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# 2015 ANNUAL REPORT



HOME LOAN FINANCIAL CORPORATION  
ANNUAL REPORT  
June 30, 2015

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Dear Fellow Shareholder:

We are pleased to share Home Loan Financial Corporation's (HLFN) fiscal 2015 consolidated financial results with you.

We achieved another new record earnings total for the year ended June 30, 2015, surpassing the record established during the 2014 fiscal year.

Net income for the year ended June 30, 2015 was \$2,932,000, or \$2.10 basic and diluted earnings per share, compared to \$2,882,000 for the year ended June 30, 2014, or \$2.06 basic and diluted earnings per share, an increase of \$50,000, or 1.8%. This increase in earnings for the year ended June 30, 2015 compared with June 30, 2014 was primarily attributable to an increase in net interest income of \$101,000, a decrease in the provision for loan losses of \$102,000, an increase in noninterest income of \$127,000, and a decrease in income tax expense of \$27,000, partially offset by an increase in noninterest expense of \$306,000.

We were able to achieve the new record earnings despite the continued low interest rate environment which is causing compression in the net interest margin for all financial institutions and the increased cost of regulatory compliance. We continue to have success consistently applying our core business strategies of providing financial services to individuals and businesses in the communities we serve.

Total assets at June 30, 2015 were \$187.9 million compared to June 30, 2014 assets of \$170.1 million, an increase of \$17.8 million, or 10.5%. Total deposits at June 30, 2015 were \$138.4 million compared to June 30, 2014 deposits of \$127.4 million, an increase of \$11.0 million, or 8.6%. Total equity at June 30, 2015 was \$24.1 million compared to \$22.9 million at June 30, 2014, an increase of \$1.2 million, or 5.3%.

The majority of the growth occurred in the Company's loan portfolio as net loans increased from \$146.9 million at June 30, 2014 to \$161.9 million at June 30, 2015 for an increase of 10.2%. The loan growth was funded by a combination of increases in deposits, Federal Home Loan Bank advances, retention of earnings and use of cash and cash equivalents. We are very focused on increasing deposits in order to provide continued funding for future loan growth.

The investors that were part of HLFN's initial conversion from a mutual to a stock company have seen their investment on March 25, 1998 grow from \$5.89 per share (adjusted for the return of capital distribution in fiscal 1999) to \$21.50 per share as of June 30, 2015. In addition, those shareholders have received \$12.905 in dividends since the conversion. Based upon HLFN's ending stock price at June 30, 2015 of \$21.50, the current annual dividend of \$1.23 produced a yield of 5.72%.

On behalf of the HLFN management team, employees and our Board of Directors, we want to thank you for investing in HLFN. We encourage you to do your personal and business banking with The Home Loan Savings Bank, as our accounts build our Company and enhance your investment.

Sincerely,

A handwritten signature in cursive script that reads "Robert C. Hamilton".

Robert C. Hamilton  
Chairman of the Board and CEO

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Home Loan Financial Corporation  
Coshocton, Ohio

***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of Home Loan Financial Corporation which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Loan Financial Corporation as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Cleveland, Ohio  
September 4, 2015

HOME LOAN FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 2,556,933	\$ 3,329,630
Interest-bearing deposits in other financial institutions	<u>6,600,908</u>	<u>1,697,594</u>
Total cash and cash equivalents	9,157,841	5,027,224
Interest bearing time deposits	2,589,949	3,328,840
Securities available for sale	2,503,638	3,000,850
Federal Home Loan Bank stock	2,513,400	2,513,400
Loans held for sale	481,000	386,200
Loans, net of allowance of \$2,095,018 and \$2,231,491 in 2015 and 2014	161,852,196	146,888,695
Premises and equipment, net	2,811,659	2,919,245
Accrued interest receivable	522,548	475,988
Bank owned life insurance	4,528,501	4,392,501
Other real estate owned	89,100	346,500
Other assets	<u>824,694</u>	<u>785,140</u>
 Total assets	 <u>\$ 187,874,526</u>	 <u>\$ 170,064,583</u>
 <b>LIABILITIES</b>		
Deposits	\$ 138,399,297	\$ 127,427,320
Federal Home Loan Bank advances	24,208,402	18,876,379
Accrued interest payable	155,900	131,618
Accrued expenses and other liabilities	<u>1,037,093</u>	<u>773,026</u>
Total liabilities	163,800,692	147,208,343
 <b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, no par value, 500,000 shares authorized, none outstanding	-	-
Common stock, no par value, 9,500,000 shares authorized, 2,248,250 shares issued	-	-
Additional paid-in capital	15,044,411	15,044,411
Retained earnings	20,053,194	18,838,447
Treasury stock, at cost, 851,744 shares in 2015 and 2014	(11,025,698)	(11,025,698)
Accumulated other comprehensive income (loss)	<u>1,927</u>	<u>(920)</u>
Total shareholders equity	<u>24,073,834</u>	<u>22,856,240</u>
 Total liabilities and shareholders equity	 <u>\$ 187,874,526</u>	 <u>\$ 170,064,583</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Interest income		
Loans, including fees	\$ 8,373,901	\$ 8,240,910
Taxable securities	19,510	17,035
Nontaxable securities	-	6,258
Dividends on Federal Home Loan Bank stock and other	<u>128,258</u>	<u>148,063</u>
Total interest income	8,521,669	8,412,266
Interest expense		
Deposits	541,400	504,054
Federal Home Loan Bank advances	<u>147,167</u>	<u>176,102</u>
Total interest expense	<u>688,567</u>	<u>680,156</u>
Net interest income	7,833,102	7,732,110
Provision for loan losses	<u>158,704</u>	<u>260,500</u>
Net interest income after provision for loan losses	7,674,398	7,471,610
Noninterest income		
Service charges and other fees	613,165	582,390
Net gains on sales of loans	187,431	133,859
Earnings from Coshocton County Title Agency	69,838	92,045
Bank owned life insurance	136,000	137,800
Other	<u>199,224</u>	<u>132,221</u>
Total noninterest income	1,205,658	1,078,315
Noninterest expense		
Salaries and employee benefits	2,744,472	2,594,740
Occupancy and equipment	381,142	348,595
State franchise taxes	125,113	157,668
Computer processing	459,600	425,375
Professional services	272,388	234,260
Director fees	105,360	109,610
Federal deposit insurance	84,891	88,932
Other	<u>555,289</u>	<u>462,893</u>
Total noninterest expense	<u>4,728,255</u>	<u>4,422,073</u>
Income before income taxes	4,151,801	4,127,852
Income tax expense	<u>1,219,353</u>	<u>1,245,896</u>
Net income	<u>\$ 2,932,448</u>	<u>\$ 2,881,956</u>
Basic and diluted earnings per common share	<u>\$ 2.10</u>	<u>\$ 2.06</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended June 30, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
Net income	\$ 2,932,448	\$ 2,881,956
Other comprehensive income		
Unrealized holding gains (losses) on securities available for sale	4,313	(4,378)
Tax effect	<u>(1,466)</u>	<u>1,488</u>
Total other comprehensive income (loss)	<u>2,847</u>	<u>(2,890)</u>
Comprehensive income	<u>\$ 2,935,295</u>	<u>\$ 2,879,066</u>

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See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years ended June 30, 2015 and 2014

	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2013	\$ 15,021,271	\$ 17,505,772	\$ (10,999,958)	\$ 1,970	\$ 21,529,055
Net income	-	2,881,956	-	-	2,881,956
Cash dividend - \$1.11 per share	-	(1,549,281)	-	-	(1,549,281)
Forfeiture of 2,000 restricted stock awards from treasury shares	25,740	-	(25,740)	-	-
Restricted stock award compensation expense reversal due to forfeiture	(2,600)	-	-	-	(2,600)
Other comprehensive loss	-	-	-	(2,890)	(2,890)
Balance at June 30, 2014	<u>\$ 15,044,411</u>	<u>\$ 18,838,447</u>	<u>\$ (11,025,698)</u>	<u>\$ (920)</u>	<u>\$ 22,856,240</u>

HOME LOAN FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)  
Years ended June 30, 2015 and 2014

	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2014	\$ 15,044,411	\$ 18,838,447	\$ (11,025,698)	\$ (920)	\$ 22,856,240
Net income	-	2,932,448	-	-	2,932,448
Cash dividend - \$1.23 per share	-	(1,717,701)	-	-	(1,717,701)
Other comprehensive income	-	-	-	2,847	2,847
Balance at June 30, 2015	<u>\$ 15,044,411</u>	<u>\$ 20,053,194</u>	<u>\$ (11,025,698)</u>	<u>\$ 1,927</u>	<u>\$ 24,073,834</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net income	\$ 2,932,448	\$ 2,881,956
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	197,881	187,682
Securities amortization and accretion	1,525	1,325
Interest bearing time deposit accretion	(11,109)	(13,820)
Provision for loan losses	158,704	260,500
Originations of loans held for sale	(5,466,632)	(4,662,807)
Proceeds from sales of loans held for sale	5,464,059	4,369,148
Net gains on sale of loans	(187,431)	(133,859)
Net (gain) loss on disposition or write down of other real estate owned	(42,078)	15,603
Increase in cash surrender value of bank owned life insurance	(136,000)	(137,800)
Restricted stock award compensation expense reversal	-	(2,600)
Deferred taxes	23,331	(23,590)
Net change in:		
Accrued interest receivable and other assets	(15,707)	251,100
Accrued expenses and other liabilities	288,349	(173,833)
Deferred loan fees	<u>3,066</u>	<u>5,201</u>
Net cash from operating activities	<u>3,210,406</u>	<u>2,824,206</u>
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities	1,250,000	3,160,000
Purchases	(750,000)	(1,501,082)
Interest bearing time deposits:		
Purchases	(600,000)	(1,350,000)
Proceeds from maturities	1,350,000	1,550,000
Net change in loans	(15,381,886)	(11,473,273)
Net purchases of premises and equipment	(90,295)	(94,050)
Proceeds from FHLB stock redemption	-	149,900
Proceeds from sale of other real estate owned	<u>556,093</u>	<u>396,952</u>
Net cash used in investing activities	<u>(13,666,088)</u>	<u>(9,161,553)</u>
Cash flows from financing activities		
Net change in deposits	10,971,977	810,754
Net change in short-term FHLB advances	6,600,000	6,000,000
Proceeds from long term FHLB advances	80,100	100,000
Maturities and repayments of long-term FHLB advances	(1,348,077)	(2,593,314)
Cash dividends paid	<u>(1,717,701)</u>	<u>(1,549,281)</u>
Net cash from financing activities	<u>14,586,299</u>	<u>2,768,159</u>
Net change in cash and cash equivalents	4,130,617	(3,569,188)
Cash and cash equivalents at beginning of year	<u>5,027,224</u>	<u>8,596,412</u>
Cash and cash equivalents at end of year	<u>\$ 9,157,841</u>	<u>\$ 5,027,224</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of Home Loan Financial Corporation (HLFN) and its wholly-owned subsidiaries, The Home Loan Savings Bank (Bank), a state chartered savings bank, and Home Loan Financial Services, Inc., an Ohio corporation providing insurance and investment services. HLFN also owns a 49% interest in Coshocton County Title Agency, LLC which is accounted for under the equity method of accounting. These entities are together referred to as the Corporation. Intercompany accounts and transactions have been eliminated in consolidation.

The Corporation provides financial services through its main and branch offices in Coshocton, Ohio and branch offices in West Lafayette and Mount Vernon, Ohio. The Corporation's primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential mortgage, nonresidential mortgage, residential construction and land, commercial and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Substantially all revenues are derived from financial institution products and services where the branches are located and their contiguous areas. There are no significant concentrations of loans to any one industry or customer. However, the customer's ability to repay their loans is dependent on the real estate and general economic conditions in the area. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through September 4, 2015, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and due from banks, overnight deposits and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, and short-term borrowings with original maturities of 90 days or less.

The Corporation paid interest of \$664,285 and \$722,470 and income taxes of \$1,200,000 and \$1,165,000 in 2015 and 2014. Noncash transfers from loans to other real estate loans totaled \$256,615 in 2015 and \$678,055 in 2014.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions are carried at amortized cost.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement; and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and an allowance for loan losses.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Interest income on all loan portfolio segments is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: 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 using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions 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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent five years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified.

*Residential Real Estate Loans.* Residential mortgage loans represent loans to consumers for the purchase, refinance or improvement of a residence. These loans include 1-4 family first and second mortgages, multi-family mortgages and home equity lines of credit. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values may impact the severity of losses. Factors considered by management include unemployment levels and residential real estate values in the Corporation's market area.

*Nonresidential Real Estate Loans.* Nonresidential real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and property types. Management specifically considers vacancy rates for office and industrial properties in its market area, as well as real estate values and, to a lesser extent, unemployment and energy prices.

*Real Estate Construction and Land Loans.* The Corporation originates loans for the construction of single-family residential real estate and commercial real estate. During the first six months of the loan, while the improvements are being constructed, the borrower is required to pay interest only. Single-family residential construction loans are structured as permanent loans with adjustable rates of interest and terms of up to 30 years. Interest rates on commercial real estate construction loans are generally tied to the Wall Street Journal prime rate. Construction loans have LTVs of up to 80%, with the value of the land counting as part of the borrower's equity. Construction loans generally involve greater underwriting and default risks than do loans secured by mortgages on existing properties because construction loans are more difficult to evaluate and monitor. Loan funds are advanced upon the security of the project under construction, which is more difficult to value before the completion of construction because of the uncertainties inherent in estimating construction costs. In the event of a default on a construction loan occurs and foreclosure follows, the Corporation must take control of the project and attempt either to arrange for completion of construction or dispose of the unfinished project. The Corporation also originates loans secured by land, some of which is purchased for the construction of single-family houses. The Corporation's land loans are generally adjustable-rate loans for terms of up to 15 years and require an LTV of 75% or less.

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(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Commercial Loans.* Commercial credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. These loans are generally underwritten individually and secured with the assets of the corporation and the personal guarantee of the business owners. Commercial business loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrower. Management specifically considers unemployment, energy prices and, to a lesser extent, real estate values and vacancies in the Corporation's market area.

*Consumer Loans.* Consumer loans are primarily comprised of loans made directly to consumers. These loans are underwritten based on several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship with the borrower. Unemployment rates and energy prices are specifically considered by management.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time the property is acquired is accounted for as a loan charge-off. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. After acquisition, if fair value declines, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 50 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense as incurred.

Servicing Assets: When mortgage loans are sold, servicing assets are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing assets to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the assets as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing assets are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Servicing fee income for servicing loans is based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing assets is netted against loan servicing fee income. Mortgage servicing assets at June 30, 2015 and 2014 totaled \$180,078 and \$152,858 and are included in other assets on the consolidated balance sheets. Loans serviced for others were \$27,580,000 and \$25,404,000 at June 30, 2015 and 2014.

Bank Owned Life Insurance: The Corporation has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes: Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Employee Stock Ownership Plan: All shares in the Employee Stock Ownership Plan (ESOP) have been allocated to plan participants. Participants receive the shares allocated to them upon the end of their employment. When a participant's employment terminates, the participant may require stock to be repurchased by the Corporation unless the stock is traded on an established market. The fair value of allocated shares subject to a repurchase obligation totaled \$5,803,001 and \$4,635,409 at June 30, 2015 and 2014. No shares were allocated during the years ended June 30, 2015 and 2014. Total allocated shares at June 30, 2015 and 2014 were 269,907 and 266,556 respectively.

Stock Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity, net of tax.

Earnings per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Recognition and Retention Plan (~~RRP~~) shares are considered outstanding as they become vested. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to HLFN or by HLFN to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Reclassifications of certain amounts in the 2014 consolidated financial statements have been made to conform to the 2015 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 2 – SECURITIES**

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows.

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
<u>June 30, 2015</u>				
Securities available for sale				
U.S. Government agencies	<u>\$ 2,500,718</u>	<u>\$ 2,920</u>	<u>\$ -</u>	<u>\$ 2,503,638</u>
 <u>June 30, 2014</u>				
Securities available for sale				
U.S. Government agencies	<u>\$ 3,002,243</u>	<u>\$ 1,703</u>	<u>\$ (3,096)</u>	<u>\$ 3,000,850</u>

There were no sales of securities in 2015 and 2014.

Contractual maturities of securities available for sale at year end 2015 were as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized <u>Cost</u>	Fair <u>Value</u>
Due in one year or less	\$ 1,250,132	\$ 1,251,173
Due after one year through five years	<u>1,250,586</u>	<u>1,252,465</u>
	<u>\$ 2,500,718</u>	<u>\$ 2,503,638</u>

At June 30, 2015 and 2014, securities with a carrying value of \$580,665 and \$1,352,539 were pledged to secure public funds.

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 2 – SECURITIES** (Continued)

Securities with unrealized losses at year end 2015 and 2014 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows.

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2015</u>						
U.S. government agencies	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
<u>2014</u>						
U.S. government agencies	\$ <u>997,730</u>	\$ <u>(3,096)</u>	\$ _____	\$ _____	\$ <u>997,730</u>	\$ <u>(3,096)</u>

Unrealized losses on securities have not been recognized into income because the issuers securities are of high credit quality, management does not intend to sell and it is not more likely than not that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity dates.

**NOTE 3 – LOANS**

Year-end loans were as follows.

	<u>2015</u>	<u>2014</u>
Residential real estate loans:		
1 - 4 family	\$ 83,183,445	\$ 76,199,066
Multi-family dwelling units	2,977,897	3,096,360
Home equity	5,421,737	4,274,040
Nonresidential real estate	25,835,302	23,784,558
Real estate construction and land	5,971,865	2,334,648
Commercial	32,685,774	24,675,824
Consumer loans	<u>7,900,219</u>	<u>14,781,649</u>
Total loans	163,976,239	149,146,145
Less:		
Allowance for loan losses	(2,095,018)	(2,231,491)
Net deferred loan fees	<u>(29,025)</u>	<u>(25,959)</u>
	<u>\$ 161,852,196</u>	<u>\$ 146,888,695</u>

Certain directors, executive officers and companies with which they are affiliated were loan customers of the Corporation. Balances totaled \$2,262,373 at June 30, 2015 and \$1,874,698 at June 30, 2014.

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS (Continued)**

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending of June 30, 2015 and 2014:

	Residential Real Estate	Nonresidential Real Estate	Real Estate Construction and Land	Commercial	Consumer	Unallocated	Total
<b>June 30, 2015</b>							
Allowance for loan losses:							
Beginning balance	\$ 621,044	\$ 254,752	\$ 41,044	\$ 626,715	\$ 56,922	\$ 631,014	\$ 2,231,491
Provision of loans losses	277,131	18,322	(38,207)	174,963	(6,353)	(267,152)	158,704
Loans charged-off	(250,264)	-	-	(54,303)	(26,251)	-	(330,818)
Recoveries	27,316	-	-	4,930	3,395	-	35,641
Total ending allowance balance	<u>\$ 675,227</u>	<u>\$ 273,074</u>	<u>\$ 2,837</u>	<u>\$ 752,305</u>	<u>\$ 27,713</u>	<u>\$ 363,862</u>	<u>\$ 2,095,018</u>
<b>June 30, 2014</b>							
Allowance for loan losses:							
Beginning balance	\$ 597,111	\$ 244,128	\$ 87,712	\$ 573,753	\$ 59,266	\$ 778,871	\$ 2,340,841
Provision of loans losses	214,299	89,582	(46,668)	121,017	30,127	(147,857)	260,500
Loans charged-off	(206,258)	(78,958)	-	(69,595)	(39,713)	-	(394,524)
Recoveries	15,892	-	-	1,540	7,242	-	24,674
Total ending allowance balance	<u>\$ 621,044</u>	<u>\$ 254,752</u>	<u>\$ 41,044</u>	<u>\$ 626,715</u>	<u>\$ 56,922</u>	<u>\$ 631,014</u>	<u>\$ 2,231,491</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

**NOTE 3 - LOANS (Continued)**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2015 and 2014. The recorded investment includes accrued interest receivable and net deferred loan costs.

	Residential Real Estate	Nonresidential Real Estate	Real Estate Construction and Land	Commercial	Consumer	Unallocated	Total
<b>June 30, 2015</b>							
Allowance for loan losses:							
Ending allowance attributable to loans:							
Individually evaluated for impairment	\$ 2,974	\$ -	\$ -	\$ 19,646	\$ -	\$ -	\$ 22,620
Collectively evaluated for impairment	<u>672,253</u>	<u>273,074</u>	<u>2,837</u>	<u>732,659</u>	<u>27,713</u>	<u>363,862</u>	<u>2,072,398</u>
Total ending allowance balance	<u>\$ 675,227</u>	<u>\$ 273,074</u>	<u>\$ 2,837</u>	<u>\$ 752,305</u>	<u>\$ 27,713</u>	<u>\$ 363,862</u>	<u>\$ 2,095,018</u>
Loans:							
Loans individually evaluated for impairment	\$ 845,591	\$ -	\$ 294,847	\$ 31,736	\$ -	\$ -	\$ 1,172,174
Loans collectively evaluated for impairment	<u>90,953,641</u>	<u>25,979,342</u>	<u>5,692,380</u>	<u>32,737,188</u>	<u>7,929,829</u>	<u>-</u>	<u>163,292,380</u>
Total ending loans balance	<u>\$ 91,799,232</u>	<u>\$ 25,979,342</u>	<u>\$ 5,987,227</u>	<u>\$ 32,768,924</u>	<u>\$ 7,929,829</u>	<u>\$ -</u>	<u>\$ 164,464,554</u>
<b>June 30, 2014</b>							
Allowance for loan losses:							
Ending allowance attributable to loans:							
Individually evaluated for impairment	\$ 3,834	\$ -	\$ -	\$ 86,260	\$ -	\$ -	\$ 90,094
Collectively evaluated for impairment	<u>617,210</u>	<u>254,752</u>	<u>41,044</u>	<u>540,455</u>	<u>56,922</u>	<u>631,014</u>	<u>2,141,397</u>
Total ending allowance balance	<u>\$ 621,044</u>	<u>\$ 254,752</u>	<u>\$ 41,044</u>	<u>\$ 626,715</u>	<u>\$ 56,922</u>	<u>\$ 631,014</u>	<u>\$ 2,231,491</u>
Loans:							
Loans individually evaluated for impairment	\$ 1,401,348	\$ -	\$ 452,873	\$ 178,724	\$ -	\$ -	\$ 2,032,945
Loans collectively evaluated for impairment	<u>82,357,590</u>	<u>23,903,697</u>	<u>1,890,153</u>	<u>24,580,321</u>	<u>14,824,766</u>	<u>-</u>	<u>147,556,527</u>
Total ending loans balance	<u>\$ 83,758,938</u>	<u>\$ 23,903,697</u>	<u>\$ 2,343,026</u>	<u>\$ 24,759,045</u>	<u>\$ 14,824,766</u>	<u>\$ -</u>	<u>\$ 149,589,472</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS (Continued)**

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the year ended June 30, 2015 and 2014:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash-Basis Interest Recognized
<b>June 30, 2015</b>						
With no related allowance recorded:						
Residential real estate						
1-4 family	\$ 712,213	\$ 719,420	\$ -	\$ 1,290,656	\$ 30,443	\$ 28,359
Multi- family dwelling units	-	-	-	-	-	-
Home equity	35,000	37,634	-	47,917	-	-
Nonresidential real estate	-	-	-	-	-	-
Real estate construction and land	360,757	294,847	-	347,016	21,508	20,280
Commercial	-	-	-	39,806	-	-
Consumer loans	-	-	-	-	-	-
Subtotal	<u>1,107,970</u>	<u>1,051,901</u>	<u>-</u>	<u>1,725,395</u>	<u>51,951</u>	<u>48,639</u>
With an allowance recorded:						
Residential real estate						
1-4 family	\$ 88,114	\$ 88,537	\$ 2,974	\$ 89,318	\$ 5,205	\$ 4,782
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	-	-	-	-	-	-
Real estate construction and land	-	-	-	-	-	-
Commercial	31,323	31,736	19,646	39,360	-	-
Consumer loans	-	-	-	-	-	-
Subtotal	<u>119,437</u>	<u>120,273</u>	<u>22,620</u>	<u>128,678</u>	<u>5,205</u>	<u>4,782</u>
Total	<u>\$ 1,227,407</u>	<u>\$ 1,172,174</u>	<u>\$ 22,620</u>	<u>\$ 1,854,073</u>	<u>\$ 57,156</u>	<u>\$ 53,421</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

**NOTE 3 – LOANS (Continued)**

<u>June 30, 2014</u>	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash-Basis Interest Recognized
With no related allowance recorded:						
Residential real estate						
1-4 family	\$ 1,204,615	\$ 1,206,689	\$ -	\$ 1,584,074	\$ 26,384	\$ 24,035
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	-	-	-	50,500	-	-
Real estate construction and land	558,870	452,873	-	458,520	-	-
Commercial	19,216	19,216	-	78,855	-	-
Consumer loans	-	-	-	5,332	-	-
Subtotal	<u>1,782,701</u>	<u>1,678,778</u>	<u>-</u>	<u>2,177,281</u>	<u>26,384</u>	<u>24,035</u>
With an allowance recorded:						
Residential real estate						
1-4 family	\$ 194,234	\$ 194,659	\$ 3,834	\$ 147,208	\$ -	\$ -
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	-	-	-	-	-	-
Real estate construction and land	-	-	-	-	-	-
Commercial	159,169	159,508	86,260	173,190	5,995	5,656
Consumer loans	-	-	-	-	-	-
Subtotal	<u>353,403</u>	<u>354,167</u>	<u>90,094</u>	<u>320,398</u>	<u>5,995</u>	<u>5,656</u>
Total	<u>\$ 2,136,104</u>	<u>\$ 2,032,945</u>	<u>\$ 90,094</u>	<u>\$ 2,497,679</u>	<u>\$ 32,379</u>	<u>\$ 29,691</u>

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS (Continued)**

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2015 and 2014:

	<u>Nonaccrual</u>		<u>Loans Past Due Over 90 Days Still Accruing</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Residential real estate loans:				
1-4 family	\$ 134,899	\$ 712,411	\$ 99,877	\$ 141,356
Multi-family dwelling units	-	-	-	-
Home equity	37,634	-	-	-
Nonresidential real estate	-	-	-	-
Real estate construction and land	-	-	-	-
Commercial	31,735	95,425	-	-
Consumer loans	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 204,268</u>	<u>\$ 807,836</u>	<u>\$ 99,877</u>	<u>\$ 141,356</u>

The following table presents the aging of the recorded investment in past due loans as of June 30, 2015 and 2014 by class of loans:

	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Greater than 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
<b><u>June 30, 2015</u></b>						
Residential real estate						
1-4 family	\$ 38,563	\$ 263,702	\$ 99,877	\$ 402,142	\$ 82,958,004	\$ 83,360,146
Multi-family dwelling units	-	-	-	-	2,993,263	2,993,263
Home equity	35,289	-	-	35,289	5,410,534	5,445,823
Nonresidential real estate	-	-	-	-	25,979,342	25,979,342
Real estate construction and land	-	-	-	-	5,978,227	5,987,227
Commercial	72,354	-	-	72,354	32,696,570	32,768,924
Consumer loans	<u>42,173</u>	<u>27,735</u>	<u>-</u>	<u>69,908</u>	<u>7,859,921</u>	<u>7,929,829</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 188,379</u>	<u>\$ 291,437</u>	<u>\$ 99,877</u>	<u>\$ 579,693</u>	<u>\$ 163,884,861</u>	<u>\$ 164,464,554</u>

	<u>31 - 60 Days Past Due</u>	<u>61 - 90 Days Past Due</u>	<u>Greater than 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
<b><u>June 30, 2014</u></b>						
Residential real estate						
1-4 family	\$ 1,013,458	\$ 799,563	\$ 189,189	\$ 2,002,210	\$ 74,351,348	\$ 76,353,558
Multi-family dwelling units	-	-	-	-	3,111,819	3,111,819
Home equity	52,337	-	-	52,337	4,241,224	4,293,561
Nonresidential real estate	-	21,564	-	21,564	23,882,133	23,903,697
Real estate construction and land	-	-	-	-	2,343,026	2,343,026
Commercial	56,360	-	-	56,360	24,702,685	24,759,045
Consumer loans	<u>46,382</u>	<u>-</u>	<u>-</u>	<u>46,382</u>	<u>14,778,384</u>	<u>14,824,766</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 1,168,537</u>	<u>\$ 821,127</u>	<u>\$ 189,189</u>	<u>\$ 2,178,853</u>	<u>\$ 147,410,619</u>	<u>\$ 149,589,472</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS** (Continued)

**Troubled Debt Restructurings:**

Impaired loans at June 30, 2015 and 2014 include \$1,062,632 and \$1,934,479 of loans to customers whose loan terms have been modified in troubled debt restructurings.

The Corporation has allocated \$22,620 and \$90,094 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2015 and 2014. As a practical expedient, specific reserves on impaired loans have been determined based upon fair value of collateral. The Corporation has not committed to lend any additional amounts as of June 30, 2015 and 2014 to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending June 30, 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

There were no modifications considered to be troubled debt restructuring during the year ending June 30, 2015.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending June 30, 2014:

<u>June 30, 2014</u>	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
Troubled Debt Restructurings:			
Residential real estate loans			
1-4 family	4	\$ 729,277	\$ 729,277
Multi-family dwelling units	-	-	-
Home equity	-	-	-
Nonresidential real estate	-	-	-
Real estate construction and land	-	-	-
Commercial	6	172,175	172,175
Consumer loans	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>10</u>	<u>\$ 901,452</u>	<u>\$ 901,452</u>

The troubled debt restructurings that occurred during 2014 did not result in an increase in the allowance for loan losses or any charge-offs at modification. Subsequent to the modification, the Corporation recorded charge-offs of \$172,116 and increased the allowance for loan losses an additional \$49,664 at June 30, 2014.

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS** (Continued)

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending June 30, 2015 and 2014:

	<u>Number of Loans</u>	<u>Recorded Investment</u>
<u>June 30, 2015</u>		
Residential real estate loans:		
1 - 4 family	1	\$ 88,537
Multi-family dwelling units	-	-
Home equity	-	-
Nonresidential real estate		
Real estate construction and land	-	-
Commercial	2	31,735
Consumer loans	<u>6</u>	<u>284,521</u>
 Total	 <u>9</u>	 <u>\$ 404,793</u>
	<u>Number of Loans</u>	<u>Recorded Investment</u>
<u>June 30, 2014</u>		
Residential real estate loans:		
1 - 4 family	5	\$ 603,802
Multi-family dwelling units	-	-
Home equity	-	-
Nonresidential real estate	-	-
Real estate construction and land	-	-
Commercial	2	109,202
Consumer loans	<u>-</u>	<u>-</u>
 Total	 <u>7</u>	 <u>\$ 713,004</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS** (Continued)

**Credit Quality Indicators:**

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$250,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The Corporation uses the following definitions for risk ratings:

**Special Mention:** Loans classified as special mention have a 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.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than \$250,000 or are included in groups of homogeneous loans. As of June 30, 2015 and 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<u>June 30, 2015</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Not Rated</u>	<u>Total</u>
Residential real estate loans:						
1 . 4 family	\$ 30,448,922	\$ 922,922	\$ 1,544,549	\$ -	\$ 50,443,753	\$ 83,360,146
Multi-family dwelling units	2,619,047	-	-	-	374,216	2,993,263
Home equity	1,612,957	-	37,634	-	3,795,232	5,445,823
Nonresidential real estate	24,772,051	201,652	653,881	-	351,758	25,979,342
Real estate construction and land	5,987,227	-	-	-	-	5,987,227
Commercial	26,541,702	-	807,922	-	5,419,300	32,768,924
Consumer loans	<u>1,983,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,946,783</u>	<u>7,929,829</u>
 Total	 <u>\$ 93,964,952</u>	 <u>\$ 1,124,574</u>	 <u>\$ 3,043,986</u>	 <u>\$ -</u>	 <u>\$ 66,331,042</u>	 <u>\$ 164,464,554</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 – LOANS (Continued)**

<u>June 30, 2014</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Not Rated</u>	<u>Total</u>
Residential real estate loans:						
1 . 4 family	\$ 23,212,236	\$ 1,807,492	\$ 2,016,884	\$ -	\$ 49,316,946	\$ 76,353,558
Multi-family dwelling units	2,995,028	-	-	-	116,791	3,111,819
Home equity	824,538	-	-	-	3,469,023	4,293,561
Nonresidential real estate	19,724,968	1,278,302	687,756	-	2,212,671	23,903,697
Real estate construction and land	964,214	-	-	-	1,378,812	2,343,026
Commercial	23,553,925	293,614	886,143	-	25,363	24,759,045
Consumer loans	<u>7,710,674</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,114,092</u>	<u>14,824,766</u>
 Total	 <u>\$ 78,985,583</u>	 <u>\$ 3,379,408</u>	 <u>\$ 3,590,783</u>	 <u>\$ -</u>	 <u>\$ 63,633,698</u>	 <u>\$ 149,589,472</u>

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes that are less than \$250,000 and not rated, the Corporation also evaluates credit quality based on the performing status of the loan. Nonperforming loans includes loans on nonaccrual and loans past due 90 days or more still accruing interest. The following table presents the recorded investment in residential and consumer loans based on performing status as of June 30, 2015 and 2014.

	<u>Residential Real Estate</u>			
<u>June 30, 2015</u>	<u>Consumer Loans</u>	<u>1-4 Family</u>	<u>Multi-Family</u>	<u>Home Equity</u>
Nonperforming	\$ -	\$ 272,410	\$ -	\$ -
Performing	<u>7,929,829</u>	<u>83,087,736</u>	<u>2,993,263</u>	<u>5,445,823</u>
Total	<u>\$ 7,929,829</u>	<u>\$ 83,360,146</u>	<u>\$ 2,993,263</u>	<u>\$ 5,445,823</u>

	<u>Residential Real Estate</u>			
<u>June 30, 2014</u>	<u>Consumer Loans</u>	<u>1-4 Family</u>	<u>Multi-Family</u>	<u>Home Equity</u>
Nonperforming	\$ -	\$ 853,767	\$ -	\$ -
Performing	<u>14,824,766</u>	<u>75,499,791</u>	<u>3,111,819</u>	<u>4,293,561</u>
Total	<u>\$ 14,824,766</u>	<u>\$ 76,353,558</u>	<u>\$ 3,111,819</u>	<u>\$ 4,293,561</u>

**NOTE 4 – ACCRUED INTEREST RECEIVABLE**

Year-end accrued interest receivable was as follows.

	<u>2015</u>	<u>2014</u>
Loans	\$ 517,340	\$ 469,287
Securities	<u>5,208</u>	<u>6,701</u>
	<u>\$ 522,548</u>	<u>\$ 475,988</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 5 – PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows.

	<u>2015</u>	<u>2014</u>
Land	\$ 776,489	\$ 776,489
Buildings and improvements	3,057,119	3,055,016
Furniture and equipment	<u>2,332,916</u>	<u>2,244,724</u>
Total cost	6,166,524	6,076,229
Accumulated depreciation	<u>(3,354,865)</u>	<u>(3,156,984)</u>
	<u>\$ 2,811,659</u>	<u>\$ 2,919,245</u>

**NOTE 6 – DEPOSITS**

Year-end deposits consisted of the following.

	<u>2015</u>	<u>2014</u>
Noninterest-bearing demand deposits	\$ 14,111,650	\$ 11,668,212
NOW and money market accounts	30,996,098	26,286,275
Savings accounts	39,960,628	40,760,143
Certificates of deposit	<u>53,330,921</u>	<u>48,712,690</u>
	<u>\$ 138,399,297</u>	<u>\$ 127,427,320</u>

The aggregate amounts of certificates of deposit with balances of \$250,000 or more at June 30, 2015 and 2014 were \$3,346,566 and \$3,504,047, respectively. At June 30, 2015 and 2014, the Corporation had \$2,133,065 and \$3,242,995 in Certificate of Deposit Account Registry Service program reciprocal deposits.

Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were \$1,969,289 and \$2,536,521.

At June 30, 2015, the scheduled maturities of certificates of deposit were as follows.

Year ending June 30,	2016	\$ 28,965,236
	2017	8,478,082
	2018	5,175,889
	2019	2,916,350
	2020	<u>7,795,364</u>
		<u>\$ 53,330,921</u>

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 7 . FHLB ADVANCES AND OTHER BORROWINGS**

At June 30, 2015, the Bank had a cash management line of credit enabling it to borrow up to \$20.0 million from the Federal Home Loan Bank of Cincinnati (FHLB). The line of credit must be renewed on an annual basis. Outstanding borrowings were \$18,300,000 at June 30, 2015 and \$11,700,000 at June 30, 2014. As a member of the FHLB system and based upon the Bank's current FHLB stock ownership, the Bank has the ability to obtain borrowings up to a total of \$19,618,769 including the line of credit. In addition, the Bank has an available letter of credit for public deposit collateralization with the FHLB in the amount of \$1,000,000 as of June 30, 2015. Advances can be obtained up to the lower of 50% of the Bank's total assets or 74% of the Bank's pledgeable residential mortgage loan portfolio.

Advances under the borrowing agreements are collateralized by the Bank's FHLB stock and \$50,261,724 of qualifying mortgage loans and \$19,206,033 of qualifying commercial real estate loans. Fixed rate advances are payable at maturity and are subject to prepayment penalties if paid off prior to maturity. The interest rates on the convertible fixed-rate advances are fixed for a specified number of years, then convertible at the option of the FHLB. If the convertible option is exercised, the advance may be prepaid without penalty. Putable advances are callable at the option of the FHLB on a quarterly basis. Select pay mortgage-matched advances require monthly principal and interest payments and annual additional principal payments.

The Corporation also has available to it a \$2.0 million revolving line of credit with First Federal Community Bank. The one year revolving line matures February 25, 2016 and is secured by shares of the Bank's stock. No amounts were outstanding under the line of credit at June 30, 2015 or 2014. The Corporation also has available to it a \$1.0 million unsecured overnight line available with Great Lakes Bankers Bank, subject to terms of a Bilateral Federal Funds Agreement. This line is subject to review and the availability is not guaranteed. No amounts were outstanding under the line of credit at June 30, 2015 or 2014.

At year-end 2015 and 2014, advances from the FHLB were as follows.

	Interest Rate Ranges at June 30, 2015	2015	2014	Interest Rate Ranges at June 30, 2014
Cash management advance	0.15-0.25%	\$ 18,300,000	\$ 11,700,000	0.13 - 0.21%
Fixed rate advances, final maturities ranging from July 2015 to August 2016 for 2015 and final maturities ranging from July 2014 to August 2016 for 2014	0.91-1.43%	1,000,000	1,250,000	0.91 - 1.43%
Putable, fixed rate advance, final maturity March 2018	2.02%	500,000	500,000	2.02%
Select payment mortgage matched advances, final maturities ranging from October 2017 to February 2032 for 2015 and July 2014 to February 2032 for 2014	1.12-5.50%	<u>4,408,402</u>	<u>5,426,379</u>	1.12-5.50%
		<u>\$ 24,208,402</u>	<u>\$ 18,876,379</u>	

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HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 7 . FHLB ADVANCES AND OTHER BORROWINGS** (Continued)

At year-end 2015, the scheduled maturities of advances from the FHLB were as follows.

Year ended June 30,	2016	\$ 19,490,531
	2017	1,573,064
	2018	1,163,675
	2019	482,906
	2020	425,554
	thereafter	<u>1,072,672</u>
		<u>\$ 24,208,402</u>

**NOTE 8 – INCOME TAXES**

Income tax expense was as follows.

	<u>2015</u>	<u>2014</u>
Current tax expense	\$ 1,196,022	\$ 1,269,486
Deferred tax expense	<u>23,331</u>	<u>(23,590)</u>
	<u>\$ 1,219,353</u>	<u>\$ 1,245,896</u>

Year-end sources of gross deferred tax assets and gross deferred tax liabilities were as follows.

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Allowance for loan losses	\$ 712,306	\$ 758,707
Deferred loan fees	12,508	14,262
Accrued benefits	146,388	126,804
Unrealized loss on securities available for sale	-	473
Reserve for overdraft program losses	3,411	1,025
Nonaccrual loan interest	<u>24,725</u>	<u>19,868</u>
Total deferred tax assets	899,338	921,139
Deferred tax liabilities:		
Depreciation	(70,832)	(87,742)
Unrealized gain on securities available for sale	(993)	-
FHLB stock	(393,094)	(381,616)
Mortgage servicing rights	(61,227)	(51,971)
Prepaid expenses	(21,789)	(20,750)
Earnings from Coshocton County Title Agency	<u>(5,544)</u>	<u>(8,404)</u>
Total deferred tax liabilities	<u>(553,479)</u>	<u>(550,483)</u>
Net deferred tax asset	<u>\$ 345,859</u>	<u>\$ 370,656</u>

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HOME LOAN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

**NOTE 8 – INCOME TAXES** (Continued)

Effective tax rates differ from the federal statutory rate of 34% applied to financial statement income before income taxes due to the following.

	<u>2015</u>	<u>2014</u>
Income taxes computed at the statutory tax rate on pretax income	\$ 1,411,612	\$ 1,403,470
Tax effect of:		
Tax exempt interest	(10,054)	(15,624)
Bank owned life insurance	(46,240)	(46,852)
Deductible dividends on ESOP shares	(111,441)	(96,625)
Nondeductible expenses and other	<u>(24,524)</u>	<u>1,527</u>
	<u>\$ 1,219,353</u>	<u>\$ 1,245,896</u>
Effective tax rate	<u>29.4%</u>	<u>30.2%</u>

The Corporation has not recorded a deferred tax liability of approximately \$526,000 related to approximately \$1,548,000 of cumulative special bad debt deductions included in retained earnings and arising prior to June 30, 1988, the end of the Bank's base year for purposes of calculating bad debt deductions for tax purposes. If this portion of retained earnings is used in the future for any purpose other than to absorb bad debts, it will be added to future taxable income.

The Corporation and its subsidiaries are subject to U.S. federal income tax. There were no penalties or interest recorded in the income statement for the years ended June 30, 2015 and 2014 and no amounts accrued for penalties and interest as of June 30, 2015 and 2014. There are no unrecognized tax benefits as of June 30, 2015 and 2014. The Corporation is no longer subject to examination by taxing authorities for years before 2011.

**NOTE 9 – BENEFIT PLANS**

The Corporation has a profit-sharing plan covering officers of the Corporation. Annual awards are based upon pre-established performance criteria of the Corporation and the individual officers. Awards are discretionary. The plan's expense amounted to \$539,370 and \$513,227 for the years ended June 30, 2015 and 2014.

The Corporation also sponsors a 401(k) benefit plan covering its eligible employees. The Corporation makes matching contributions equal to 100% of participant's contributions up to 3% of compensation and 50% of participant's contributions up to the next 2% of compensation. Additional employer nonmatching contributions may be made at the discretion of the Board of Directors and are allocated based on compensation. Employee 401 (k) contributions are vested at all times. Employer matching contributions are vested after three years of service. The 2015 and 2014 expense related to this plan was \$62,629 and \$64,819.

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HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 9 – BENEFIT PLANS** (Continued)

In June 2012, the Corporation began providing a supplemental retirement plan for certain executive officers of the Corporation. Participants receive a fixed benefit amount in monthly installments for ten years after normal retirement age of 65. The agreement with the participants provide for early distributions in the event of death, normal disability and change of control. Expense related to this plan was \$27,600 in 2015 and 2014. The supplemental retirement plan liability at June 30, 2015 and 2014 was \$78,200 and \$50,600 and is included in accrued expenses and other liabilities.

**NOTE 10 . STOCK BASED COMPENSATION**

The Home Loan Financial Corporation 1998 Stock Option and Incentive Plan (Plan) was approved by the shareholders of the Corporation on October 13, 1998. A total of 224,825 common shares were available for granting stock options pursuant to the Plan. The Plan expired in 2008 and no further grants can be made. One-fifth of the options awarded become exercisable on each of the first five anniversaries of the date of grant. However, upon the death or disability of a participant, the participant's shares will be deemed vested and nonforfeitable upon such date. The option period expires 10 years from the date of grant.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses assumptions for risk-free interest rate, expected term of the option, expected stock volatility and dividend yield. Expected volatilities are based on historical volatilities of the Corporation's common stock. The Corporation uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. No options were granted or exercised during 2015 or 2014.

A summary of the activity in the Plan for 2015 follows.

	Shares Subject to <u>Options</u>	Weighted Average Exercise <u>Price</u>	Weighted Average Remaining Contractual <u>Term</u>	Aggregate Intrinsic <u>Value</u>
Outstanding at beginning of year	8,000	\$ 21.06	0.53 yrs	\$ -
Granted	-	-		-
Exercised	-	-		-
Forfeited or expired	<u>(8,000)</u>	21.06		-
Outstanding at end of year	<u>-</u>	<u>\$ -</u>	<u>- yrs</u>	<u>\$ -</u>
Exercisable at end of year	<u>-</u>	<u>\$ -</u>	<u>- yrs</u>	<u>\$ -</u>

As of June 30, 2015, there was no unrecognized compensation cost related to non-vested stock options.

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HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 11 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance sheet risk at year-end follows.

	<u>2015</u>	<u>2014</u>
Home equity lines of credit . variable rate	\$ 5,788,000	\$ 5,740,000
1-4 family residential real estate . variable rate	2,503,000	690,000
1-4 family residential real estate . fixed rate	665,400	-
Commercial lines of credit . variable rate	11,145,000	9,107,000
Overdraft protection	2,049,000	1,964,000
Standby letters of credit	936,000	906,000

The Bank has entered into employment agreements with two officers of HLFN and the Bank. Both agreements provide for a term of three years beginning in 2014. Both agreements provide for salary and performance reviews by the Board of Directors not less often than annually, as well as inclusion of the employee in any formally established employee benefit, bonus, pension and profit-sharing plans for which senior management personnel are eligible. The agreements provide for extensions for a period of one year on each anniversary date, subject to review and approval of the extension by disinterested members of the Board of Directors of the Bank. The employment agreements provide for vacation and sick leave in accordance with the Bank's prevailing policies and include change of control provisions.

**NOTE 12 – REGULATORY MATTERS**

The Bank is subject to various regulatory capital requirements administered by the federal regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 12 – REGULATORY MATTERS** (Continued)

Basel III Capital Rules became effective for the Bank on January 1, 2015 and certain provisions are subject to a phase-in period. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four -year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a countercyclical capital buffer that is applicable to only certain covered institutions and does not have any current applicability to the Bank. The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

At June 30, 2015 and 2014, management believes the Bank complied with all regulatory capital requirements. Based on the computed regulatory capital ratios, the Bank was considered well capitalized under the Federal Deposit Insurance Act at June 30, 2015 and 2014. Management believes no conditions or events have occurred subsequent to last notification by regulators that would cause the Bank's capital category to change.

At year-end 2015 and 2014, the Bank's actual capital levels and minimum required levels were as follows.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
			(Dollars in thousands)			
June 30, 2015						
Total capital (to risk-weighted assets)	\$ 21,856	15.7%	\$ 11,143	8.0%	\$ 13,929	10.0%
Tier 1 (core) capital						
(to risk-weighted assets)	20,109	14.4	8,357	6.0	11,143	8.0
Common equity tier 1 capital	20,109	14.4	6,268	4.5	9,054	6.5
Tier 1 (core) capital						
(to average assets)	20,109	11.3	7,099	4.0	8,873	5.0
June 30, 2014						
Total capital (to risk-weighted assets)	\$ 20,785	16.4%	\$ 10,118	8.0%	\$ 12,647	10.0%
Tier 1 (core) capital						
(to risk-weighted assets)	19,197	15.2	5,059	4.0	7,588	6.0
Tier 1 (core) capital						
(to average assets)	19,197	11.6	6,607	4.0	8,259	5.0

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HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 12 – REGULATORY MATTERS** (Continued)

When the Bank converted from a mutual to a stock institution, a liquidation account was established at \$10,579,000, which was net worth reported in the conversion prospectus. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would receive a distribution from this account if the Bank were liquidated. Dividends may not reduce shareholders' equity below the required liquidation account balance.

Banking regulations limit capital distributions by financial institutions. Generally, capital distributions are limited to the current year to date undistributed net income and prior two years' undistributed net income, as long as the institution remains well capitalized after the proposed distribution. During the remainder of calendar 2015, the Bank could without prior approval, declare dividends of \$657,000 plus any retained net profits for the period from July 1, 2015 through December 31, 2015.

**NOTE 13 – FAIR VALUE**

Fair value is the exchange price that would be received for an asset or 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 assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to measure fair values.

**Investment Securities:** The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

**Impaired Loans:** The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. 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

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 13 – FAIR VALUE** (Continued)

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.

Appraisals for collateral-dependent impaired loans 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 the Corporation. Once received, a member of the Lending Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation 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. The most recent analysis performed indicated that a discount of 10-20% should be applied to properties appraised values.

Assets measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at June 30, 2015 Using:				
	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investment securities available for sale				
U.S. Government agencies	<u>\$ 2,503,638</u>	<u>\$ -</u>	<u>\$ 2,503,638</u>	<u>\$ -</u>

Fair Value Measurements at June 30, 2014 Using:				
	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investment securities available for sale				
U.S. Government agencies	<u>\$ 3,000,850</u>	<u>\$ -</u>	<u>\$ 3,000,850</u>	<u>\$ -</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

**NOTE 13 – FAIR VALUE** (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at June 30, 2015 Using:			
	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Impaired loans:				
Commercial	\$ 11,677	\$ -	\$ -	\$ 11,677
Residential real estate	273,278	-	-	273,278

	Fair Value Measurements at June 30, 2014 Using:			
	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Impaired loans:				
Commercial	\$ 72,909	\$ -	\$ -	\$ 72,909
Residential real estate	686,525	-	-	686,525

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$307,575, with a valuation allowance of \$22,620 at June 30, 2015. At June 30, 2014, impaired loans had a principal balance \$849,528, with a valuation allowance of \$90,094. Provision for loan losses for the year ending June 30, 2015 related to impaired loans was \$217,184. Provision related to impaired loans for the year ending June 30, 2014 was \$221,750.

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 13 – FAIR VALUE (Continued)**

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2015 and 2014:

	<u>Fair value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
June 30, 2015				
Impaired loans:				
Commercial	\$ 11,677	Recent list prices	Adjustment for differences between the comparable sales	20%
Residential real estate	273,278	Recent list prices	Adjustment for differences between the comparable sales	20%
June 30, 2014				
Impaired loans:				
Commercial	\$ 72,909	Recent list prices	Adjustment for differences between the comparable sales	20%
Residential real estate	686,525	Sales comparison approach	Adjustment for differences between the comparable sales	(57%) - 20%

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 13 – FAIR VALUE** (Continued)

Carrying amounts and estimated fair values of financial instruments at year-end were as follows.

	<u>2015</u>		<u>2014</u>	
	<u>Carrying</u>	<u>Estimated</u>	<u>Carrying</u>	<u>Estimated</u>
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 9,157,841	9,157,841	\$ 5,027,224	5,027,224
Interest-bearing time deposits	2,589,949	2,589,949	3,328,840	3,328,840
Securities available for sale	2,503,638	2,503,638	3,000,850	3,000,850
Loans held for sale	481,000	486,902	386,200	395,818
Loans, net of allowance for loan losses	161,852,196	162,178,991	146,888,695	147,173,399
FHLB stock	2,513,400	N/A	2,513,400	N/A
Accrued interest receivable	522,548	522,548	475,988	475,988
Financial liabilities:				
Demand, savings and money market deposit accounts	\$ (85,068,376)	\$ (85,068,376)	\$ (78,714,630)	\$ (78,714,630)
Certificates of deposit	(53,330,921)	(52,849,811)	(48,712,690)	(49,064,006)
FHLB advances	(24,208,402)	(24,176,186)	(18,876,379)	(18,919,846)
Accrued interest payable	(155,900)	(155,900)	(131,618)	(131,618)

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.

(b) Interest-bearing time deposits: The carrying amounts for fixed rate interest-bearing time deposits approximates fair values.

(c) FHLB Stock: It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(d) Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors.

(e) Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(f) Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook 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). The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

(Continued)

HOME LOAN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

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**NOTE 13 – FAIR VALUE** (Continued)

(g) Short-term Borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values.

(h) Other Borrowings: The fair values of the Corporation's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

(i) Accrued Interest Receivable/Payable: The carrying amounts of accrued interest approximate fair value.

(j) 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.

**NOTE 14 – EARNINGS PER SHARE**

The factors used in the earnings per share computation were as follows.

	<u>2015</u>	<u>2014</u>
Basic earnings per common share		
Net income	<u>\$ 2,932,448</u>	<u>\$ 2,881,956</u>
Weighted average common shares outstanding	<u>1,396,506</u>	<u>1,396,506</u>
Basic earnings per common share	<u>\$ 2.10</u>	<u>\$ 2.06</u>
Diluted earnings per common share		
Net income	<u>\$ 2,932,448</u>	<u>\$ 2,881,956</u>
Weighted average common shares outstanding for basic earnings per common share	1,396,506	1,396,506
Add: Dilutive effects of restricted stock awards	-	-
Average shares and dilutive potential common shares	<u>1,396,506</u>	<u>1,396,506</u>
Diluted earnings per common share	<u>\$ 2.10</u>	<u>\$ 2.06</u>

Stock options outstanding were not considered in computing diluted earnings per share for the years ended June 30, 2015 and 2014 because they were antidilutive.

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(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 15 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

Condensed financial information of HLFN as of June 30, 2015 and 2014, and for the years ended June 30, 2015 and 2014 was as follows.

**CONDENSED BALANCE SHEETS**

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,641,464	\$ 3,391,415
Investment in banking subsidiary	20,111,634	19,211,657
Investment in non-banking subsidiary	127,239	81,632
Other assets	<u>219,617</u>	<u>231,534</u>
<b>Total assets</b>	<u>\$ 24,099,954</u>	<u>\$ 22,916,238</u>
<b>Liabilities</b>		
Other liabilities	\$ 20,576	\$ 51,595
Deferred federal income tax	<u>5,544</u>	<u>8,404</u>
Total liabilities	26,120	59,999
<b>Shareholders' equity</b>	<u>24,073,834</u>	<u>22,856,240</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 24,099,954</u>	<u>\$ 22,916,238</u>

**CONDENSED STATEMENTS OF INCOME**

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Dividends from subsidiaries	\$ 2,000,000	\$ 2,000,000
Other income	<u>69,839</u>	<u>92,045</u>
Total interest income	2,069,839	2,092,045
Operating expenses	<u>85,429</u>	<u>85,316</u>
Income before income taxes and equity in undistributed earnings of subsidiary	1,984,410	2,006,729
Income tax (benefit) expense	<u>(5,301)</u>	<u>2,288</u>
Income before equity in undistributed earnings of subsidiaries	1,989,711	2,004,441
Equity in undistributed of banking subsidiary	897,130	843,027
Equity in undistributed earnings of non-banking subsidiary	<u>45,607</u>	<u>34,488</u>
<b>Net income</b>	<u>\$ 2,932,448</u>	<u>\$ 2,881,956</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 15 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION** (Continued)

**CONDENSED STATEMENTS OF CASH FLOWS**

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net income	\$ 2,932,448	\$ 2,881,956
Adjustments to reconcile net income to cash provided by operations:		
Equity in undistributed income	(942,737)	(877,515)
Net change in other assets	11,918	8,378
Net change in other liabilities	(31,019)	(334,616)
Deferred taxes	<u>(2,860)</u>	<u>(304)</u>
Net cash from operating activities	1,967,750	1,677,899
Cash flows from financing activities		
Cash dividends paid	<u>(1,717,701)</u>	<u>(1,549,281)</u>
Net cash from financing activities	<u>(1,717,701)</u>	<u>(1,549,281)</u>
Net change in cash and cash equivalents	250,049	128,618
Cash and cash equivalents at beginning of period	<u>3,391,415</u>	<u>3,262,797</u>
Cash and cash equivalents at end of year	<u>\$ 3,641,464</u>	<u>\$ 3,391,415</u>

**HOME LOAN FINANCIAL CORPORATION  
SHAREHOLDER INFORMATION**

**ANNUAL MEETING**

The Annual Meeting of Shareholders will be held at 2 p.m. local time, on October 13, 2015 at the main office of the Bank at 413 Main Street, Coshocton, Ohio.

**STOCK INFORMATION**

Home Loan Financial Corporation common stock is quoted on the Over the Counter Bulletin Board under the symbol "HLFN."

**SHAREHOLDER AND GENERAL INQUIRIES**

Breann L. Miller, Chief Financial Officer  
Home Loan Financial Corporation  
413 Main Street  
Coshocton, OH 43812  
(740) 622-0444

**TRANSFER AGENT**

Computershare  
480 Washington Boulevard  
Jersey City, NJ 07310

**HOME LOAN FINANCIAL CORPORATION  
CORPORATE INFORMATION**

**CORPORATION AND BANK LOCATIONS**

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Coshocton, OH 43812

Telephone: (740) 622-0444  
Fax: (740) 622-5389

Branch Offices

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Coshocton, OH 43812

Telephone: (740) 622-9417

503 West Main Street  
West Lafayette, OH 43845

Telephone: (740) 545-0227

1387 Coshocton Avenue  
Mount Vernon, OH 43050

Telephone: (740) 393-0058

**DIRECTORS OF THE CORPORATION AND THE BANK**

Robert C. Hamilton (Chairman of the Board)  
*Chief Executive Officer of The Home Loan  
Savings Bank and Home Loan Financial  
Corporation*

Neal J. Caldwell  
*Owner and Operator of a Veterinary Consulting  
Practice*

Kyle R. Hamilton  
*President of The Home Loan Savings  
Bank and Home Loan Financial  
Corporation*

Douglas L. Randles  
*President of L.W. Randles Cheese, Inc.*

Richard R. Berg  
*Retired*

Matthew T. Miller  
*President of Miller Funeral Home LLC.*

Special Counsel

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Independent Auditors

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Cleveland, OH 44114



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