number 99582343, Exhibit
10.1	The Home Savings and Loan Company of Youngstown, Ohio Employee Stock Ownership Plan	Incorporated by referenc United Community on Marc number 02593161, Exhibit
10.2	Employment Agreement between The Home Savings and Loan Company of Youngstown, Ohio and Douglas M. McKay, dated December 31, 2004.	Incorporated by referenc United Community on May 04666159 (2004 10K/A), E
10.3	Employment Agreement between The Home Savings and Loan Company of Youngstown, Ohio and Patrick W. Bevack, dated December 31, 2004.	Incorporated by referenc 10.3
10.4	Employment Agreement between The Home Savings and Loan Company of Youngstown, Ohio and Patrick A. Kelly, dated December 31, 2004.	Incorporated by referenc 10.4
10.5	Employment Agreement between Butler Wick Corp. and Thomas J. Cavalier, dated August 12, 1999.	Incorporated by referenc United Community on Marc number 582478, Exhibit 1
10.6	Employment Agreement between The Home Savings and Loan Company of Youngstown, Ohio and David G. Lodge, dated December 31, 2004.	Incorporated by referenc 10.6
10.7	United Community 1999 Long -Term Incentive Plan	Incorporated by referenc by United Community via number 9964170 (1999 Pro
10.8	United Community Recognition and Retention Plan and Trust Agreement	Incorporated by referenc
11	Statement Regarding Computation of Per Share Earnings	Incorporated by referenc

		Statements included in t
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