UNITED COMMUNITY FINANCIAL CORP
Form 8-K
January 29, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: January 29, 2003

United Community Financial Corp.
(Exact name of registrant as specified in its charter)

Ohio	0-24399	34-1856319
(State or other jurisdiction incorporation)	(Commission File Number)	(IRS Employer of Identification Number)

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

44503-1203
(Zip Code)

Registrant's telephone number, including area code (330) 742-0500

Not Applicable
(Former name or former address, if changes since last report.)

Item 5: Other Events

UNITED COMMUNITY FINANCIAL CORP.
275 Federal Plaza West
Youngstown, Ohio 44503-1203

FOR IMMEDIATE RELEASE

Patrick A. Kelly
Chief Financial Officer
(330) 742-0500, Ext. 592

UNITED COMMUNITY FINANCIAL CORP. ANNOUNCES
EARNINGS FOR FOURTH QUARTER AND YEAR END 2002

YOUNGSTOWN, Ohio (January 29, 2003) - United Community Financial Corp. (Nasdaq:

UCFC), holding company of The Home Savings and Loan Co. and Butler Wick Corp., announced today financial results for the fourth quarter and year end fiscal 2002.

For the fourth quarter ended December 31, 2002, net income was reported as $5.4 million, or $0.17 per diluted share, compared to $5.6 million, or $0.17 per diluted share, for the fourth quarter of 2001. For the year ended December 31, 2002, net income was $20.8 million, or $0.65 per diluted share, compared with $15.7 million, or $0.48 per diluted share, for the year ended December 31, 2001.

"2002 proved to be an excellent year for United Community," said Douglas M. McKay, chairman and chief executive officer of United Community. "We experienced a 33% increase in net income over 2001 while reducing our debt. We also continued to expand our customer base through the acquisition of Potters Financial Corp. and by opening a Home Savings branch in Mentor, Ohio and a Butler Wick office in Columbus, Ohio. During 2002, United Community also showed continuing improvement in our efficiency ratio, return on average assets and return on average equity compared with 2001."

Fourth Quarter Results

United Community's net interest income for the three months ended December 31, 2002 increased $2.5 million over the same period in 2001, while noninterest income decreased $2.6 million over the same quarter in the previous year. The increase in net interest income was also offset by a $1.4 million increase in noninterest expense and a $150,000 increase in the provision for loan losses.

The increase in net interest income can be attributed to a reduction in interest expense on deposits and other borrowed funds due to the current interest rate environment, which, in turn, were partially offset by a decrease in interest earned on securities and margin accounts. The decrease in noninterest income was directly a result of a decline in gains on loans sold, underwriting and investment banking income and an increase in other recognized losses due to the disposal of fixed assets. These changes were partially offset by increases in gains recognized on securities, service fees and other charges.

In 2001, United Community became active in the secondary market and during the fourth quarter of that year, in order to improve the company's interest rate risk profile, sold fixed rate loans out of the portfolio, resulting in large gains. Due to the current interest rate environment, United Community has been selling new loan originations to help reduce interest rate risk. The smaller net gains reported in the fourth quarter of 2002 relate to the sale of new originations, which it anticipates continuing to do in the future.

The increase in noninterest expense was primarily the result of an increase in compensation due to the additional staff acquired from Potters, as well as increases in occupancy, equipment, data processing and other expenses related to the acquisition. These increases were partially offset by a decrease in the amortization of the core deposit intangible.

Year to Date Results

Net interest income for the year ended December 31, 2002 increased $15.5 million and noninterest income increased $2.6 million over the previous year, both of which were partially offset by a $10.7 million increase in noninterest expense and a $1.1 million increase in the provision for loan losses.

The growth in net interest income for 2002 as compared to 2001 is primarily due to an increase of $17.8 million in loan income from new loan originations and the acquisitions of Industrial Bancorp and Potters Financial Corp., as well as a $3.1 million decline in interest expense on deposits. This increase was partially offset by decreases in interest earned on securities of $3.9 million and margin accounts of $944,000.

The increase in noninterest income was a result of a $2.0 million increase in gains recognized on securities, $1.0 million in other income, $469,000 in gains on loans sold and $467,000 in service fees and other charges. The growth in other income was related to the sale of stock received by Home Savings in the demutualization of Anthem. These changes were partially offset by a decline in underwriting and investment banking fees and other recognized losses as a result of the disposal of fixed assets.

Noninterest expense grew in part because of an increase in the amortization of core deposit intangible and compensation costs related to the two acquisitions. Contributing factors also included occupancy, equipment, data processing and other expenses, which were largely due to costs associated with the early extinguishment of debt reclassified from extraordinary items in accordance with SFAS No. 145 adopted on April 1, 2002.

United Community's return on average assets and return on average equity were 1.04% and 7.74%, respectively, for the year ended December 31, 2002, while the returns on average assets and average equity were 0.97% and 6.03%, respectively, for the previous year.

Financial Condition

Total shareholders' equity increased $12.7 million from December 31, 2001 to December 31, 2002. This was principally due to income for the period, offset by quarterly dividend payments and treasury stock purchases. Book value as of December 31, 2002 was $7.79 per share.

Total assets increased by $45.4 million, or 2.3%, to $2.0 billion at December 31, 2002 compared with December 31, 2001, again as a result of the Potters acquisition. Loans increased $71.7 million, securities by $35.3 million, goodwill by $13.9 million, while other borrowed funds decreased $61.6 million. These changes were funded by a $94.9 million decline in cash and cash equivalents and a $98.5 million increase in deposits.

Net loans remained strong, increasing $71.7 million, or 5.1%, from December 31, 2001 to December 31, 2002. Specifically, Home Savings showed growth of $44.8 million in consumer loans, $19.4 million in commercial loans, $15.1 million in construction loans and $2.5 million in real estate loans. The allowance for loan losses increased $3.6 million, or 31.5% over last year to $15.1 million at December 31, 2002, of which, approximately $1.9 million was acquired from Potters. The remainder was due to an increase in the provision for loan losses less net chargeoffs, which can be attributed to growth in the loan portfolio, as well as current market conditions. The allowance for loan losses as a percentage of total loans increased to 1.01% at December 31, 2002 compared to 0.81% at December 31, 2001.

Deposits increased $98.5 million, or 7.1%, from December 31, 2001 to December 31, 2002, mainly comprised of deposits acquired from Potters. While current rate conditions led Home Savings to realize a $13.6 million decrease in certificates of deposit, this was overcompensated by increases of $44.9 million in savings accounts and $67.2 million in checking accounts. Other borrowed funds decreased $61.6 million from December 31, 2001 to December 31, 2002, due mostly to the maturity and early extinguishment of Federal Home Loan Bank debt.

"We remained focused on our three initiatives of growth, profitability and capital management throughout 2002," said McKay. "The acquisition of Potters helped to strengthen our position in our current market, while the opening of our new offices have provided growth opportunities in new market areas. We are well positioned to continue to build on our record of success and are therefore anticipating another strong year in 2003."

Home Savings and Butler Wick are wholly owned subsidiaries of United Community Financial Corp. Home Savings operates 34 full service banking offices and 4 loan production offices, including the former Potters offices, located throughout Northern Ohio and Western Pennsylvania. Butler Wick has 12 office locations providing full service retail brokerage, capital markets and trust services throughout Northern Ohio and Western Pennsylvania. Additional information on United Community, Home Savings and Butler Wick may be found on United Community's web site: www.ucfconline.com.

When used in this Form 8-K or in future filings by United Community with the SEC, in United Community's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue, "is anticipated." "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in United Community's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in Home Savings' market area, demand for investments in Butler Wick's market area and competition, that could cause actual result to differ materially from historical earnings and those presently anticipated or projected. United Community cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. United Community advises readers that the factors listed above could affect United Community's financial performance and could cause United Community's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

United Community does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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.

By: /s/ Patrick A. Kelly

Patrick A. Kelly
Chief Financial Officer

Dated: January 28, 2003

UNITED COMMUNITY FINANCIAL CORP.

	As of December 31, 2002	As o December
	(In thousands, except per sha	
SELECTED FINANCIAL CONDITION DATA:		

ASSETS		
Cash and cash equivalents	$ 110,936	$ 205
Investment securities	242,328	206
Federal Home Loan Bank stock	21,069	18
Loans held for sale	45,825	20
Loans	1,493,312	1,417
Allowance for loan losses	(15,099)	(11
Real estate owned	994	
Goodwill	33,593	19
Core deposit intangible	5,101	6
Other assets	52,072	60
Total assets	$ 1,990,131	$ 1,944
LIABILITIES		
Deposits	$ 1,481,901	$ 1,383
Other borrowed funds	210,024	271
Other liabilities	23,637	27
Total liabilities	1,715,562	1,682
SHAREHOLDERS' EQUITY		
Preferred stock-no par value; 1,000,000 shares authorized and unissued at December 31, 2002	--	
Common stock-no par value; 499,000,000 shares authorized; 37,803,269 and 37,754,086 issued, respectively	138,207	136
Retained earnings	172,080	160
Other comprehensive income	2,363	1
Unearned compensation	(19,724)	(22
Treasury stock, at cost; 2,558,214 and 2,086,500 shares, respectively	(18,357)	(14
Total shareholders' equity	274,569	261
Total liabilities and shareholders' equity	$ 1,990,131	$ 1,944
Book value per share	$ 7.79	$

	Three Months Ended December 31,		Twelve Months December 3
	2002	2001	2002
	(In thousands, except per share data)		
SELECTED EARNINGS DATA (UNAUDITED):			
Interest income	$ 31,062	$ 32,434	$ 126,693
Interest expense	12,465	16,303	54,236
Net interest income	18,597	16,131	72,457
Provision for loan losses	1,600	1,450	3,578
Noninterest income:			
Commissions	3,429	3,380	13,677

Service fees and other charges	2,101	1,834	8,224
Underwriting and investment banking	119	806	312
Net gains (losses)			
Loans sold	1,161	5,111	5,919
Securities	1,655	(13)	1,476
Other	(260)	(14)	(515)
Other income	464	203	1,980
Total noninterest income	8,669	11,307	31,073
Noninterest expense:			
Salaries and employee benefits	10,679	10,033	39,917
Occupancy	817	679	3,186
Equipment and data processing	2,277	2,054	8,309
Amortization of core deposit intangible	434	756	2,180
Other noninterest expense	4,062	3,337	14,767
Total noninterest expense	18,269	16,859	68,359
Income before taxes	7,397	9,129	31,593
Income taxes	2,037	3,555	10,776
Net income	$ 5,360	$ 5,574	$ 20,817
Basic earnings per share	$ 0.17	$ 0.18	$ 0.65
Diluted earnings per share	$ 0.17	$ 0.17	$ 0.65
Dividends paid per share	$ 0.075	$ 0.075	$ 0.300

	Three Months Ended December 31, 2002	Thre S
		(Dollar
AVERAGE DAILY BALANCE OF SELECTED FINANCIAL CONDITION DATA (UNAUDITED):		
Net loans (including allowance for loan losses of $15,099, $14,865 and $14,365, respectively)	$ 1,500,940	$
Loans held for sale	36,218	
Investment securities	246,754	
Margin accounts	15,683	
Other interest-earning assets	94,420	
Total interest-earning assets	1,894,015	
Total assets	2,002,717	
Certificates of deposit	824,516	
Interest-bearing checking, demand and savings accounts	599,144	
Other-interest bearing liabilities	215,389	
Total interest-bearing liabilities	1,639,049	
Noninterest-bearing deposits	55,562	
Total noninterest-bearing liabilities	89,736	
Total liabilities	1,728,785	
Shareholders' equity	273,932	
Common shares outstanding for basic EPS calculation	31,891,690	
Common shares outstanding for diluted EPS calculation	32,375,598	

SUPPLEMENTAL LOAN DATA:

Loans originated	$	260,383	$
Loans purchased		1,000	
Loans sold		108,034	
Loan chargeoffs		1,394	
Recoveries on loans		28	

		As of December 31, 2002	
SUPPLEMENTAL DATA:			S
Nonaccrual loans	$	14,196	$
Restructured loans		1,271	
Other real estate owned		994	
Total nonperforming assets		16,461	
Loans serviced for others		386,218	
Number of full time equivalent employees		774	
Investment securities trading		5,060	
Investment securities available for sale		237,268	
Investment securities held to maturity		0	
Federal Home Loan Bank stock		21,069	
Fair value of held to maturity securities		0	
REGULATORY CAPITAL DATA:			
Regulatory tangible capital	$	150,821	$
Tangible capital ratio		8.05	
Regulatory core capital		150,821	
Core capital ratio		8.05	
Regulatory total capital		163,419	
Total risk adjusted assets		1,295,667	
Total risk adjusted ratio		12.61	