Home Loan Financial Corporation

Home Loan
Financial Corporation

HOME LOAN FINANCIAL CORPORATION
ANNUAL REPORT
June 30, 2011

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Home Loan Financial Corporation
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We are pleased to share Home Loan Financial Corporation's (HLFN) fiscal 2011 consolidated financial results with you.

Net income for the year ended June 30, 2011 was $1,856,000, or $1.31 basic and diluted earnings per share, compared to $1,542,000 for the year ended June 30, 2010, or $1.08 basic and diluted earnings per share, an increase of $314,000, or 20.3%.

This increase in earnings for the year ended June 30, 2011 compared with June 30, 2010 was primarily attributable to an increase in net interest income of $656,000 and a decrease in the provision for loan losses of $425,000, partially offset by a decrease in total noninterest income of $168,000, an increase in total noninterest expense of $442,000 and an increase in income tax expense of $157,000.

As I'm sure you have heard, on July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Office of Thrift Supervision was eliminated and our new regulator for HLFN will be the Federal Reserve Bank. This new law will significantly change the regulation of financial institutions and the financial services industry. It is our hope that the regulatory changes will be manageable.

The investors that were part of the 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 at capital distribution in fiscal 1999) to $14.00 as of June 30, 2011. In addition, those shareholders have received $8.645 in dividends since the conversion. Based upon the HLFN's average stock price for fiscal 2011 of $14.26, the current annual dividend of $.875 produced a yield of 6.14%. In fiscal 2010, we paid an $.85 annual dividend.

In addition to The Home Loan Savings Bank, HLFN owns Home Loan Financial Services, Inc. and a 33% interest in Coshocton County Title Agency, LLC. Home Loan Financial Services Inc. offers life insurance, annuities, long-term care insurance, and investment products. Coshocton Title Agency, LLC is a full service title insurance agency. Both companies contributed to our earnings.

On behalf of the Home Loan Financial Corporation 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,

Robert C. Hamilton

Robert C. Hamilton
Chairman of the Board and CEO

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Home Loan Financial Corporation
Coshocton, Ohio

We have audited the accompanying consolidated balance sheets of Home Loan Financial Corporation as of June 30, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio
September 2, 2011

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
Years ended June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash and due from financial institutions	$ 1,873,898	$ 1,913,142
Interest-bearing deposits in other financial institutions	6,778,549	5,812,367
Total cash and cash equivalents	8,652,447	7,725,509
Interest bearing time deposits	588,533	1,959,754
Securities available for sale	10,076,967	9,295,644
Federal Home Loan Bank stock	2,663,300	2,663,300
Loans, net of allowance of $2,101,146 and $1,674,165 in 2011 and 2010	131,273,124	132,791,641
Premises and equipment, net	3,177,024	3,013,717
Accrued interest receivable	731,799	847,808
Bank owned life insurance	3,975,401	3,832,501
Other real estate owned	366,200	522,972
Other assets	850,896	838,335
Total assets	$ 162,355,691	$ 163,491,181
LIABILITIES		
Deposits	$ 129,525,177	$ 126,633,241
Federal Home Loan Bank advances	12,390,714	16,830,430
Accrued interest payable	350,394	574,504
Accrued expenses and other liabilities	826,865	731,815
Total liabilities	143,093,150	144,769,990
SHAREHOLDERS' EQUITY		
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	14,922,500	14,303,620
Treasury stock, at cost, 834,453 shares in 2011 and 2010	(10,805,238)	(10,805,238)
Accumulated other comprehensive income	100,868	178,398
Total shareholders' equity	19,262,541	18,721,191
Total liabilities and shareholders' equity	$ 162,355,691	$ 163,491,181

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2011 and 2010

	2011	2010
Interest income		
Loans, including fees	$ 8,431,255	$ 8,357,067
Taxable securities	37,888	190,087
Nontaxable securities	205,868	207,328
Dividends on Federal Home Loan Bank stock and other	157,769	226,313
Total interest income	8,832,780	8,980,795
Interest expense		
Deposits	1,607,939	1,991,985
Federal Home Loan Bank advances	484,470	904,178
Total interest expense	2,092,409	2,896,163
Net interest income	6,740,371	6,084,632
Provision for loan losses	650,000	1,075,000
Net interest income after provision for loan losses	6,090,371	5,009,632
Noninterest income		
Service charges and other fees	581,885	672,634
Net gain on sale of securities	-	135,450
Net gains on sales of loans	137,119	43,471
Earnings from Coshocton County Title Agency	78,051	73,114
Bank owned life insurance	142,900	139,615
Other	72,646	116,553
Total noninterest income	1,012,601	1,180,837
Noninterest expense		
Salaries and employee benefits	2,312,376	2,154,756
Occupancy and equipment	383,345	340,013
State franchise taxes	188,709	189,716
Computer processing	632,158	466,149
Professional services	268,098	283,113
Director fees	97,360	95,760
Federal deposit insurance	204,195	179,376
Other	407,491	342,851
Total noninterest expense	4,493,732	4,051,734
Income before income taxes	2,609,240	2,138,735
Income tax expense	753,288	596,365
Net income	$ 1,855,952	$ 1,542,370
Basic and diluted earnings per common share	$ 1.31	$ 1.08

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2011 and 2010

	2011	2010
Net income	$ 1,855,952	$ 1,542,370
Other comprehensive income		
Unrealized holding gains (losses) on securities available for sale	(117,470)	(3,022)
Reclassification adjustment for (gains) losses realized in income	-	(135,450)
Net unrealized gains (losses)	(117,470)	(138,472)
Tax effect	39,940	47,080
Total other comprehensive income (loss)	(77,530)	(91,392)
Comprehensive income	$ 1,778,422	$ 1,450,978

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended June 30, 2011 and 2010

	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2009	$ 15,039,383	$ 13,972,452	$ (10,394,471)	$ 269,790	$ 18,887,154
Net income	-	1,542,370	-	-	1,542,370
Cash dividend - $.85 per share	-	(1,211,202)	-	-	(1,211,202)
Compensation expense with respect to RRP	4,563	-	-	-	4,563
Purchase of 30,735 treasury shares	-	-	(410,767)	-	(410,767)
Stock option compensation expense	465	-	-	-	465
Change in fair value of securities available for sale, net of reclassification and tax effects	-	-	-	(91,392)	(91,392)
Balance at June 30, 2010	$ 15,044,411	$ 14,303,620	$ (10,805,238)	$ 178,398	$ 18,721,191

(Continued)

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
Years ended June 30, 2011 and 2010

	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2010	$ 15,044,411	$ 14,303,620	$ (10,805,238)	$ 178,398	$ 18,721,191
Net income	-	1,855,952	-	-	1,855,952
Cash dividend - $.875 per share	-	(1,237,072)	-	-	(1,237,072)
Change in fair value of securities available for sale, net of tax effects	-	-	-	(77,530)	(77,530)
Balance at June 30, 2011	$ 15,044,411	$ 14,922,500	$ (10,805,238)	$ 100,868	$ 19,292,541

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income	$ 1,855,952	$ 1,542,370
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	162,366	152,466
Securities amortization and accretion	11,759	30,871
Interest bearing time deposit accretion	(40,334)	(102,921)
Provision for loan losses	650,000	1,075,000
Loss on disposition or write down of other real estate owned	58,772	9,119
Gain on sale of mortgage-backed securities available for sale	-	(135,450)
Increase in cash surrender value of bank owned life insurance	(142,900)	(139,615)
Compensation expense on RRP shares	-	4,563
Stock option compensation expense	-	465
Deferred taxes	(141,080)	(102,073)
Net change in:		
Accrued interest receivable and other assets	284,468	(406,356)
Accrued expenses and other liabilities	(129,060)	(195,263)
Deferred loan fees	20,843	14,518
Net cash from operating activities	2,590,786	1,747,694
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities	3,080,000	500,000
Purchases	(3,990,552)	(2,003,808)
Mortgage-backed securities available for sale:		
Proceeds from maturities and principal paydowns	-	1,154,749
Proceeds from sales	-	4,595,934
Interest bearing time deposits:		
Purchases	(486,445)	(100,000)
Proceeds from maturities	1,898,000	876,097
Net change in loans	543,192	(3,208,029)
Net change in premises and equipment	(325,673)	(109,912)
Proceeds from sale of real estate owned	402,482	365,484
Net cash from investing activities	1,121,004	2,070,515
Cash flows from financing activities		
Net change in deposits	2,891,936	18,979,320
Net change in short-term FHLB advances	(2,000,000)	(5,700,000)
Proceeds from long term FHLB advances	2,600,000	-
Maturities and repayments of long-term FHLB advances	(5,039,716)	(9,847,583)
Cash dividends paid	(1,237,072)	(1,211,202)
Purchase of treasury shares	-	(410,767)
Net cash from financing activities	(2,784,852)	1,809,768
Net change in cash and cash equivalents	926,938	5,627,977
Cash and cash equivalents at beginning of year	7,725,509	2,097,532
Cash and cash equivalents at end of year	$ 8,652,447	$ 7,725,509

See accompanying notes to consolidated financial statements.

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 33% 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, 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 customers' 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 2, 2011, 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. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

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 $2,317,000 and $2,974,000 and income taxes of $990,000 and $695,000 in 2011 and 2010. Noncash transfers from loans to other real estate loans totaled $304,482 in 2011 and $897,575 in 2010.

Interest-bearing Time Deposits in Other Financial Institutions: Interest-bearing time 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.

(Continued)

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: 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, plus net deferred loan costs less the 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 mortgage and commercial loans 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.

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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

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. 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 measured at the present value of estimated future cash flows using the loan's effective rate at inception.

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 company 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.

<u>Foreclosed Assets</u>: 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 rights 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 rights 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 rights 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 rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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 rights is netted against loan servicing fee income. Mortgage servicing rights at June 30, 2011 and 2010 totaled $62,531 and $35,435. Loans serviced for others were $12,479,000 and $10,419,000 at June 30, 2011 and 2010.

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $3,191,748 and $3,145,246 at June 30, 2011 and 2010. No shares were allocated during the years ended June 30, 2011 and 2010. Total allocated shares at June 30, 2011 and 2010 were 227,982 and 220,719 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.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income 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 14. 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 2011 consolidated financial statements have been made to conform to the 2010 presentation.

(Continued)

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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
Securities available for sale				
U.S. Government agencies	$ 4,494,415	$ 15,265	$ -	4,509,680
U.S. Treasury note	499,191	1,494	-	500,685
Obligations of state and political subdivisions	4,930,531	136,071	-	5,066,602
	$ 9,924,137	$ 152,830	$ -	$ 10,076,967
June 30, 2010				
Securities available for sale				
U.S. Government agencies	$ 4,003,909	$ 16,639	$ (288)	$ 4,020,260
Obligations of state and political subdivisions	5,021,435	253,949	-	5,275,384
	$ 9,025,344	$ 270,588	$ (288)	$ 9,295,644

There were no sales of securities in 2011. For the year ending June 30, 2010, proceeds from sales of mortgage-backed securities available for sale were $4,595,934 resulting in gross realized gains of $137,742 and gross realized losses of $2,292.

Contractual maturities of securities available for sale at year end 2011 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 Cost	Fair Value
Due in one year or less	$ 1,720,113	$ 1,736,279
Due after one year through five years	8,204,024	8,340,688
	$ 9,924,137	$ 10,076,967

At June 30, 2011 and 2010, securities with a carrying value of $5,062,756 and $5,609,668 were pledged to secure public funds.

(Continued)

NOTE 2 – SECURITIES (Continued)

There were no securities with unrealized losses at June 30, 2011. Securities with unrealized losses at year end 2010 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2010						
U.S. government agencies	$ 1,500,250	$ (288)	$ -	$ -	$ 1,500,250	$ (288)

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 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.

	2011	2010
Residential real estate loans:		
1 - 4 family	$ 71,119,046	$ 74,876,471
Multi-family dwelling units	2,375,576	757,067
Home equity	4,561,649	4,867,115
Nonresidential real estate	23,246,202	22,354,993
Real estate construction and land	2,715,591	4,834,841
Commercial	19,867,013	15,794,715
Consumer loans	9,474,330	10,944,898
Total loans	133,359,407	134,430,100
Less:		
Allowance for loan losses	(2,101,146)	(1,674,165)
Net deferred loan costs	14,863	35,706
	$ 131,273,124	$ 132,791,641

Certain directors, executive officers and companies with which they are affiliated were loan customers of the Corporation. Balances totaled $253,424 at June 30, 2011 and $512,760 at June 30, 2010.

Activity in the allowance for loan losses was as follows.

	2011	2010
Beginning balance	$ 1,674,165	$ 1,321,041
Provision for losses	650,000	1,075,000
Loans charged-off	(318,123)	(855,440)
Recoveries of previous charge-offs	95,104	133,564
Ending balance	$ 2,101,146	$ 1,674,165

(Continued)

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, 2011:

	Residential Real Estate	Nonresidential Real Estate	Real Estate Construction and Land	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 43,978	$ -	$ -	$ 43,978
Collectively evaluated for impairment	627,616	189,663	85,622	195,162	77,082	882,023	2,057,168
Total ending allowance balance	$ 627,616	$ 189,663	$ 85,622	$ 239,140	$ 77,082	$ 882,023	$ 2,101,146
Loans:							
Loans individually evaluated for impairment	$ 439,056	$ 1,074,882	$ 438,928	$ 89,323	$ -	$ -	$ 2,542,189
Loans collectively evaluated for impairment	77,389,092	22,379,750	2,287,765	19,857,391	9,581,988	-	131,495,986
Total ending loans balance	$ 78,328,148	$ 23,454,632	$ 2,726,693	$ 19,946,714	$ 9,581,988	$ -	$ 134,038,175

(Continued)

NOTE 3 – LOANS (Continued)

Impaired loans were as follows.

	2011	2010
Period-end impaired loans with no allocated allowance for loan losses allocated	$ 2,452,866	$ 2,772,394
Period-end impaired loans with allowance for loan losses allocated	89,323	90,315
Total	$ 2,542,189	$ 2,862,709
Amount of the allowance for loan loss allocated	$ 43,978	$ 44,411

Impaired loans at June 30, 2011 and 2010 include $908,823 and $505,851 of loans to customers whose loan terms have been modified in troubled debt restructurings.

	2011	2010
Average of impaired loans during the year	$ 2,644,128	$ 1,707,497
Interest income recognized during the year	68,943	62,561
Cash-basis interest income recognized	64,131	62,561

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate loans:			
1-4 family	$ 934,411	$ 939,056	$ -
Multi-family dwelling units	-	-	-
Home equity	-	-	-
Nonresidential real estate	1,074,761	1,074,882	-
Real estate construction and land	438,419	438,928	-
Commercial	-	-	-
Consumer loans	-	-	-
With an allowance recorded:			
Residential real estate loans:			
1-4 family	-	-	-
Multi-family dwelling units	-	-	-
Home equity	-	-	-
Nonresidential real estate	-	-	-
Real estate construction and land	-	-	-
Commercial	88,925	89,323	43,978
Consumer loans	-	-	-
Total	$ 2,536,516	$ 2,542,189	$ 43,978

(Continued)

NOTE 3 – LOANS (Continued)

Nonperforming loans were as follows.

	2011	2010
Loans past due over 90 days still on accrual	$ 286,992	$ 927,061
Loans on nonaccrual	2,031,079	2,380,600

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

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2011:

	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Residential real estate loans:		
1-4 family	$ 511,981	$ 286,992
Multi-family dwelling units	-	-
Home equity	-	-
Nonresidential real estate	1,074,640	-
Real estate construction and land	437,909	-
Commercial	-	-
Consumer loans	6,549	-
Total	$ 2,031,079	$ 286,992

(Continued)

NOTE 3 – LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate						
1-4 family	$ 1,200,885	$ 441,983	$ 612,983	$ 2,255,851	$ 69,099,525	$ 71,335,376
Multi- family dwelling units	-	-	-	-	2,386,085	2,386,085
Home equity	-	75,173	-	75,173	4,511,514	4,586,687
Nonresidential real estate	567,346	-	676,677	1,244,023	22,210,609	23,454,632
Real estate construction and land	76,849	5,100	412,553	494,502	2,232,191	2,726,693
Commercial	477,140	651,891	-	1,129,031	18,817,683	19,946,714
Consumer loans	38,575	22,215	-	60,790	9,521,198	9,581,988
Total	$ 2,360,795	$ 1,196,362	$ 1,702,213	$ 5,259,370	$ 128,778,805	$ 134,038,175

Troubled Debt Restructurings:

The Corporation has allocated $43,978 and $44,411 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011 and 2010. The Corporation has not committed to lend any additional amounts as of June 30, 2011 and 2010 to customers with outstanding loans that are classified as troubled debt restructurings.

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.

(Continued)

NOTE 3 – LOANS (Continued)

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, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Residential real estate loans:						
1 – 4 family	$ 4,506,947	$ 1,677,489	$ 3,683,591	$ -	$ 61,487,349	$ 71,355,376
Multi-family dwelling units	2,276,883	-	-	-	109,202	2,386,085
Home equity	-	-	75,173	-	4,511,514	4,586,687
Nonresidential real estate	15,251,090	566,130	3,865,591	-	3,771,821	23,454,632
Real estate construction and land	201,856	-	437,909	-	2,086,928	2,726,693
Commercial	16,201,927	1,753,345	524,850	-	1,466,592	19,946,714
Consumer loans	-	-	9,619	-	9,572,369	9,581,988
Total	$ 38,438,703	$ 3,996,964	$ 8,596,733	$ -	$ 83,005,775	$ 134,038,175

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2011.

		Residential Real Estate		
	Consumer Loans	1-4 family	Multi-Family	Home Equity
Nonperforming	$ 6,549	$ 511,981	$ -	$ -
Performing	9,575,439	70,843,395	2,386,085	4,586,687
Total	$ 9,581,988	$ 71,355,376	$ 2,386,085	$ 4,586,687

NOTE 4 – ACCRUED INTEREST RECEIVABLE

Year-end accrued interest receivable was as follows.

	2011	2010
Loans	$ 663,905	$ 773,703
Securities	67,894	74,105
	$ 731,799	$ 847,808

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	2011	2010
Land	$ 856,489	$ 856,489
Buildings and improvements	2,981,240	2,856,805
Furniture and equipment	2,000,640	1,823,809
Total cost	5,838,369	5,537,103
Accumulated depreciation	(2,661,345)	(2,523,386)
	$ 3,177,024	$ 3,013,717

NOTE 6 – DEPOSITS

Year-end deposits consisted of the following.

	2011	2010
Noninterest-bearing demand deposits	$ 7,891,477	$ 6,270,730
NOW and money market accounts	18,631,869	14,856,831
Savings accounts	35,201,490	27,980,617
Certificates of deposit	67,800,341	77,525,063
	$ 129,525,177	$ 126,633,241

The aggregate amounts of certificates of deposit with balances of $100,000 or more at June 30, 2011 and 2010 were $24,673,474 and $28,667,000, respectively. At June 30, 2011 and 2010, the Corporation had $4,490,393 and $5,011,487 in Certificate of Deposit Account Registry Service program reciprocal deposits.

At June 30, 2011, the scheduled maturities of certificates of deposit were as follows.

Year ending June 30,	2012	$ 39,686,772
	2013	16,030,178
	2014	4,873,062
	2015	2,070,581
	2016	5,092,129
	Thereafter	47,619
		$ 67,800,341

(Continued)

NOTE 7 – FHLB ADVANCES AND OTHER BORROWINGS

At June 30, 2011, 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 $0 at June 30, 2011 and $2,000,000 at June 30, 2010. 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 $39,889,000 including the line of credit. 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 $54,520,000 of qualifying mortgage loans and $13,395,000 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, 2013 and is secured by shares of the Bank's stock.

At year-end 2011 and 2010, advances from the FHLB were as follows.

	Interest Rate Ranges at June 30, 2011	2011	2010	Interest Rate Ranges at June 30, 2010
Cash management advance	-	$ -	$ 2,000,000	0.21%
Fixed rate advances, final maturities ranging from March 2014 to April 2014 for 2011 and final maturities ranging from September 2010 to December 2010 for 2010	1.24-1.40%	1,000,000	3,500,000	3.87-4.63%
Convertible, fixed-rate advances, final maturity of July 2012	4.39%	5,000,000	5,000,000	4.39%
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 January 2012 to April 2023	2.19-5.50%	5,890,714	5,830,430	2.84-5.50%
		$ 12,390,714	$ 16,830,430	

At year-end 2011, the scheduled maturities of advances from the FHLB were as follows.

Year ended June 30,	2012	$ 1,453,558
	2013	6,057,272
	2014	1,830,307
	2015	639,514
	2016	538,806
	thereafter	1,871,257
		$ 12,390,714

(Continued)

NOTE 8 – INCOME TAXES

Income tax expense was as follows.

	2011	2010
Current tax expense	$ 894,368	$ 697,834
Tax effect of stock based compensation plans	-	604
Deferred tax expense	(141,080)	(102,073)
	$ 753,288	$ 596,365

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

	2011	2010
Deferred tax assets:		
Allowance for loan losses	$ 714,390	$ 569,216
Deferred loan fees	15,952	19,487
Accrued benefits	58,600	33,100
Reserve for delinquent interest	-	2,677
Reserve for overdraft program losses	1,599	2,007
Total deferred tax assets	790,541	626,487
Deferred tax liabilities:		
Depreciation	(72,574)	(56,520)
Unrealized gain on securities available for sale	(51,962)	(91,902)
FHLB stock	(404,375)	(404,375)
Security discount accretion	(2,443)	(2,238)
Mortgage servicing rights	(21,261)	(12,048)
Prepaid expenses	(32,036)	(31,949)
Earnings from Coshocton County Title Agency	(3,412)	(5,997)
Total deferred tax liabilities	(588,063)	(605,029)
Net deferred tax (liability) asset	$ 202,478	$ 21,458

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

	2011	2010
Income taxes computed at the statutory tax rate on pretax income	$ 887,142	$ 727,170
Tax effect of:		
Tax exempt interest	(86,736)	(84,933)
Bank owned life insurance	(48,586)	(47,469)
Nondeductible expenses and other	1,468	1,597
	$ 753,288	$ 596,365
Effective tax rate	28.9%	27.9%

(Continued)

NOTE 8 – INCOME TAXES (Continued)

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 subsidiary 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, 2011 and 2010 and no amounts accrued for penalties and interest as of June 30, 2011 and 2010. There are no unrecognized tax benefits as of June 30, 2011 and 2010. The Corporation is no longer subject to examination by taxing authorities for years before 2007.

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 $255,947 and $148,886 for the years ended June 30, 2011 and 2010.

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 2011 and 2010 expense related to this plan was $60,846 and $54,707.

NOTE 10 – STOCK OPTION AND INCENTIVE PLAN

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.

(Continued)

NOTE 10 – STOCK OPTION AND INCENTIVE PLAN (Continued)

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 2011 or 2010.

A summary of the activity in the Plan for 2011 follows.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	23,000	$ 20.34	3.88 yrs	$ -
Granted	-			
Exercised	-			
Forfeited or expired	-			
Outstanding at end of year	23,000	$ 20.34	2.88 yrs	$ -
Exercisable at end of year	23,000	$ 20.34	2.88 yrs	$ -

As of June 30, 2011, there was no unrecognized compensation cost related to nonvested stock options granted under the RRP.

(Continued)

NOTE 11 – RECOGNITION AND RETENTION PLAN

The RRP was adopted by the Board of Directors and approved by the shareholders of the Corporation on October 13, 1998 to purchase 89,930 common shares, which is equal to 4% of the common shares sold in connection with the mutual-to-stock conversion. The RRP provides directors and certain key employees with an ownership interest in the Corporation by compensating such individuals for services to the Corporation. One-fifth of shares awarded will be earned and non-forfeitable on each of the first five anniversaries of the date of the award. In the event of the death or disability of a participant, however, the participant's shares will be deemed earned and nonforfeitable upon such date. Compensation expense related to RRP shares is based on the fair value of the shares at the date of grant over the vesting period. All awarded shares fully vested prior to June 30, 2010. As such, no compensation expense was recognized in 2011. For the year ended June 30, 2010, compensation expense totaled $4,563. At June 30, 2011 and 2010, there was no unrecognized compensation cost related to nonvested shares granted under the Plan. The total fair value of vested shares at the vesting date during the year ended June 30, 2010 was $5,260.

NOTE 12 – 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.

	2011	2010
Home equity lines of credit – variable rate	$ 4,938,000	$ 4,786,000
1-4 family residential real estate – variable rate	331,000	572,000
1-4 family residential real estate – fixed rate	-	240,000
Commercial lines of credit – variable rate	6,549,000	6,783,000
Overdraft protection	1,820,000	1,796,000
Standby letters of credit	766,000	367,000

The interest rates on fixed-rate commitments ranged from 4.75% to 7.25% at June 30, 2010. There were no fixed rate loan commitments at June 30, 2011.

(Continued)

NOTE 12 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

The Bank has entered into employment agreements with two officers of HLFN and the Bank. Both agreements provide for a term of three years. 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 13 – 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.

At June 30, 2011 and 2010, 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, 2011 and 2010. Management believes no conditions or events have occurred subsequent to last notification by regulators that would cause the Bank's capital category to change.

(Continued)

NOTE 13 – REGULATORY MATTERS (Continued)

At year-end 2011 and 2010, the Bank's actual capital levels and minimum required levels were as follows.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
June 30, 2011						
Total capital (to risk-weighted assets)	$ 19,066	16.1%	$ 9,492	8.0%	$ 11,864	10.0%
Tier 1 (core) capital (to risk-weighted assets)	17,577	14.8	4,746	4.0	7,119	6.0
Tier 1 (core) capital (to adjusted total assets)	17,577	10.8	6,527	4.0	8,158	5.0
Tangible capital (to adjusted total assets)	17,577	10.8	2,447	1.5	N/A	
June 30, 2010						
Total capital (to risk-weighted assets)	$ 18,637	15.8%	$ 9,424	8.0%	$ 11,780	10.0%
Tier 1 (core) capital (to risk-weighted assets)	17,162	14.6	4,712	4.0	7,068	6.0
Tier 1 (core) capital (to adjusted total assets)	17,162	10.6	6,449	4.0	8,062	5.0
Tangible capital (to adjusted total assets)	17,162	10.6	2,419	1.5	N/A	

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 fiscal 2011, the Bank could without prior approval, declare dividends of $425,000 plus any retained net profits for the 2012 fiscal year-end to the date of the dividend declaration.

NOTE 14 – 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.

Other Real Estate Owned: Nonrecurring adjustments to certain nonresidential and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

(Continued)

NOTE 14 – FAIR VALUE (Continued)

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

		Fair Value Measurements at June 30, 2011 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale				
U.S. Government agencies	$ 4,509,680	$ -	$ 4,509,680	$ -
U.S. Treasury note	500,685	-	500,685	-
Obligations of state and political subdivisions	5,066,602	-	5,066,602	-
Total investment securities available for sale	$ 10,076,967	$ -	$ 10,076,967	$ -

		Fair Value Measurements at June 30, 2010 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale				
U.S. Government agencies	$ 4,020,260	$ -	$ 4,020,260	$ -
Obligations of state and political subdivisions	5,275,384	-	5,275,384	-
Total investment securities available for sale	$ 9,295,644	$ -	$ 9,295,644	$ -

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

		Fair Value Measurements at June 30, 2011 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial	$ 44,947	$ -	$ -	$ 44,947
Other real estate owned:				
Real estate construction and land	$ 321,200	$ -	$ -	$ 321,200

(Continued)

NOTE 14 – FAIR VALUE (Continued)

	Carrying Value	Fair Value Measurements at June 30, 2010 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 45,904	$ -	$ -	$ 45,904

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $88,925, with a valuation allowance of $43,978 at June 30, 2011. At June 30, 2010, impaired loans had a principal balance of $90,315 with a valuation allowance of $44,411. Provision for loan losses for the years ending June 30, 2011 and 2010 related to impaired loans was not material.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $321,200, which is made up of the outstanding balance of $365,000, net of a valuation allowance of $43,800 at June 30, 2011, resulting in a write-down of $43,800 for the year ended June 30, 2011.

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

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 8,652,447	$ 8,652,447	$ 7,725,509	$ 7,725,509
Interest bearing time deposits	588,533	588,533	1,959,754	1,991,496
Securities available for sale	10,076,967	10,076,967	9,295,644	9,295,644
Loans, net of allowance for loan losses	131,273,124	131,891,188	132,791,641	132,536,546
FHLB stock	2,663,300	N/A	2,663,300	N/A
Accrued interest receivable	731,799	731,799	847,808	847,808
Financial liabilities:				
Demand, savings and money market deposit accounts	$ (61,724,836)	$ (61,724,836)	$ (49,108,178)	$ (49,108,178)
Certificates of deposit	(67,800,341)	(68,767,019)	(77,525,063)	(78,130,240)
FHLB advances	(12,390,714)	(13,301,924)	(16,860,430)	(17,955,951)
Accrued interest payable	(350,394)	(350,394)	(574,504)	(574,504)

The estimated fair value approximates carrying amounts for all items except those described below. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. Fair value of borrowings is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements, which are not material.

(Continued)

NOTE 15 – EARNINGS PER SHARE

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

	2011	2010
Basic earnings per common share		
Net income	$ 1,855,952	$ 1,542,370
Weighted average common shares outstanding	1,413,797	1,421,924
Less: Average nonvested RRP shares	-	(57)
Average shares	1,413,797	1,421,867
Basic earnings per common share	$ 1.31	$ 1.08
Diluted earnings per common share		
Net income	$ 1,855,982	$ 1,542,370
Weighted average common shares outstanding for basic earnings per common share	1,413,797	1,421,867
Add: Dilutive effects of assumed exercises of stock options	-	-
Average shares and dilutive potential common shares	1,413,797	1,421,867
Diluted earnings per common share	$ 1.31	$ 1.08

23,600 stock options were not considered in computing diluted earnings per share for the years ended June 30, 2011 and June 30, 2010 because they were antidilutive.

(Continued)

NOTE 16 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of HLFN as of June 30, 2011 and 2010, and for the years ended June 30, 2011 and 2010 was as follows.

CONDENSED BALANCE SHEETS
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 1,209,270	$ 965,902
Investment in banking subsidiary	17,684,275	17,343,564
Investment in non-banking subsidiary	24,047	69,654
Other assets	408,868	431,098
Total assets	$ 19,326,460	$ 18,810,218
Liabilities		
Other liabilities	$ 60,507	$ 83,030
Deferred federal income tax	3,412	5,997
Total liabilities	63,919	89,027
Shareholders' equity	19,262,541	18,721,191
Total liabilities and shareholders' equity	$ 19,326,460	$ 18,810,218

CONDENSED STATEMENTS OF INCOME
Years ended June 30, 2011 and 2010

	2011	2010
Dividends from subsidiaries	$ 1,550,000	$ 1,500,000
Other income	78,051	73,114
Total interest income	1,628,051	1,573,114
Operating expenses	179,085	103,110
Income before income taxes and equity in undistributed earnings of subsidiary	1,448,966	1,470,004
Income tax expense (benefit)	(34,351)	(10,199)
Income before equity in undistributed earnings of subsidiaries	1,483,317	1,480,203
Equity in undistributed earnings (distributions in excess of earnings) of banking subsidiary	418,242	56,349
Equity in undistributed earnings (distributions in excess of earnings) of non-banking subsidiary	(45,607)	5,818
Net income	$ 1,855,952	$ 1,542,370

(Continued)

NOTE 16 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income	$ 1,855,952	$ 1,542,370
Adjustments to reconcile net income to cash provided by operations:		
(Equity in undistributed income) distributions in excess of earnings of subsidiaries	(372,635)	(62,167)
Loss on disposition or writedown of other real estate owned	50,572	-
Net change in other assets	(81,569)	(427,998)
Net change in other liabilities	(22,523)	12,345
Deferred taxes	(2,585)	(4,523)
Net cash from operating activities	1,427,212	1,060,027
Cash flows from investing activities		
Proceeds from sale of other real estate owned	53,228	-
Net cash from investing activities	53,228	-
Cash flows from financing activities		
Cash dividends paid	(1,237,072)	(1,211,202)
Purchase of treasury shares	-	(410,767)
Net cash from financing activities	(1,237,072)	(1,621,969)
Net change in cash and cash equivalents	243,368	(561,942)
Cash and cash equivalents at beginning of period	965,902	1,527,844
Cash and cash equivalents at end of year	$ 1,209,270	$ 965,902

HOME LOAN FINANCIAL CORPORATION
SHAREHOLDER INFORMATION

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 2 p.m. local time, on October 11, 2011 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

Preston W. Bair, Chief Financial Officer
Home Loan Financial Corporation
413 Main Street
Coshocton, OH 43812
(740) 622-0444

TRANSFER AGENT

Registrar and Transfer Co.
10 Commerce Drive
Cranford, NJ 07016

HOME LOAN FINANCIAL CORPORATION
CORPORATE INFORMATION

CORPORATION AND BANK LOCATIONS

<u>Corporate and Main Office</u>

413 Main Street Coshocton, OH 43812	Telephone: Fax:	(740) 622-0444 (740) 622-5389

<u>Branch Offices</u>

590 Walnut Street 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 President of Home Loan Financial Corporation

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

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

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

Marion M. Sutton
Chairperson of the Jones Metal Products Company

Richard R. Berg
Retired

<u>Officers of the Corporation and the Bank</u>

Robert C. Hamilton, President of the Corporation and Chief Executive Officer of the Bank
Kyle R. Hamilton, Vice President of the Corporation and President of the Bank
Preston W. Bair, Secretary, Treasurer and Chief Financial Officer of the Corporation and the Bank and Vice President of the Bank
Thomas R. Conidi, Vice President of the Corporation and Executive Vice President of the Bank
Laura L. Miller, Vice President of the Bank
Patricia A. Paul, Vice President of the Bank
Paula K. Carpenter, Assistant Vice President of the Bank
Gordon E. Spillman, Assistant Vice President of the Bank
D. Sharlynn Smith, Loan Officer of the Bank
Carrie A. Mosholder, Loan Officer of the Bank

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