UNITED COMMUNITY FINANCIAL CORP
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

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	000-024399	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 No

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 No

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	Accelerated filer
Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. 46,550,370 common shares as of October 31, 2016.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Assets:		
Cash and deposits with banks	$23,861	$ 20,528
Federal funds sold	20,087	15,382
Total cash and cash equivalents	43,948	35,910
Securities:		
Available for sale, at fair value	354,469	357,670
Held to maturity, (fair value of $105,209 and $109,644, respectively)	103,202	110,699
Loans held for sale, at lower of cost or market	378	9,085
Loans held for sale, at fair value	59,967	26,716
Loans, net of allowance for loan losses of $18,234 and $17,712	1,473,949	1,316,192
Federal Home Loan Bank stock, at cost	18,068	18,068
Premises and equipment, net	20,565	20,678
Accrued interest receivable	6,066	5,978
Real estate owned and other repossessed assets, net	1,793	2,727
Goodwill and other intangible assets	1,538	—
Core deposit intangible	6	30
Cash surrender value of life insurance	55,474	54,366
Other assets	20,811	29,870
Total assets	$2,160,234	$ 1,987,989
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Interest bearing	$1,220,120	$ 1,208,238
Non-interest bearing	252,923	227,505
Total deposits	1,473,043	1,435,743
Borrowed funds:		
Federal Home Loan Bank advances		
Long-term Federal Home Loan Bank advances	47,561	46,975
Short-term Federal Home Loan Bank advances	358,000	232,000
Total Federal Home Loan Bank advances	405,561	278,975
Repurchase agreements and other	517	535
Total borrowed funds	406,078	279,510

Advance payments by borrowers for taxes and insurance	14,758	21,174
Accrued interest payable	117	53
Accrued expenses and other liabilities	9,835	7,264
Total liabilities	1,903,831	1,743,744
Shareholders' Equity:		
Preferred stock-no par value; 1,000,000 shares authorized and no shares issued and outstanding	—	—
Common stock-no par value; 499,000,000 shares authorized; 54,138,910 shares issued and 46,542,388 and 47,517,644 shares, respectively, outstanding	173,884	174,304
Retained earnings	149,249	140,819
Accumulated other comprehensive income (loss)	(10,251)	(19,220)
Treasury stock, at cost, 7,596,522 and 6,621,266 shares, respectively	(56,479)	(51,658)
Total shareholders' equity	256,403	244,245
Total liabilities and shareholders' equity	$2,160,234	$ 1,987,989

See Notes to Consolidated Financial Statements.

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,	
	2016	2015	2016	2015
	(Dollars in thousands, except per share data)			
Interest income				
Loans	$14,633	$13,426	$42,618	$39,007
Loans held for sale	482	390	1,177	1,025
Securities available for sale, nontaxable	339	—	752	—
Securities available for sale, taxable	1,630	2,599	5,346	8,139
Securities held to maturity, nontaxable	66	33	183	45
Securities held to maturity, taxable	466	17	1,567	17
Federal Home Loan Bank stock dividends	180	181	542	541
Other interest earning assets	19	8	49	25
Total interest income	17,815	16,654	52,234	48,799
Interest expense				
Deposits	1,389	1,690	4,497	4,862
Federal Home Loan Bank advances	661	340	1,754	947
Repurchase agreements and other	5	323	16	958
Total interest expense	2,055	2,353	6,267	6,767
Net interest income	15,760	14,301	45,967	42,032
Provision for loan losses	1,344	673	3,894	1,242
Net interest income after provision for loan losses	14,416	13,628	42,073	40,790
Non-interest income				
Insurance agency income	451	—	1,269	—
Brokerage income	337	259	1,033	799
Deposit related fees	1,418	1,405	4,106	3,811
Mortgage servicing fees	715	683	2,114	2,038
Mortgage servicing rights valuation	25	(138)	(702)	(92)
Mortgage servicing rights amortization	(525)	(449)	(1,560)	(1,355)
Other service fees	43	19	108	56
Net gains (losses):				
Securities available for sale (includes $218, $0, $604 and $11, respectively, accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities)	218	—	604	11

Mortgage banking income	1,957	1,709	5,208	5,303
Real estate owned and other repossessed assets, net	—	(119)	(76)	(311)
Debit/credit card fees	915	1,036	2,916	2,777
Other income	449	468	1,421	1,229
Total non-interest income	6,003	4,873	16,441	14,266
Non-interest expense				
Salaries and employee benefits (includes $(445), $0, $(1,001) and $0, respectively, accumulated other comprehensive income reclassifications from prior service credit on postretirement plan).	6,950	6,894	21,224	20,968
Occupancy	847	819	2,564	2,505
Equipment and data processing	1,926	1,714	5,648	5,105
Financial institutions tax	411	272	1,284	924
Advertising	290	183	638	546
Amortization of intangible assets	72	14	95	41
FDIC insurance premiums	155	313	768	946
Other insurance premiums	89	84	251	253
Legal and consulting fees	211	361	622	889
Other professional fees	341	469	762	1,231
Real estate owned and other repossessed asset expenses	41	134	190	293
Other expenses	1,645	1,028	4,256	3,473
Total non-interest expenses	12,978	12,285	38,302	37,174
Income before income taxes	7,441	6,216	20,212	17,882
Income tax expense (includes $232, $0, $561 and $4 income tax expense from reclassification items)	2,288	2,073	6,409	5,928
Net income	$5,153	$4,143	$13,803	$11,954

(Continued)

(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,	
	2016	2015	2016	2015
	(Dollars in thousands, except per share data)			
Net income	$5,153	$4,143	$13,803	$11,954
Other comprehensive income				
Unrealized gain (loss) on securities, available for sale, net of reclassifications and tax of $(737), $2,767, $5,117, and $1,664, respectively	(1,369)	5,138	9,502	3,091
Accretion of unrealized losses on securities transferred from available for sale to held to maturity, net of tax of $25, $0, $63 and $0, respectively	47	—	118	—
Accretion of unrecognized actuarial gains and amortization of prior service credit on postretirement plan, net of tax of $(156), $0, $(350) and $0, respectively recognized in net income	(289)	—	(651)	—
Total other comprehensive income	(1,611)	5,138	8,969	3,091
Comprehensive income	$3,542	$9,281	$22,772	$15,045
Earnings per share				
Basic	$0.11	$0.09	$0.29	$0.25
Diluted	0.11	0.09	0.29	0.24

See Notes to Consolidated Financial Statements.

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	(Dollars in thousands, except per share data)					
Balance January 1, 2016	47,517,644	$174,304	$140,819	$ (19,220)	$(51,658)	$244,245
Net income			13,803			13,803
Other comprehensive income				8,969		8,969
Stock option exercises	165,405		(782)		1,244	462
Stock option expense		8				8
Restricted stock grants	192,874	(1,157)	(328)		1,485	—
Restricted stock forfeitures	(2,928)	13	14		(27)	—
Restricted stock expense		716				716
Purchase of James & Sons Insurance	262,705		(501)		2,048	1,547
Cash dividend payments ($0.08 per share)			(3,776)			(3,776)
Treasury stock purchases	(1,593,312)				(9,571)	(9,571)
Balance September 30, 2016	46,542,388	$173,884	$149,249	$ (10,251)	$(56,479)	$256,403

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	(Dollars in thousands, except per share data)					
Balance January 1, 2015	49,239,004	$174,385	$128,512	$ (19,998)	$(42,764)	$240,135
Net income			11,954			11,954
Other comprehensive income				3,091		3,091
Stock option exercises	13,000		(87)		113	26
Stock option expense		19				19
Restricted stock grants	139,986	(744)	(469)		1,213	—
Restricted stock forfeitures	(8,091)	6	12		(52)	(34)
Restricted stock expense		549				549
Cash dividend payments ($0.05 per share)			(2,179)			(2,179)
Treasury stock purchases	(1,770,317)				(9,632)	(9,632)
Balance September 30, 2015	47,613,582	$174,215	$137,743	$ (16,907)	$(51,122)	$243,929

See Notes to Consolidated Financial Statements.

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$13,803	$11,954
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	3,894	1,242
Mortgage banking income	(3,003)	(3,467)
Changes in fair value on loans held for sale	(2,205)	(1,836)
Net losses on real estate owned and other repossessed assets sold	76	311
Net gain on available for sale securities sold	(604)	(11)
Net gain on other assets sold	(2)	(21)
Amortization of premiums and accretion of discounts	5,320	770
Depreciation and amortization	1,729	1,594
Net change in interest receivable	(88)	233
Net change in interest payable	64	48
Net change in prepaid and other assets	(3,040)	3,824
Net change in other liabilities	2,570	(211)
Stock based compensation	724	568
Net principal disbursed on loans originated for sale	(214,201)	(164,356)
Proceeds from sale of loans held for sale	192,994	150,803
Net change in deferred tax assets	5,707	5,541
Cash surrender value of life insurance	(1,108)	(1,081)
Net change in interest rate caps	3	175
Net cash from operating activities	2,633	6,080
Cash Flows from Investing Activities		
Proceeds from the principal repayments and maturities of securities available for sale	21,896	26,486
Proceeds from the principal repayments and maturities of securities held to maturity	10,270	—
Proceeds from the sale of securities available for sale	33,702	5,153
Proceeds from the sale of real estate owned and other repossessed assets	1,671	1,905
Proceeds from the sale of loans held for investment	1	514
Proceeds from the sale of premises and equipment	2	154
Purchases of premises and equipment	(1,591)	(1,238)
Principal disbursed on loans, net of repayments	(129,388)	(122,796)
Loans purchased	(33,203)	(9,569)
Purchase of securities available for sale	(38,843)	—
Purchase of securities held to maturity	(3,200)	(9,290)
Purchase of bank owned life insurance	—	(7,000)

Net cash received in acquisition	107	—
Net cash from investing activities	(138,576)	(115,681)
Cash Flows from Financing Activities		
Net increase in checking, savings and money market accounts	44,937	50,404
Net (decrease) increase in certificates of deposit	(7,637)	12,244
Net decrease in advance payments by borrowers for taxes and insurance	(6,416)	(5,544)
Net change in short-term FHLB advances	126,000	76,000
Repayments of repurchase agreements and other borrowed funds	(18)	(18)
Proceeds from the exercise of stock options	462	26
Dividends paid	(3,776)	(2,179)
Purchase of treasury stock	(9,571)	(9,632)
Net cash from financing activities	143,981	121,301
Change in cash and cash equivalents	8,038	11,700
Cash and cash equivalents, beginning of period	35,910	32,980
Cash and cash equivalents, end of period	$43,948	$44,680

See Notes to Consolidated Financial Statements

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 (the 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, 31 retail banking offices and loan production centers located throughout Ohio, western Pennsylvania and West Virginia. On January 29, 2016, United Community acquired Forge Financial Services Inc. d/b/a James & Sons Insurance Company of Youngstown Ohio. James & Sons Insurance, a subsidiary of United Community, is engaged in the business of selling insurance including auto, commercial, homeowners and life-health insurance.

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 (U.S. GAAP) 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, 2016, are not necessarily indicative of the results to be expected for the year ending December 31, 2016. The consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes contained in United Community's Form 10-K for the year ended December 31, 2015.

The consolidated financial statements include the accounts of United Community and its subsidiaries. All material inter-company transactions have been eliminated. Some items in the prior year financial statements were reclassified to conform to the current presentation. These reclassifications had no effect on prior year consolidated statements of operations or shareholders' equity.

2. RECENT ACCOUNTING DEVELOPMENTS

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after

December 15, 2017. Early adoption is not permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU amends the current consolidation guidance and affects both the variable interest entity and voting interest entity consolidation models. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance as of January 1, 2016 did not have an impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-1, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. The ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Key provisions include the elimination of "windfall pools" and removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. Additionally, the simplification permits entities to withhold an amount up to the employees' maximum individual tax rate in the relevant jurisdiction without resulting in a liability classification of the award. Entities are now permitted to make accounting policy elections for the impact of forfeitures on the recognition of expense for share-based payment awards. Lastly, there are two provisions that are only available to companies that are nonpublic business entities, as defined in ASC 718: (i) a practical expedient for determining the expected term of certain share-based awards, which would be adopted prospectively, and (ii) a one-time opportunity to change its measurement basis for all liability-classified awards to intrinsic value upon adoption of the ASU. The new guidance is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. For all other entities, it is effective for annual periods beginning after December 17, 2017, and interim periods within annual periods after December 15, 2018. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year of adoption. Management has elected not to early-adopt this ASU and is evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In June 2016, FASB Issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU adds a new Topic 326 to the Codification and removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. The guidance in ASU 2016-13 is effective for "public business entities," as defined, that are SEC filers for fiscal years and for interim periods with those fiscal years beginning after December 15, 2019. For all other public business entities, the guidance is effective for fiscal years and for interim periods with those fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities and employee benefit plans within the scope of ASC 960 through 965 on plan accounting, will be required to adopt the guidance in ASU 2016-13 for fiscal years beginning after December 15, 2020 and for interim periods within fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

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

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

For public business entities, the guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

3. STOCK COMPENSATION

Stock Options:

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

On April 26, 2007, shareholders approved the United Community Financial Corp. 2007 Long-Term Incentive Plan (as amended, the 2007 Plan). The purpose of the 2007 Plan was to promote and advance the interests of United Community and its shareholders by enabling United Community to attract, retain and reward directors, directors emeritus, managerial and other key employees of United Community, including Home Savings, by facilitating their purchase of an ownership interest in United Community. The 2007 Plan was terminated on April 30, 2015 upon the adoption of the 2015 Plan, although the 2007 Plan survives so long as awards issued under the 2007 Plan remain outstanding and exercisable. The 2007 Plan provided for the issuance of up to 2,000,000 shares that were to be used for awards of restricted stock, stock options, performance awards, stock appreciation rights (SARs), or other forms of stock-based incentive awards.

On July 12, 1999, shareholders approved the United Community Financial Corp. 1999 Long-Term Incentive Plan (as amended, the 1999 Plan). The purpose of the 1999 Plan was the same as the 2007 Plan. The 1999 Plan terminated on May 20, 2009, although the 1999 Plan survives so long as options issued under the 1999 Plan remain outstanding and exercisable. The 1999 Plan provided for the grant of either incentive or nonqualified stock options. Options were awarded at exercise prices that were not less than the fair market value of the share at the grant date. The maximum number of common shares that could be issued under the 1999 Plan was 3,569,766. Because the 1999 Plan terminated, no additional options may be issued under it.

There were no stock options granted in the three and nine months ended September 30, 2016 and there were 2,259 and 6,618 stock options granted in the three and nine months ended September 30, 2015, respectively. The options must be exercised within 10 years from the date of grant. Expenses related to stock option grants are included with salaries and employee benefits. The Company recognized $2,000 and $8,000 in stock option expense for the three and nine months ended September 30, 2016, respectively. The Company recognized $6,000 and $19,000 in stock option expense for the three and nine months ended September 30, 2015, respectively. The Company expects to recognize additional expense of $1,000 for the remainder of 2016, and $1,000 in 2017.

A summary of activity in the plans is as follows:

	For the nine months ended September 30, 2016		
	Shares	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	572,323	$ 2.56	
Granted	—		
Exercised	(165,405)	2.80	
Forfeited and expired	(1,200)	2.10	
Outstanding at end of period	405,718	2.47	$ 1,876
Options exercisable at end of period	397,419	2.41	$ 1,868

Information related to the stock option plans for the nine months ended September 30, 2016 and 2015 follows:

	September 30, 2016	September 30, 2015
Intrinsic value of options exercised	$ 630,694	$ 43,641
Cash received from option exercises	462,000	26,000
Tax benefit realized from option exercises	—	—
Weighted average fair value of options granted, per share	$ —	$ 1.70

As of September 30, 2016, the cost of nonvested stock options is expected to be recognized over a weighted-average period of 6 months.

The Company did not grant options during the three and nine months ended September 30, 2016. The fair value of options granted during the three and nine months ended September 30, 2015 was determined using the following weighted-average assumptions as of the grant date:

	Three months ended September 30, 2015	Nine months ended September 30, 2015
Risk-free interest rate	1.63 %	1.49 %
Expected term (years)	5	5
Expected stock volatility	35.05 %	35.95 %
Dividend yield	0.74 %	0.74 %

Outstanding stock options at September 30, 2016 have a weighted average remaining life of 3.60 years and may be exercised in the range of $1.20 to $5.89.

Restricted Stock Awards:

The 2007 Plan permitted and the 2015 Plan permits the issuance of restricted stock awards to employees and nonemployee directors. Nonvested shares at September 30, 2016 aggregated 343,178, of which 9,976 will vest during the remainder of 2016, 142,003 will vest in 2017, 97,928 will vest in 2018 and 93,271 will vest in 2019. Expenses related to restricted stock awards are charged to salaries and employee benefits and are recognized over the vesting period of the awards based on the fair value of the shares at the grant date. The Company recognized approximately $254,000 and $716,000 in restricted stock award expenses for the three and nine months ended September 30, 2016, respectively. The Company recognized approximately $183,000 and $549,000 in restricted stock award expense for the three and nine months ended September 30, 2015, respectively. The Company expects to recognize additional expenses of approximately $240,000 in 2016, $614,000 in 2017, $409,000 in 2018 and $136,000 in 2019. The total average per share fair value of shares vested during the nine months ended September 30, 2016 was $5.87.

A summary of changes in the Company's nonvested restricted shares for the nine months ended September 30, 2016 is as follows:

	For the nine months ended September 30, 2016	
	Shares	Weighted average grant date fair value
Nonvested at beginning of year	260,490	$ 4.68
Granted	192,874	$ 6.00
Vested	(107,258)	$ 4.58
Forfeited	(2,928)	$ 4.53
Nonvested shares at end of period	343,178	$ 5.45

Executive Incentive Plan

The Executive Incentive Plan (EIP) provides incentive compensation awards to certain officers of the Company. Executive incentive awards are generally based upon the actual performance of the Company and individual participant performance for the twelve months ending December 31, compared to the actual performance of a peer group during the same twelve month period. The target incentive awards for each year are measured as a percentage of the base salary of participating officers. Once the awards under the EIP are calculated, they are paid 80% in cash and 20% in restricted stock. The restricted stock vests equally over three years, beginning on the first anniversary of the date the restricted stock is issued. The Company incurred $96,000 and $265,000 in expense for the restricted stock portion of the EIP for the three and nine months ended September 30, 2016, respectively and $306,000 and $924,000 for the cash portion of the EIP for the three and nine months ended September 30, 2016, respectively. The Company incurred $63,000 and $193,000 in expense for the restricted stock portion of the EIP for the three and nine months ended September 30, 2015 and $244,000 and $731,000 for the cash portion of the EIP for the three and nine months ended September 30, 2015, respectively. Restricted stock expenses for the EIP are included in the total restricted stock expenses discussed above.

Long-term Incentive Plan

The Long-term Incentive Plan (LTIP) provides a long-term incentive compensation opportunity to certain executive officers, whose participation and target award opportunities will be approved by the Compensation Committee of the Board of Directors. Each participant in the LTIP will be granted a target number of Performance Share Units (PSUs). Target PSUs will be determined as a percentage of base salary and translated into share units based on the Company's average stock price at the appropriate measurement date. The performance period for the annual grant for a given year will be from January 1, year 1 through December 31, year 3. The Company incurred $96,000 and $289,000 for the LTIP for the three and nine months ended September 30, 2016, respectively. The Company incurred $1,000 and $72,000 in expense for the LTIP for the three and nine months ended September 30, 2015, respectively.

4. SECURITIES

Components of the available for sale portfolio are as follows:

	September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Available for Sale				
U.S. Treasury and government sponsored entities' securities	$188,311	$ 7,416	$ —	$195,727
States of the U.S. and political subdivisions	49,409	1,357	(1)	50,765
Mortgage-backed GSE securities: residential	105,963	2,014	—	107,977
Total	$343,683	$ 10,787	$ (1)	$354,469

12

	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Available for Sale				
U.S. Treasury and government sponsored entities' securities	$221,500	$ 159	$ (3,009)	$218,650
States of the U.S. and political subdivisions	10,848	192	—	11,040
Mortgage-backed GSE securities: residential	129,155	55	(1,230)	127,980
Total	$361,503	$ 406	$ (4,239)	$357,670

Components of held to maturity securities portfolio are as follows:

	September 30, 2016			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Fair value
	(Dollars in thousands)			
Held to maturity				
Mortgage-backed GSE securities: residential	$89,642	$ 1,646	$ —	$91,288
States of the U.S. and political subdivisions	13,560	361	—	13,921
Total	$103,202	$ 2,007	$ —	$105,209

	December 31, 2015			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Fair value
	(Dollars in thousands)			
Held to maturity				
Mortgage-backed GSE securities: residential	$100,322	$ —	$ (1,203)	$99,119
States of the U.S. and political subdivisions	10,377	148	—	10,525
Total	$110,699	$ 148	$ (1,203)	$109,644

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

	September 30, 2016	
	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	173,563	180,115
Due after ten years	64,157	66,377
Mortgage-backed GSE securities: residential	105,963	107,977
Total	$343,683	$354,469

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

	September 30, 2016	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$4,300	$4,318
Due after one year through five years	—	—
Due after five years through ten years	4,268	4,429
Due after ten years	4,992	5,174
Mortgage-backed GSE securities: residential	89,642	91,288
Total	$103,202	$105,209

Securities pledged for public funds were approximately $150.6 million at September 30, 2016 and $107.1 million at December 31, 2015.

Securities available for sale that have been in an unrealized loss position for less than twelve months or twelve months or more at September 30, 2016 are as follows:

	September 30, 2016					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
	(Dollars in thousands)					
Description of securities:						
U.S. Treasury and government sponsored entities	$—	$ —	$ —	$ —	$—	$ —
States of the U.S. and political subdivisions	1,615	(1)	—	—	1,615	(1)
Mortgage-backed GSE securities: residential	—	—	—	—	—	—
Total temporarily impaired securities	$1,615	$ (1)	$ —	$ —	$1,615	$ (1)

Securities available for sale that have been in an unrealized loss position for less than twelve months or twelve months or more at December 31, 2015 are as follows:

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
	(Dollars in thousands)					
Description of securities:						
U.S. Treasury and government sponsored entities	$139,876	$ (1,654)	$55,055	$ (1,355)	$194,931	$ (3,009)
Mortgage-backed GSE securities: residential	100,585	(842)	14,278	(388)	114,863	(1,230)
Total temporarily impaired securities	$240,461	$ (2,496)	$69,333	$ (1,743)	$309,794	$ (4,239)

Securities held to maturity that have been in an unrecognized loss position for less than twelve months or twelve months or more are as follows:

September 30, 2016					
Less than 12 months		12 months or more		Total	
Fair value	Unrealized loss Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
(Dollars in thousands)					

Description of securities:						
Mortgage-backed GSE securities: residential	$—	$ —	$28,626	$ (182)	$28,626	$ (182)
States of the U.S. and political subdivisions	—	—	—	—	—	—
Total temporarily impaired securities	$—	$ —	$28,626	$ (182)	$28,626	$ (182)

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
	(Dollars in thousands)					
Description of securities:						
Mortgage-backed GSE securities: residential	22,723	(289)	76,396	(2,390)	99,119	(2,679)
Total temporarily impaired securities	$22,723	$ (289)	$76,396	$ (2,390)	$99,119	$ (2,679)

14

During the third quarter of 2015, Home Savings transferred securities with a total amortized cost of $105.3 million with a corresponding fair value of $103.8 million from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of transfer was $999,000. The fair value at the date of transfer becomes the securities' new cost basis. The unrealized holding loss at the time of transfer continues to be reported in accumulated other comprehensive income, net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the unamortized holding loss reported in accumulated other comprehensive income will directly offset the effect on interest income from the accretion of the reduced amortized cost for the transferred securities. Because of this transfer, the total losses less than 12 months and greater than 12 months reported in the table above will not agree to the unrealized losses reported in the inventory of held to maturity securities. The inventory table reports unrealized gains and losses based upon the transferred securities adjusted cost basis and current fair value. The reporting of losses less than 12 months and greater than 12 months represents that actual period of time that these securities have been in an unrealized loss position and the securities amortized cost basis as if the transfer did not occur.

There were no U.S. Treasury and government sponsored entities (GSE) securities that were temporarily impaired at September 30, 2016. All of the U.S. Treasury and government sponsored entities (GSE) securities that were temporarily impaired at December 31, 2015, were impaired due to the level of interest rates at that time of purchase compared to current interest rates. Unrealized losses on these securities have not been recognized into income as of December 31, 2015 because the issuer's securities are of high credit quality (rated AA or higher), it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. There is risk that longer term rates could rise further resulting in greater unrealized losses. The Company expects to realize all interest and principal on these securities and has no intent to sell and more than likely will not be required to sell these securities before their anticipated recovery.

All of the obligations of U.S. states and political subdivisions that were temporarily impaired at September 30, 2016, were impaired due to the level of interest rates at that time. Unrealized losses on these securities have not been recognized into income as of September 30, 2016 because the issuer's securities are of high credit quality (rated AA or higher), it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

All of the mortgage-backed securities that were temporarily impaired at September 30, 2016 and December 31, 2015, were issued by U.S. government sponsored agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company did not consider these securities to be other-than-temporarily impaired at September 30, 2016 or December 31, 2015. The Company expects to realize all interest and principal on these securities.

Proceeds from the sale of available for sale securities were $5.2 million and $0, for the three months ended September 30, 2016 and 2015, respectively. Gross gains of $218,000 and $0 were realized on these sales during the three months ended September 30, 2016 and 2015, respectively. Income tax expense related to net realized gains was $76,000 and $0 for the three months ended September 30, 2016 and 2015, respectively.

Proceeds from the sale of available for sale securities were $33.7 million and $5.2 million for the nine months ended September 30, 2016 and 2015, respectively. Gross gains of $604,000 and $11,000 were realized on these sales during the nine months ended September 30, 2016 and 2015, respectively. Income tax expense related to net realized gains was $211,000 and $4,000 for the nine months ended September 30, 2016 and 2015, respectively.

5. LOANS

Portfolio loans consist of the following:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Commercial loans		
Multifamily	$107,066	$80,170
Nonresidential	225,699	175,456
Land	9,401	9,301
Construction	45,137	38,812
Secured	96,331	63,182
Unsecured	10,549	2,831
Total commercial loans	494,183	369,752
Residential mortgage loans		
One-to four-family	755,893	733,685
Construction	35,875	40,898
Total residential mortgage loans	791,768	774,583
Consumer loans		
Home equity	162,979	161,338
Auto	28,269	11,348
Marine	1,859	2,699
Recreational vehicle	8,199	10,656
Other	2,545	2,217
Total consumer loans	203,851	188,258
Total loans	1,489,802	1,332,593
Less:		
Allowance for loan losses	18,234	17,712
Deferred loan costs, net	(2,381)	(1,311)
Total	15,853	16,401
Loans, net	$1,473,949	$1,316,192

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and are based on impairment method as of September 30, 2016 and December 31, 2015 and activity for the three and nine months ended September 30, 2016 and 2015.

Allowance For Loan Losses

	Commercial Loans	Residential Loans	Consumer Loans	Total
	(Dollars in thousands)			
For the three months ended September 30, 2016				
Beginning balance	$8,958	$5,644	$2,570	$17,172
Provision	842	268	234	1,344
Charge-offs	(533)	(166)	(222)	(921)
Recoveries	527	20	92	639
Ending balance	$9,794	$5,766	$2,674	$18,234
For the nine months ended September 30, 2016				
Beginning balance	$8,077	$6,630	$3,005	$17,712
Provision (recovery)	4,055	(359)	198	3,894
Charge-offs	(3,026)	(612)	(977)	(4,615)
Recoveries	688	107	448	1,243
Ending balance	$9,794	$5,766	$2,674	$18,234
September 30, 2016				
Period-end amount allocated to:				
Loans individually evaluated for impairment	$1,016	$1,342	$516	$2,874
Loans collectively evaluated for impairment	8,778	4,424	2,158	15,360
Ending balance	$9,794	$5,766	$2,674	$18,234
Period-end balances:				
Loans individually evaluated for impairment	$13,697	$17,848	$8,708	$40,253
Loans collectively evaluated for impairment	480,486	773,920	195,143	1,449,549
Ending balance	$494,183	$791,768	$203,851	$1,489,802

Allowance For Loan Losses

	Commercial Loans	Residential Loans	Consumer Loans	Total
For the three months ended September 30, 2015				
Beginning balance	$ 6,389	$ 7,082	$ 3,410	$ 16,881
Provision (recovery)	1,375	(348)	(354)	673
Charge-offs	(252)	(83)	(178)	(513)
Recoveries	189	66	186	441
Ending balance	$ 7,701	$ 6,717	$ 3,064	$ 17,482
For the nine months ended September 30, 2015				
Beginning balance	$ 5,690	$ 8,517	$ 3,480	$ 17,687
Provision (recovery)	2,548	(1,498)	192	1,242
Charge-offs	(1,047)	(576)	(1,068)	(2,691)
Recoveries	510	274	460	1,244
Ending balance	$ 7,701	$ 6,717	$ 3,064	$ 17,482
December 31, 2015				
Period-end amount allocated to:				
Loans individually evaluated for impairment	$ 568	$ 1,541	$ 707	$ 2,816
Loans collectively evaluated for impairment	7,509	5,089	2,298	14,896
Ending balance	$ 8,077	$ 6,630	$ 3,005	$ 17,712
Period-end balances:				
Loans individually evaluated for impairment	$ 9,698	$ 19,348	$ 10,613	$ 39,659
Loans collectively evaluated for impairment	360,054	755,235	177,645	1,292,934
Ending balance	$ 369,752	$ 774,583	$ 188,258	$ 1,332,593

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

Other loans not reviewed specifically by management are evaluated as a homogenous group of loans (generally single-family residential mortgage loans and all consumer credits except marine loans) using a loss factor applied to the outstanding loan balance to determine the level of reserve required. This loss factor consists of two components, a quantitative and a qualitative component. The quantitative component is based on a historical analysis of all charged-off loans, net of recoveries. In determining the qualitative factors, consideration is given to such attributes as lending policies, economic conditions, nature and volume of the portfolio, management, loan quality trend, loan review, collateral value, concentrations, economic cycles and other external factors. As of September 30, 2016, the Company evaluated 17 quarters of net charge-off history and applied this information to the current period. This component is combined with the qualitative component to arrive at the loss factor, which is applied to the outstanding balance of homogenous loans.

The following table presents loans individually evaluated for impairment by class of loans as of and for nine months ended September 30, 2016:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded						
Commercial loans						
Multifamily	$ 59	$ —	$ —	$ —	$ —	$ —
Nonresidential	952	149	—	248	4	4
Land	3,922	134	—	322	—	—
Construction	3,594	—	—	—	—	—
Secured	3,743	3,700	—	3,700	—	—
Unsecured	821	—	—	—	7	7
Total commercial loans	13,091	3,983	—	4,270	11	11
Residential mortgage loans						
One-to four-family	7,401	5,727	—	6,049	55	49
Construction	—	—	—	—	—	—
Total residential mortgage loans	7,401	5,727	—	6,049	55	49
Consumer loans						
Home equity	1,728	1,272	—	1,415	14	14
Auto	13	8	—	10	—	—
Marine	543	301	—	294	—	—
Recreational vehicle	637	322	—	241	4	4
Other	—	—	—	3	—	—
Total consumer loans	2,921	1,903	—	1,963	18	18
Total	$ 23,413	$ 11,613	$ —	$ 12,282	$ 84	$ 78
With a specific allowance recorded						
Commercial loans						
Multifamily	$ —	$ —	$ —	$ —	$ —	$ —
Nonresidential	11,660	9,164	935	7,911	208	206
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Secured	616	550	81	692	—	—
Unsecured	—	—	—	—	—	—
Total commercial loans	12,276	9,714	1,016	8,603	208	206
Residential mortgage loans						
One-to four-family	12,123	12,121	1,342	12,587	423	373
Construction	—	—	—	—	—	—

Total residential mortgage loans	12,123	12,121	1,342	12,587	423	373
Consumer loans						
Home equity	5,997	5,997	435	6,592	257	238
Auto	—	—	—	—	—	—
Marine	153	153	4	158	6	4
Recreational vehicle	655	655	77	815	20	19
Other	—	—	—	2	—	—
Total consumer loans	6,805	6,805	516	7,567	283	261
Total	31,204	28,640	2,874	28,757	914	840
Total impaired loans	$ 54,617	$ 40,253	$ 2,874	$ 41,039	$ 998	$ 918

The following tables present loans individually evaluated for impairment by class of loans as of and for nine months ended September 30, 2015:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded						
Commercial loans						
Multifamily	$ 169	$ —	$ —	$ 43	$ 4	$ 4
Nonresidential	1,780	369	—	2,708	5	5
Land	3,922	484	—	511	—	—
Construction	1,126	—	—	116	—	—
Secured	3,890	3,700	—	3,701	—	—
Unsecured	1,248	—	—	—	—	—
Total commercial loans	12,135	4,553	—	7,079	9	9
Residential mortgage loans						
One-to four-family	5,374	3,914	—	4,373	56	50
Construction	—	—	—	—	—	—
Total residential mortgage loans	5,374	3,914	—	4,373	56	50
Consumer loans						
Home equity	1,709	1,179	—	1,377	14	12
Auto	27	19	—	28	—	—
Marine	499	273	—	250	2	2
Recreational vehicle	94	65	—	70	2	2
Other	—	—	—	—	—	—
Total consumer loans	2,329	1,536	—	1,725	18	16
Total	$ 19,838	$ 10,003	$ —	$ 13,177	$ 83	$ 75
With a specific allowance recorded						
Commercial loans						
Multifamily	$ —	$ —	$ —	$ 23	$ —	$ —
Nonresidential	5,324	5,144	584	5,303	101	99
Land	—	—	—	—	—	—
Construction	2,815	327	42	595	—	—
Secured	324	324	3	324	—	—
Unsecured	—	—	—	—	—	—
Total commercial loans	8,463	5,795	629	6,245	101	99
Residential mortgage loans						
One-to four-family	14,390	14,390	1,596	14,626	497	439
Construction	—	—	—	—	—	—

Total residential mortgage loans	14,390	14,390	1,596	14,626	497	439
Consumer loans						
Home equity	8,336	8,336	628	8,931	344	321
Auto	—	—	—	4	—	—
Marine	—	—	—	—	—	—
Recreational vehicle	589	589	117	685	9	9
Other	—	—	—	—	—	—
Total consumer loans	8,925	8,925	745	9,620	353	330
Total	31,778	29,110	2,970	30,491	951	868
Total impaired loans	$ 51,616	$ 39,113	$ 2,970	$ 43,668	$ 1,034	$ 943

20

The following table present loans individually evaluated for impairment by class of loans as of December 31, 2015:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no specific allowance recorded			
Commercial loans			
Multifamily	$ 165	$ —	$ —
Nonresidential	1,215	306	—
Land	3,922	384	—
Construction	3,593	—	—
Secured	3,884	3,700	—
Unsecured	1,132	—	—
Total commercial loans	13,911	4,390	—
Residential mortgage loans			
One-to four-family	7,607	5,866	—
Construction	—	—	—
Total residential mortgage loans	7,607	5,866	—
Consumer loans			
Home equity	2,245	1,718	—
Auto	20	14	—
Marine	496	271	—
Recreational vehicle	121	78	—
Other	3	3	—
Total consumer loans	2,885	2,084	—
Total	$ 24,403	$ 12,340	$ —
With a specific allowance recorded			
Commercial loans			
Multifamily	$ —	$ —	$ —
Nonresidential	5,164	4,984	565
Land	—	—	—
Construction	—	—	—
Secured	324	324	3
Unsecured	—	—	—
Total commercial loans	5,488	5,308	568
Residential mortgage loans			
One-to four-family	13,482	13,482	1,541
Construction	—	—	—
Total residential mortgage loans	13,482	13,482	1,541

Consumer loans			
Home equity	7,236	7,236	522
Auto	—	—	—
Marine	163	163	3
Recreational vehicle	1,122	1,122	181
Other	8	8	1
Total consumer loans	8,529	8,529	707
Total	27,499	27,319	2,816
Total impaired loans	$ 51,902	$ 39,659	$ 2,816

The following tables present loans individually evaluated for impairment by class of loans as of and for the three months ended September 30, 2016:

Impaired Loans

(Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Commercial loans			
Multifamily	$ —	$ —	$ —
Nonresidential	238	1	1
Land	259	—	—
Construction	—	—	—
Secured	3,700	—	—
Unsecured	—	—	—
Total commercial loans	4,197	1	1
Residential mortgage loans			
One-to four-family	6,125	19	19
Construction	—	—	—
Total residential mortgage loans	6,125	19	19
Consumer loans			
Home equity	1,306	9	9
Auto	9	—	—
Marine	302	—	—
Recreational vehicle	298	1	1
Other	2	—	—
Total consumer loans	1,917	10	10
Total	$ 12,239	$ 30	$ 30
With a specific allowance recorded			
Commercial loans			
Multifamily	$ —	$ —	$ —
Nonresidential	8,868	84	84
Land	—	—	—
Construction	—	—	—
Secured	742	—	—
Unsecured	—	—	—
Total commercial loans	9,610	84	84
Residential mortgage loans			
One-to four-family	12,077	132	127
Construction	—	—	—
Total residential mortgage loans	12,077	132	127
Consumer loans			
Home equity	6,138	77	76
Auto	—	—	—

Marine	155	2	2
Recreational vehicle	724	6	6
Other	—	—	—
Total consumer loans	7,017	85	84
Total	28,704	301	295
Total impaired loans	$ 40,943	$ 331	$ 325

The following tables present loans individually evaluated for impairment by class of loans as of and for the three months ended September 30, 2015:

Impaired Loans

(Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Commercial loans			
Multifamily	$ —	$ 1	$ 1
Nonresidential	1,400	1	1
Land	490	—	
Construction	44	—	—
Secured	3,700	—	—
Unsecured	—	—	—
Total commercial loans	5,634	2	2
Residential mortgage loans			
One-to four-family	4,163	26	24
Construction	—	—	—
Total residential mortgage loans	4,163	26	24
Consumer loans			
Home equity	1,284	4	4
Auto	21	—	—
Marine	279	—	—
Recreational vehicle	66	1	—
Other	—	—	—
Total consumer loans	1,650	5	4
Total	$ 11,447	$ 33	$ 30
With a specific allowance recorded			
Commercial loans			
Multifamily	$ 43	$ —	$ —
Nonresidential	5,643	26	26
Land	—	—	—
Construction	327	—	—
Secured	324	—	—
Unsecured	—	—	—
Total commercial loans	6,337	26	26
Residential mortgage loans			
One-to four-family	14,609	173	166
Construction	—	—	—
Total residential mortgage loans	14,609	173	166
Consumer loans			
Home equity	8,445	117	116
Auto	2	—	—

Marine	—	—	—
Recreational vehicle	647	—	—
Other	—	—	—
Total consumer loans	9,094	117	116
Total	30,040	316	308
Total impaired loans	$ 41,487	$ 349	$ 338

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 chargeoffs or partial chargeoffs applied to specific loans. The unpaid principal balance and the recorded investment both exclude accrued interest receivable and deferred loan costs, both of which are immaterial.

23

Within secured and nonresidential impaired loans, there are two related credits with a total principal balance outstanding of $6.9 million. The source of repayment for the loan resides in funds held in escrow by a court that has administered foreclosure and receivership proceedings surrounding the loan. The loan has been subject to protracted litigation and a reserve of $546,000 was placed on one of the loans during 2015.

Home Savings reclassifies a collateralized mortgage loan and consumer loans secured by real estate to real estate owned and other repossessed assets once it has either obtained legal title to the real estate collateral or the borrower voluntarily conveys all interest in the real property to the Bank to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The table below presents loans that are in the process of foreclosure at September 30, 2016 and December 31, 2015, but legal title, deed in lieu of foreclosure or similar legal agreement to the property has not yet been obtained:

	September 30, 2016		December 31, 2015	
	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Mortgage loans in process of foreclosure	$3,142	$ 2,862	$1,294	$ 1,162
Consumer loans in process of foreclosure	1,306	1,098	845	643

The following table presents the recorded investment in nonaccrual and loans past due over 90 days and still on accrual by class of loans as of September 30, 2016:

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

As of September 30, 2016

	Nonaccrual	Loans past due over 90 days and still accruing
	(Dollars in thousands)	
Commercial loans		
Multifamily	$—	$ —
Nonresidential	6,879	—
Land	134	—
Construction	—	—
Secured	4,242	—
Unsecured	—	—
Total commercial loans	11,255	—

Residential mortgage loans		
One-to four-family	5,835	—
Construction	—	—
Total residential mortgage loans	5,835	—
Consumer Loans		
Home equity	1,767	—
Auto	17	—
Marine	244	—
Recreational vehicle	327	—
Other	3	—
Total consumer loans	2,358	—
Total nonaccrual loans and loans past due over 90 days and still accruing	$19,448	$ —

The following table presents the recorded investment in nonaccrual and loans past due over 90 days and still on accrual by class of loans as of December 31, 2015:

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

As of December 31, 2015

	Nonaccrual	Loans past due over 90 days and still accruing
	(Dollars in thousands)	
Commercial loans		
Multifamily	$—	$ —
Nonresidential	3,599	—
Land	384	—
Construction	—	—
Secured	4,016	—
Unsecured	—	—
Total commercial loans	7,999	—
Residential mortgage loans		
One-to four-family	6,181	—
Construction	—	—
Total residential mortgage loans	6,181	—
Consumer Loans		
Home equity	1,804	—
Auto	23	—
Marine	218	—
Recreational vehicle	511	—
Other	11	—
Total consumer loans	2,567	—
Total nonaccrual loans and loans past due over 90 days and still accruing	$16,747	$ —

The following table presents an age analysis of past-due loans, segregated by class of loans as of September 30, 2016:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Commercial loans						
Multifamily	$ —	$ —	$ —	$ —	$ 107,066	$ 107,066
Nonresidential	27	—	3,415	3,442	222,257	225,699
Land	—	—	134	134	9,267	9,401
Construction	—	—	—	—	45,137	45,137
Secured	—	—	4,242	4,242	92,089	96,331
Unsecured	—	—	—	—	10,549	10,549
Total commercial loans	27	—	7,791	7,818	486,365	494,183
Residential mortgage loans						
One-to four-family	3,669	1,195	5,509	10,373	745,520	755,893
Construction	—	—	—	—	35,875	35,875
Total residential mortgage loans	3,669	1,195	5,509	10,373	781,395	791,768
Consumer Loans:						
Home equity	926	261	1,552	2,739	160,240	162,979
Automobile	—	7	5	12	28,257	28,269
Marine	43	—	244	287	1,572	1,859
Recreational vehicle	246	82	246	574	7,625	8,199
Other	2	1	3	6	2,539	2,545
Total consumer loans	1,217	351	2,050	3,618	200,233	203,851
Total loans	$ 4,913	$ 1,546	$ 15,350	$ 21,809	$ 1,467,993	$ 1,489,802

The following table presents an age analysis of past-due loans, segregated by class of loans as of December 31, 2015:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Commercial loans						
Multifamily	$ —	$ —	$ —	$ —	$ 80,170	$ 80,170
Nonresidential	—	—	3,558	3,558	171,898	175,456
Land	—	—	384	384	8,917	9,301
Construction	—	—	—	—	38,812	38,812
Secured	488	—	4,016	4,504	58,678	63,182
Unsecured	—	—	—	—	2,831	2,831
Total commercial loans	488	—	7,958	8,446	361,306	369,752
Residential mortgage loans						
One-to four-family	3,843	635	5,901	10,379	723,306	733,685
Construction	—	—	—	—	40,898	40,898
Total residential mortgage loans	3,843	635	5,901	10,379	764,204	774,583
Consumer Loans:						
Home equity	961	268	1,788	3,017	158,321	161,338
Automobile	5	—	10	15	11,333	11,348
Marine	—	51	117	168	2,531	2,699
Recreational vehicle	71	—	494	565	10,091	10,656
Other	15	1	11	27	2,190	2,217
Total consumer loans	1,052	320	2,420	3,792	184,466	188,258
Total loans	$ 5,383	$ 955	$ 16,279	$ 22,617	$ 1,309,976	$ 1,332,593

As of September 30, 2016 and December 31, 2015, the Company has a recorded investment in troubled debt restructurings of $28.0 million and $26.3 million, respectively. The Company allocated $2.3 million of specific allowance for those loans at September 30, 2016 and December 31, 2015. The Company has committed to lend additional amounts totaling up to $31,000 and $42,000 at September 30, 2016 and December 31, 2015, respectively.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended September 30, 2016:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(In thousands)	
Commercial loans			
Multifamily	—	$ —	$ —
Nonresidential	1	1,371	1,377
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	1	1,371	1,377
Residential mortgage loans			
One-to four-family	1	113	114
Construction	—	—	—
Total residential mortgage loans	1	113	114
Consumer loans			
Home equity	—	—	—
Auto	—	—	—
Marine	—	—	—
Recreational vehicle	—	—	—
Other	—	—	—
Total consumer loans	—	—	—
Total restructured loans	2	$ 1,484	$ 1,491

The troubled debt restructurings described above increased the allowance for loan losses by $20,000 and resulted in no charge-offs during the three months ended September 30, 2016.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2016:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(In thousands)	
Commercial loans			
Multifamily	—	$—	$ —
Nonresidential	3	5,459	5,465
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	3	5,459	5,465
Residential mortgage loans			
One-to four-family	4	429	449
Construction	—	—	—
Total residential mortgage loans	4	429	449
Consumer loans			
Home equity	3	130	134
Auto	—	—	—
Marine	—	—	—
Recreational vehicle	—	—	—
Other	—	—	—
Total consumer loans	3	130	134
Total restructured loans	10	$6,018	$ 6,048

The troubled debt restructurings described above increased the allowance for loan losses by $31,000 and resulted in no chargeoffs during the nine months ended September 30, 2016.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended September 30, 2015:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(Dollars in thousands)	
Commercial loans			
Multifamily	—	$ —	$ —
Nonresidential	—	—	—
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	—	—	—
Residential mortgage loans			
One-to four-family	2	156	189
Construction	—	—	—
Total residential mortgage loans	2	156	189
Consumer loans			
Home equity	5	178	178
Auto	—	—	—
Marine	—	—	—
Recreational vehicle	—	—	—
Other	—	—	—
Total consumer loans	5	178	178
Total restructured loans	7	$ 334	$ 367

The troubled debt restructurings described above increased the allowance for loan losses by $21,000, and resulted in no chargeoffs during the three months ended September 30, 2015.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2015:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(Dollars in thousands)	
Commercial loans			
Multifamily	—	$ —	$ —
Nonresidential	—	—	—
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	—	—	—
Residential mortgage loans			
One-to four-family	12	1,066	1,119
Construction	—	—	—
Total residential mortgage loans	12	1,066	1,119
Consumer loans			
Home equity	11	660	661
Auto	—	—	—
Marine	—	—	—
Recreational vehicle	—	—	—
Other	—	—	—
Total consumer loans	11	660	661
Total restructured loans	23	$ 1,726	$ 1,780

The troubled debt restructurings described above increased the allowance for loan losses by $103,000 and resulted in no chargeoffs during the nine months ended September 30, 2015.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within a twelve month cycle following the modification during the period ended September 30, 2016.

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

The troubled debt restructurings that subsequently defaulted described above resulted in no charge-offs during the three and nine months ended September 30, 2016, and had no effect on the provision for loan losses.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within a twelve month cycle following the modification during the period ended September 30, 2015:

	Number of loans	Recorded Investment (Dollars in thousands)
Commercial loans		
Multifamily	—	$ —
Nonresidential	—	—
Land	—	—
Construction	—	—
Secured	—	—
Unsecured	—	—
Total commercial loans	—	—
Residential mortgage loans		
One-to four-family	—	—
Construction	—	—
Total residential mortgage loans	—	—
Consumer loans		
Home equity	2	52
Auto	—	—
Marine	—	—
Recreational vehicle	—	—
Other	—	—
Total consumer loans	2	52
Total restructured loans	2	$ 52

The troubled debt restructurings that subsequently defaulted described above resulted in no charge-offs during the three and nine months ended September 30, 2015, and had no effect on the provision for loan losses.

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

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

Credit Quality Indicators:

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

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

Special Mention. Loans classified as special mention have potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

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

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

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

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

As of September 30, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loans

September 30, 2016

(Dollars in thousands)

	Unclassified		Classified				
	Unclassified	Special Mention	Substandard	Doubtful	Loss	Total Classified	Total Loans
Commercial Loans							
Multifamily	$ 102,892	$ 3,604	$ 570	$ —	$ —	$ 570	$ 107,066
Nonresidential	206,356	5,826	13,517	—	—	13,517	225,699
Land	9,267	—	134	—	—	134	9,401
Construction	45,137	—	—	—	—	—	45,137
Secured	86,858	237	9,236	—	—	9,236	96,331
Unsecured	10,454	—	95	—	—	95	10,549
Total commercial loans	460,964	9,667	23,552	—	—	23,552	494,183
Residential mortgage loans							
One-to four-family	748,808	105	6,980	—	—	6,980	755,893
Construction	35,875	—	—	—	—	—	35,875
Total residential mortgage loans	784,683	105	6,980	—	—	6,980	791,768
Consumer Loans							
Home equity	161,088	—	1,891	—	—	1,891	162,979
Auto	28,249	2	18	—	—	18	28,269
Marine	1,558	—	301	—	—	301	1,859
Recreational vehicle	7,855	—	344	—	—	344	8,199
Other	2,541	—	4	—	—	4	2,545
Total consumer loans	201,291	2	2,558	—	—	2,558	203,851
Total loans	$ 1,446,938	$ 9,774	$ 33,090	$ —	$ —	$ 33,090	$ 1,489,802

34

Loans

December 31, 2015

(Dollars in thousands)

	Unclassified		Classified				
		Special				Total	
							Total
	Unclassified	Mention	Substandard	Doubtful	Loss	Classified	Loans
Commercial Loans							
Multifamily	$75,535	$3,727	$908	$ —	$ —	$ 908	$80,170
Nonresidential	151,415	4,121	19,920	—	—	19,920	175,456
Land	8,917	—	384	—	—	384	9,301
Construction	38,812	—	—	—	—	—	38,812
Secured	53,801	3,037	6,344	—	—	6,344	63,182
Unsecured	2,728	—	103	—	—	103	2,831
Total commercial loans	331,208	10,885	27,659	—	—	27,659	369,752
Residential mortgage loans							
One-to four-family	726,922	111	6,652	—	—	6,652	733,685
Construction	40,898	—	—	—	—	—	40,898
Total residential mortgage loans	767,820	111	6,652	—	—	6,652	774,583
Consumer Loans							
Home equity	159,371	—	1,967	—	—	1,967	161,338
Auto	11,304	2	42	—	—	42	11,348
Marine	2,428	—	271	—	—	271	2,699
Recreational vehicle	10,157	—	499	—	—	499	10,656
Other	2,206	—	11	—	—	11	2,217
Total consumer loans	185,466	2	2,790	—	—	2,790	188,258
Total loans	$1,284,494	$10,998	$37,101	$ —	$ —	$ 37,101	$1,332,593

6. MORTGAGE BANKING ACTIVITIES

Mortgage loans serviced for others, which are not reported in United Community's assets, totaled $1.2 billion as of September 30, 2016 and $1.1 billion as of December 31, 2015. Mortgage banking income is comprised of gains recognized on the sale of loans and changes in fair value of mortgage banking derivatives.

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans are as follows:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Mortgage loan portfolios serviced for:		

FHLMC	$941,865	$ 878,300
FNMA	214,849	233,026

Customer escrow balances with loans serviced for FHLMC and FNMA totaled $10.7 million and $13.2 million at September 30, 2016 and December 31, 2015, respectively.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Balance, beginning of period	$5,813	$5,611	$5,686	$5,535
Originations	708	450	1,870	1,432
Amortized to expense	(525)	(449)	(1,560)	(1,355)
Balance, end of period	5,996	5,612	5,996	5,612
Less valuation allowance	(741)	(150)	(741)	(150)
Net balance	$5,255	$5,462	$5,255	$5,462

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Balance, beginning of period	$(766)	$(12)	$(39)	$(58)
Impairment charges	—	(138)	(727)	(299)
Recoveries	25	—	25	207
Balance, end of period	$(741)	$(150)	$(741)	$(150)

The fair value of mortgage servicing rights as of September 30, 2016, was approximately $7.7 million and at December 31, 2015, the fair value was approximately $9.1 million.

Key economic assumptions in measuring the value of mortgage servicing rights at September 30, 2016, and December 31, 2015, were as follows:

	September 30, 2016	December 31, 2015
Weighted average prepayment rate	286 PSA	192 PSA
Weighted average life (in years)	3.43	3.47
Weighted average discount rate	9.00%	9.00%

7. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Real estate owned and other repossessed assets	$2,796	$ 3,956
Valuation allowance	(1,003)	(1,229)
End of period	$1,793	$ 2,727

Activity in the valuation allowance was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(Dollars in thousands)			
Beginning of period	$ 1,001	$ 1,195	$ 1,229	$ 1,423
Additions charged to expense	1	39	(25)	162
Reductions due to sales	1	(44)	(201)	(395)
End of period	$ 1,003	$ 1,190	$ 1,003	$ 1,190

Expenses related to foreclosed and repossessed assets include:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(Dollars in thousands)			
Net (gain) loss on sales	$ (1)	$ 80	$ 101	$ 149
Provision for unrealized losses, net	1	39	(25)	162
Operating expenses, net of rental income	41	134	190	293
Total expenses	$ 41	$ 253	$ 266	$ 604

8. 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). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

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

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

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

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

Loans held for sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Loans held for sale, at fair value: The Company elected the fair value option for all permanent construction loans held for sale originated on or after January 1, 2015. The fair value of the Company's construction perm loans held for sale was determined based on quoted prices for similar loans in active markets. The fair value of permanent construction loans held for sale is determined, based on the committed loan amount, using quoted prices for similar assets, adjusted for specific attributes of that loan and other unobservable market data, such as time it takes to complete the project (Level 3). The Company elected the fair value option for all residential mortgage loans held for sale originated on or after March 1, 2016. The fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets (Level 2).

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

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

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

		Fair Value Measurements at September 30, 2016 Using:		
	September 30, 2016	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				
U.S. Treasury and government sponsored entities' securities	$195,727	$ —	$ 195,727	$ —
States of the U.S. and political subdivisions	50,765	—	50,765	
Mortgage-backed GSE securities: residential	107,977	—	107,977	—
Loans held for sale, at fair value	59,967	—	12,831	47,136
Purchased certificate of deposit option	888	—	888	—

Liabilities				
Written certificate of deposit option	888	—	888	—

	December 31, 2015	Fair Value Measurements at December 31, 2015 Using: 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				
U.S. Treasury and government sponsored entities' securities	$218,650	$ —	$ 218,650	$ —
States of the U.S. and political subdivisions	11,040	—	11,040	—
Mortgage-backed GSE securities: residential	127,980	—	127,980	—
Loans held for sale, at fair value	26,716	—	—	26,716
Interest rate caps	3	—	—	3
Purchased certificate of deposit option	805	—	805	—
Liabilities				
Written certificate of deposit option	805	—	805	—

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016 and 2015.

	Loans Held for Sale, At Fair Value For the Three Months Ended September 30,		Loans Held for Sale, At Fair Value For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Balance of recurring Level 3 assets at beginning of period	$33,605	$9,839	$26,716	$—
Total gains (losses) for the period				
Included in change in fair value of loans held for sale	414	1,421	1,705	1,836
Included in other comprehensive income	—	—	—	—
Originations/Draws on construction perm loans	25,464	15,655	60,925	25,079
Amortization	—	—	—	—
Sales	(12,347)	(2,836)	(42,210)	(2,836)
Balance of recurring Level 3 assets at end of period	$47,136	$24,079	$47,136	$24,079

	Interest Rate Caps For the Three Months Ended		Interest Rate Caps For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Balance of recurring Level 3 assets at beginning of period	$—	$24	$3	$180
Total gains (losses) for the period				
Included in other income	129	111	385	214
Included in other comprehensive income	—	—	—	—
Purchases	—	—	—	—
Amortization	(129)	(130)	(388)	(389)
Sales	—	—	—	—
Balance of recurring Level 3 assets at end of period	$—	$5	$—	$5

There were no transfers between Level 2 and Level 3 during 2016 or 2015.

The following table presents quantitative information about recurring Level 3 fair value measurements at September 30, 2016:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Loans held for sale, at fair value	$47,136	Comparable sales	Time discount	0.00-1.80%
Interest rate caps	—	Discounted cash flow	Discount rate	—

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2015:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Loans held for sale, at fair value	$26,716	Comparable sales	Time discount	0.00-1.80%
Interest rate caps	3	Discounted cash flow	Discount rate	0.49-1.18%

The fair value of loans held for sale, at fair value was determined using pricing from a quoted market, discounted for the length of time to the completion of the construction project.

The fair value of interest rate caps was determined using proprietary models from third-party sources taking into account such factors as size of the transaction, the lack of a quoted market and the custom-tailored nature of the transaction. The fair value is inclusive of interest accruals, as applicable.

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, 2016 Using:		
	September 30, 2016	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:				
Commercial loans				
Nonresidential	$6,038	$ —	$ —	$ 6,038

Secured	148	—	—	148
Residential loans				
One-to four-family residential	847	—	—	847
Consumer loans				
Home Equity	208	—	—	208
Auto	2	—	—	2
Marine	163	—	—	163
Recreational vehicle	200	—	—	200
Mortgage servicing rights	3,280	—	3,280	—
Other real estate owned, net				
Construction	748	—	—	748
One-to four-family residential	290	—	—	290

	December 31, 2015	Fair Value Measurements at December 31, 2015 Using: 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:				
Commercial loans				
Nonresidential	$2,857	$ —	$ —	$ 2,857
Land	175	—	—	175
Residential loans				
One-to four-family residential	1,493	—	—	1,493
Consumer loans				
Home Equity	392	—	—	392
Auto	1	—	—	1
Mortgage servicing rights	604	—	604	—
Other real estate owned, net				
Construction	785	—	—	785
Nonresidential	175	—	—	175
One-to four-family residential	1,088	—	—	1,088

Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net carrying amount of $7.7 million at September 30, 2016, that includes a specific valuation allowance of $989,000. This resulted in a increase of the provision for loan losses of $134,000 during the three months ended September 30, 2016, and an increase of $3.7 million for the nine months ended September 30, 2016. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net carrying amount of $4.5 million at September 30, 2015, which includes a specific valuation allowance of $609,000. This resulted in a decrease in the provision for loan losses of $35,000 and $104,000 for the three and nine months ended September 30, 2015, respectively. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net carrying amount of $4.9 million at December 31, 2015, that includes a specific valuation allowance of $548,000.

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

At September 30, 2016, mortgage servicing rights carried at fair value were $3.3 million, with a net valuation allowance of $741,000 At September 30, 2015, mortgage servicing rights, carried at fair value totaled $1.1 million, resulting in a net valuation allowance of $150,000. At December 31, 2015, mortgage servicing rights carried at fair value were $604,000. Mortgage servicing rights are valued by an independent third party that is active in purchasing and selling these instruments. Net (recovery) impairment reflected in other income totaled $(25,000) and $702,000 for the three and nine months ended September 30, 2016, respectively. Net impairment reflected in other income totaled $138,000 and $92,000 for the three and nine months ended September 30, 2015, respectively. The value reflects the characteristics of the underlying loans.

At September 30, 2016, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs, and had a net carrying amount of $1.0 million, with a valuation allowance of $1.0 million. This resulted in a (recovery) expense of $1,000 and $(25,000) during the three and nine months ended September 30, 2016, respectively. At September 30, 2015, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs, and had a net carrying amount of $2.2 million with a valuation allowance of $1.2 million. This resulted in additional expenses of $39,000 and $162,000 during the three and nine months ended September 30, 2015, respectively. At December 31, 2015, other real estate owned had a net carrying amount of $2.0 million, with a valuation allowance of $1.2 million.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at September 30, 2016:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)	
Impaired loans:					
Commercial loans					
Nonresidential	$6,038	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-35.00%	(15.00%)
Secured	148	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-31.00%	(12.75%)
Residential loans					
One-to four-family residential	847	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-10.77%	(4.27%)
Consumer loans					
Home Equity	208	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-17.85%	(8.93%)
Auto	2	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-10.00%	(10.00%)
Marine	163	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-37.00%	(37.00%)
Recreational vehicle	200	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-37.00%	(37.00%)
Other real estate owned, net					
Commercial loans					
Construction loans	748	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-25.00%	(10.875%)
Residential loans					
One-to four-family residential	290	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-37.10%	(29.05%)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2015:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)	
Impaired loans:					
Commercial loans					
Nonresidential	$2,857	Sales comparison approach	Adjustment for differences between comparable sales	9.19%-12.38%	(10.79%)
Land	175	Sales comparison approach		0.00%-27.47%	(13.74%)

			Adjustment for differences between comparable sales		
Residential loans					
One-to four-family residential	1,493	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-10.77%	(4.27%)
Consumer loans					
Home Equity	392	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-17.85%	(8.93%)
Other real estate owned:					
Commercial loans					
Construction loans	785	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-50.00%	(21.71%)
Nonresidential loans	175	Sales comparison approach	Adjustment for differences between comparable sales	40.00%-60.00%	(50.00%)
Residential loans					
One-to four-family residential	1,088	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-40.50%	(15.51%)

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

The Company has elected the fair value option for newly originated residential mortgage and permanent construction loans held for sale. These loans are intended for sale and the Company believes that fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 or more days past due nor on nonaccrual status as of September 30, 2016.

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Aggregate fair value	$59,967	$ 26,716
Contractual balance	56,242	25,197
Gain (loss)	3,725	1,519

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2016 and 2015 for loans held for sale, at fair value were:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(Dollars in thousands)			
Interest income	$—	$ —	$—	$ —
Interest expense	—	—	—	—
Change in fair value	556	1,421	2,205	1,836
Total change in fair value	$556	$ 1,421	$2,205	$ 1,836

In accordance with U.S. GAAP, the carrying value and estimated fair values of financial instruments at September 30, 2016 and December 31, 2015, were as follows:

		Fair Value Measurements at September 30, 2016 Using:		
	September 30, 2016 Carrying Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$43,948	$43,948	$—	$—
Available for sale securities	354,469	—	354,469	—
Held to maturity securities	103,202	—	100,891	4,318
Loans held for sale	378	—	403	—
Loans held for sale, at fair value	59,967	—	12,831	47,136

Loans, net	1,473,949	—	—	1,483,242
FHLB stock	18,068	n/a	n/a	n/a
Accrued interest receivable	6,066	—	2,053	4,013
Interest rate caps	—	—	—	—
Purchased certificate of deposit option	888	—	888	—
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(1,025,720)	(1,025,720)	—	—
Certificates of deposit	(447,323)	—	(450,687)	—
FHLB advances	(405,561)	—	(405,603)	—
Repurchase agreements and other	(517)	—	(520)	—
Advance payments by borrowers for taxes and insurance	(14,758)	(14,758)	—	—
Accrued interest payable	(117)	—	(117)	—
Written certificate of deposit option	(888)	—	(888)	—

43

	December 31, 2015 Carrying Value	Fair Value Measurements at December 31, 2015 Using: (Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$35,910	$35,910	$—	$—
Available for sale securities	357,670	—	357,670	—
Held to maturity securities	110,699	—	108,536	1,108
Loans held for sale	9,085	—	9,207	—
Loans held for sale, at fair value	26,716	—	—	26,716
Loans, net	1,316,192	—	—	1,322,338
FHLB stock	18,068	n/a	n/a	n/a
Accrued interest receivable	5,978	—	2,276	3,702
Interest rate caps	3	—	—	3
Purchased certificate of deposit option	805	—	805	—
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(980,783)	(980,783)	—	—
Certificates of deposit	(454,960)	—	(459,433)	—
FHLB advances	(278,975)	—	(279,053)	—
Repurchase agreements and other	(535)	—	(548)	—
Advance payments by borrowers for taxes and insurance	(21,174)	(21,174)	—	—
Accrued interest payable	(53)	—	(53)	—
Written certificate of deposit option	(805)	—	(805)	—

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

(a) Cash and Cash Equivalents

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

(b) FHLB Stock

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

(c) Held to maturity securities

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

(d) Loans

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

(e) Deposits

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

(f) Other Borrowings

Short-term borrowings, generally maturing within 90 days, approximate their fair values resulting in a Level 2 classification. The fair values of Home Savings long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(g) Accrued Interest Receivable/Payable

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

(h) Off-balance Sheet Instruments

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

9. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below.

	For the Nine Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowings	$6,203	$6,719
Income taxes	275	200
Supplemental schedule of noncash activities:		

Transfers from loans to real estate owned and other repossessed assets	813	2,065
Transfers from available for sale securities to held to maturity securities, at fair value	—	103,768

10. EARNINGS PER SHARE

The Company has granted stock compensation awards with nonforfeitable dividend rights which are considered participating securities. As such, earnings per share is computed using the two-class method as required by ASC 206-10-45. Basic earnings per common share is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted earnings per common share includes the dilutive effect of additional potential common shares from stock compensation awards, but also excludes awards considered participating securities. No stock options were anti-dilutive for the three months ended September 30, 2016 and stock options for 76,317 shares were anti-dilutive for the three months ended September 30, 2015. No stock options were anti-dilutive for the nine months ended September 30, 2016 and stock options for 76,317 shares were anti-dilutive for the nine months ended September 30, 2015.

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(Dollars in thousands, except per share data)			
Net income per consolidated statements of income	$ 5,153	$ 4,143	$ 13,803	$ 11,954
Net income allocated to participating securities	(38)	(23)	(88)	(60)
Net income allocated to common stock	$ 5,115	$ 4,120	$ 13,715	$ 11,894
Basic earnings per common share computation:				
Distributed earnings allocated to common stock	$ 1,385	$ 1,187	$ 3,753	$ 2,165
Undistributed earnings allocated to common stock	3,730	2,933	9,962	9,729
Net income allocated to common stock	$ 5,115	$ 4,120	$ 13,715	$ 11,894
Weighted average common shares outstanding, including shares considered participating securities	46,508	47,745	47,104	48,556
Less: Average participating securities	(341)	(265)	(302)	(244)
Weighted average shares	46,167	47,480	46,802	48,312
Basic earnings per common share	$ 0.11	$ 0.09	$ 0.29	$ 0.25
Diluted earnings per common share computation:				
Net income allocated to common stock	$ 5,115	$ 4,120	$ 13,715	$ 11,894
Weighted average common shares outstanding for basic earnings per common share	46,167	47,480	46,802	48,312
Add: Dilutive effects of assumed exercises of stock options	225	264	214	270
Weighted average shares and dilutive potential common shares	46,392	47,744	47,016	48,582
Diluted earnings per common share	$ 0.11	$ 0.09	$ 0.29	$ 0.24

11. 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, disproportional tax effects and changes in unrealized gains and losses on the postretirement liability. The change includes reclassification of net gains or (losses) and impairment charges on sales of securities of $218,000 and $0 for the three months ended September 30, 2016 and 2015, respectively and $604,000 and $11,000 for the nine months ended September 30, 2016 and 2015, respectively. Reclassifications also include amortization of unrealized gains on postretirement plan and accretion of unrealized loss on held to maturity securities.

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

September 30, 2016	Unrealized Gains (Losses) on Securities Available for Sale	Disproportionate Tax Effect from Securities Available for Sale	Losses on Securities Transferred From Available for Sale to Held to Maturity	Unrealized Gains (Losses) from Postretirement Plan	Disproportionate Tax Effect from Postretirement Plan	Total
	(Dollars in thousands)					
Balances at beginning of period, net of tax	$8,379	$ (17,110)	$ (889)	$ 469	$ 511	$(8,640)
Other comprehensive income before reclassifications	(1,227)	—	—	—	—	(1,227)
Amortization of unrealized gains of postretirement plan recognized in other comprehensive income	—	—	—	(289)	—	(289)
Accretion of unrealized losses of securities transferred from available for sale to held to maturity recognized in other comprehensive income	—	—	47	—	—	47
Reclassification adjustment for gains realized in income	(142)	—	—	—	—	(142)
Net current period other	(1,369)	—	47	(289)	—	(1,611)

comprehensive income						
Balances at end of period, net of tax	$7,010	$ (17,110)	$ (842)	$ 180	$ 511	$(10,251)

September 30, 2015	Unrealized Gains (Losses) on Securities Available for Sale	Disproportionate Tax Effect from Securities Available for Sale	Losses on Securities Transferred From Available for Sale to Held to Maturity	Unrealized Gains (Losses) from Postretirement Plan	Disproportionate Tax Effect from Postretirement Plan	Total
	(Dollars in thousands)					
Balances at beginning of period, net of tax	$(6,362)	$ (17,110)	$ —	$ 916	$ 511	$(22,045)
Transfer losses from available for sale to held to maturity	999	—	(999)	—	—	—
Other comprehensive income before reclassifications	5,138	—	—	—	—	5,138
Reclassification adjustment for gains realized in income	—	—	—	—	—	—
Net current period other comprehensive income	5,138	—	—	—	—	5,138
Balances at end of period, net of tax	$(225)	$ (17,110)	$ (999)	$ 916	$ 511	$(16,907)

47

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

September 30, 2016	Unrealized Gains (Losses) on Securities Available for Sale	Disproportionate Tax Effect from Securities Available for Sale	Losses on Securities Transferred From Available for Sale to Held to Maturity	Unrealized Gains (Losses) from Postretirement Plan	Disproportionate Tax Effect from Postretirement Plan	Total
	(Dollars in thousands)					
Balances at beginning of period, net of tax	$(2,492)	$ (17,110)	$ (960)	$ 831	$ 511	$(19,220)
Other comprehensive income before reclassifications	9,895	—	—	—	—	9,895
Amortization of unrealized gains of postretirement plan recognized in other comprehensive income	—	—	—	(651)	—	(651)
Accretion of unrealized losses of securities transferred from available for sale to held to maturity recognized in other comprehensive income	—	—	118	—	—	118
Reclassification adjustment for gains realized in income	(393)	—	—	—	—	(393)
Net current period other	9,502	—	118	(651)	—	8,969

comprehensive income						
Balances at end of period, net of tax	$7,010	$ (17,110)	$ (842)	$ 180	$ 511	$(10,251)

September 30, 2015	Unrealized Gains (Losses) on Securities Available for Sale	Disproportionate Tax Effect from Securities Available for Sale	Losses on Securities Transferred From Available for Sale to Held to Maturity	Unrealized Gains (Losses) from Postretirement Plan	Disproportionate Tax Effect from Postretirement Plan	Total
	(Dollars in thousands)					
Balances at beginning of period, net of tax	$(4,315)	$ (17,110)	$ —	$ 916	$ 511	$(19,998)
Transfer losses from available for sale to held to maturity	999	—	(999)	—	—	—
Other comprehensive income before reclassifications	3,098	—	—	—	—	3,098
Reclassification adjustment for gains realized in income	(7)	—	—	—	—	(7)
Net current period other comprehensive income	3,091	—	—	—	—	3,091
Balances at end of period, net of tax	$(225)	$ (17,110)	$ (999)	$ 916	$ 511	$(16,907)

48

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

The following are significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the three months ended September 30, 2016:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Dollars in thousands)	Affected Line Item on the Statement Where Net Income is Presented
Realized net gains on the sale of available for sale securities	$ 218	Net gains on securities available for sale
	(76)	Tax expense
	142	Net of tax
Amortization of postretirement benefits prior service costs	445	Reduction in salaries and employee benefits
	(156)	Tax expense
	289	Net of tax
Total reclassification during the period	$ 431	Increase to net income

The following is significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the three months ended September 30, 2015:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Dollars in thousands)	Affected Line Item on the Statement Where Net Income is Presented
Realized net gains on the sale of available for sale securities	$ —	Net gains on securities available for sale
	—	Tax expense
Total reclassification during the period	$ —	Net of tax, increase to net income

The following are significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the nine months ended September 30, 2016:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Dollars in thousands)	Affected Line Item on the Statement Where Net Income is Presented
Realized net gains on the sale of available for sale securities	$ 604	Net gains on securities available for sale
	(211)	Tax expense
	393	Net of tax
Amortization of postretirement benefits prior service costs	1,001	Reduction in salaries and employee benefits
	(350)	Tax expense
	651	Net of tax
Total reclassification during the period	$ 1,044	Increase to net income

49

The following are significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the nine months ended September 30, 2015:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Dollars in thousands)	Affected Line Item on the Statement Where Net Income is Presented
Realized net gains on the sale of available for sale securities	$ 11	Net gains on securities available for sale
	(4)	Tax expense
Total reclassification during the period	$ 7	Increase to net income

12. REGULATORY CAPITAL REQUIREMENTS

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

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

The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. The capital conservation buffer for 2016 is 0.625%. The final rule also implemented consolidated capital requirements.

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

	September 30, 2016					
	Actual		Minimum Capital Requirements For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$253,440	17.21 %	$127,008	8.625 %	$ 147,255	10.00 %
Tier 1 capital (to risk-weighted assets)	235,230	15.97 %	97,557	6.625 %	117,804	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	235,230	15.97 %	75,468	5.125 %	95,716	6.50 %
Tier 1 capital (to average assets)**	235,230	11.28 %	83,421	4.000 %	104,276	5.00 %

	December 31, 2015					
			Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$240,697	18.72%	$102,879	8.00%	$ 128,599	10.00 %
Tier 1 capital (to risk-weighted assets)	224,486	17.46%	77,159	6.00%	102,879	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	224,486	17.46%	57,869	4.50%	83,589	6.50 %
Tier 1 capital (to average assets)**	224,486	11.46%	78,347	4.00%	97,934	5.00 %

**Tier 1 Leverage Capital Ratio

Management believes that as of September 30, 2016 and December 31, 2015, Home Savings meets all capital adequacy requirements to which they were subject. As of September 30, 2016 and December 31, 2015, Home Savings was considered well capitalized. There are no known conditions that would change this classification subsequent to September 30, 2016.

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

	September 30, 2016	December 31, 2015
Total shareholders' equity	$ 234,598	$ 220,872
Add (deduct)		
Accumulated other comprehensive income	10,268	19,236
Intangible assets	(4)	(12)
Disallowed deferred tax assets	(9,632)	(15,610)
Disallowed capitalized mortgage loan servicing rights	—	—
Tier 1 Capital	235,230	224,486
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-based assets	18,210	16,211
Total risk-based capital	$ 253,440	$ 240,697

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

	September 30, 2016					
	Actual		Minimum Capital Requirements For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$271,115	18.39 %	$127,163	8.625 %	$ 147,435	10.00 %
Tier 1 capital (to risk-weighted assets)	252,881	17.15 %	97,676	6.625 %	117,948	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	252,881	17.15 %	75,560	5.125 %	95,833	6.50 %
Tier 1 capital (to average assets)**	252,881	12.12 %	83,475	4.000 %	104,344	5.00 %

	December 31, 2015					
	Actual		Minimum Capital Requirements For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$261,732	20.35 %	$102,886	8.00 %	$ 128,608	10.00 %
Tier 1 capital (to risk-weighted assets)	245,503	19.09 %	77,165	6.00 %	102,886	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	245,503	19.09 %	57,874	4.50 %	83,595	6.50 %
Tier 1 capital (to average assets)**	245,503	12.53 %	78,348	4.00 %	97,934	5.00 %

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

	September 30, 2016	December 31, 2015
Total shareholders' equity	$ 256,403	$ 244,245
Add (deduct)		
Accumulated other comprehensive income	10,251	19,220
Intangible assets	(1,542)	(12)
Disallowed deferred tax assets	(12,231)	(17,950)

Disallowed capitalized mortgage loan servicing rights	—	—
Tier 1 Capital	252,881	245,503
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	18,234	16,229
Total risk-based capital	$ 271,115	$ 261,732

52

13. INCOME TAXES

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

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Deferred tax assets:		
Loan loss reserves	$6,382	$ 6,199
Postretirement benefits	104	564
Depreciation	742	611
Other real estate owned valuation	351	430
Tax credits carryforward	1,416	951
Unrealized loss on securities available for sale	—	1,341
Unrealized loss on securities held to maturity	454	517
Interest on nonaccrual loans	978	834
Net operating loss carryforward	10,817	16,903
Purchase accounting adjustment	89	90
Accrued bonuses	799	723
Other	59	50
Deferred tax assets	22,191	29,213
Deferred tax liabilities:		
Deferred loan fees	1,002	510
Federal Home Loan Bank stock dividends	4,585	4,585
Mortgage servicing rights	1,839	1,976
FHLB prepayment penalty	854	1,059
Unrealized gains on securities available for sale	3,775	—
Postretirement benefits accrual	97	447
Prepaid expenses	155	215
Deferred tax liabilities	12,307	8,792
Net deferred tax asset	$9,884	$ 20,421

As of September 30, 2016, the net DTA was $9.9 million, and as of December 31, 2015, the net DTA was $20.4 million.

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

United Community's net operating loss of $30.9 million at September 30, 2016 will be carried forward to use against future taxable income. The net operating loss carryforwards begin to expire in the year ending December 31, 2030. In addition, United Community is carrying forward $1.4 million of alternative minimum tax credits. The alternative minimum tax credits are carried forward indefinitely.

14. BUSINESS COMBINATION

On January 29, 2016, the Company completed the purchase of Forge Financial Services, Inc. d/b/a James & Sons Insurance Company of Youngstown, Ohio. James & Sons Insurance is engaged in the business of selling insurance including auto, commercial, homeowners and life-health insurance. Under the purchase agreement, the Company paid $1.5 million in stock and $360,000 in cash in connection with this acquisition. There were $9,000 in acquisition related costs recognized for the nine months ended September 30, 2016. Total assets purchased were $2.3 million, including $1.6 million in goodwill and other intangible assets. The Company is evaluating the independent valuations received to separate other intangible assets from goodwill.

On September 8, 2016, United Community announced that they have entered into a definitive agreement and plan of merger pursuant to which UCFC will acquire Ohio Legacy Corp, parent of Premier Bank & Trust. Based on United Community's closing price as of September 7, 2016, the transaction is valued at approximately $18.00 per Ohio Legacy common share or approximately $40.3 million in the aggregate. The Company expects to close the transaction in the first quarter of 2017.

Premier Bank & Trust is headquartered in North Canton, Ohio, has approximately $320 million in total assets and operates four full-service banking centers located in North Canton, Fairlawn and St. Clairsville, Ohio as well as a full-service wealth management and trust division.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED COMMUNITY FINANCIAL CORP.

Selected financial ratios and other data: (1)	For the Three Months Ended September 30, 2016		For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
Performance ratios:								
Return on average assets (2)	0.98	%	0.85	%	0.90	%	0.84	%
Return on average equity (3)	8.38	%	6.87	%	7.44	%	6.53	%
Interest rate spread (4)	3.14	%	3.06	%	3.13	%	3.07	%
Net interest margin (5)	3.25	%	3.18	%	3.23	%	3.19	%
Noninterest expense to average assets	2.47	%	2.53	%	2.49	%	2.62	%
Efficiency ratio (6)	59.40	%	63.54	%	61.28	%	65.58	%
Average interest-earning assets to average interest-bearing liabilities	124.21	%	123.29	%	124.74	%	124.35	%
Capital ratios:								
Average equity to average assets	11.72	%	12.45	%	12.08	%	12.92	%
Equity to assets, end of period	11.87	%	12.38	%	11.87	%	12.38	%
Tier 1 leverage ratio (Bank only)	11.28	%	12.01	%	11.28	%	12.04	%
Common equity Tier 1 capital (Bank only)	15.97	%	18.41	%	15.97	%	18.41	%
Tier 1 risk-based capital ratio (Bank only)	15.97	%	18.41	%	15.97	%	18.41	%
Total risk-based capital ratio (Bank only)	17.21	%	19.67	%	17.21	%	19.67	%
Asset quality ratios:								
Nonperforming loans to net loans at end of period (7)	1.32	%	1.20	%	1.32	%	1.20	%
Nonperforming assets to average assets (8)	1.01	%	0.96	%	1.04	%	0.99	%
Nonperforming assets to total assets at end of period	0.98	%	0.95	%	0.98	%	0.95	%
Allowance for loan losses as a percent of loans	1.22	%	1.35	%	1.22	%	1.35	%
Allowance for loan losses as a percent of nonperforming loans (7)	93.76	%	113.96	%	93.76	%	113.96	%
Texas ratio (9)	7.78	%	7.14	%	7.78	%	7.14	%
Total classified assets as a percent of Tier 1 Capital (Bank only)	14.83	%	15.79	%	14.83	%	15.79	%
Total classified loans as a percent of Tier 1 Capital and ALLL (Bank only)	13.06	%	13.35	%	13.06	%	13.35	%
Total classified assets as a percent of Tier 1 Capital and ALLL (Bank only)	13.76	%	14.68	%	13.76	%	14.68	%
Net chargeoffs as a percent of average loans	0.08	%	0.02	%	0.33	%	0.16	%
Total 90+ days past due as a percent of net loans	1.04	%	1.17	%	1.04	%	1.17	%
Per share data:								

Basic earnings per common share (10)	$0.11	$0.09	$0.29	$0.25
Diluted earnings per common share (10)	0.11	0.09	0.29	0.24
Book value per common share (11)	5.51	5.12	5.51	5.12
Tangible book value per common share (12)	5.48	5.12	5.48	5.12
Cash dividend per common share	0.030	0.025	0.080	0.045
Dividend payout ratio (13)	27.27 %	27.78 %	27.59 %	18.75 %

Notes:

1. Ratios for the three and nine-month periods are annualized where appropriate
2. Net income divided by average total assets
3. Net income 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 percent of average interest-earning assets
6. Noninterest expense, excluding the amortization of the core deposit intangible and prepayment penalty, divided by the sum of net interest income and noninterest income, excluding gains and losses on securities and gains and losses on foreclosed assets
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 ALLL

10. Net income divided by the number of basic or diluted shares outstanding
11. Shareholders' equity divided by number of shares outstanding
12. Shareholders' equity minus goodwill and core deposit intangible divided by number of shares outstanding
13. Historical per share dividends declared and paid for the period divided by the diluted earnings per share for that year

Forward-Looking Statements

When used in this Form 10-Q, the words or phrases "will likely result," "are expected to," "plan 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 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.

Material Changes in Financial Condition at September 30, 2016 and December 31, 2015

Total assets increased $172.2 million to $2.2 billion at September 30, 2016, compared to December 31, 2015. Contributing to the change were increases in net loans of $157.8 million and total loans held for sale of $24.5 million.

Funds not currently utilized for general corporate purposes are invested in overnight funds. Cash and cash equivalents increased $8.0 million during the first nine months of 2016.

A decrease in available for sale securities was the result of maturities, paydowns and amortization of securities totaling $32.3 million and sales of $32.7 million. Partially offsetting this activity were purchases aggregating $42.0 million and an increase in the unrealized gain on these securities. The unrealized gain in the available for sale portfolio was $10.8 million at September 30, 2016, compared to an unrealized loss of $3.8 million at December 31, 2015.

Net loans increased $157.8 million during the first nine months of 2016. The increase was a combination of growth in commercial real estate and commercial and industrial loans during the period. See Note 5 to the consolidated financial statements for additional information regarding the composition of net loans.

The allowance for loan losses is a valuation allowance for probable incurred credit losses established through a provision for loan losses charged to expense. The allowance for loan losses was $18.2 million at September 30, 2016, up from $17.7 million at December 31, 2015. The allowance for loan losses as a percentage of loans was 1.22% at September 30, 2016, compared to 1.33% at December 31, 2015. The allowance for loan losses as a percentage of nonperforming loans was 93.76% at September 30, 2016, compared to 105.76% at December 31, 2015. 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". As of September 30, 2016, the Company evaluated 17 quarters of net charge-off history and applied this information to the current period. This component is combined with the qualitative component to arrive at the loss factor, which is applied to the outstanding balance of homogenous loans.

During the first nine months of 2016, the Company recorded a loan loss provision of $3.9 million. This recognition was primarily due to the growth of the loan portfolio and a loss recognized on a commercial real estate loan, partially offset by improvements in qualitative factors. During the first quarter of 2016, the Company determined that an impairment charge to a specific loan was required. After a review of one long-held nonresidential commercial real estate loan, the Company concluded that this loan had become impaired because the borrower is unlikely to perform its obligation in accordance with the terms and conditions of the loan. The Company took a charge of $2.5 million in 2016 to write the loan down to fair value. In addition, a specific reserve was established to cover probable costs.

A loan is considered impaired when there is a deterioration of the credit worthiness of the borrower to the extent that the collection of the full amount of principal and interest is no longer probable. The total outstanding balance of all impaired loans was $40.3 million at September 30, 2016 as compared to $39.7 million at December 31, 2015.

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

TDR loans aggregated $28.0 million at September 30, 2016 compared to $26.3 million at December 31, 2015. Of the $28.0 million at September 30, 2016, $21.1 million were performing loans according to their modified terms. The remaining balance of TDR loans of $6.9 million were considered nonperforming.

Nonperforming loans consist of nonaccrual loans and loans past due 90 days and still accruing. Nonperforming loans were $19.4 million, or 1.32% of net loans, at September 30, 2016, compared to $16.7 million, or 1.27% of net loans, at December 31, 2015.

Loans held for sale, carried at lower of cost or market, were $378,000 at September 30, 2016, compared to $9.1 million at December 31, 2015. Loans held for sale, carried at fair value, were $60.0 million at September 30, 2016, compared to $26.7 million at December 31, 2015. The change was primarily attributable to the originations of permanent construction loans during the period. These loans are not sold until construction of the residence is complete, which is usually within nine to ten months of origination. Additionally, in the first quarter of 2016, Home Savings elected the fair value option for all newly originated fixed rate mortgage loans held for sale. Home Savings continues to sell a majority of its newly originated fixed rate mortgage loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

Real estate owned and other repossessed assets decreased $934,000, or 34.3%, during the nine months ended September 30, 2016. Real estate owned and other repossessed assets are recorded at the fair market value of the property less costs to sell. Appraisals are obtained at least annually on real estate properties that exceed $1.0 million in value. A valuation allowance may be established on any property to properly reflect the asset at fair value.

Goodwill and other intangible assets increased $1.5 million during the first nine months of 2016, due to the completion of the purchase of James & Sons Insurance Company announced on January 29, 2016.

Bank Owned Life Insurance (BOLI) is maintained on select officers and employees of Home Savings whereby Home Savings is the beneficiary. BOLI is recorded at its cash surrender value, or the amount currently realizable. Increases in the Home Savings' policy cash surrender value are tax exempt and death benefit proceeds received by Home Savings are tax-free. Income from these policies and changes in the cash surrender value are recorded in other income. There is no post-termination coverage, split dollar or other benefits provided to participants covered by the BOLI. Home Savings recognized $1.1 million, as other non-interest income based on the change in cash value of the policies in each of the nine months ended September 30, 2016 and 2015.

Other assets decreased $9.1 million, largely due to the change in net deferred tax assets (DTA) during the first nine months of 2016. As of September 30, 2016, the net DTA was $9.9 million, compared to $20.4 million at December 31, 2015. This decrease in deferred tax assets was offset partially by Home Savings investment related to low-income housing aggregating $3.0 million in the third quarter of 2016.

Total deposits increased $37.3 million to $1.5 billion at September 30, 2016, compared to $1.4 billion at December 31, 2015. Non-interest bearing accounts increased $25.4 million, or 11.2%. During the same period, interest-bearing deposits increased $11.9 million, which can be attributed to Home Savings' continued efforts in attracting public funds. As of September 30, 2016, Home Savings had $115.3 million in public funds. As of December 31, 2015, Home Savings had $91.3 million in public funds.

FHLB advances increased from $279.0 million at December 31, 2015 to $405.6 million at September 30, 2016. The change was due to an increase in overnight advances to help fund the growth of the balance sheet.

Advance payments by borrowers for taxes and insurance decreased $6.4 million during the first nine months of 2016. Remittance of real estate taxes and property insurance made on behalf of customers of Home Savings accounted for $2.1 million of the decrease. In addition, funds held for payments received on loans sold where servicing was retained by Home Savings decreased $4.3 million in the same period.

Shareholders' equity increased $12.2 million to $256.4 million at September 30, 2016 from $244.2 million at December 31, 2015. During the first nine months of the year, regular earnings and an increase in other comprehensive income (loss) of $9.0 million as a result of changes in the value of available for sale securities contributed to the increase. The Company continued its common share repurchase program, purchasing approximately 1.6 million shares having a cost of $9.6 million. During the first nine months of the year, the Company paid dividends of $3.8 million. Also affecting the change, the Company issued 262,705 shares for the purchase of James & Sons Insurance.

Book value per common share as of September 30, 2016 was $5.51 as compared to $5.14 per common share as of December 31, 2015. Book value per share is calculated as total common equity divided by the number of common shares outstanding. Book value was impacted by the overall change in equity as mentioned above.

Material Changes in Results of Operations for the Three Months Ended

September 30, 2016 and September 30, 2015

Net Income. United Community recognized net income for the three months ended September 30, 2016, of $5.2 million, or $0.11 per diluted common share compared to net income of $4.1 million for the three months ended September 30, 2015, or $0.09 per diluted share.

The increase in earnings for the third quarter of 2016, compared to the same quarter last year, was primarily a result of higher net interest income and higher noninterest income, which was partially offset by a higher provision for loan losses and higher non-interest expenses.

Net Interest Income. Net interest income was $15.8 million in the third quarter of 2016 up from the $14.3 million recorded in the third quarter of 2015. Net interest margin was 3.25% for the third quarter of 2016 compared to 3.18% in the third quarter of 2015.

Total interest income increased by $1.2 million in the third quarter of 2016 compared to the same period in 2015, to $17.8 million from $16.7 million. The increase is primarily a result of an increase in average net loans and loans held for sale. Average net loans increased $173.0 million in the third quarter compared to the same period in 2015. Offsetting this growth, the yield on average net loans declined 18 basis points to 4.12% for the three months ended September 30, 2016 from 4.30% for the same period in 2015. Interest income from net loans increased to $14.6 million for the quarter ended September 30, 2016 compared to $13.4 million for the same period in 2015, and income from loans held for sale increased to $482,000 for the quarter ended September 30, 2016 compared to $390,000 for the same period in 2015.

Interest expense decreased by $298,000 in the third quarter of 2016 to $2.1 million compared to the same period in 2015. This decrease was due to a twelve basis point decline in the average cost of interest-bearing liabilities in the third quarter of 2016 primarily due to the prepayment of a repurchase agreement in the fourth quarter of 2015. Interest expense related to interest-bearing deposits was $1.4 million in the third quarter of 2016 compared to $1.7 million in the third quarter of 2015. Expenses on FHLB advances and securities sold under repurchase agreements and other borrowings were $661,000 and $5,000 respectively in the third quarter of 2016 compared to $340,000 and $323,000 respectively for the same period in 2015.

The following table shows the impact of interest rate and outstanding balance (volume) changes on tax equivalent interest income and expense compared to the third quarter of 2015. The interest rate spread for the three months ended September 30, 2016 and 2015, was 3.14 % and 3.06%, respectively. The net interest margin increased seven basis points to 3.25% for the three months ended September 30, 2016 compared to 3.18% for the same period in 2015.

	For the Three Months Ended September 30, 2016 vs. 2015		
	Increase (decrease) due to		Total increase
	Rate	Volume	(decrease)
	(Dollars in thousands)		
Interest earning assets:			
Loans	$(536)	$ 1,744	$ 1,208
Loans held for sale	(6)	98	92
Securities:			
Available for sale-taxable	(54)	(915)	(969)
Available for sale-nontaxable	245	244	489
Held to maturity-taxable	(4)	453	449
Held to maturity-nontaxable	(5)	53	48
Federal Home Loan Bank stock	(1)	—	(1)
Other interest earning assets	10	1	11
Total interest earning assets	$(351)	$ 1,678	$ 1,327
Interest bearing liabilities:			
Interest bearing deposits:			
Savings accounts	$(19)	$ 2	$ (17)
Checking accounts	(25)	1	(24)
Certificates of deposit	(184)	(76)	(260)
Federal Home Loan Bank advances:			
Long-term advances	48	5	53
Short-term advances	154	114	268
Repurchase agreements and other	(27)	(291)	(318)
Total interest bearing liabilities	$(53)	$ (245)	(298)
Change in net interest income			$ 1,625

Provision for Loan Losses. A provision for loan losses is charged to income to bring the total allowance for loan losses to a level considered by management to be adequate, based on management's evaluation of such factors as the delinquency status of loans, current economic conditions, the net realizable value of the underlying collateral, changes in the composition of the loan portfolio and prior loan loss experience. The Company recognized a loan loss provision of $1.3 million in the third quarter of 2016, compared to $673,000 in the third quarter of 2015. The increase in provision expense during the third quarter of 2016 was driven by strong loan growth. For the third quarter of 2016, net chargeoffs to average outstanding loans was eight basis points on an annualized basis. This compares to two basis points for the same period in 2015.

Noninterest Income. Non-interest income was $6.0 million in the third quarter of 2016 compared to $4.9 million in the third quarter of 2015. Favorably impacting the change was the benefit of insurance agency income of $451,000 coupled with a 14.5% increase in mortgage banking income along with a 30.1% increase in brokerage income. The Company also recognized security gains of $218,000 in the quarter as the investment portfolio is realigned to include higher-yielding municipal securities. Offsetting these gains was a decrease in debit/credit card fees of $121,000.

Noninterest Expense. Non-interest expense was $13.0 million for the third quarter of 2016, which represented an increase of $693,000, or 5.6%, from the third quarter of 2015. Included in this increase were expenses of $432,000 related to the operation of the insurance agency acquired in January 2016. The efficiency ratio continues to show improvement at 59.40% for the third quarter of 2016 as compared to 63.54% in the same period in 2015.

Income Taxes. During the three months ended September 30, 2016, the Company recognized a tax expense of $2.3 million on pre-tax income of $7.4 million, compared to a tax expense of $2.1 million on pre-tax income of $6.2 million for the three months ended September 30, 2015. The primary reason for the variance was higher pre-tax income. The reduction in the Company’s effective tax rate was due primarily to an increase in municipal securities that are expempt from federal taxation.

Material Changes in Results of Operations for the Nine Months Ended

September 30, 2016 and September 30, 2015

Net Income. United Community recognized net income for the nine months ended September 30, 2016, of $13.8 million, or $0.29 per diluted common share, compared to net income of $12.0 million for the nine months ended September 30, 2015, or $0.24 per diluted share.

The 15.5% increase in earnings for the first nine months of 2016, compared to the same period last year, was primarily a result of higher net interest income due to loan growth, the positive impact of the prepayment of a repurchase agreement and higher non-interest income. These increases were offset partially by a higher provision for loan losses and higher non-interest expenses.

Net Interest Income. Net interest income was $46.0 million in the first nine months of 2016 up from the $42.0 million recorded in the first nine months of 2015. Net interest margin increased four basis points to 3.23% for the first nine of 2016 compared to 3.19% in the first nine months of 2015.

Total interest income increased by $3.4 million in the first nine months of 2016 compared to the same period in 2015, to $52.2 million from $48.8 million. The increase is a result of an increase in average net loans and loans held for sale, offset by lower yields received on these balances. Average net loans increased $177.1 million in the first nine months of 2016 compared to the same period in 2015 and yields declined 21 basis points to 4.13% for the nine months ended September 30, 2016 from 4.34% for the same period in 2015. Average loans held for sale increased $7.7 million in the first nine months of 2016 compared to the same period in 2015, while yields declined to 3.86% for the nine months ended September 30, 2016 from 4.14% for the same period in 2015. Interest income from net loans increased to $42.6 million for the nine months ended September 30, 2016 compared to $39.0 million for the same period in 2015, and income from loans held for sale increased to $1.2 million for the nine months ended September 30, 2016 compared to $1.0 million for the same period in 2015. These increases were partially offset by a decline of $353,000 in income on available for sale and held to maturity securities.

Interest expense decreased by $500,000 in the first nine months of 2016 to $6.3 million compared to $6.8 million during the same period in 2015. This decrease was due to a ten basis point decline in the average cost of interest-bearing liabilities in the first nine of 2016 primarily due to the prepayment of a repurchase agreement in the fourth quarter of 2015. Interest expense related to interest-bearing deposits was $4.5 million in the first nine months of 2016 compared to $4.9 million in the first nine months of 2015. Expenses on FHLB advances and securities sold under repurchase agreements and other borrowings were $1.8 million and $16,000 respectively in the first nine months of 2016 compared to $947,000 and $958,000 respectively for the same period in 2015.

The following table shows the impact of interest rate and outstanding balance (volume) changes on tax equivalent interest income and expense compared to the first nine months of 2015. The interest rate spread for the nine months ended September 30, 2016 and 2015, was 3.13 % and 3.07%, respectively. The net interest margin increased four basis points to 3.23% for the nine months ended September 30, 2016 compared to 3.19% for the same period in 2015.

	For the Nine Months Ended September 30, 2016 vs. 2015 Increase (decrease) due to		
	Rate	Volume	Total increase (decrease)
	(Dollars in thousands)		
Interest earning assets:			
Loans	$(1,741)	$5,356	$ 3,615
Loans held for sale	(63)	215	152
Securities:			
Available for sale-taxable	10	(2,803)	(2,793)
Available for sale-nontaxable	559	559	1,118
Held to maturity-taxable	(3)	1,553	1,550
Held to maturity-nontaxable	(6)	215	209
Federal Home Loan Bank stock	1	—	1
Other interest earning assets	25	(1)	24
Total interest earning assets	$(1,218)	$5,094	$ 3,876
Interest bearing liabilities:			
Interest bearing deposits:			
Savings accounts	$(26)	$4	$ (22)
Checking accounts	—	16	16
Certificates of deposit	(294)	(65)	(359)
Federal Home Loan Bank advances:			
Long-term advances	116	13	129
Short-term advances	395	283	678
Repurchase agreements and other	(28)	(914)	(942)
Total interest bearing liabilities	$163	$(663)	(500)
Change in net interest income			$ 4,376

Provision for Loan Losses. A provision for loan losses is charged to income to bring the total allowance for loan losses to a level considered by management to be adequate, based on management's evaluation of such factors as the delinquency status of loans, current economic conditions, the net realizable value of the underlying collateral, changes in the composition of the loan portfolio and prior loan loss experience. The Company recognized a loan loss provision of $3.9 million in the first nine months of 2016, compared to $1.2 million in the first nine months of 2015. The increase in provision expense during the first nine months of 2016 was driven by strong loan growth. Additionally, the Company recorded a charge of $2.5 million during 2016, related to one long-held nonresidential commercial real estate loan. For the nine months ended September 30, 2016, net chargeoffs to average outstanding loans was 33 basis points on an annualized basis. This compares to 16 basis points for the same period in 2015.

Noninterest Income. Non-interest income was $16.4 million in the first nine months of 2016 compared to $14.3 million in the comparable period in 2015. Positively impacting the comparison was the benefit of insurance agency income totaling $1.3 million. Also contributing to the change was an increase of 7.7% of deposit related fees along with an increase of 29.3% in brokerage income and a 5.0% increase in debit/credit card fees, for a total of $668,000. The first nine months also saw security gains totaling $604,000. These increases were partially offset by a $702,000 negative valuation adjustment of mortgage servicing rights.

Noninterest Expense. Non-interest expense was $38.3 million for the nine months ended September 30, 2016, which represented an increase of $1.1 million, or 3.0%, from the nine months ended September 30, 2015. As in the quarter to quarter comparison, the acquisition of the insurance company and its operating expenses to date of $948,000 negatively affected the current nine months. Also affecting the comparison, equipment and data processing charges increased $543,000 and Financial Institutions Tax increased $360,000. The efficiency ratio was 61.28% for the first nine months of 2016 compared to 65.58% for the same period in 2015.

Income Taxes. During the nine months ended September 30, 2016, the Company recognized a tax expense of $6.4 million on pre-tax income of $20.2 million, compared to a tax expense of $5.9 million on pre-tax income of $17.9 million for the nine months ended September 30, 2015. The primary reason for the variance was higher pre-tax income offset by the Company's investment in non-taxable municipal securities.

Liquidity

United Community's liquidity, primarily represented by cash and cash equivalents, is a result of its operating, investing and financing activities.

The principal sources of funds for United Community are deposits, loan repayments, maturities of securities, borrowings from financial institutions, repurchase agreements and other funds provided by operations. Home Savings also has the ability to borrow from the Federal Home Loan Bank. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan prepayments are more influenced by interest rates, general economic conditions and competition. Investments in liquid assets maintained by United Community and Home Savings are based upon management's assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset and liability management program. At September 30, 2016, approximately $248.5 million of Home Savings' certificates of deposit were expected to mature within one year. Based on past experience and Home Savings' prevailing pricing strategies, management believes that a substantial percentage of such certificates will be renewed with Home Savings at maturity, although there can be no assurance that this will occur.

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

At September 30, 2016, United Community had total on-hand liquidity, defined as cash and cash equivalents, unencumbered securities and additional FHLB borrowing capacity, of $466.5 million.

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 months ended September 30, 2016 and 2015. Average balance calculations were based on daily balances.

	For the Three Months Ended							
	September 30, 2016				2015			
	Average outstanding balance	Interest earned/ paid	Yield/ rate		Average outstanding balance	Interest earned/ paid	Yield/ rate	
	(Dollars in thousands)							
Interest earning assets:								
Net loans [1]	$1,422,294	$14,634	4.12	%	$1,249,316	$13,426	4.30	%
Loans held for sale	49,095	482	3.93	%	39,078	390	3.99	%
Securities:								
Available for sale-taxable	300,522	1,630	2.17	%	469,049	2,599	2.22	%
Available for sale-nontaxable [2]	49,489	489	3.95	%	—	—	0.00	%
Held to maturity-taxable	92,077	466	2.02	%	2,256	17	3.01	%
Held to maturity-nontaxable [2]	13,563	100	2.95	%	6,211	52	3.35	%
Federal Home Loan Bank stock	18,068	180	3.98	%	18,068	181	4.01	%
Other interest earning assets	20,028	19	0.38	%	17,779	8	0.18	%
Total interest earning assets	1,965,136	18,000	3.66	%	1,801,757	16,673	3.70	%
Non-interest earning assets	132,922				137,495			
Total assets	$2,098,058				$1,939,252			
Interest bearing liabilities:								
Deposits:								
Checking accounts	$491,553	238	0.19	%	$488,924	262	0.21	%
Savings accounts	290,998	24	0.03	%	279,894	41	0.06	%
Certificates of deposit	425,307	1,127	1.06	%	450,917	1,387	1.23	%
Federal Home Loan Bank advances								
Long-term advances	47,432	319	2.69	%	46,651	266	2.28	%
Short-term advances	326,250	342	0.42	%	164,489	74	0.18	%
Repurchase agreements and other	520	5	3.85	%	30,544	323	4.23	%
Total interest bearing liabilities	$1,582,060	2,055	0.52	%	$1,461,419	2,353	0.64	%
Non-interest bearing liabilities								
Noninterest-bearing deposits	242,310				211,923			
Other noninterest-bearing liabilities	27,769				24,524			
Total noninterest bearing liabilities	270,079				236,447			
Total liabilities	$1,852,139				$1,697,866			
Shareholders' equity	245,919				241,386			
Total liabilities and equity	$2,098,058				$1,939,252			
Net interest income and interest rate spread		$15,945	3.14	%		$14,320	3.06	%

Net interest margin	3.25 %	3.18 %
Average interest earning assets to average interest bearing liabilities	124.21 %	123.29 %

(1) Nonaccrual loans are included in the average balance at a yield of 0%.
(2) Yields are on a fully taxable equivalent basis.

63

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 months ended September 30, 2016 and 2015. Average balance calculations were based on daily balances.

	For the Nine Months Ended					
	September 30, 2016			2015		
	Average outstanding balance	Interest earned/ paid	Yield/ rate	Average outstanding balance	Interest earned/ paid	Yield/ rate
	(Dollars in thousands)					
Interest earning assets:						
Net loans [1]	$1,374,588	$42,622	4.13 %	$1,197,521	$39,007	4.34 %
Loans held for sale	40,689	1,177	3.86 %	33,038	1,025	4.14 %
Securities:						
Available for sale-taxable	317,752	5,346	2.24 %	484,358	8,139	2.24 %
Available for sale-nontaxable [2]	36,681	1,118	4.06 %	—	—	0.00 %
Held to maturity-taxable	95,671	1,567	2.18 %	760	17	2.98 %
Held to maturity-nontaxable [2]	12,308	279	3.02 %	2,821	70	3.31 %
Federal Home Loan Bank stock	18,068	542	4.00 %	18,068	541	3.99 %
Other interest earning assets	19,144	49	0.34 %	20,347	25	0.16 %
Total interest earning assets	1,914,901	52,700	3.67 %	1,756,913	48,824	3.71 %
Non-interest earning assets	133,202			133,203		
Total assets	$2,048,103			$1,890,116		
Interest bearing liabilities:						
Deposits:						
Checking accounts	$492,698	765	0.21 %	$482,685	749	0.21 %
Savings accounts	288,911	99	0.05 %	280,382	121	0.06 %
Certificates of deposit	435,569	3,633	1.11 %	442,842	3,992	1.20 %
Federal Home Loan Bank advances						
Long-term advances	47,238	915	2.58 %	46,458	786	2.26 %
Short-term advances	270,193	839	0.41 %	130,009	161	0.17 %
Repurchase agreements and other	526	16	4.06 %	30,549	958	4.18 %
Total interest bearing liabilities	$1,535,135	6,267	0.54 %	$1,412,925	6,767	0.64 %
Non-interest bearing liabilities						
Noninterest-bearing deposits	237,281			205,773		
Other noninterest-bearing liabilities	28,279			27,215		
Total noninterest bearing liabilities	265,560			232,988		
Total liabilities	$1,800,695			$1,645,913		
Shareholders’ equity	247,408			244,203		
Total liabilities and equity	$2,048,103			$1,890,116		
Net interest income and interest rate spread		$46,433	3.13 %		$42,057	3.07 %
Net interest margin			3.23 %			3.19 %
Average interest earning assets to average interest			124.74 %			124.35 %

bearing liabilities

(1) Nonaccrual loans are included in the average balance at a yield of 0%.
(2) Yields are on a fully taxable equivalent basis.

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 to annually set exposure limits for Home Savings as a guide to management in setting and implementing day to day operating strategies.

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

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

Presented below are analyses of Home Savings' interest rate risk as measured by changes in NPV and net interest income for instantaneous and sustained parallel shifts of 100 basis point increments in market interest rates. As noted, for the year ended December 31, 2015, and the quarter ended September 30, 2016, 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, 2016

NPV as % of portfolio value of assets					Next 12 months net interest income (Dollars in thousands)		
Change in rates (Basis points)	NPV Ratio	Internal policy limitations	Change in %	Internal policy limitations on NPV Change	$ Change	Internal policy limitations	% Change
400	10.77%	6.00%	(1.14)%	30.00%	$(7,245)	(20.00)%	(11.39)%
300	11.45%	6.00%	(0.46)%	25.00%	(5,535)	(15.00)%	(8.70)%

200	12.08%	7.00 %	0.17 %	20.00 %	(3,379)	(10.00)%	(5.31)%
100	12.40%	7.00 %	0.49 %	15.00 %	(1,541)	(5.00)%	(2.42)%
Static	11.91%	9.00 %	— %	0.00 %	—	— %	— %

Year Ended December 31, 2015

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
400	11.91%	6.00 %	(1.71)%	30.00 %	$(4,740)	(20.00)%	(7.95)%
300	12.59%	6.00 %	(1.03)%	25.00 %	(3,585)	(15.00)%	(6.01)%
200	13.19%	7.00 %	(0.43)%	20.00 %	(2,484)	(10.00)%	(4.16)%
100	13.65%	7.00 %	0.03 %	15.00 %	(1,365)	(5.00)%	(2.29)%
Static	13.62%	9.00 %	— %	0.00 %	—	— %	— %

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

65

As with any method of measuring interest rate risk, certain shortcomings are inherent in the above approach. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Also, 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.

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, 2016. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that United Community's disclosure controls and procedures as of September 30, 2016, were effective in ensuring that information required to be disclosed in the reports that United Community files or submits under the Exchange Act was recorded, processed, summarized and reported on a timely basis, including those controls and procedures designed to ensure that such information is accumulated and communicated to management, including United Community's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. During the quarter ended September 30, 2016, there were no changes in United Community's internal control over financial reporting that have materially affected or are reasonably likely to materially affect United Community's internal control over financial reporting.

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 material changes in United Community's risk factors as outlined in United Community's Annual Report on Form 10-K for the year ended December 31, 2015. 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.

(a) None.
(b) Not applicable.
(c) The following table provides information concerning purchases of United Community's common shares made by United Community during the three months ended September 30, 2016:

Period	Total number of common shares purchased	Average price paid per common share	Total number of common shares purchased as part of publicly announced plans	Maximum number of shares that may yet be purchased under the plan
July 1 through July 31, 2016	—	$ —	—	1,750,734
August 1 through August 31, 2016	21,984	$ 6.75	21,984	1,728,750
September 1 through September 30, 2016[1]	41,616	$ 7.18	41,421	1,687,329
Total	63,600	$ 7.03	63,405	1,687,329

(1) In September 2016, United Community purchased 195 shares at $6.56 per share from employees for the payment of employment taxes. The purchase of these shares was not part of United Community's share repurchase program.

(2)

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

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Mine Safety Disclosures

Not Applicable

ITEM 5. Other Information

(a) None.
(b) None.

ITEM 6. Exhibits.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated September 8, 2016, by and between United Community and Ohio Legacy Corp.*
	*Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted scheduels and exhibits upon request by the Securities and Exchange Commission.
3.1	Articles of Incorporation (reflecting all amendments filed with the Ohio Secretary of State) [for purposes of SEC reporting compliance only – not filed with the Ohio Secretary of State]
3.2	Amended Code of Regulations
31.1	Section 302 Certification by Chief Executive Officer
31.2	Section 302 Certification by Chief Financial Officer
32	Section 1350 Certifications by Chief Executive Officer and Chief Financial Officer
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Unaudited Consolidated Financial Statements.

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 8, 2016	/s/ Gary M. Small Gary M. Small President and Chief Executive Officer (Principal Executive Officer)
Date: November 8, 2016	/s/ Timothy W. Esson Timothy W. Esson Executive Vice President and Chief Financial Officer (Principal Financial Officer)

UNITED COMMUNITY FINANCIAL CORP.

Exhibit 3.1

Incorporated by reference to Exhibit 3.1 in the Third Quarter 2016 Form 10-Q filed by United Community on August 1, 2016 with the SEC, film number 161811451.

Exhibit 3.2

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