UNITED COMMUNITY FINANCIAL CORP
Form 10-Q
August 07, 2018

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 June 30, 2018

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, a non-accelerated filer, a smaller reporting company or emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

Indicate by 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: 49,929,496 common shares as of July 31, 2018.

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PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

UNITED COMMUNITY FINANCIAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Assets:		
Cash and deposits with banks	$32,584	$ 34,365
Federal funds sold	34,393	12,515
Total cash and cash equivalents	66,977	46,880
Securities:		
Available for sale, at fair value	247,630	270,561
Held to maturity, (fair value of $78,194 and $82,126, respectively)	81,294	82,911
Loans held for sale, at lower of cost or market	—	211
Loans held for sale, at fair value	107,701	83,541
Loans, net of allowance for loan losses of $21,405 and $21,202	2,099,781	1,999,877
Federal Home Loan Bank stock, at cost	19,324	19,324
Premises and equipment, net	21,645	22,094
Accrued interest receivable	8,454	8,190
Real estate owned and other repossessed assets, net	877	1,253
Goodwill	20,221	20,221
Customer list intangible	1,980	2,060
Core deposit intangible	1,769	1,934
Cash surrender value of life insurance	63,354	62,488
Other assets	29,551	28,360
Total assets	$2,770,558	$ 2,649,905
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$383,082	$ 354,970
Interest bearing		
Customer deposits	1,563,043	1,445,293
Brokered deposits	189,220	156,476
Total interest bearing deposits	1,752,263	1,601,769
Total deposits	2,135,345	1,956,739
Borrowed funds:		
Federal Home Loan Bank advances		
Long-term Federal Home Loan Bank advances	48,927	48,536
Short-term Federal Home Loan Bank advances	248,000	308,000
Total Federal Home Loan Bank advances	296,927	356,536

Repurchase agreements and other	191	197
Total borrowed funds	297,118	356,733
Advance payments by borrowers for taxes and insurance	19,253	25,038
Accrued interest payable	964	1,097
Accrued expenses and other liabilities	16,394	16,033
Total liabilities	2,469,074	2,355,640
Shareholders' Equity:		
Preferred stock-no par value; 1,000,000 shares authorized and no shares issued or outstanding	—	—
Common stock-no par value; 499,000,000 shares authorized; 54,138,910 shares issued and 49,904,074 and 49,800,126 shares, respectively, outstanding	177,311	177,458
Retained earnings	179,965	167,852
Accumulated other comprehensive loss	(24,077)	(18,685)
Treasury stock, at cost, 4,234,836 and 4,338,784 shares, respectively	(31,715)	(32,360)
Total shareholders' equity	301,484	294,265
Total liabilities and shareholders' equity	$2,770,558	$ 2,649,905

See Notes to Consolidated Financial Statements.

UNITED COMMUNITY FINANCIAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Interest income				
Loans	$23,275	$20,011	$46,034	$37,569
Loans held for sale	1,012	872	1,870	1,533
Securities available for sale, nontaxable	356	418	744	836
Securities available for sale, taxable	1,193	1,479	2,408	3,081
Securities held to maturity, nontaxable	61	52	112	114
Securities held to maturity, taxable	398	454	820	919
Federal Home Loan Bank stock dividends	274	227	554	441
Other interest earning assets	92	40	169	120
Total interest income	26,661	23,553	52,711	44,613
Interest expense				
Deposits	3,790	1,987	6,887	3,608
Federal Home Loan Bank advances	1,576	1,064	2,996	2,019
Repurchase agreements and other	—	8	—	16
Total interest expense	5,366	3,059	9,883	5,643
Net interest income	21,295	20,494	42,828	38,970
(Recovery) provision for loan losses	(138)	842	269	2,317
Net interest income after provision for loan losses	21,433	19,652	42,559	36,653
Non-interest income				
Insurance agency income	513	472	1,090	945
Brokerage income	300	301	572	623
Deposit related fees	1,392	1,411	2,692	2,701
Mortgage servicing fees	813	729	1,625	1,465
Mortgage servicing rights valuation	(20)	(2)	(11)	(5)
Mortgage servicing rights amortization	(542)	(486)	(1,042)	(935)
Other service fees	61	33	99	62
Net gains (losses):				
Securities available for sale (includes $94, $301, $233, and $330, respectively, accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities)	94	301	233	330
Mortgage banking income	1,205	2,117	2,563	3,440
Real estate owned and other repossessed assets, net	(113)	(18)	(191)	(70)
Debit/credit card fees	1,177	1,326	2,126	2,249
Trust fees	473	420	942	702

Other income	499	486	973	967
Total non-interest income	5,852	7,090	11,671	12,474
Non-interest expense				
Salaries and employee benefits	8,937	8,749	18,935	17,724
Occupancy	950	943	2,050	1,907
Equipment and data processing	2,372	2,306	4,526	4,385
Financial institutions tax	495	510	991	1,000
Advertising	290	265	525	389
Amortization of intangible assets	132	113	245	196
FDIC insurance premiums	288	340	578	528
Other insurance premiums	109	109	218	221
Legal and consulting fees	147	184	446	413
Other professional fees	499	420	890	940
Supervisory fees	42	—	84	—
Real estate owned and other repossessed asset expenses	34	23	70	85
Acquisition costs	—	—	—	4,962
Other expenses	1,235	1,214	2,572	2,716
Total non-interest expenses	15,530	15,176	32,130	35,466
Income before income taxes	11,755	11,566	22,100	13,661
Income tax expense (includes $20, $105, $49 and $115 income tax expense from reclassification items)	2,214	3,377	4,003	3,934
Net income	$9,541	$8,189	$18,097	$9,727

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UNITED COMMUNITY FINANCIAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Net income	$9,541	$8,189	$18,097	$9,727
Other comprehensive (loss) income				
Unrealized (loss) gain on securities, available for sale, net of reclassifications and tax of $ 381, $842, $1,449 and $1,362, respectively	(1,433)	1,562	(5,453)	2,527
Accretion of unrealized losses on securities transferred from available for sale to held to maturity, net of tax of $8, $17, $16 and $35, respectively	31	32	61	65
Total other comprehensive (loss) income	(1,402)	1,594	(5,392)	2,592
Comprehensive income	$8,139	$9,783	$12,705	$12,319
Earnings per share				
Basic	$0.19	$0.16	$0.36	$0.20
Diluted	0.19	0.16	0.36	0.20

See Notes to Consolidated Financial Statements.

UNITED COMMUNITY FINANCIAL CORP.

CONDENSED 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, 2018	49,800,126	$177,458	$167,852	$ (18,685)	$(32,360)	$294,265
Net income			18,097			18,097
Other comprehensive loss				(5,392)		(5,392)
Stock option exercises	70,101	(292)			524	232
Stock option expense		32				32
Restricted stock grants	57,985	(433)			433	—
Restricted stock forfeitures	(807)					—
Restricted stock expense		477			(6)	471
Vesting of Long-term Incentive Plan	36,871	69			275	344
Cash dividend payments ($0.12 per share)			(5,984)			(5,984)
Treasury stock purchases	(60,202)				(581)	(581)
Balance June 30, 2018	49,904,074	$177,311	$179,965	$ (24,077)	$(31,715)	$301,484

	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, 2017	46,581,370	$174,360	$152,675	$ (21,040)	$(56,189)	$249,806
Net income			9,727			9,727
Other comprehensive income				2,592		2,592
Stock option exercises	33,418	(176)			250	74
Stock option expense		1				1
Restricted stock grants	68,761	(511)			511	—
Restricted stock expense		456				456
Vesting of Long-term Incentive Plan	68,783	87			510	597
Purchase of Ohio Legacy Corp.	3,033,604	3,261			22,555	25,816
Cash dividend payments ($0.06 per share)			(2,980)			(2,980)
Treasury stock purchases	(70,915)				(609)	(609)
Balance June 30, 2017	49,715,021	$177,478	$159,422	$ (18,448)	$(32,972)	$285,480

See Notes to Consolidated Financial Statements.

UNITED COMMUNITY FINANCIAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30,	
	2018	2017
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$18,097	$9,727
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	269	2,317
Mortgage banking income	(4,760)	(540)
Changes in fair value on loans held for sale	2,197	(2,900)
Net losses on real estate owned and other repossessed assets sold	191	70
Net gain on available for sale securities sold	(233)	(330)
Amortization of premiums and accretion of discounts	2,781	1,911
Depreciation and amortization	1,359	1,321
Net change in interest receivable	(264)	159
Net change in interest payable	(133)	176
Net change in prepaid and other assets	(3,545)	2,268
Net change in other liabilities	705	2,924
Stock based compensation	503	457
Net principal disbursed on loans originated for sale	(165,861)	(114,733)
Proceeds from sale of loans held for sale	143,172	121,673
Net change in deferred tax assets	3,547	(2,043)
Cash surrender value of life insurance	(866)	(767)
Net cash from operating activities	(2,841)	21,690
Cash Flows from Investing Activities		
Proceeds from the principal repayments and maturities of securities available for sale	5,488	16,063
Proceeds from the principal repayments and maturities of securities held to maturity	4,428	8,732
Proceeds from the sale of securities available for sale	10,361	53,171
Proceeds from the sale of real estate owned and other repossessed assets	674	881
Proceeds from the sale of loans held for investment	—	2,250
Proceeds from the sale of premises and equipment	—	3
Purchases of premises and equipment	(893)	(1,547)
Principal disbursed on loans, net of repayments	(82,540)	(111,004)
Loans purchased	(18,246)	(27,039)
Purchase of securities held to maturity	(3,000)	—
Net cash received in acquisitions	—	25,672
Net cash from investing activities	(83,728)	(32,818)
Cash Flows from Financing Activities		
Net increase in checking, savings and money market accounts	79,339	47,573
Net increase in certificates of deposit	99,451	65,291
Net decrease in advance payments by borrowers for taxes and insurance	(5,785)	(2,356)

Net change in short-term FHLB advances	(60,000)	(86,500)
Net change in repurchase agreements and other borrowed funds	(6)	(3,238)
Proceeds from the exercise of stock options	232	74
Dividends paid	(5,984)	(2,980)
Purchase of treasury stock	(581)	(609)
Net cash from financing activities	106,666	17,255
Change in cash and cash equivalents	20,097	6,127
Cash and cash equivalents, beginning of period	46,880	45,887
Cash and cash equivalents, end of period	$66,977	$52,014

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 in the State of Ohio in February 1998 for the purpose of owning all of the outstanding capital stock of Home Savings and Loan Company of Youngstown, Ohio (Home Savings and Loan) issued upon the conversion of Home Savings and Loan from a mutual savings association to a permanent capital stock savings association (Conversion). Upon consummation of the Conversion on July 8, 1998, United Community became the unitary thrift holding company for Home Savings and Loan. Immediately following United Community's acquisition of Ohio Legacy Corp. (OLCB) on January 31, 2018, Home Savings and Loan was merged into Premier Bank & Trust, OLCB's wholly-owned, state-chartered bank subsidiary (PB&T), and the surviving bank changed its name to Home Savings Bank. In connection with OLCB acquisition, United Community became a financial holding company, and Home Savings Bank, its wholly-owned bank subsidiary following the merger (Home Savings or the Bank), is now an Ohio bank.

Home Savings conducts its business from its main office located in Youngstown, Ohio, 35 retail banking offices, 13 loan production centers and three wealth management offices located throughout Ohio, western Pennsylvania, West Virginia, southeast Michigan, Indiana and Kentucky.

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

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

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

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 six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. 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, 2017.

The consolidated financial statements include the accounts of United Community and its subsidiaries, Home Savings, HSB Insurance, LLC, HSB Capital, LLC and HSB Insurance, Inc. 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

On January 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, ASC 606), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revised when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Company's revenues come from interest income and other sources, including loans and securities, which are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include insurance agency income, brokerage income, deposit related fees, debit/credit card income, trust income and the sale of other real estate owned. Refer to Note 4, Revenue Recognition for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The new guidance was effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance did not have a material effect on the consolidated financial statements and revised disclosures related to the fair value of loans.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02 - Leases (Topic 842) (ASU 2012-02). ASU 2012-02 will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity's leasing activities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements and expects to recognize an increase in other assets and other liabilities for the rights and obligations created by leasing of branch offices. Management also expects minimal impact in the income statement with respect to occupancy expense related to leases.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), 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 ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15’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 ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. 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. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

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

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

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting (ASU 2017-09). ASU 2017-09 applies to entities that change the terms or conditions of a share-based payment award. The FASB adopted ASU 2017-09 to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to the modification of the terms and conditions of a share-based payment award.

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

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

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

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

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception (ASU 2017-11). ASU 2017-11 simplifies the accounting for certain financial instruments with down round features, a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings.

ASU 2017-11 will require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize the effect of the trigger within equity.

The provisions of ASU 2017-11 related to down rounds are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). These amendments revise and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period (i.e., the initial application date). The adoption of this guidance is not expected to have an impact on the Company’s consolidated financial statements.

In May 2018, the FASB issued ASU 2018-06, Codification Improvements to Topic 942, Financial Services—Depository and Lending (ASU 2018-06). ASU 2018-06 removes outdated guidance related to the Office of the Comptroller of the Currency's Banking Circular 202, Accounting for Net Deferred Tax Charges (Circular 202) in Subtopic 942-740, Financial Services – Depository and Lending – Income Taxes. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07). The FASB issued ASU 2018-07 intending to reduce cost and complexity and to improve financial reporting for nonemployee share-based payments. ASU 2018-07 expands the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. ASU 2018-07 supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. The amendments in ASU 2018-07 are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other companies, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. Management expects minimal impact in the income statement with respect to stock-based compensation.

In July, the FASB issued ASU 2018-09, Codification Improvements. ASU 2018-09 affects a wide variety of Topics in the Codification. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. The adoption of this guidance is not expected to have an impact of the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases (ASU 2018-10). ASU 2018-10, among other things, amends Topic 842 affecting narrow aspects of the guidance issued in the amendments in ASU 2016-02. The amendments in ASU 2018-10 affect the amendments in ASU 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of ASU 2018-10, and the transition requirements are the same as those in Topic 842.

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 (SARs), 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 with respect to awards issued under the 2007 Plan that 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, SARs, or other forms of stock-based incentive awards. Because the 2007 Plan terminated, no additional awards may be made under it.

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 with respect to 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 50,000 stock options granted under the 2015 Plan during the six months ended June 30, 2018 and none granted during the six months ended June 30, 2017. Pursuant to the terms of the 2015 Plan, any options granted must be exercised within 10 years from the date of grant. Expenses related to prior stock option grants are included with salaries and employee benefits. The Company recognized $19,000 and $32,000 in stock option expense for the three and six months ended June 30, 2018, respectively. The Company recognized $0 and $1,000 in stock option expense for the three and six months ended June 30, 2017, respectively. The Company expects to recognize an additional $39,000 in stock option expense for the remainder of 2018.

A summary of option activity for the six months ended June 30, 2018 in the 2015 Plan, the 2007 Plan and the 1999 Plan is as follows:

	For the six months ended June 30, 2018		
	Shares	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	260,533	$ 2.55	
Granted	50,000	9.66	
Exercised	(70,101)	3.31	
Forfeited and expired	—	—	
Outstanding at end of period	240,432	3.81	$ 1,726
Shares subject to options exercisable at end of period	190,432	2.28	$ 1,659

Information related to stock options for the six months ended June 30, 2018 and 2017 follows:

	June 30, 2018	June 30, 2017
Intrinsic value of options exercised	$450,486	$208,633
Cash received from option exercises	232,000	74,000
Tax benefit realized from option exercises	67,298	73,022
Weighted average fair value of options granted, per share	$1.54	$—

Information related to stock options granted during the six months ended June 30, 2018 were as follows:

	Six Months Ended June 30, 2018
Risk-free interest rate	2.69 %
Expected term (years)	5
Expected stock volatility	19.68 %
Dividend yield	2.48 %

As of June 30, 2018, there were 50,000 nonvested stock options outstanding.

Outstanding stock options at June 30, 2018 have a weighted average remaining life of 3.93 years and may be exercised in the range of $1.20 to $9.66 per share.

Restricted Stock Awards:

The 2007 Plan permitted and the 2015 Plan permits the issuance of restricted stock awards to eligible employees and nonemployee directors. Nonvested shares at June 30, 2018 aggregated 223,816, of which 24,908 are expected to vest during the remainder of 2018, 124,237 in 2019, 40,315 in 2020 and 34,356 in 2021. Expense related to restricted stock awards is charged to salaries and employee benefits and is recognized over the vesting period of the awards based on the fair value of the shares at the grant date. The Company recognized approximately $229,000 and $471,000 in restricted stock award expense for the three and six months ended June 30, 2018, respectively. The Company recognized approximately $185,000 and $456,000 in restricted stock award expense for the three and six months ended June 30, 2017, respectively. The Company expects to recognize additional expenses related to restricted stock awards of approximately $410,000 in 2018, $456,000 in 2019, $236,000 in 2020 and $112,000 in 2021. The total average per share fair value of shares vested during the six months ended June 30, 2018 was $9.47.

A summary of changes in the Company’s nonvested restricted shares for the six months ended June 30, 2018 is as follows:

	For the six months ended June 30, 2018	
	Shares	Weighted average grant date fair value
Nonvested at beginning of year	277,035	$ 6.73
Granted	57,985	$ 9.75
Vested	(110,397)	$ 6.23
Forfeited	(807)	$ 7.48
Nonvested shares at end of period	223,816	$ 7.75

Annual Incentive Plan

The Annual Incentive Plan (AIP) provides incentive compensation awards to certain officers of the Company. Annual 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 AIP are calculated, they are paid in cash and/or 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 $95,000 and $190,000 in expense for the restricted stock portion of the AIP for the three and six months ended June 30, 2018 and $426,000 and $871,000 for the cash portion of the AIP for the three and six months ended June 30, 2018. The Company incurred $46,000 and $122,000 in expense for the restricted stock portion of the AIP for the three and six months ended June 30, 2017 and $434,000 and $930,000 for the cash portion of the AIP for the three and six months ended June 30, 2017.

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 $212,000 and $381,000 for the LTIP for the three and six months ended June 30, 2018. The Company incurred $(4,000) and $149,000 in expense for the LTIP for the three and six months ended June 30, 2017, respectively.

4. REVENUE RECOGNITION

The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this result, the following five steps are applied:

Step 1: Identify the contract(s) with the customer

Step 2: Identify the performance obligation(s) in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The new revenue guidance applies to all contracts with customers to provide goods or services in the ordinary course of business, except for loans and securities, which are specifically excluded from the scope.

Because loans and securities are outside the scope of the revenue standard, the Company will not use the new standard to account for gains and losses on its investments in securities, loans and derivatives. The Company also will not use the standard to account for interest and dividend income on financial instruments owned or those included in the Company's lending activities.

Home Savings' servicing of loans sold to investors requires Home Savings to provide specific administrative functions for the owner(s) of these assets. These administrative functions include collecting cash flows from borrowers and remitting them to beneficial interest holders, monitoring delinquencies and executing foreclosures. Servicing rights that relate to transferred financial assets meet the conditions for sale accounting under ASC 860. ASC 860 requires the recognition of a servicing asset or liability when the benefits of servicing obtained from the contract are respectively greater than or less than adequate compensation (as defined in ASC 860) for performing the servicing. While ASC 860 provides initial recognition and subsequent measurement guidance for recognized servicing assets and liabilities, it does not include any explicit guidance for recognizing contractually specified servicing fees when servicing income is equal to adequate compensation. Therefore, income from servicing financial assets in the scope of ASC 860 is not in the scope of ASC 606, regardless of whether a servicing asset or liability exists. This is because ASC 606 contains an exception to its scope for contracts that fall under ASC 860.

Deposit-related fees and charges are in the scope of ASC 606, even though ASC 405 is listed as an exception to the scope of the standard. That is because ASC 405, which the Company applies to determine the appropriate liability accounting for customer deposits, does not provide a model for recognizing fees related to customer deposits (e.g., automated teller machine fees, nonsufficient funds fees, account maintenance or dormancy fees). When reviewing standard customer agreements, fees are charged as the service is rendered and therefore there are no changes to recognizing income for deposit-related fees.

The Company records real estate owned and other repossessed assets (OREO) at fair value less costs to sell upon foreclosure. The objective is to sell OREO within a short period of time because of regulatory and capital requirements. After foreclosure, these assets are carried at the lower of their carrying amount or their fair value less selling costs, so significant gains and losses are uncommon upon sale. OREO is often sold in a transaction that, under the standard, may not be considered a contract with a customer because the sale of the asset is not an output of the entity’s ordinary activities. However, sales of nonfinancial assets, including in substance nonfinancial assets, should be accounted for using new guidance in ASC 610-20, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets, which requires entities to apply certain measurement and recognition concepts of ASC 606. Accordingly, the Company recognizes the sale of a real estate property, along with any associated gain or loss, when control of the property transfers to the buyer. For sales of existing real estate properties, this generally will occur at a point in time.

Insurance agency income is within the scope of ASC 606. The majority (75%) of the Company's insurance agency income is derived from direct-bill customers. With this arrangement, the customer is billed directly from the insurance carrier. As a result, the insurance carrier pays a commission to the Company upon completion of the required documentation (policy application or renewal) and recognizes income at that time. Due to the nature and timing of receipt of these commissions, there will be no change in the manner in which income is recognized. Agency-billed customers account for approximately 25% of the overall insurance agency income. Premiums are collected from customers and remitted to the insurance carrier, net of commission, within a short period of time. At the time the premiums are remitted to the insurance carrier, all work is completed and revenue recognized at that time. Due to the nature and timing of when the premiums are recognized, there will be no change to the timing of the recognition of insurance agency income.

Debit card fee income is earned as a result of standard interchange fees contractually obligated by Visa to be paid. Fees are paid when they are essentially earned, which include fees charged to a merchant for the presentment of credit/debit card transactions (interchange). The service is considered complete upon fulfillment of the transaction when the interchange fee is earned and paid. Credit card fees are paid when earned as a result of an agreement between the bank and a third party provider. AS a result, there is no change to the timing of recognition of this income.

Trust fee income is calculated based on assets under management. Fees are recognized at the end of the month to which the service has been provided for customers billed monthly. This amounts of approximately 85% of trust fee income recognized, which is collected within a short period of time after the fee is assessed to the customer. Quarterly and annual fees are accrued and collected based on the contractual agreements with customers. Fees are assessed to these customers and paid at the end of each quarter. Due to the nature and timing of when monthly fees are assessed, there will be no change to the way those fees are currently recognized. Quarterly and annual fees will continue to be recognized over the period when the fees are earned, regardless of when they are assessed to the customer.

Brokerage revenue is recognized each month as sales occur. Brokerage revenue is paid from sales to customers by a third-party. In a manner similar to that of insurance agency revenue, income is paid directly to the Bank by the third-party once the sale to the customer is complete. Due to the nature and timing of when the income is earned, there will be no change to timing of when this income is recognized.

5. SECURITIES

Components of the available for sale portfolio are as follows:

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value

	(Dollars in thousands)			
Available for Sale				
U.S. Treasury and government sponsored entities' securities	$124,639	$ —	$ (4,201)	$120,438
States of the U.S. and political subdivisions	48,414	65	(834)	47,645
Other	489	—	—	$489
Mortgage-backed GSE securities: residential	82,134	35	(3,111)	79,058
Total	$255,676	$ 100	$ (8,146)	$247,630

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

Components of held to maturity securities portfolio are as follows:

	June 30, 2018			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Fair value
	(Dollars in thousands)			
Held to maturity				
Mortgage-backed GSE securities: residential	$69,077	$ —	$ (2,967)	$66,110
States of the U.S. and political subdivisions	12,217	25	(158)	12,084
Total	$81,294	$ 25	$ (3,125)	$78,194

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

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

	June 30, 2018	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$—	$—
Due after one year through five years	53,039	51,469
Due after five years through ten years	72,155	69,529
Due after ten years	47,859	47,085
Other	489	489
Mortgage-backed GSE securities: residential	82,134	79,058
Total	$255,676	$247,630

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

	June 30, 2018	
	Amortized cost	Fair value

	(Dollars in thousands)	
Due in one year or less	$3,000	$3,024
Due after one year through five years	—	—
Due after five years through ten years	8,442	8,297
Due after ten years	775	763
Mortgage-backed GSE securities: residential	69,077	66,110
Total	$81,294	$78,194

Securities pledged for public funds were approximately $141.3 million at June 30, 2018 and approximately $129.8 million at December 31, 2017.

Securities available for sale that have been in an unrealized loss position for less than twelve months or twelve months or more at June 30, 2018 are as follows:

	June 30, 2018					
	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	$99,820	$ (3,238)	$20,618	$ (963)	$120,438	$ (4,201)
States of the U.S. and political subdivisions	22,769	(419)	13,669	(415)	36,438	(834)
Mortgage-backed GSE securities: residential	26,475	(978)	51,901	(2,133)	78,376	(3,111)
Total temporarily impaired securities	$149,064	$ (4,635)	$86,188	$ (3,511)	$235,252	$ (8,146)

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, 2017 are as follows:

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
	(Dollars in thousands)					
Description of securities:						
U.S. Treasury and government sponsored entities	$99,766	$ (734)	$21,222	$ (450)	$120,988	$ (1,184)
States of the U.S. and political subdivisions	—	—	14,009	(138)	14,009	(138)
Mortgage-backed GSE securities: residential	28,837	(154)	57,588	(684)	86,425	(838)
Total temporarily impaired securities	$128,603	$ (888)	$92,819	$ (1,272)	$221,422	$ (2,160)

All of the U.S. treasury and government sponsored entities and mortgage-backed securities available for sale that were temporarily impaired at June 30, 2018 and December 31, 2017, were impaired due to the level of interest rates at the time of purchase compared to current interest rates. Unrealized losses on these securities have not been recognized into income during the three and six months ended June 30, 2018 and 2017 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 held for sale that were temporarily impaired at June 30, 2018 and December 31, 2017, were impaired due to the level of interest rates at the time of purchase compared to current interest rates. Unrealized losses on these securities have not been recognized into income for the three and six months ended June 30, 2018 or 2017 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, and has no intent to sell, the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

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

	June 30, 2018					
	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	$—	$ —	$66,110	$ (3,924)	$66,110	$ (3,924)
States of the U.S. and political subdivisions	8,349	(158)	—	—	8,349	(158)
Total temporarily impaired securities	$8,349	$ (158)	$66,110	$ (3,924)	$74,459	$ (4,082)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
	(Dollars in thousands)					
Description of securities:						
Mortgage-backed GSE securities: residential	$—	$ —	$72,792	$ (1,925)	$72,792	$ (1,925)
States of the U.S. and political subdivisions	608	(7)	—	—	608	(7)
Total temporarily impaired securities	$608	$ (7)	$72,792	$ (1,925)	$73,400	$ (1,932)

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 unrealizable 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.

All of the mortgage-backed securities held to maturity that were temporarily impaired at June 30, 2018 and December 31, 2017, were impaired due to the level of interest rates at the time of purchase compared to current interest rates. Unrealized losses on these securities have not been recognized into income for the three and six months ended June 30, 2018 and 2017 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 held to maturity that were temporarily impaired at June 30, 2018, and December 31, 2017, were impaired due to the level of interest rates at the time of purchase compared to current interest rates. Unrealized losses on these securities have not been recognized into income for the three and six months ended June 30, 2018 or 2017 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 and has no intent 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.

Proceeds from the sale of available for sale securities were $5.7 million and $48.1 million, for the three months ended June 30, 2018 and 2017, respectively. Gross gains of $94,000 and $345,000 were realized on these sales during the three months ended June 30, 2018 and 2017, respectively. Gross losses of $0 and $44,000 were realized on these sales during these same periods.

Proceeds from the sale of available for sale securities were $10.4 million and $53.2 million, for the six months ended June 30, 2018 and 2017, respectively. Gross gains of $233,000 and $374,000 were realized on these sales during the six months ended June 30, 2018 and 2017, respectively. Gross losses of $0 and $44,000 were realized during the six months ended June 30, 2018 and 2017, respectively.

6. LOANS

Portfolio loans consist of the following:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial loans		
Multifamily	$141,004	$120,480
Nonresidential	396,624	381,611
Land	16,887	15,162
Construction	127,691	116,863
Secured	212,173	177,994
Unsecured	6,438	10,506
Total commercial loans	900,817	822,616
Residential mortgage loans		
One-to four-family	888,583	870,939
Construction	40,623	49,092
Total residential mortgage loans	929,206	920,031
Consumer loans		
Home equity	187,771	195,852
Auto	83,829	64,364
Marine	1,404	1,526
Recreational vehicle	4,879	5,696
Other	7,026	6,056
Total consumer loans	284,909	273,494
Total loans	2,114,932	2,016,141
Less:		
Allowance for loan losses	21,405	21,202

Deferred loan costs, net	(6,254)	(4,938)
Total	15,151	16,264
Loans, net	$2,099,781	$1,999,877

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 June 30, 2018 and December 31, 2017 and activity for the three and six months ended June 30, 2018 and 2017.

Allowance For Loan Losses

	Commercial Loans	Residential Loans	Consumer Loans	Total
	(Dollars in thousands)			
For the three months ended June 30, 2018				
Beginning balance	$13,095	$5,701	$2,814	$21,610
Provision (recovery)	(263)	180	(55)	(138)
Charge-offs	(75)	(96)	(83)	(254)
Recoveries	51	82	54	187
Ending balance	$12,808	$5,867	$2,730	$21,405
For the six months ended June 30, 2018				
Beginning balance	$12,542	$5,860	$2,800	$21,202
Provision	133	87	49	269
Charge-offs	(75)	(181)	(269)	(525)
Recoveries	208	101	150	459
Ending balance	$12,808	$5,867	$2,730	$21,405
As of June 30, 2018				
Period-end amount allocated to:				
Loans individually evaluated for impairment	$514	$834	$313	1,661
Loans collectively evaluated for impairment	12,239	5,033	2,417	19,689
Loans acquired with deteriorated credit quality	55	—	—	55
Ending balance	$12,808	$5,867	$2,730	$21,405
Period-end balances:				
Loans individually evaluated for impairment	3,119	14,455	6,204	23,778
Loans collectively evaluated for impairment	896,607	914,751	278,705	2,090,063
Loans acquired with deteriorated credit quality	1,091	—	—	1,091
Ending balance	$900,817	$929,206	$284,909	$2,114,932

Allowance For Loan Losses

	Commercial Loans	Residential Loans	Consumer Loans	Total
For the three months ended June 30, 2017				
Beginning balance	$ 10,182	$ 5,912	$ 2,876	$ 18,970
Provision	503	295	44	842
Charge-offs	(12)	(273)	(150)	(435)
Recoveries	148	34	101	283
Ending balance	$ 10,821	$ 5,968	$ 2,871	$ 19,660
For the six months ended June 30, 2017				
Beginning balance	$ 10,824	$ 5,538	$ 2,725	$ 19,087
Provision	1,025	865	427	2,317
Charge-offs	(1,323)	(503)	(479)	(2,305)
Recoveries	295	68	198	561
Ending balance	$ 10,821	$ 5,968	$ 2,871	$ 19,660
As of December 31, 2017				
Period-end amount allocated to:				
Loans individually evaluated for impairment	$ 516	$ 1,145	$ 398	$ 2,059
Loans collectively evaluated for impairment	11,971	4,715	2,402	19,088
Loans acquired with deteriorated credit quality	55	—	—	55
Ending balance	$ 12,542	$ 5,860	$ 2,800	$ 21,202
Period-end balances:				
Loans individually evaluated for impairment	$ 3,356	$ 16,140	$ 6,754	$ 26,250
Loans collectively evaluated for impairment	818,066	903,891	266,740	1,988,697
Loans acquired with deteriorated credit quality	1,194	—	—	1,194
Ending balance	$ 822,616	$ 920,031	$ 273,494	$ 2,016,141

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 June 30, 2018, the Company evaluated 24 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.

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The following table presents loans individually evaluated for impairment by class of loans as of and for six months ended June 30, 2018:

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	$ 28	$ —	$ —	$ —	$ —	$ —
Nonresidential	630	137	—	100	4	4
Land	706	—	—	6	—	—
Construction	2,457	—	—	—	—	—
Secured	1,115	907	—	901	—	—
Unsecured	184	—	—	—	—	—
Total commercial loans	5,120	1,044	—	1,007	4	4
Residential mortgage loans						
One-to four-family	6,918	5,994	—	5,602	74	58
Construction	—	—	—	—	—	—
Total residential mortgage loans	6,918	5,994	—	5,602	74	58
Consumer loans						
Home equity	1,496	1,224	—	1,087	11	10
Auto	29	22	—	33	—	—
Marine	553	181	—	181	—	—
Recreational vehicle	520	100	—	122	4	4
Other	1	—	—	6	—	—
Total consumer loans	2,599	1,527	—	1,429	15	14
Total	$ 14,637	$ 8,565	$ —	$ 8,038	$ 93	$ 76
With a specific allowance recorded						
Commercial loans						
Multifamily	$ 422	$ 275	$ 28	$ 275	$ —	$ —
Nonresidential	1,235	1,232	13	1,356	52	44
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Secured	819	568	473	579	—	—
Unsecured	—	—	—	—	—	—
Total commercial loans	2,476	2,075	514	2,210	52	44
Residential mortgage loans						
One-to four-family	8,574	8,461	834	9,793	233	195
Construction	—	—	—	—	—	—
Total residential mortgage loans	8,574	8,461	834	9,793	233	195
Consumer loans						

Home equity	4,282	4,201	295	4,505	123	110
Auto	—	—	—	—	—	—
Marine	95	95	1	97	2	2
Recreational vehicle	393	381	17	393	11	10
Other	—	—	—	—	—	—
Total consumer loans	4,770	4,677	313	4,995	136	122
Total	15,820	15,213	1,661	16,998	421	361
Total impaired loans	$ 30,457	$ 23,778	$ 1,661	$ 25,036	$ 514	$ 437

The following table presents loans individually evaluated for impairment by class of loans as of and for six months ended June 30, 2017:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded						
Commercial loans						
Multifamily	$470	$ 413	$ —	$ 277	$ 3	$ 3
Nonresidential	2,030	1,464	—	1,040	50	49
Land	3,922	9	—	17	—	—
Construction	3,593	—	—	—	—	—
Secured	242	190	—	190	—	—
Unsecured	500		—	—	—	—
Total commercial loans	10,757	2,076	—	1,524	53	52
Residential mortgage loans						
One-to four-family	7,704	5,762	—	6,095	50	41
Construction	—	—	—	—	—	—
Total residential mortgage loans	7,704	5,762	—	6,095	50	41
Consumer loans						
Home equity	1,965	1,535	—	1,577	8	7
Auto	34	18	—	11	—	—
Marine	540	169	—	210	—	—
Recreational vehicle	560	152	—	164	5	5
Other	—	—	—	—	—	—
Total consumer loans	3,099	1,874	—	1,962	13	12
Total	$21,560	$ 9,712	$ —	$ 9,581	$ 116	$ 105
With a specific allowance recorded						
Commercial loans						
Multifamily	$—	$ —	$ —	$ —	$ —	$ —
Nonresidential	501	456	5	2,164	12	11
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Secured	—	—	—	57	—	—
Unsecured	—	—	—	—	—	—
Total commercial loans	501	456	5	2,221	12	11
Residential mortgage loans						
One-to four-family	10,526	10,428	1,171	10,764	273	229
Construction	—	—	—	—	—	—
Total residential mortgage loans	10,526	10,428	1,171	10,764	273	229
Consumer loans						

Home equity	4,973	4,919	377	5,212	151	134
Auto	—	—	—	—	—	—
Marine	104	104	1	106	3	3
Recreational vehicle	702	691	62	681	14	13
Other	—	—	—	—	—	—
Total consumer loans	5,779	5,714	440	5,999	168	150
Total	16,806	16,598	1,616	18,984	453	390
Total impaired loans	$ 38,366	$ 26,310	$ 1,616	$ 28,565	$ 569	$ 495

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

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no specific allowance recorded			
Commercial loans			
Multifamily	$ 41	$ —	$ —
Nonresidential	651	144	—
Land	716	9	—
Construction	2,467	—	—
Secured	1,042	894	—
Unsecured	187	—	—
Total commercial loans	5,104	1,047	—
Residential mortgage loans			
One-to four-family	6,432	5,441	—
Construction	—	—	—
Total residential mortgage loans	6,432	5,441	—
Consumer loans			
Home equity	1,399	1,059	—
Auto	29	14	—
Marine	553	181	—
Recreational vehicle	578	151	—
Other	3	3	—
Total consumer loans	2,562	1,408	—
Total	$ 14,098	$ 7,896	$ —
With a specific allowance recorded			
Commercial loans			
Multifamily	$ 422	$ 275	$ 28
Nonresidential	1,455	1,423	16
Land	—	—	—
Construction	—	—	—
Secured	893	611	472
Unsecured	—	—	—
Total commercial loans	2,770	2,309	516
Residential mortgage loans			
One-to four-family	10,874	10,699	1,145
Construction	—	—	—
Total residential mortgage loans	10,874	10,699	1,145
Consumer loans			
Home equity	4,921	4,840	377

Auto	—	—	—
Marine	100	100	1
Recreational vehicle	418	406	20
Other	—	—	—
Total consumer loans	5,439	5,346	398
Total	19,083	18,354	2,059
Total impaired loans	$ 33,181	$ 26,250	$ 2,059

The following table presents the average balance, interest income recognized and cash basis income recognized for loans individually evaluated for impairment by class of loans for the three months ended June 30, 2018:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Commercial loans			
Multifamily	$ —	$ —	$ —
Nonresidential	78	1	1
Land	5	—	—
Construction	—	—	—
Secured	905	—	—
Unsecured	—	—	—
Total commercial loans	988	1	1
Residential mortgage loans			
One-to four-family	5,683	30	30
Construction	—	—	—
Total residential mortgage loans	5,683	30	30
Consumer loans			
Home equity	1,101	6	6
Auto	42	—	—
Marine	181	—	—
Recreational vehicle	108	2	2
Other	8	—	—
Total consumer loans	1,440	8	8
Total	$ 8,111	$ 39	$ 39
With a specific allowance recorded			
Commercial loans			
Multifamily	$ 275	$ —	$ —
Nonresidential	1,323	22	22
Land	—	—	—
Construction	—	—	—
Secured	563	—	—
Unsecured	—	—	—
Total commercial loans	2,161	22	22
Residential mortgage loans			
One-to four-family	9,340	98	96
Construction	—	—	—
Total residential mortgage loans	9,340	98	96
Consumer loans			
Home equity	4,338	57	56
Auto	—	—	—
Marine	96	1	1
Recreational vehicle	387	5	5
Other	—	—	—
Total consumer loans	4,821	63	62
Total	16,322	183	180

Total impaired loans	$ 24,433	$ 222	$ 219

The following table presents the average balance, interest income recognized and cash basis income recognized for loans individually evaluated for impairment by class of loans for the three months ended June 30, 2017:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Commercial loans			
Multifamily	$ 416	$ —	$ —
Nonresidential	815	25	25
Land	9	—	—
Construction	—	—	—
Secured	190	—	—
Unsecured	—	—	—
Total commercial loans	1,430	25	25
Residential mortgage loans			
One-to four-family	5,763	20	20
Construction	—	—	—
Total residential mortgage loans	5,763	20	20
Consumer loans			
Home equity	1,574	3	3
Auto	16	—	—
Marine	182	—	—
Recreational vehicle	186	2	2
Other	—	—	—
Total consumer loans	1,958	5	5
Total	$ 9,151	$ 50	$ 50
With a specific allowance recorded			
Commercial loans			
Multifamily	$ —	$ —	$ —
Nonresidential	1,179	5	5
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	1,179	5	5
Residential mortgage loans			
One-to four-family	10,783	114	111
Construction	—	—	—
Total residential mortgage loans	10,783	114	111
Consumer loans			
Home equity	5,151	66	66
Auto	—	—	—
Marine	105	1	1
Recreational vehicle	708	7	6
Other	—	—	—
Total consumer loans	5,964	74	73
Total	17,926	193	189

Total impaired loans	$ 27,077	$ 243	$ 239

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Home Savings reclassifies a collateralized mortgage loan and a consumer loan 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 June 30, 2018 and December 31, 2017, but legal title, deed in lieu of foreclosure or similar legal agreement to the property has not yet been obtained:

	June 30, 2018		December 31, 2017	
	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Mortgage loans in process of foreclosure	$3,587	$ 3,452	$2,588	$ 2,428
Consumer loans in process of foreclosure	1,148	1,058	613	608

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans as of June 30, 2018:

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

As of June 30, 2018

	Nonaccrual	Loans past due over 90 days and still accruing
	(Dollars in thousands)	
Commercial loans		
Multifamily	$275	$ —
Nonresidential	1,111	—
Land	—	—
Construction	—	—
Secured	1,475	—
Unsecured	—	—
Total commercial loans	2,861	—
Residential mortgage loans		

One-to four-family	6,146		—
Construction	—		—
Total residential mortgage loans	6,146		—
Consumer Loans			
Home equity	1,477		—
Auto	63		—
Marine	181		—
Recreational vehicle	62		—
Other	—		—
Total consumer loans	1,783		—
Total nonaccrual loans and loans past due over 90 days and still accruing	$10,790	$	—

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

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

As of December 31, 2017

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

The following table presents an age analysis of past-due loans, segregated by class of loans as of June 30, 2018:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Commercial loans						
Multifamily	$ —	$ —	$ 275	$ 275	$ 140,729	$ 141,004
Nonresidential	114	—	1,094	1,208	395,416	396,624
Land	—	—	—	—	16,887	16,887
Construction	—	—	—	—	127,691	127,691
Secured	92	—	1,474	1,566	210,607	212,173
Unsecured	—	—	—	—	6,438	6,438
Total commercial loans	206	—	2,843	3,049	897,768	900,817
Residential mortgage loans						
One-to four-family	2,683	1,327	3,991	8,001	880,582	888,583
Construction	—	—	—	—	40,623	40,623
Total residential mortgage loans	2,683	1,327	3,991	8,001	921,205	929,206
Consumer Loans:						
Home equity	746	295	1,261	2,302	185,469	187,771
Automobile	188	55	57	300	83,529	83,829
Marine	—	—	181	181	1,223	1,404
Recreational vehicle	68	51	62	181	4,698	4,879
Other	4	2	—	6	7,020	7,026
Total consumer loans	1,006	403	1,561	2,970	281,939	284,909
Total loans	$ 3,895	$ 1,730	$ 8,395	$ 14,020	$ 2,100,912	$ 2,114,932

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

Past Due Loans

(Dollars in thousands)

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

As of June 30, 2018 and December 31, 2017, the Company has a recorded investment in troubled debt restructurings of $18.2 million and $19.8 million, respectively. The Company allocated $1.2 million of specific allowance for those loans at June 30, 2018 and $1.6 million at December 31, 2017. The Company has committed to lend, to existing troubled debt restructuring relationships, additional amounts totaling up to $39,000 and $37,000 at June 30, 2018 and December 31, 2017, respectively.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended June 30, 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(In thousands)	
Commercial loans			
Multifamily	—	$ —	$ —
Nonresidential	—	—	—
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	—	—	—
Residential mortgage loans			
One-to four-family	3	521	547
Construction	—	—	—
Total residential mortgage loans	3	521	547
Consumer loans			
Home equity	2	113	113
Auto	—	—	—
Marine	—	—	—
Recreational vehicle	—	—	—
Other	—	—	—
Total consumer loans	2	113	113
Total restructured loans	5	$ 634	$ 660

The troubled debt restructurings described above increased the allowance for loan losses by $3,000 and resulted in no charge-offs during the three months ended June 30, 2018.

There were no loans modified as a troubled debt restructuring that occurred during the three months ended June 30, 2017.

The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ended June 30, 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(In thousands)	
Commercial loans			
Multifamily	—	$ —	$ —
Nonresidential	1	124	124
Land	—	—	—
Construction	—	—	—
Secured	—	—	—
Unsecured	—	—	—
Total commercial loans	1	124	124
Residential mortgage loans			
One-to four-family	3	521	547
Construction	—	—	—
Total residential mortgage loans	3	521	547
Consumer loans			
Home equity	2	113	113
Auto	—	—	—
Marine	—	—	—
Recreational vehicle			
Other	—	—	—
Total consumer loans	2	113	113
Total restructured loans	6	$ 758	$ 784

The troubled debt restructurings described above increased the allowance for loan losses by $3,000 and resulted in no charge-offs during the six months ended June 30, 2018.

The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ended June 30, 2017:

	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	1	75	84
Construction	—	—	—
Total residential mortgage loans	1	75	84
Consumer loans			
Home equity	—	—	—
Auto	—	—	—
Marine	—	—	—
Recreational vehicle	1	115	115
Other	—	—	—
Total consumer loans	1	115	115
Total restructured loans	2	$ 190	$ 199

The troubled debt restrucurings described above increased the allowance for loan losses by $6,000 and resulted in no charge-offs during the six months ended June 30, 2017.

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 June 30, 2018.

	Number of loans	Recorded Investment (Dollars in thousands)
Commercial loans		
Multifamily	—	$ —
Nonresidential	1	121
Land	—	—
Construction	—	—
Secured	—	—
Unsecured	—	—
Total commercial loans	1	121
Residential mortgage loans		
One-to four-family	2	357
Construction	—	—
Total residential mortgage loans	2	357
Consumer loans		
Home equity	—	—
Auto	—	—
Marine	—	—
Recreational vehicle	—	—
Other	—	—
Total consumer loans	—	—
Total restructured loans	3	$ 478

The troubled debt restructurings that subsequently defaulted described above resulted in no charge-offs during the three and six months ended June 30, 2018, 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 June 30, 2017:

	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	164
Construction	—	—
Total residential mortgage loans	1	164
Consumer loans		
Home equity	1	47
Auto	—	—
Marine	—	—
Recreational vehicle	—	—
Other	—	—
Total consumer loans	1	47
Total restructured loans	2	$ 211

The troubled debt restructurings that subsequently defaulted described above resulted in no of charge-offs during the three and six months ended June 30, 2017, 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. 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 June 30, 2018 and December 31, 2017, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

June 30, 2018

(Dollars in thousands)

	Unclassified		Classified				
		Special				Total	
							Total
	Unclassified	Mention	Substandard	Doubtful	Loss	Classified	Loans
Commercial Loans							
Multifamily	$138,238	$2,491	$275	$ —	$ —	$ 275	$141,004
Nonresidential	379,794	5,162	11,668	—	—	11,668	396,624
Land	16,887	—	—	—	—	—	16,887
Construction	119,065	8,626	—	—	—	—	127,691
Secured	186,069	4,851	21,253	—	—	21,253	212,173
Unsecured	6,345	—	93	—	—	93	6,438
Total commercial loans	846,398	21,130	33,289	—	—	33,289	900,817
Residential mortgage loans							
One-to four-family	880,779	1,102	6,702	—	—	6,702	888,583
Construction	40,623	—	—	—	—	—	40,623
Total residential mortgage loans	921,402	1,102	6,702	—	—	6,702	929,206
Consumer Loans							
Home equity	186,276	—	1,495	—	—	1,495	187,771
Auto	83,766	—	63	—	—	63	83,829
Marine	1,223	—	181	—	—	181	1,404
Recreational vehicle	4,817	—	62	—	—	62	4,879
Other	7,025	—	1	—	—	1	7,026
Total consumer loans	283,107	—	1,802	—	—	1,802	284,909
Total loans	$2,050,907	$22,232	$41,793	$ —	$ —	$ 41,793	$2,114,932

December 31, 2017

(Dollars in thousands)

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

Purchased Credit Impaired Loans:

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

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial loans	$1,091	$ 1,194
Residential mortgage loans	—	—
Consumer loans	—	—
Outstanding balance	$1,091	$ 1,194
Carrying amount, net of allowance of $55,000 and $55,000	1,036	1,139

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(Dollars in thousands)			
Beginning of period	$110	$ 128	$ 110	$ —
New loans purchased	—	—	—	158
Accretion of income	6	12	6	42
Balance at end of period	$104	$ 116	$ 104	$ 116

For the purchased credit impaired loans disclosed above, there was no change in the allowance for loan losses for the three and six months ended June 30, 2018 and 2017.

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

	June 30, 2018	June 30, 2017
	(Dollars in thousands)	
Loans at beginning of period	$1,194	$—
Loans purchased during the period	—	1,797
Loans at end of period	1,091	1,438

7. MORTGAGE BANKING ACTIVITIES

Mortgage loans serviced for others, which are not reported in United Community's assets, totaled $1.3 billion as of June 30, 2018 and $1.3 billion as of December 31, 2017. Mortgage banking income is comprised of gains recognized on the sale of loans and changes in fair value of mortgage banking derivatives.

The principal balances of mortgage loans serviced for others are as follows:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Mortgage loan portfolios serviced for:		
FHLMC	$999,051	$ 1,003,441
FNMA	290,200	242,444
Private investor	18,775	23,404

During the second quarter of 2017, the Company sold $27.9 million of adjustable rate one-to four-family mortgages to a private investor in a bulk mortgage loan sale. The Company recognized 45 basis points of mortgage service release premium as part of the gain recognized on this sale. Customer escrow balances with loans serviced for FHLMC, FNMA and the private investor totaled $11.1 million and $15.3 million at June 30, 2018 and December 31, 2017, respectively.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			

Balance, beginning of period	$6,843	$5,977	$6,681	$6,070
Originations	641	670	1,303	1,026
Amortized to expense	(542)	(486)	(1,042)	(935)
Balance, end of period	6,942	6,161	6,942	6,161
Less valuation allowance	(20)	(5)	(20)	(5)
Net balance	$6,922	$6,156	$6,922	$6,156

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Balance, beginning of period	$—	$ (3)	$(9)	$ —
Impairment charges	(20)	(2)	(20)	(5)
Recoveries	—	—	9	—
Balance, end of period	$(20)	$ (5)	$(20)	$ (5)

The fair value of mortgage servicing rights as of June 30, 2018, was approximately $11.7 million and at December 31, 2017, the fair value was approximately $10.9 million.

Key economic assumptions in measuring the value of mortgage servicing rights at June 30, 2018, and December 31, 2017, were as follows:

	June 30, 2018	December 31, 2017
Weighted average prepayment rate	140 PSA	181 PSA
Weighted average life (in years)	7.37	6.35
Weighted average discount rate	11.00%	9.00%

8. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Real estate owned and other repossessed assets	$1,125	$ 1,656
Valuation allowance	(248)	(403)
End of period	$877	$ 1,253

Activity in the valuation allowance was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(Dollars in thousands)			
Beginning of period	$287	$ 549	$ 403	$ 1,012
Additions (recoveries) charged to expense	10	—	33	(38)
Sales of real estate owned with a valuation allowance	(49)	(160)	(188)	(585)
End of period	$248	$ 389	$ 248	$ 389

Expenses related to foreclosed and repossessed assets include:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(Dollars in thousands)			
Net loss on sales	$103	$ 18	$ 158	$ 108
Provision for (recovery of) unrealized losses	10	—	33	(38)
Operating expenses, net of rental income	34	23	70	85

Total expenses	$147	$ 41	$ 261	$ 155

9. 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), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

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

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

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Home Savings. Once received, a member of the Special Assets Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with the independent data sources such as recent market data or industry-wide statistics. 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 conventional residential one-to four-family loans held for sale originated after January 1, 2016 and all permanent construction loans held for sale originated on or after January 1, 2015. The fair value of conventional loans held for sale is determined using the current 15 day forward contract price for either 15 or 30 year conventional mortgages (Level 2).

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

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 June 30, 2018 Using:		
	June 30, 2018	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	$ 120,438	$ —	$ 120,438	$ —
States of the U.S. and political subdivisions	47,645	—	47,645	—
Other	489	489	—	—
Mortgage-backed GSE securities: residential	79,058	—	79,058	—
Loans held for sale, at fair value	107,701	—	31,011	76,690
Purchased certificate of deposit option	472	—	472	—
Liabilities				
Written certificate of deposit option	(472)	—	(472)	—

		Fair Value Measurements at December 31, 2017 Using:		
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

	(Dollars in thousands)			
Assets:				
Available for sale securities				
U.S. Treasury and government sponsored entities' securities	$123,817	$ —	$ 123,817	$ —
States of the U.S. and political subdivisions	59,623	—	59,623	—
Mortgage-backed GSE securities: residential	87,121	—	87,121	—
Loans held for sale, at fair value	83,541	—	18,525	65,016
Purchased certificate of deposit option	809	—	809	—
Liabilities				
Written certificate of deposit option	(809)	—	(809)	—

There were no transfers between Level 1 and Level 2 during the first six months of 2018 or fiscal year 2017.

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 months ended June 30, 2018 and 2017.

	Loans Held for Sale, At Fair Value			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
	(Dollars in thousands)			
Balance of recurring Level 3 assets at beginning of period	$64,552	$67,439	$65,016	$53,761
Total gains (losses) for the period				
Included in change in fair value of loans held for sale	19	1,822	(2,139)	2,412
Included in other comprehensive income	—	—	—	—
Originations/Draws on construction perm loans	35,517	25,945	62,327	51,245
Amortization	—	—	—	—
Sales	(23,398)	(25,211)	(48,514)	(37,423)
Balance of recurring Level 3 assets at end of period	$76,690	$69,995	$76,690	$69,995

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2018:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Loans held for sale, at fair value	$76,690	Comparable sales	Time discount	0.00-2.00%

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

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Construction loans held for sale	$65,016	Comparable sales	Time discount	0.00-1.96%

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.

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 June 30, 2018 Using:		
	June 30, 2018	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				
Multifamily	$247	$ —	$ —	$ 247
Residential loans				
One-to four-family residential	131	—	—	131
Consumer loans				
Auto	16	—	—	16
Marine	38	—	—	38
Mortgage servicing rights	240	—	240	—
Other real estate owned, net				
Commercial loans				
Construction loans	227	—	—	227
Residential loans				
One-to four-family residential	59	—	—	59

		Fair Value Measurements at December 31, 2017 Using:		
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Assets:				
Impaired loans:				
Commercial loans				
Multifamily	$247	$ —	$ —	$ 247
Nonresidential	2	—	—	2
Secured	40	—	—	40
Residential loans				

One-to four-family residential	1,010	—	—	1,010
Consumer loans				
Home Equity	89	—	—	89
Auto	13	—	—	13
Marine	169	—	—	169
Recreational vehicle	86	—	—	86
Mortgage servicing rights	382	—	382	—
Other real estate owned, net				
Commercial loans				
Construction loans	354	—	—	354
Residential loans				
One-to four-family residential	82	—	—	82

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 $432,000 at June 30, 2018, that includes a specific valuation allowance of $490,000. This resulted in an increase of the provision for loan losses of $105,000 and $147,000 during the three and six months ended June 30, 2018, 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 $1.4 million at June 30, 2017, which includes a specific valuation allowance of $5,000. This resulted in an increase in the provision for loan losses of $252,000 and $479,000 for the three and six months ended June 30, 2017. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net carrying amount of $1.7 million at December 31, 2017, that includes a specific valuation allowance of $491,000.

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 June 30, 2018, $240,000 in mortgage servicing rights were carried at fair value, resulting in a net valuation allowance of $20,000. At June 30, 2017, mortgage servicing rights carried at fair value totaled $87,000, resulting in a net valuation allowance of $5,000. Mortgage servicing rights are valued by an independent third party that is active in purchasing and selling these instruments. A net impairment reflected in other income totaled $20,000 and $11,000 for the three and six months ended June 30, 2018, respectively. Net impairment reflected in other income totaled $2,000 and $5,000 for the three and six months ended June 30, 2017. The value reflects the characteristics of the underlying loans.

At June 30, 2018, 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 $286,000, with a valuation allowance of $248,000. This resulted in expense of $10,000 and $33,000 during the three and six months ended June 30, 2018. At June 30, 2017, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs, and had a net carrying amount of $483,000 with a valuation allowance of $389,000. This resulted in a recovery of expense of $0 and $(38,000) during the three and six months ended June 30, 2017. At December 31, 2017, other real estate owned had a net carrying amount of $436,000, with a valuation allowance of $403,000.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at June 30, 2018:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
Commercial loans				
Multifamily	$ 247	Sales comparison approach	Adjustment for differences between comparable sales	0.00-35.00% (15.00%)
Residential loans				
One-to four-family residential	131	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-10.77% (4.27%)
Consumer loans				
Auto	16	Sales comparison approach	Adjustment for differences	0.00%-17.85% (8.93%)

			between comparable sales		
Marine	38	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-17.85%	(8.93%)
Other real estate owned, net					
Commercial loans					
Construction loans	227	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-50.00%	(45.85%)
Residential loans					
One-to four-family residential	59	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-14.22%	(14.22%)

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

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

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 June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Aggregate fair value	$107,701	$ 83,541
Contractual balance	106,255	79,898
Gain	1,446	3,643

The total amount of gains and losses from changes in fair value included in earnings for the three and six months ended June 30, 2018 and 2017 for loans held for sale, at fair value were:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(Dollars in thousands)			
Interest income	$—	$—	$—	$—
Interest expense	—	—	—	—
Change in fair value	285	2,149	(2,197)	2,900
Total change in fair value	$285	$2,149	$(2,197)	$2,900

In accordance with U.S. GAAP, the carrying value and estimated fair values of financial instruments at June 30, 2018 and December 31, 2017, were as follows:

	June 30, 2018 Carrying Value	Fair Value Measurements at June 30, 2018 Using:		
		(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$66,977	$66,977	$—	$—
Available for sale securities	247,630	489	247,141	—
Held to maturity securities	81,294	—	78,194	—
Loans held for sale, at fair value	107,701	—	31,011	76,690
Loans, net	2,099,781	—	—	2,065,231
FHLB stock	19,324	n/a	n/a	n/a
Accrued interest receivable	8,454	—	1,970	6,484
Purchased certificate of deposit option	472	—	472	—
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(1,330,737)	(1,330,737)	—	—
Certificates of deposit	(804,608)	—	(801,541)	—
FHLB advances	(296,927)	—	(296,942)	—
Repurchase agreements and other	(191)	—	(180)	—
Advance payments by borrowers for taxes and insurance	(19,253)	(19,253)	—	—
Accrued interest payable	(964)	—	(964)	—
Written certificate of deposit option	(472)	—	(472)	—

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

FHLB advances	(356,536)	—	(356,521)	—
Repurchase agreements and other	(197)	—	(190)	—
Advance payments by borrowers for taxes and insurance	(25,038)	(25,038)	—	—
Accrued interest payable	(1,097)	—	(1,097)	—
Written certificate of deposit option	(809)	—	(809)	—

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

Beginning January 1, 2018, fair values of loans, excluding loans held for sale, are estimated based on the price received to sell the asset (exit price), considering the lifetime credit risk of the loan portfolio. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based the weighted average next repricing date and weighted average index, resulting in a Level 3 classification. Fair values for other loans are estimated using the weighted average months to maturity and weighted average contractual interest rate, using weightings based on principal balances, resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans represent an exit price.

At December 31, 2017, fair values of loans, excluding loans held for sale, were estimated as follows: For variable rate, loans that reprice frequently and with no significant change in credit risk, fair values were based on carrying values resulting in a Level 3 classification. Fair values for other loans were estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similarly credit quality resulting in a Level 3 classification. Impaired loans were valued at the lower of cost or fair value. The methods utilized at December 31, 2017 to estimate fair value did 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.

10. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below.

	For the Six Months Ended June 30,	
	2018	2017
	(Dollars in thousands)	
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 10,016	$ 5,396
Income taxes	500	250
Supplemental schedule of noncash activities:		
Transfers from loans to real estate owned and other repossessed assets	489	282
Transfers from loans to loans held for sale	—	27,921
Transfers from premises and equipment to other assets, held for sale	—	1,720
Accretion of securities held to maturity	77	100
Issuance of common stock - Ohio Legacy Corp. acquisition	—	25,816
Net assets acquired from Ohio Legacy Corp., excluding cash and cash equivalents	—	36

11. 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. There were 50,000 stock options that were anti-dilutive for the three and six months ended June 30, 2018 and no stock options were anti-dilutive for the three and six months ended June 30, 2017.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Net income per consolidated statements of income	$ 9,541	$ 8,189	$ 18,097	$ 9,727
Net income allocated to participating securities	(41)	(49)	(91)	(61)
Net income allocated to common stock	$ 9,500	$ 8,140	$ 18,006	$ 9,666
Basic earnings per common share computation:				
Distributed earnings allocated to common stock	$ 2,982	$ 1,483	$ 5,954	$ 2,962

Undistributed earnings allocated to common stock	6,518	6,657	12,052	6,704
Net income allocated to common stock	$ 9,500	$ 8,140	$ 18,006	$ 9,666
Weighted average common shares outstanding, including shares considered participating securities	49,906	49,691	49,877	49,158
Less: Average participating securities	(212)	(299)	(250)	(309)
Weighted average shares	49,694	49,392	49,627	48,849
Basic earnings per common share	$ 0.19	$ 0.16	$ 0.36	$ 0.20
Diluted earnings per common share computation:				
Net income allocated to common stock	$ 9,500	$ 8,140	$ 18,006	$ 9,666
Weighted average common shares outstanding for basic earnings per common share	49,694	49,392	49,627	48,849
Add: Dilutive effects of assumed exercises of stock options and LTIP awards	250	403	262	398
Weighted average shares and dilutive potential common shares	49,944	49,795	49,889	49,247
Diluted earnings per common share	$ 0.19	$ 0.16	$ 0.36	$ 0.20

12. 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, accretion of unrealized losses on held to maturity securities and disproportionate tax effects. The change includes reclassification of net gains or (losses) on sales of securities of $94,000 and $301,000 for the three months ended June 30, 2018 and 2017, respectively, and $233,000 and $330,000 for the six months ended June 30, 2018 and 2017, respectively. Reclassifications also includes accretion of unrealized losses on held to maturity securities.

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

June 30, 2018	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	Total
	(Dollars in thousands)			
Balances at beginning of period, net of tax	$(4,924)	$ (17,110)	$ (641)	$(22,675)
Other comprehensive loss before reclassifications	(1,359)	—	—	(1,359)
Accretion of unrealized losses of securities transferred from available for sale to held to maturity recognized in other comprehensive income	—	—	31	31
Reclassification adjustment for gains realized in income	(74)	—	—	(74)
Net current period other comprehensive income	(1,433)	—	31	(1,402)
Balances at end of period, net of tax	$(6,357)	$ (17,110)	$ (610)	$(24,077)

	Unrealized	Disproportionate	Losses on	Total

June 30, 2017	Gains (Losses) on Securities Available for Sale	Tax Effect from Securities Available for Sale	Securities Transferred From Available for Sale to Held to Maturity	
	(Dollars in thousands)			
Balances at beginning of period, net of tax	$(2,165)	$ (17,110)	$ (767)	$(20,042)
Other comprehensive income before reclassifications	1,758	—	—	1,758
Accretion of unrealized losses of securities transferred from available for sale to held to maturity recognized in other comprehensive income	—	—	32	32
Reclassification adjustment for gains realized in income	(196)	—	—	(196)
Net current period other comprehensive income	1,562	—	32	1,594
Balances at end of period, net of tax	$(603)	$ (17,110)	$ (735)	$(18,448)

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

June 30, 2018	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	Total
	(Dollars in thousands)			
Balances at beginning of period, net of tax	$(904)	$ (17,110)	$ (671)	$(18,685)
Other comprehensive loss before reclassifications	(5,269)	—	—	(5,269)
Accretion of unrealized losses of securities transferred from available for sale to held to maturity recognized in other comprehensive income	—	—	61	61
Reclassification adjustment for gains realized in income	(184)	—	—	(184)
Net current period other comprehensive income	(5,453)	—	61	(5,392)
Balances at end of period, net of tax	$(6,357)	$ (17,110)	$ (610)	$(24,077)

	Unrealized Gains (Losses) on Securities Available for Sale	Disproportionate Tax Effect from Securities Available for Sale	Losses on Securities Transferred From	Total

June 30, 2017	(Dollars in thousands)		Available for Sale to Held to Maturity	
Balances at beginning of period, net of tax	$(3,130)	$ (17,110)	$ (800)	$(21,040)
Other comprehensive income before reclassifications	2,742	—		2,742
Accretion of unrealized losses of securities transferred from available for sale to held to maturity recognized in other comprehensive income	—	—	65	65
Reclassification adjustment for gains realized in income	(215)	—	—	(215)
Net current period other comprehensive income	2,527	—	65	2,592
Balances at end of period, net of tax	$(603)	$ (17,110)	$ (735)	$(18,448)

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 June 30, 2018:

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	$	(94	)	Net gains on securities available for sale
		20		Tax expense
Total reclassification during the period	$	(74	)	Net of tax, increase to net income

The following are significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the three months ended June 30, 2017:

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	$	(301	)	Net gains on securities available for sale
		105		Tax expense
Total reclassification during the period	$	(196	)	Net of tax, increase to net income

The following are significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the six months ended June 30, 2018:

Details About Accumulated Other Comprehensive	Amount Reclassified From Accumulated Other Comprehensive	Affected Line Item on the Statement Where Net Income is

Income Components	Income (Dollars in thousands)		Presented
Realized net gains on the sale of available for sale securities	$	(233)	Net gains on securities available for sale
		49	Tax expense
Total reclassification during the period	$	(184)	Net of tax

The following are significant amounts reclassified out of each component of accumulated comprehensive income (loss) for the six months ended June 30, 2017:

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	$	(330)	Net gains on securities available for sale
		115	Tax expense
Total reclassification during the period	$	(215)	Net of tax, increase to net income

13. 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 through January 1, 2019, when the full capital conservation buffer requirement will be effective. The capital conservation buffer for 2018 is 1.875%. The capital conservation buffer for 2017 was 1.25%. 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.

	June 30, 2018					
	Actual		Minimum Capital Requirements Per Regulation***		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$297,086	14.18%	$208,136	9.88%	$210,771	10.00%
Tier 1 capital (to risk-weighted assets)	275,748	13.16%	165,982	7.88%	168,617	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	275,748	13.16%	134,367	6.38%	137,001	6.50%
Tier 1 capital (to average assets)**	275,748	10.23%	107,584	4.00%	134,480	5.00%

	December 31, 2017					
	Actual		Minimum Capital Requirements Per Regulation***		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$292,928	14.70%	$184,235	9.25 %	$ 199,173	10.00 %
Tier 1 capital (to risk-weighted assets)	271,777	13.64%	144,400	7.25 %	159,338	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	271,777	13.64%	114,525	5.75 %	129,463	6.50 %
Tier 1 capital (to average assets)**	271,777	10.42%	104,308	4.00 %	130,385	5.00 %

**Tier 1 Leverage Capital Ratio

***The capital ratios are reflective of the capital conservation buffer

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Management believes that as of June 30, 2018 and December 31, 2017, Home Savings met all capital adequacy requirements to which it was subject. As of June 30, 2018 and December 31, 2017, Home Savings met the capital requirements to be deemed well capitalized. There are no known conditions that would change this classification subsequent to June 30, 2018.

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

	June 30, 2018	December 31, 2017
Total shareholders' equity	$272,816	$ 276,494
Add (deduct)		
Accumulated other comprehensive loss	24,092	18,701
Intangible assets	(21,160)	(20,903)
Disallowed deferred tax assets	—	(2,515)
Disallowed capitalized mortgage loan servicing rights	—	—
Tier 1 Capital	275,748	271,777
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	21,338	21,151
Total risk-based capital	$297,086	$ 292,928

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

	June 30, 2018			
	Actual		Minimum Capital Requirements Per Regulation***	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total capital (to risk-weighted assets)	$322,996	15.33 %	$208,003	9.88 %
Tier 1 capital (to risk-weighted assets)	301,591	14.32 %	165,876	7.88 %
Common equity Tier 1 capital (to risk-weighted assets)	301,591	14.32 %	134,281	6.38 %
Tier 1 capital (to average assets)**	301,591	11.15 %	108,227	4.00 %

	December 31, 2017			
	Actual		Minimum Capital Requirements Per Regulation***	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total capital (to risk-weighted assets)	$306,946	15.35 %	$184,881	9.25 %

Tier 1 capital (to risk-weighted assets)	285,744	14.29%	144,907	7.25 %
Common equity Tier 1 capital (to risk-weighted assets)	285,744	14.29%	114,926	5.75 %
Tier 1 capital (to average assets)**	285,744	10.93%	104,588	4.00 %

**Tier 1 Leverage Capital Ratio
***The capital ratios are reflective of the capital conservation buffer

United Community's capital also exceeded the "well capitalized" ratios of 6.0% Tier 1 risk-based capital and 10% total risk-based capital required for United Community to engage in activities permissible only for a bank holding company that meets financial holding company requirements.

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

	June 30, 2018	December 31, 2017
Total shareholders' equity	$301,484	$ 294,265
Add (deduct)		
Accumulated other comprehensive loss	24,077	18,701
Intangible assets	(23,970)	(23,416)
Disallowed deferred tax assets	—	(3,806)
Disallowed capitalized mortgage loan servicing rights	—	—
Tier 1 Capital	301,591	285,744
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	21,405	21,202
Total risk-based capital	$322,996	$ 306,946

14. INCOME TAXES

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

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Deferred tax assets:		
Loan loss reserves	$4,495	$ 4,452
Depreciation	655	413
Other real estate owned valuation	52	85
Tax credits carryforward	—	2,193
Unrealized loss on securities available for sale	1,690	241
Unrealized loss on securities held to maturity	201	217
Interest on nonaccrual loans	490	482
Net operating loss carryforward	—	914
Purchase accounting adjustment	260	442
Accrued bonuses	586	551
Other	131	176
Deferred tax assets	8,560	10,166
Deferred tax liabilities:		
Deferred loan fees	1,476	1,145
Federal Home Loan Bank stock dividends	2,787	2,787
Mortgage servicing rights	1,453	1,401
FHLB prepayment penalty	143	307
Prepaid expenses	595	306
Deferred tax liabilities	6,454	5,946
Net deferred tax asset	$2,106	$ 4,220

The Company's ultimate realization of the net deferred tax asset 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.

Effective tax rates differ from the statutory federal income tax rate of 21% for 2018 and 35% for 2017 due to the following:

	For the Three Months Ended June 30,			
	2018		2017	
	Dollars	Rate	Dollars	Rate
	(Dollars in thousands)			
Tax at statutory rate:	$2,469	21.00%	$4,048	35.00%
Increase (decrease) due to:				
Tax exempt income	(147)	(1.25)%	(166)	(1.44)%
Life insurance	(91)	(0.77)%	(137)	(1.18)%
Stock compensation	(4)	(0.03)%	(138)	(1.19)%
Other	(13)	(0.11)%	(230)	(1.99)%
Income tax provision	$2,214	18.83%	$3,377	29.20%

	For the Six Months Ended June 30,			
	2018		2017	
	Dollars	Rate	Dollars	Rate
	(Dollars in thousands)			
Tax at statutory rate:	$4,641	21.00%	$4,781	35.00%
Increase (decrease) due to:				
Tax exempt income	(181)	(0.82)%	(337)	(2.47)%
Life insurance	(182)	(0.82)%	(269)	(1.97)%
Stock compensation	(132)	(0.60)%	(198)	(1.45)%
Other	(143)	(0.65)%	(43)	(0.31)%
Income tax provision	$4,003	18.11%	$3,934	28.80%

15. GOODWILL AND INTANGIBLE ASSETS

Goodwill:

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

	June 30, 2018	December 31, 2017
	(In thousands)	

Beginning of the year	$20,221	$ 208
Effect of adjustments-James & Sons Insurance	—	636
Acquired goodwill-OLCB	—	19,168
Acquired goodwill-Eich Brothers Insurance	—	209
Impairment	—	—
End of the year	$20,221	$ 20,221

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. If the carrying amount of a reporting unit is zero or less than zero, a qualitative analysis of whether it is more likely than not that the reporting unit goodwill is impaired will be performed. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. The Company did not have any reporting units with a carrying amount of zero or less than zero at June 30, 2018 or December 31, 2017.

Acquired Intangible Assets:

	June 30, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets:				
Core deposit intangibles	$11,184	$ 9,415	$11,184	$ 9,250
Customer list intangible	2,222	242	2,222	162
Total	$13,406	$ 9,657	$13,406	$ 9,412

Aggregate amortization expense for the three months ended June 30, 2018 and 2017 was $132,000 and $113,000, respectively. Aggregate amortization expense for the six months ended June 30, 2018 and 2017 was $245,000 and $196,000, respectively. Estimated amortization expense for the remainder of 2018 and the next five years is as follows:

Remainder of 2018	$256,000
2019	510,000
2020	510,000
2021	510,000
2022	510,000
2023	510,000

16. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in qualified affordable housing projects. At June 30, 2018 and December 31, 2017, the balance of the investment for qualified affordable housing projects was $5.6 million and $5.8 million, respectively. These balances are reflected in other assets on the consolidated balance sheet. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $4.5 million and $5.3 million at June 30, 2018 and December 31, 2017, respectively. The Company expects to fulfill these commitments over the next eight to ten years.

During the three months ended June 30, 2018 and 2017, the Company recognized amortization expense of $122,000 and $36,000, respectively, which was included within income tax expense on the consolidated statements of income. During the six months ended June 30, 2018 and 2017, the Company recognized amortization expense of $243,000 and $90,000, respectively.

Additionally, during the three months ended June 30, 2018 and 2017, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $138,000 and $44,000, respectively. During the six months ended June 30, 2018 and 2017, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $277,000 and $110,000, respectively. During the three and six months ended June 30, 2018 and 2017, the Company incurred no impairment losses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED COMMUNITY FINANCIAL CORP.

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
Selected financial ratios and other data: (1)	2018	2017	2018	2017
Performance ratios:				
Return on average assets (2)	1.40 %	1.27 %	1.34 %	0.78 %
Return on average equity (3)	12.56 %	11.60 %	12.00 %	6.99 %
Interest rate spread (4)	3.12 %	3.34 %	3.19 %	3.26 %
Net interest margin (5)	3.36 %	3.46 %	3.41 %	3.38 %
Noninterest expense to average assets	2.28 %	2.36 %	2.38 %	2.83 %
Efficiency ratio (6)	57.75 %	54.71 %	58.35 %	68.29 %
Average interest-earning assets to average interest-bearing liabilities	127.25 %	124.72 %	126.99 %	124.62 %
Capital ratios:				
Average equity to average assets	11.15 %	10.97 %	11.17 %	11.09 %
Equity to assets, end of period	10.88 %	11.18 %	10.88 %	11.18 %
Tier 1 leverage ratio (Bank only)	10.23 %	10.14 %	10.23 %	10.14 %
Common equity Tier 1 capital (Bank only)	13.16 %	13.78 %	13.16 %	13.78 %
Tier 1 risk-based capital ratio (Bank only)	13.16 %	13.78 %	13.16 %	13.78 %
Total risk-based capital ratio (Bank only)	14.18 %	14.83 %	14.18 %	14.83 %
Asset quality ratios:				
Nonperforming loans to net loans at end of period (7)	0.51 %	0.58 %	0.51 %	0.58 %
Nonperforming assets to average assets (8)	0.58 %	0.71 %	0.58 %	0.73 %
Nonperforming assets to total assets at end of period	0.57 %	0.72 %	0.57 %	0.72 %
Allowance for loan losses as a percent of loans	1.01 %	1.04 %	1.01 %	1.04 %
Allowance for loan losses as a percent of nonperforming loans (7)	198.38 %	182.32 %	198.38 %	182.32 %
Total classified assets as a percent of Tier 1 Capital (Bank only)	17.01 %	16.92 %	17.01 %	16.92 %
Total classified loans as a percent of Tier 1 Capital and ALLL (Bank only)	14.12 %	12.99 %	14.12 %	12.99 %
Total classified assets as a percent of Tier 1 Capital and ALLL (Bank only)	15.78 %	15.72 %	15.78 %	15.72 %
Net chargeoffs as a percent of average loans	0.01 %	0.03 %	0.01 %	0.20 %
Total 90+ days past due as a percent of net loans	0.40 %	0.41 %	0.40 %	0.41 %
Per share data:				
Basic earnings per common share (9)	$0.19	$0.16	$0.36	$0.20
Diluted earnings per common share (9)	0.19	0.16	0.36	0.20
Book value per common share (10)	6.04	5.74	6.04	5.74
Tangible book value per common share (11)	5.56	5.27	5.56	5.27
Cash dividend per common share	0.060	0.030	0.120	0.060
Dividend payout ratio (12)	31.58 %	18.77 %	33.24 %	30.57 %

Notes:

1. Ratios for the three and six 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 and other assets
9. Net income divided by the number of basic or diluted shares outstanding
10. Shareholders' equity divided by number of shares outstanding
11. Shareholders' equity minus goodwill and core deposit intangible divided by number of shares outstanding
12. 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 or other materials we have filed or may file with the Securities and Exchange Commission, 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 and Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2017 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 June 30, 2018 and December 31, 2017

Cash and cash equivalents increased $20.1 million from December 31, 2017 to June 30, 2018. The increase was primarily due to additional fed funds sold that were on hand at June 30, 2018 to facilitate customer transactions expected on the first business day of July, 2018.

Available for sale securities decreased $22.9 million during the first half of 2018. The decrease in the available for sale securities balance since December 31, 2017 was mainly the result of pay downs, amortization of premiums/discounts on the securities and sales totaling $10.4 million. The sales were completed to provide additional liquidity for lending activity. In addition, the unrealized loss in the available for sale portfolio was $1.1 million at December 31, 2017, compared to a net unrealized loss of $8.0 million at June 30, 2018. The increase in interest rates during the first half of 2018 impacted the change in unrealized losses.

Held to maturity securities declined $1.6 million at June 30, 2018 compared to December 31, 2017. This change was primarily the result of pay downs and the amortization of premiums/discounts on the securities.

Net loans increased $99.9 million to $2.1 billion during the first six months of 2018 primarily as a result of growth in the commercial loan portfolio. Commercial loan balances were $900.8 million at June 30, 2018 compared to $822.6 million at December 31, 2017. Residential one-to four-family mortgage loans increased $9.2 million during the last six months and consumer loan balances increased $11.4 million for the same period. See Note 6 to the consolidated financial statements for additional information regarding the composition of 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 $21.4 million at June 30, 2018, up from $21.2 million reported at December 31, 2017. The increase in the allowance was primarily driven by the increase in loan balances. The allowance for loan losses as a percentage of loans was 1.01% at June 30, 2018, compared to 1.05% at December 31, 2017.

The allowance for loan losses as a percentage of nonperforming loans was 198.4% at June 30, 2018, compared to 181.17% at December 31, 2017. 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 June 30, 2018, the Company evaluated 24 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.

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, including purchase credit impaired loans, was $24.9 million at June 30, 2018 as compared to $27.4 million at December 31, 2017.

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 $18.2 million at June 30, 2018 compared to $19.8 million at December 31, 2017. Of the $18.2 million at June 30, 2018, $15.9 million were performing loans according to their modified terms. The remaining balance of TDR loans of $2.3 million were considered nonperforming.

Nonperforming loans consist of nonaccrual loans and loans past due 90 days and still accruing. Nonperforming loans were $10.8 million, or 0.51% of loans, at June 30, 2018, compared to $11.7 million, or 0.58% of loans, at December 31, 2017.

Loans held for sale, carried at lower of cost or market, were $0 at June 30, 2018, compared to $211,000 at December 31, 2017. Loans held for sale, carried at fair value, were $107.7 million at June 30, 2018, compared to $83.8 million at December 31, 2017. The change was due to increased volume of both conventional as well as construction loans. These loans are not sold until construction of the residence is complete, which is usually within nine to ten months of origination. Home Savings continues to sell a majority of its newly originated fixed rate mortgage loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

Real estate owned and other repossessed assets decreased $376,000 to $877,000 primarily due to sales exceeding acquisitions during the six months ended June 30, 2018. 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 decreased to $24.0 million during the first six months of 2018, which was primarily due to the amortization of the customer list and core deposit intangibles.

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 $866,000 as other non-interest income based on the change in cash value of the policies in the six months ended June 30, 2018 compared to $768,000 for the six months ended June 30, 2017.

Total deposits increased $178.6 million from $2.0 billion at December 31, 2017, to $2.1 billion at June 30, 2018. The increase in deposits is primarily the result of growth in customer deposits (excluding brokered certificates of deposits) which totaled $145.9 million for the six months ended June 30, 2018. Non-interest bearing customer deposits grew $28.1 million during the first six months of 2018 while interest bearing customer deposits grew $117.8 million. Growth in money market accounts and certificate of deposit balances drove the majority of the increase in interest bearing deposits. Brokered deposits grew by $32.7 million for the six months end June 30, 2018. Proceeds from this increase were used to pay down FHLB advances.

FHLB advances decreased from $356.5 million at December 31, 2017 to $296.9 million at June 30, 2018. The change was primarily due to an increase in customer and brokered deposit balances that were used to pay down FHLB advances.

Shareholders' equity increased $7.2 million to $301.5 million at June 30, 2018 from $294.3 million at December 31, 2017. The increase is primarily due to the $18.1 million of net income earned during the period offset by dividends paid to shareholders of $6.0 million. In addition, a negative change in accumulated other comprehensive income of $5.4 million also offset the increase due to earnings.

Book value per common share as of June 30, 2018 was $6.04 as compared to $5.91 per common share as of December 31, 2017. Book value per share is calculated as total shareholders' equity divided by the number of common shares outstanding. Tangible book value per share is calculated as total shareholders' equity less goodwill and other intangible assets divided by the number of common shares outstanding.

Material Changes in Results of Operations for the Three Months Ended

June 30, 2018 and June 30, 2017

Net Income. United Community recognized net income for the three months ended June 30, 2018, of $9.5 million, or $0.19 per diluted common share compared to net income of $8.2 million for the three months ended June 30, 2017, or $0.16 per diluted share. The continued growth in net interest income from higher earning assets, strong credit metrics, a lower provision for loan loss allowance along with a strong focus on expense control and change in tax law have all contributed to the increase in net income.

Net Interest Income. Net interest income was $21.3 million in the second quarter of 2018 up from the $20.5 million recorded in the second quarter of 2017. The growth of interest earning assets drove this increase offset by a 10 basis point decline in the net interest margin. Net interest margin was 3.36% for the second quarter of 2018 compared to 3.46% in the second quarter of 2017. The net interest margin was positively impacted in the second quarter of 2017 by the recognition of additional purchase accounting accretion related to the acquisition completed in the first quarter of 2017. The yield on interest earning assets increased 23 basis points year over year driven by an increase in yield on total loans of 18 basis points. The yield on loans increased due to increases in market rates, the subsequent repricing of floating and adjustable rate loans and the accretion of purchase accounting adjustments. The yield on securities was down 9 basis points compared to a year ago due to the passage of the Tax Cuts and Jobs Act of 2017 in December 2017 which negatively impacts the yield on tax exempt securities in 2018.

Interest income increased by $3.0 million in the second quarter of 2018 compared to the same period in 2017, to $26.8 million from $23.8 million. The increase is primarily a result of an increase in average earning assets of $157.3 million along with the increase in the yield on average interest earning assets of 23 basis points. Average total loans, net increased $223.4 million in the second quarter of 2018 compared to the same period in 2017 while average securities declined $67.8 million during this same period. Interest income from total loans, net increased to $24.3 million for the quarter ended June 30, 2018 compared to $20.9 million for the same period in 2017. Income from securities decreased $533,000 for the quarter ended June 30, 2018 compared to the quarter ended June 30, 2017.

Interest expense increased by $2.3 million in the second quarter of 2018 to $5.4 million compared to the same period in 2017. This increase was primarily due to a $85.5 million increase in average interest-bearing liabilities due to growth along with a 43 basis point increase in the cost of interest-bearing liabilities. The increase in the cost of interest-bearing liabilities was primarily due to increases in market rates. The cost of average interest-bearing deposits increased 38 basis points to 88 basis points for the three months ended June 30, 2018 from 50 basis points for the three months ended June 30, 2017. The cost of average borrowed funds increased to 2.21% for the quarter ending June 30, 2018 compared to 1.26% for the quarter ended June 30, 2017.

	For the Three Months Ended June 30, 2018 vs. 2017 Increase (decrease) due to		Total increase (decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest earning assets:			
Loans	$916	$2,347	$3,263
Loans held for sale	12	128	140
Securities:			
Available for sale-taxable	3	(289)	(286)
Available for sale-nontaxable	(108)	(82)	(190)
Held to maturity-taxable	3	(59)	(56)
Held to maturity-nontaxable	19	(20)	(1)
Federal Home Loan Bank stock	47	—	47
Other interest earning assets	49	3	52
Total interest earning assets	$941	$2,028	$2,969
Interest bearing liabilities:			

Interest bearing deposits:			
Savings accounts	$(1)	$—	$ (1)
Checking accounts	464	4	468
Customer certificates of deposit	702	275	977
Brokered certificates of deposit	272	87	359
Federal Home Loan Bank advances:			
Long-term advances	117	6	123
Short-term advances	484	(95)	389
Repurchase agreements and other	(4)	(4)	(8)
Total interest bearing liabilities	$2,034	$273	2,307
Change in net interest income			$ 662

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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 negative loan loss provision of $138,000 in the second quarter of 2018, compared to $842,000 in the second quarter of 2017. The decrease in provision expense in the second quarter of 2018 was primarily driven by improving credit quality and fewer net charge-offs.

Noninterest Income. Non-interest income was $5.9 million in the second quarter of 2018 compared to $7.1 million in the second quarter of 2017. The majority of the difference between periods was due to a $912,000 change in mortgage banking income. The decline in mortgage banking income was primarily due to competitive conditions which compressed the Company's margin in this business unit even as saleable origination volumes were greater. In addition, during the second quarter of 2017, the Company recognized $301,000 in security gains compared to $94,000 for the second quarter of 2018.

Noninterest Expense. Non-interest expense increased to $15.5 million during the second quarter of 2018 compared to $15.2 million during the second quarter of 2018. The increase is primarily due to normal increases in salaries and employee benefits along with small increases in other expense categories.

Income Taxes. During the three months ended June 30, 2018, the Company recognized tax expense of $2.2 million on pre-tax income of $11.8 million, compared to tax expense of $3.4 million on pre-tax income of $11.6 million for the three months ended June 30, 2017. The decline in tax expense was primarily due to the reduction in the Company's tax rate to 21% from 35% due to the passage of the Tax Cuts and Jobs Act of 2017 on December 22, 2017. See Note 14 to the consolidated financial statements for additional information regarding the composition of income taxes.

Material Changes in Results of Operations for the Six Months Ended

June 30, 2018 and June 30, 2017

Net Income. United Community recognized net income for the six months ended June 30, 2018, of $18.1 million, or $0.36 per diluted common share compared to net income of $9.7 million for the six months ended June 30, 2017, or $0.20 per diluted share. The results for the first six months of 2017 were negatively impacted by the recognition of $5.0 million of merger expense related to the acquisition of OLCB. The continued growth in net interest income from higher earning assets, reduced loan loss provision along with a strong focus on expense control have all contributed to the increase in net income.

Net Interest Income. Net interest income was $42.8 million in the first six months of 2018 up from the $39.0 million recorded in the first six months of 2017. The growth of interest earning assets drove this increase along with a 3 basis point improvement in the net interest margin. Net interest margin was 3.41% for the first six months of 2018 compared to 3.38% in the first six months of 2017. The yield on interest earning assets increased 33 basis points year over year driven by an increase in yield on total loans of 27 basis points. The yield on loans increased due to increases in market rates, the subsequent repricing of floating and adjustable rate loans and the accretion of purchase accounting adjustments. The yield on securities was down 6 basis points compared to a year ago but the passage of the Tax Cuts and Jobs Act of 2017 in December 2017 negatively impacts the yield on tax exempt securities in 2018.

Interest income increased by $8.1 million in the first six months of 2018 compared to the same period in 2017, to $52.7 million from $44.6 million. The increase is primarily a result of an increase in average earning assets of $187.3 million along with an increase in the yield on average interest earning assets of 33 basis points. Average total loans, net increased $277.9 million in the first six months compared to the same period in 2017 while average securities declined $81.5 million during this same period. Interest income from total loans, net increased to $47.9 million for the six months ended June 30, 2018 compared to $39.1 million for the same period in 2017. Income from securities decreased to $4.3 million for the six months ended June 30, 2018 compared to $5.4 million for the six months ended June 30, 2017.

Interest expense increased by $4.2 million in the first six months of 2018 to $9.9 million compared to the same period in 2017. This increase was primarily due to a $104.8 million increase in average interest-bearing liabilities due to growth along with a 41 basis point increase in the cost of interest-bearing liabilities. The increase in the cost of interest-bearing liabilities was primarily due to increases in market rates interest rates. The cost of average interest-bearing deposits increased 35 basis points to 83 basis points for the six months ended June 30, 2018 from 48 basis points for the six months ended June 30, 2017. The cost of average borrowed funds increased to 2.01% for the six months ending June 30, 2018 compared to 1.11% for the six months ended June 30, 2017.

	For the Six Months Ended June 30, 2018 vs. 2017		
	Increase (decrease) due to		Total increase (decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest earning assets:			
Loans	$2,614	$5,849	$8,463
Loans held for sale	75	262	337
Securities:			
Available for sale-taxable	55	(728)	(673)
Available for sale-nontaxable	(211)	(128)	(339)
Held to maturity-taxable	25	(124)	(99)
Held to maturity-nontaxable	(19)	(13)	(32)
Federal Home Loan Bank stock	108	5	113
Other interest earning assets	69	(20)	49
Total interest earning assets	$2,716	$5,103	$7,819
Interest bearing liabilities:			
Interest bearing deposits:			
Savings accounts	$(4)	$—	$(4)
Checking accounts	797	21	818
Customer certificates of deposit	1,148	573	1,721
Brokered certificates of deposit	482	262	744
Federal Home Loan Bank advances:			
Long-term advances	194	12	206
Short-term advances	970	(199)	771
Repurchase agreements and other	(8)	(8)	(16)
Total interest bearing liabilities	$3,579	$661	4,240
Change in net interest income			$3,579

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 $269,000 in the first six months of 2018, compared to $2.3 million in the first six months of 2017. Provision expense in the first six months of 2017 was primarily driven by net charge-offs totaling $1.7 million while there has only been $66,000 in net charge-offs during the first six months of 2018. Improving credit quality continues to drive the low levels of loan loss provision.

Noninterest Income. Non-interest income was $11.7 million in the first six months of 2018 compared to $12.5 million in the first six months of 2017. The primary driver of the decrease was mortgage banking income which was down $877,000 year over year. The decrease was primarily due to margin compression offset by increased saleable volume.

Noninterest Expense. Non-interest expense decreased to $32.1 million during the first six months of 2018 compared to $35.5 million during the first six months of 2017. The decrease is primarily due to $5.0 million in merger expense incurred during the first quarter of 2017. Offsetting this was an increase in salaries and employee benefits expense of $1.2 million.

Income Taxes. During the six months ended June 30, 2018, the Company recognized tax expense of $4.0 million on pre-tax income of $22.1 million, compared to tax expense of $3.9 million on pre-tax income of $13.7 million for the three months ended June 30, 2017. The increased pre-tax income discussed above was the primary reason for the increased income tax offset by a reduction in the Company’s tax rate to 21% from 35% due to the passage of the Tax Cuts and Jobs Act of 2017 on December 22, 2017. See Note 14 to the consolidated financial statements for additional information regarding the composition of income taxes.

Liquidity

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

The principal source 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 June 30, 2018, approximately $493.3 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 June 30, 2018, United Community had total on-hand liquidity, defined as cash and cash equivalents, unencumbered securities and additional FHLB borrowing capacity, of $583.5 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 June 30, 2018 and 2017. Average balance calculations were based on daily balances.

	For the Three Months Ended						
	June 30, 2018				2017		
	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]	$2,075,307	$23,275	4.49	%	$1,863,525	$20,012	4.30 %
Loans held for sale	91,836	1,012	4.42	%	80,205	872	4.35 %
Total loans, net	2,167,143	24,287	4.48	%	1,943,730	20,884	4.30 %
Securities:							
Available for sale-taxable	207,908	1,193	2.30	%	258,217	1,479	2.29 %
Available for sale-nontaxable [2]	50,710	429	3.38	%	59,209	619	4.18 %
Held to maturity-taxable	70,406	398	2.26	%	80,817	454	2.25 %
Held to maturity-nontaxable [2]	11,265	78	2.77	%	9,843	79	3.21 %
Total securities	340,289	2,098	2.47	%	408,086	2,631	2.58 %
Federal Home Loan Bank stock	19,324	274	5.67	%	19,324	227	4.70 %
Other interest earning assets	23,831	92	1.55	%	22,129	40	0.72 %
Total interest earning assets	2,550,587	26,751	4.20	%	2,393,269	23,782	3.97 %
Non-interest earning assets	174,270				180,524		
Total assets	$2,724,857				$2,573,793		
Interest bearing liabilities:							
Deposits:							
Checking accounts	$638,910	948	0.60	%	$633,276	480	0.30 %
Savings accounts	307,250	26	0.03	%	308,683	27	0.03 %
Certificates of deposit							
Customer certificates of deposit	608,079	2,143	1.41	%	504,397	1,166	0.92 %
Brokered certificates of deposit	164,400	673	1.64	%	133,082	314	0.94 %
Total certificates of deposit	772,479	2,816	1.46	%	637,479	1,480	0.93 %
Total interest bearing deposits	1,718,639	3,790	0.88	%	1,579,438	1,987	0.50 %
Federal Home Loan Bank advances							
Long-term advances	48,799	493	4.05	%	48,019	370	3.08 %
Short-term advances	236,747	1,083	1.83	%	286,604	694	0.97 %
Total Federal Home Loan Bank advances	285,546	1,576	2.21	%	334,623	1,064	1.27 %
Repurchase agreements and other	195	—	0.00	%	4,844	8	0.66 %
Total borrowed funds	285,741	1,576	2.21	%	339,467	1,072	1.26 %
Total interest bearing liabilities	$2,004,380	5,366	1.07	%	$1,918,905	3,059	0.64 %
Non-interest bearing liabilities							
Noninterest-bearing deposits	376,905				333,784		

Other noninterest-bearing liabilities	39,839				38,771			
Total noninterest bearing liabilities	416,744				372,555			
Total liabilities	$2,421,124				$2,291,460			
Shareholders' equity	303,733				282,333			
Total liabilities and equity	$2,724,857				$2,573,793			
Net interest income and interest rate spread		$21,385	3.12	%		$20,723	3.33	%
Net interest margin			3.36	%			3.46	%
Average interest earning assets to average interest bearing liabilities			127.25	%			124.72	%

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

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	For the Six Months Ended June 30, 2018 Average outstanding balance (Dollars in thousands)	Interest earned/ paid	Yield/ rate		2017 Average outstanding balance	Interest earned/ paid	Yield/ rate	
Interest earning assets:								
Net loans [1]	$2,050,922	$46,035	4.49	%	$1,785,202	$37,572	4.21	%
Loans held for sale	86,289	1,870	4.37	%	74,067	1,533	4.14	%
Total loans, net	2,137,211	47,905	4.48	%	1,859,269	39,105	4.21	%
Securities:								
Available for sale-taxable	209,611	2,408	2.30	%	272,914	3,081	2.26	%
Available for sale-nontaxable [2]	52,712	901	3.42	%	59,285	1,240	4.18	%
Held to maturity-taxable	71,511	820	2.29	%	82,228	919	2.24	%
Held to maturity-nontaxable [2]	10,252	141	2.75	%	11,140	173	3.11	%
Total securities	344,086	4,270	2.48	%	425,567	5,413	2.54	%
Federal Home Loan Bank stock	19,324	554	5.73	%	19,116	441	4.61	%
Other interest earning assets	23,159	169	1.47	%	32,537	120	0.74	%
Total interest earning assets	2,523,780	52,898	4.19	%	2,336,489	45,079	3.86	%
Non-interest earning assets	175,520				173,537			
Total assets	$2,699,300				$2,510,026			
Interest bearing liabilities:								
Deposits:								
Checking accounts	$622,221	1,635	0.53	%	$599,279	817	0.27	%
Savings accounts	305,455	53	0.03	%	305,198	57	0.04	%
Certificates of deposit								
Customer certificates of deposit	595,041	3,960	1.34	%	486,639	2,239	0.92	%
Brokered certificates of deposit	164,782	1,239	1.52	%	116,324	495	0.85	%
Total certificates of deposit	759,823	5,199	1.38	%	602,963	2,734	0.91	%
Total interest bearing deposits	1,687,499	6,887	0.82	%	1,507,440	3,608	0.48	%
Federal Home Loan Bank advances								
Long-term advances	48,702	924	3.83	%	47,921	718	3.00	%
Short-term advances	250,956	2,072	1.66	%	316,660	1,301	0.82	%
Total Federal Home Loan Bank advances	299,658	2,996	2.02	%	364,581	2,019	1.11	%
Repurchase agreements and other	204	—	0.00	%	2,857	16	1.12	%
Total borrowed funds	299,862	2,996	2.01	%	367,438	2,035	1.11	%
Total interest bearing liabilities	$1,987,361	9,883	1.00	%	$1,874,878	5,643	0.60	%
Non-interest bearing liabilities								
Noninterest-bearing deposits	370,138				320,578			
Other noninterest-bearing liabilities	40,280				36,278			
Total noninterest bearing liabilities	410,418				356,856			
Total liabilities	$2,397,779				$2,231,734			
Shareholders’ equity	301,521				278,292			
Total liabilities and equity	$2,699,300				$2,510,026			
Net interest income and interest rate spread		$43,015	3.19	%		$39,436	3.26	%

Net interest margin	3.41 %	3.38 %
Average interest earning assets to average interest bearing liabilities	126.99 %	124.62 %

(1) Nonaccrual loans are included in the average balance at a yield of 0%.
(2) Yields are on a fully taxable equivalent basis.
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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Qualitative Aspects of Market Risk. The principal market risk affecting United Community is interest rate risk. United Community is subject to interest rate risk to the extent that its interest-earning assets reprice differently than its interest-bearing liabilities. Interest rate risk is defined as the sensitivity of 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 set exposure limits annually 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 quarter ended June 30, 2018 and the year ended December 31, 2017, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings as the minimum NPV ratio and the maximum change in interest income the Home Savings Board deems advisable in the event of various changes in interest rates. See the table below for Board adopted policy limits.

Quarter Ended June 30, 2018

NPV as % of portfolio value of assets					Next 12 months net interest income (Dollars in thousands)		
Change in rates (Basis points)	NPV Ratio	Internal policy limitations	NPV Ratio Change %	Internal policy limitations on NPV Change	$ Change	Internal policy limitations	% Change
400	11.84%	6.00%	(3.10)%	-20.00%	$(1,433)	(15.00)%	(1.66)%
300	12.08%	6.00%	(1.14)%	-15.00%	(1,009)	(10.00)%	(1.17)%
200	12.25%	7.00%	0.24%	-10.00%	(574)	(7.00)%	(0.66)%
100	12.33%	7.00%	0.84%	-5.00%	(307)	(3.00)%	(0.36)%

Static	12.22 %	9.00 %	— %	0.00 %	—	— %	— %
-100	11.73 %	7.00 %	(4.02)%	-10.00 %	(1,470)	(5.00)%	(1.70)%

Year Ended December 31, 2017

NPV as % of portfolio value of assets					Next 12 months net interest income (Dollars in thousands)		
Change in rates (Basis points)	NPV Ratio	Internal policy limitations	NPV Ratio Change %	Internal policy limitations on NPV Change	$ Change	Internal policy limitations	% Change
400	11.38 %	6.00 %	(6.58)%	-25.00 %	$(2,988)	(18.00)%	(3.57)%
300	11.80 %	6.00 %	(3.17)%	-20.00 %	(2,145)	(13.00)%	(2.56)%
200	12.21 %	7.00 %	0.21 %	-15.00 %	(1,328)	(8.00)%	(1.59)%
100	12.32 %	7.00 %	1.11 %	-10.00 %	(633)	(3.00)%	(0.76)%
Static	12.19 %	9.00 %	— %	0.00 %	—	— %	— %
-100	11.42 %	7.00 %	(6.29)%	-15.00 %	(1,525)	(5.00)%	(1.82)%

For the quarter ended June 30, 2018, and year ended December 31, 2017, it was only meaningful to calculate a drop of 100 basis points.

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.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2018, United Community's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of United Community's disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, United Community's Chief Executive Officer and Chief Financial Officer concluded that United Community's disclosure controls and procedures as of June 30, 2018 were effective.

Changes in Internal Control over Financial Reporting

There were no changes in United Community's internal control over financial reporting that occurred during the quarter ended June 30, 2018 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 may, from time-to-time, be 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, 2017.

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 June 30, 2018:

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[1]
April 1 through April 30, 2018	—	$ —	—	1,683,830
May 1 through May 31, 2018	10,000	10.54	10,000	1,673,830
June 1 through June 30, 2018	—	—	—	1,673,830
Total	10,000	$ 10.54	10,000	1,673,830

(1) United 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 by and among United Community Financial Corp., The Home Savings and Loan Company of Youngstown, Ohio, Ohio Legacy Corp. and Premier Bank & Trust, dated September 8, 2016, incorporated by reference to Exhibit 2.1 in the Third Quarter Form 10-Q filed by United Community on November 8, 2016 with the SEC, film number 161981248.
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], incorporated by reference to Exhibit 3.1 in the Second Quarter 2016 Form 10-Q filed by United Community on August 5, 2016 with the SEC, film number 161811451.
3.2	Amended Code of Regulations, 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.
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 June 30, 2018, 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: August 7, 2018	/s/ Gary M. Small Gary M. Small President and Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2018	/s/ Timothy W. Esson Timothy W. Esson Executive Vice President and Chief Financial Officer (Principal Financial Officer)