

HOME LOAN FINANCIAL CORPORATION

Coshocton, Ohio

ANNUAL REPORT

June 30, 2013

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Dear Fellow Shareholder:

We are pleased to share Home Loan Financial Corporation's (HLFN) fiscal 2013 consolidated financial results with you.

Net income for the year ended June 30, 2013 was \$2,842,000, or \$2.04 basic and diluted earnings per share, compared to \$2,439,000 for the year ended June 30, 2012, or \$1.73 basic and diluted earnings per share, an increase of \$403,000, or 16.5%.

This increase in earnings for the year ended June 30, 2013 compared with June 30, 2012 was primarily attributable to an increase in net interest income of \$474,000, a decrease in the provision for loan losses of \$60,000, and an increase in total noninterest income of \$100,000, partially offset by an increase in total noninterest expense of \$77,000 and an increase income tax expense of \$153,000.

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 \$16.74 as of June 30, 2013. In addition, those shareholders have received \$10.565 in dividends since the conversion. Based upon HLFN's ending stock price for fiscal 2013 of \$16.74, the current annual dividend of \$1.02 produced a yield of 6.09%.

In addition to The Home Loan Savings Bank, HLFN owns Home Loan Financial Services, Inc. and a 49% 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.

I want to thank Marion M. Sutton, who is retiring from the Board effective at the annual meeting, for her dedicated service and wise counsel to HLFN since joining the board in 2002. We also welcome a new board member. In February 2013, Matthew T. Miller joined the board. Matthew is President of Miller Funeral Home.

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,

Robert C. Hamilton

Chairman of the Board and CEO

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, 2013 and 2012, 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, 2013 and 2012, 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.



Crowe Horwath LLP

Cleveland, Ohio
August 29, 2013

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and due from financial institutions	\$ 8,548,613	\$ 3,844,298
Interest-bearing deposits in other financial institutions	<u>47,799</u>	<u>7,356,601</u>
Total cash and cash equivalents	8,596,412	11,200,899
Interest bearing time deposits	3,515,020	2,339,807
Securities available for sale	4,665,471	6,474,307
Federal Home Loan Bank stock	2,663,300	2,663,300
Loans, net of allowance of \$2,340,841 and \$2,691,639 in 2013 and 2012	136,359,178	135,083,853
Premises and equipment, net	3,012,877	3,068,782
Accrued interest receivable	553,020	521,393
Bank owned life insurance	4,254,701	4,115,901
Other real estate owned	81,000	127,350
Other assets	<u>892,812</u>	<u>966,677</u>
 Total assets	 <u>\$ 164,593,791</u>	 <u>\$ 166,562,269</u>
 LIABILITIES		
Deposits	\$ 126,616,566	\$ 131,304,879
Federal Home Loan Bank advances	15,369,693	14,003,032
Accrued interest payable	173,932	270,486
Accrued expenses and other liabilities	<u>904,545</u>	<u>854,562</u>
Total liabilities	143,064,736	146,432,959
 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	15,021,271	15,044,411
Retained earnings	17,505,772	16,088,831
Treasury stock, at cost, 849,744 shares in 2013 and 851,744 shares in 2012	(10,999,958)	(11,025,698)
Accumulated other comprehensive income	<u>1,970</u>	<u>21,766</u>
Total shareholders equity	<u>21,529,055</u>	<u>20,129,310</u>
 Total liabilities and shareholders equity	 <u>\$ 164,593,791</u>	 <u>\$ 166,562,269</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Interest income		
Loans, including fees	\$ 8,379,602	\$ 8,411,308
Taxable securities	23,392	28,897
Nontaxable securities	64,202	162,280
Dividends on Federal Home Loan Bank stock and other	<u>149,062</u>	<u>132,401</u>
Total interest income	8,616,258	8,734,886
Interest expense		
Deposits	651,612	1,016,089
Federal Home Loan Bank advances	<u>202,696</u>	<u>430,675</u>
Total interest expense	<u>854,308</u>	<u>1,446,764</u>
Net interest income	7,761,950	7,288,122
Provision for loan losses	<u>500,000</u>	<u>560,000</u>
Net interest income after provision for loan losses	7,261,950	6,728,122
Noninterest income		
Service charges and other fees	561,174	564,560
Net gains on sales of loans	297,785	189,743
Earnings from Coshocton County Title Agency	112,367	97,530
Bank owned life insurance	138,800	140,500
Other	<u>115,017</u>	<u>133,084</u>
Total noninterest income	1,225,143	1,125,417
Noninterest expense		
Salaries and employee benefits	2,557,993	2,359,473
Occupancy and equipment	331,366	364,556
State franchise taxes	192,442	190,029
Computer processing	428,977	394,575
Professional services	229,031	251,131
Director fees	111,960	101,510
Federal deposit insurance	92,571	109,422
Other	<u>465,619</u>	<u>561,799</u>
Total noninterest expense	<u>4,409,959</u>	<u>4,332,495</u>
Income before income taxes	4,077,134	3,521,044
Income tax expense	<u>1,234,918</u>	<u>1,082,297</u>
Net income	<u>\$ 2,842,216</u>	<u>\$ 2,438,747</u>
Basic and diluted earnings per common share	<u>\$ 2.04</u>	<u>\$ 1.73</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Net income	\$ 2,842,216	\$ 2,438,747
Other comprehensive income		
Unrealized holding losses on securities available for sale	(29,995)	(119,850)
Tax effect	<u>10,199</u>	<u>40,748</u>
Total other comprehensive loss	<u>(19,796)</u>	<u>(79,102)</u>
Comprehensive income	<u>\$ 2,822,420</u>	<u>\$ 2,359,645</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended June 30, 2013 and 2012

	Additional Paid-In <u>Capital</u>	Retained <u>Earnings</u>	Treasury <u>Shares</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	<u>Total</u>
Balance at July 1, 2011	\$ 15,044,411	\$ 14,922,500	\$ (10,805,238)	\$ 100,868	\$ 19,262,541
Net income	-	2,438,747	-	-	2,438,747
Cash dividend - \$.90 per share	-	(1,272,416)	-	-	(1,272,416)
Purchase of 17,291 treasury shares	-	-	(220,460)	-	(220,460)
Change in fair value of securities available for sale, net of tax effects	-	-	-	(79,102)	(79,102)
Balance at June 30, 2012	<u>\$ 15,044,411</u>	<u>\$ 16,088,831</u>	<u>\$ (11,025,698)</u>	<u>\$ 21,766</u>	<u>\$ 20,129,310</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
Years ended June 30, 2013 and 2012

	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2012	\$ 15,044,411	\$ 16,088,831	\$ (11,025,698)	\$ 21,766	\$ 20,129,310
Net income	-	2,842,216	-	-	2,842,216
Cash dividend - \$1.02 per share	-	(1,425,275)	-	-	(1,425,275)
Grant of 2,000 restricted stock awards from treasury shares	(25,740)	-	25,740	-	-
Restricted stock award compensation expense	2,600	-	-	-	2,600
Change in fair value of securities available for sale, net of tax effects	-	-	-	(19,796)	(19,796)
Balance at June 30, 2013	<u>\$ 15,021,271</u>	<u>\$ 17,505,772</u>	<u>\$ (10,999,958)</u>	<u>\$ 1,970</u>	<u>\$ 21,529,055</u>

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net income	\$ 2,842,216	\$ 2,438,747
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	185,563	175,133
Securities amortization and accretion	(1,324)	2,971
Interest bearing time deposit accretion	(18,840)	(8,643)
Provision for loan losses	500,000	560,000
Loss on disposition of fixed assets	-	15,260
Net (gain) loss on disposition or write down of other real estate owned	(15,706)	142,048
Increase in cash surrender value of bank owned life insurance	(138,800)	(140,500)
Restricted stock award compensation expense	2,600	-
Deferred taxes	73,370	(165,523)
Net change in:		
Accrued interest receivable and other assets	(20,933)	300,896
Accrued expenses and other liabilities	(46,571)	(52,211)
Deferred loan fees	17,473	18,148
Net cash from operating activities	3,379,048	3,286,326
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities	3,785,000	3,980,000
Purchases	(2,004,835)	(500,161)
Interest bearing time deposits:		
Purchases	(1,506,373)	(1,842,631)
Proceeds from maturities	350,000	100,000
Net change in loans	(2,020,198)	(4,588,850)
Purchases of premises and equipment	(129,658)	(146,892)
Proceeds from disposals of premises and equipment	-	64,741
Proceeds from sale of real estate owned	289,456	296,775
Net cash used in investing activities	(1,236,608)	(2,637,018)
Cash flows from financing activities		
Net change in deposits	(4,688,313)	1,779,702
Net change in short-term FHLB advances	5,700,000	-
Proceeds from long term FHLB advances	2,416,000	3,102,000
Maturities and repayments of long-term FHLB advances	(6,749,339)	(1,489,682)
Cash dividends paid	(1,425,275)	(1,272,416)
Purchase of treasury shares	-	(220,460)
Net cash from (used in) financing activities	(4,746,927)	1,899,144
Net change in cash and cash equivalents	(2,604,487)	2,548,452
Cash and cash equivalents at beginning of year	11,200,899	8,652,447
Cash and cash equivalents at end of year	\$ 8,596,412	\$ 11,200,899

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 August 29, 2013, 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 \$950,862 and \$1,526,672 and income taxes of \$1,450,000 and \$1,095,000 in 2013 and 2012. Noncash transfers from loans to other real estate loans totaled \$227,400 in 2013 and \$199,973 in 2012.

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.

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, net of deferred loan costs 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 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)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 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.

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2013 and 2012 totaled \$162,334 and \$99,157. Loans serviced for others were \$23,400,000 and \$15,505,000 at June 30, 2013 and 2012.

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.

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$4,273,504 and \$3,143,166 at June 30, 2013 and 2012. No shares were allocated during the years ended June 30, 2013 and 2012. Total allocated shares at June 30, 2013 and 2012 were 255,287 and 241,782 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.

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012 consolidated financial statements have been made to conform to the 2013 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

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, 2013</u>				
Securities available for sale				
U.S. Government agencies	\$ 4,002,572	\$ 5,944	\$ (4,676)	4,003,840
Obligations of state and political subdivisions	<u>659,914</u>	<u>1,717</u>	<u>-</u>	<u>661,631</u>
	<u>\$ 4,662,486</u>	<u>\$ 7,661</u>	<u>\$ (4,676)</u>	<u>\$ 4,665,471</u>
<u>June 30, 2012</u>				
Securities available for sale				
U.S. Government agencies	\$ 3,496,641	\$ 13,850	\$ (1)	3,510,490
U.S. Treasury note	499,796	614	-	500,410
Obligations of state and political subdivisions	<u>2,444,890</u>	<u>18,517</u>	<u>-</u>	<u>2,463,407</u>
	<u>\$ 6,441,327</u>	<u>\$ 32,981</u>	<u>\$ (1)</u>	<u>\$ 6,474,307</u>

There were no sales of securities in 2013 and 2012.

Contractual maturities of securities available for sale at year end 2013 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	\$ 3,159,040	\$ 3,166,701
Due after one year through five years	<u>1,503,446</u>	<u>1,498,770</u>
	<u>\$ 4,662,486</u>	<u>\$ 4,665,471</u>

At June 30, 2013 and 2012, securities with a carrying value of \$1,273,948 and \$4,383,346 were pledged to secure public funds.

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 2 – SECURITIES (Continued)

Securities with unrealized losses at years end 2013 and 2012 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>2013</u>						
U.S. government agencies	<u>\$ 1,498,770</u>	<u>\$ (4,676)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,498,770</u>	<u>\$ (4,676)</u>
<u>2012</u>						
U.S. government agencies	<u>\$ 500,070</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,070</u>	<u>\$ (1)</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 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>2013</u>	<u>2012</u>
Residential real estate loans:		
1 - 4 family	\$ 72,765,655	\$ 72,020,755
Multi-family dwelling units	2,510,337	2,729,909
Home equity	4,060,090	4,941,816
Nonresidential real estate	23,543,190	24,576,476
Real estate construction and land	3,391,790	2,867,719
Commercial	23,932,774	21,424,194
Consumer loans	<u>8,516,941</u>	<u>9,217,908</u>
Total loans	138,720,777	137,778,777
Less:		
Allowance for loan losses	(2,340,841)	(2,691,639)
Net deferred loan costs	<u>(20,758)</u>	<u>(3,285)</u>
	<u>\$ 136,359,178</u>	<u>\$ 135,083,853</u>

Certain directors, executive officers and companies with which they are affiliated were loan customers of the Corporation. Balances totaled \$251,074 at June 30, 2013 and \$162,524 at June 30, 2012.

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012:

<u>June 30, 2013</u>	Residential Real Estate	Nonresidential Real Estate	Real Estate Construction and Land	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 541,467	\$ 274,403	\$ 88,183	\$ 757,745	\$ 70,697	\$ 959,144	\$ 2,691,639
Provision of loans losses	83,632	89,429	(471)	534,755	(27,072)	(180,273)	500,000
Loans charged-off	(30,698)	(120,103)	-	(720,852)	(3,328)	-	(874,981)
Recoveries	<u>2,710</u>	<u>399</u>	<u>-</u>	<u>2,105</u>	<u>18,969</u>	<u>-</u>	<u>24,183</u>
Total ending allowance balance	<u>\$ 597,111</u>	<u>\$ 244,128</u>	<u>\$ 87,712</u>	<u>\$ 573,753</u>	<u>\$ 59,266</u>	<u>\$ 778,871</u>	<u>\$ 2,340,841</u>

<u>June 30, 2012</u>	Residential Real Estate	Nonresidential Real Estate	Real Estate Construction and Land	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 627,616	\$ 189,663	\$ 85,622	\$ 239,140	\$ 77,082	\$ 882,023	\$ 2,101,146
Provision of loans losses	(103,465)	66,905	2,561	516,383	495	77,121	560,000
Loans charged-off	(133,269)	-	-	-	(49,495)	-	(182,764)
Recoveries	<u>150,585</u>	<u>17,835</u>	<u>-</u>	<u>2,222</u>	<u>42,615</u>	<u>-</u>	<u>213,257</u>
Total ending allowance balance	<u>\$ 541,467</u>	<u>\$ 274,403</u>	<u>\$ 88,183</u>	<u>\$ 757,745</u>	<u>\$ 70,697</u>	<u>\$ 959,144</u>	<u>\$ 2,691,639</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012. 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
June 30, 2013							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 43,453	\$ -	\$ -	\$ 43,453
Collectively evaluated for impairment	<u>597,111</u>	<u>244,128</u>	<u>87,712</u>	<u>530,300</u>	<u>59,266</u>	<u>778,871</u>	<u>2,297,388</u>
Total ending allowance balance	<u>\$ 597,111</u>	<u>\$ 244,128</u>	<u>\$ 87,712</u>	<u>\$ 573,753</u>	<u>\$ 59,266</u>	<u>\$ 778,871</u>	<u>\$ 2,340,841</u>
Loans:							
Loans individually evaluated for impairment	\$ 1,106,503	\$ 594,166	\$ 423,358	\$ 86,304	\$ -	\$ -	\$ 2,210,331
Loans collectively evaluated for impairment	<u>78,419,879</u>	<u>23,097,182</u>	<u>2,978,798</u>	<u>23,952,194</u>	<u>8,574,720</u>	<u>-</u>	<u>137,022,773</u>
Total ending loans balance	<u>\$ 79,526,382</u>	<u>\$ 23,691,348</u>	<u>\$ 3,402,156</u>	<u>\$ 24,038,498</u>	<u>\$ 8,574,720</u>	<u>\$ -</u>	<u>\$ 139,233,104</u>
	Residential Real Estate	Nonresidential Real Estate	Real Estate Construction and Land	Commercial	Consumer	Unallocated	Total
June 30, 2012							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ 62,169	\$ -	\$ 467,917	\$ -	\$ -	\$ 530,086
Collectively evaluated for impairment	<u>541,467</u>	<u>212,234</u>	<u>88,183</u>	<u>289,828</u>	<u>70,697</u>	<u>959,144</u>	<u>2,161,553</u>
Total ending allowance balance	<u>\$ 541,467</u>	<u>\$ 274,403</u>	<u>\$ 88,183</u>	<u>\$ 757,745</u>	<u>\$ 70,697</u>	<u>\$ 959,144</u>	<u>\$ 2,691,639</u>
Loans:							
Loans individually evaluated for impairment	\$ 1,214,317	\$ 1,762,633	\$ 457,158	\$ 1,054,299	\$ -	\$ -	\$ 4,488,407
Loans collectively evaluated for impairment	<u>78,631,069</u>	<u>22,978,654</u>	<u>2,416,615</u>	<u>20,455,720</u>	<u>9,296,167</u>	<u>-</u>	<u>133,778,225</u>
Total ending loans balance	<u>\$ 79,845,386</u>	<u>\$ 24,741,287</u>	<u>\$ 2,873,773</u>	<u>\$ 21,510,019</u>	<u>\$ 9,296,167</u>	<u>\$ -</u>	<u>\$ 138,266,632</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012:

<u>June 30, 2013</u>	Unpaid Principal <u>Balance</u>	Recorded Investment <u>Investment</u>	Allowance for Loan Losses <u>Allocated</u>	Average Recorded Investment <u>Investment</u>	Interest Income <u>Recognized</u>	Cash-Basis Interest <u>Recognized</u>
With no related allowance recorded:						
Residential real estate						
1-4 family	\$ 1,104,179	\$ 1,106,503	\$ -	\$ 1,253,905	\$ 34,675	\$ 32,076
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	592,337	594,166	-	1,413,377	52,072	50,159
Real estate construction and land	421,604	423,358	-	434,260	4,821	2,725
Commercial	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
Subtotal	<u>2,118,120</u>	<u>2,124,027</u>	<u>-</u>	<u>3,101,542</u>	<u>91,568</u>	<u>84,960</u>
With an allowance recorded:						
Residential real estate						
1-4 family	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	-	-	-	-	-	-
Real estate construction and land	-	-	-	-	-	-
Commercial	85,953	86,304	43,453	775,900	6,111	5,760
Consumer loans	-	-	-	-	-	-
Subtotal	<u>85,953</u>	<u>86,304</u>	<u>43,453</u>	<u>775,900</u>	<u>6,111</u>	<u>5,760</u>
Total	<u>\$ 2,204,073</u>	<u>\$ 2,210,331</u>	<u>\$ 43,453</u>	<u>\$ 3,877,442</u>	<u>\$ 97,679</u>	<u>\$ 90,720</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – LOANS (Continued)

<u>June 30, 2012</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash-Basis Interest Recognized</u>
With no related allowance recorded:						
Residential real estate						
1-4 family	\$ 1,209,487	\$ 1,214,317	\$ -	\$ 1,239,224	\$ 51,865	\$ 47,035
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	1,543,085	1,542,963	-	1,573,234	-	-
Real estate construction and land	457,373	457,158	-	470,046	-	-
Commercial	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
Subtotal	<u>3,209,945</u>	<u>3,214,438</u>	<u>-</u>	<u>3,282,504</u>	<u>51,865</u>	<u>47,035</u>
With an allowance recorded:						
Residential real estate						
1-4 family	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multi- family dwelling units	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Nonresidential real estate	219,669	219,669	62,169	219,670	-	-
Real estate construction and land	-	-	-	-	-	-
Commercial	1,052,260	1,054,300	467,917	1,080,288	18,939	16,900
Consumer loans	-	-	-	-	-	-
Subtotal	<u>1,271,929</u>	<u>1,273,969</u>	<u>530,086</u>	<u>1,299,958</u>	<u>18,939</u>	<u>16,900</u>
Total	<u>\$ 4,481,874</u>	<u>\$ 4,488,407</u>	<u>\$ 530,086</u>	<u>\$ 4,582,462</u>	<u>\$ 70,804</u>	<u>\$ 63,935</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012:

	<u>Nonaccrual</u>		<u>Loans Past Due Over 90 Days Still Accruing</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Residential real estate loans:				
1-4 family	\$ 602,797	\$ 535,056	\$ 159,749	\$ 57,822
Multi-family dwelling units	-	-	-	-
Home equity	-	-	-	-
Nonresidential real estate	157,500	1,762,633	-	-
Real estate construction and land	-	457,158	-	-
Commercial	-	705,061	-	-
Consumer loans	-	-	-	7,832
Total	<u>\$ 760,297</u>	<u>\$ 3,459,908</u>	<u>\$ 159,749</u>	<u>\$ 65,654</u>

The following table presents the aging of the recorded investment in past due loans as of June 30, 2013 and 2012 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>
<u>June 30, 2013</u>						
Residential real estate						
1-4 family	\$ 409,217	\$ 91,652	\$ 159,749	\$ 660,618	\$ 72,262,769	\$ 72,923,387
Multi-family dwelling units	-	-	-	-	2,523,463	2,523,463
Home equity	-	-	-	-	4,079,532	4,079,532
Nonresidential real estate	179,978	1,294,696	157,500	1,632,174	22,059,174	23,691,348
Real estate construction and land	-	-	-	-	3,402,156	3,402,156
Commercial	246,206	8,649	-	254,855	23,783,643	24,038,498
Consumer loans	<u>46,713</u>	<u>19,771</u>	<u>-</u>	<u>66,484</u>	<u>8,508,236</u>	<u>8,574,720</u>
Total	<u>\$ 882,114</u>	<u>\$ 1,414,768</u>	<u>\$ 317,249</u>	<u>\$ 2,614,131</u>	<u>\$ 136,618,973</u>	<u>\$ 139,233,104</u>

	<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>
<u>June 30, 2012</u>						
Residential real estate						
1-4 family	\$ 713,361	\$ 65,845	\$ 173,772	\$ 952,978	\$ 71,194,261	\$ 72,147,239
Multi-family dwelling units	-	-	-	-	2,735,241	2,735,241
Home equity	-	-	-	-	4,962,906	4,962,906
Nonresidential real estate	1,459,260	-	219,669	1,678,929	23,062,358	24,741,287
Real estate construction and land	-	-	-	-	2,873,773	2,873,773
Commercial	18,002	705,061	-	723,063	20,786,956	21,510,019
Consumer loans	<u>79,336</u>	<u>30,607</u>	<u>7,832</u>	<u>117,775</u>	<u>9,178,392</u>	<u>9,296,167</u>
Total	<u>\$ 2,269,959</u>	<u>\$ 801,513</u>	<u>\$ 401,273</u>	<u>\$ 3,472,745</u>	<u>\$ 134,793,887</u>	<u>\$ 138,266,632</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – LOANS (Continued)

Troubled Debt Restructurings:

Impaired loans at June 30, 2013 and 2012 include \$2,251,586 and \$3,175,999 of loans to customers whose loan terms have been modified in troubled debt restructurings.

The Corporation has allocated \$43,453 and \$530,086 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2013 and 2012. 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, 2013 and 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending June 30, 2013 and 2012, 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 involving an extension of the maturity date in the current and prior fiscal year.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending June 30, 2013 and 2012:

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<u>June 30, 2013</u>			
Troubled Debt Restructurings:			
Residential real estate loans			
1-4 family	-	\$ -	\$ -
Multi-family dwelling units	-	-	-
Home equity	-	-	-
Nonresidential real estate	1	577,962	577,962
Real estate construction and land	9	586,005	586,005
Commercial	-	-	-
Consumer loans	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total	<u> 10</u>	<u> \$ 1,163,967</u>	<u> \$ 1,163,967</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – LOANS (Continued)

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<u>June 30, 2012</u>			
Troubled Debt Restructurings:			
Residential real estate loans			
1-4 family	1	\$ 92,021	\$ 92,021
Multi-family dwelling units	-	-	-
Home equity	-	-	-
Nonresidential real estate	2	1,169,591	1,169,591
Real estate construction and land	-	-	-
Commercial	2	947,723	947,723
Consumer loans	-	-	-
	<u>5</u>	<u>\$ 2,209,335</u>	<u>\$ 2,209,335</u>
Total	<u>5</u>	<u>\$ 2,209,335</u>	<u>\$ 2,209,335</u>

The troubled debt restructurings described above increased the allowance for loan losses by zero in 2013 and \$486,042 in 2012 and resulted in charge offs of zero during the years ending June 30, 2013 and 2012.

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, 2013 and 2012:

	<u>Number of Loans</u>	<u>Recorded Investment</u>
<u>June 30, 2013</u>		
Residential real estate loans:		
1 - 4 family	2	\$ 503,705
Multi-family dwelling units	-	-
Home equity	-	-
Nonresidential real estate	1	157,500
Real estate construction and land	-	-
Commercial	-	-
Consumer loans	-	-
	<u>3</u>	<u>\$ 661,205</u>
Total	<u>3</u>	<u>\$ 661,205</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – LOANS (Continued)

<u>June 30, 2012</u>	<u>Number of Loans</u>	<u>Recorded Investment</u>
Residential real estate loans:		
1 - 4 family	-	\$ -
Multi-family dwelling units	-	-
Home equity	-	-
Nonresidential real estate	2	1,149,669
Real estate construction and land	-	-
Commercial	1	705,061
Consumer loans	-	-
	<u>-</u>	<u>-</u>
Total	<u><u>3</u></u>	<u><u>\$ 1,854,730</u></u>

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)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<u>June 30, 2013</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	\$ 17,861,166	\$ 2,000,716	\$ 2,653,433	\$ -	\$ 50,408,072	\$ 72,923,387
Multi-family dwelling units	2,523,463	-	-	-	-	2,523,463
Home equity	750,585	-	-	-	3,328,947	4,079,532
Nonresidential real estate	15,985,641	2,557,853	873,742	-	4,274,112	23,691,348
Real estate construction and land	1,684,721	-	-	-	1,717,435	3,402,156
Commercial	19,368,137	8,649	1,565,440	-	3,096,272	24,038,498
Consumer loans	<u>202,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,371,811</u>	<u>8,574,720</u>
 Total	 <u>\$ 58,376,622</u>	 <u>\$ 4,567,218</u>	 <u>\$ 5,092,615</u>	 <u>\$ -</u>	 <u>\$ 71,196,649</u>	 <u>\$ 139,233,104</u>

<u>June 30, 2012</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	\$ 17,034,994	\$ 1,895,814	\$ 3,072,181	\$ -	\$ 50,144,250	\$ 72,147,239
Multi-family dwelling units	2,735,241	-	-	-	-	2,735,241
Home equity	993,588	-	-	-	3,969,318	4,962,906
Nonresidential real estate	13,891,995	2,045,247	3,093,706	-	5,710,339	24,741,287
Real estate construction and land	1,506,533	-	456,863	-	910,377	2,873,773
Commercial	19,065,330	961,127	1,459,996	-	23,566	21,510,019
Consumer loans	<u>22,831</u>	<u>5,447</u>	<u>10,900</u>	<u>-</u>	<u>9,256,989</u>	<u>9,296,167</u>
 Total	 <u>\$ 55,250,512</u>	 <u>\$ 4,907,635</u>	 <u>\$ 8,093,646</u>	 <u>\$ -</u>	 <u>\$ 70,014,839</u>	 <u>\$ 138,266,632</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, 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, 2013 and 2012.

<u>June 30, 2013</u>	<u>Residential Real Estate</u>			
	<u>Consumer Loans</u>	<u>1-4 Family</u>	<u>Multi-Family</u>	<u>Home Equity</u>
Nonperforming	\$ -	\$ 762,546	\$ -	\$ -
Performing	<u>8,574,720</u>	<u>72,160,841</u>	<u>2,523,463</u>	<u>4,079,532</u>
 Total	 <u>\$ 8,574,720</u>	 <u>\$ 72,923,387</u>	 <u>\$ 2,523,463</u>	 <u>\$ 4,079,532</u>

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HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – LOANS (Continued)

<u>June 30, 2012</u>	<u>Residential Real Estate</u>			
	<u>Consumer Loans</u>	<u>1-4 Family</u>	<u>Multi-Family</u>	<u>Home Equity</u>
Nonperforming	\$ 7,832	\$ 535,306	\$ -	\$ -
Performing	<u>9,288,335</u>	<u>71,611,933</u>	<u>2,735,241</u>	<u>4,962,906</u>
Total	<u>\$ 9,296,167</u>	<u>\$ 72,147,239</u>	<u>\$ 2,735,241</u>	<u>\$ 4,962,906</u>

NOTE 4 – ACCRUED INTEREST RECEIVABLE

Year-end accrued interest receivable was as follows.

	<u>2013</u>	<u>2012</u>
Loans	\$ 533,085	\$ 491,140
Securities	<u>19,935</u>	<u>30,253</u>
	<u>\$ 553,020</u>	<u>\$ 521,393</u>

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	<u>2013</u>	<u>2012</u>
Land	\$ 776,489	\$ 776,489
Buildings and improvements	3,055,016	2,981,240
Furniture and equipment	<u>2,173,257</u>	<u>2,147,531</u>
Total cost	6,004,762	5,905,260
Accumulated depreciation	<u>(2,991,885)</u>	<u>(2,836,478)</u>
	<u>\$ 3,012,877</u>	<u>\$ 3,068,782</u>

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HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – DEPOSITS

Year-end deposits consisted of the following.

	<u>2013</u>	<u>2012</u>
Noninterest-bearing demand deposits	\$ 8,598,683	\$ 9,146,093
NOW and money market accounts	28,378,910	22,578,544
Savings accounts	38,162,656	38,498,901
Certificates of deposit	<u>51,476,317</u>	<u>61,081,341</u>
	<u>\$ 126,616,566</u>	<u>\$ 131,304,879</u>

The aggregate amounts of certificates of deposit with balances of \$100,000 or more at June 30, 2013 and 2012 were \$17,433,758 and \$23,042,136, respectively. At June 30, 2013 and 2012, the Corporation had \$2,471,068 and \$6,271,049 in Certificate of Deposit Account Registry Service program reciprocal deposits.

At June 30, 2013, the scheduled maturities of certificates of deposit were as follows.

Year ending June 30,	2014	\$ 27,507,154
	2015	13,291,931
	2016	7,177,373
	2017	1,695,064
	2018	1,418,482
	Thereafter	<u>386,313</u>
		<u>\$ 51,476,317</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 7 . FHLB ADVANCES AND OTHER BORROWINGS

At June 30, 2013, 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 \$5,700,000 at June 30, 2013 and \$0 at June 30, 2012. 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 \$33,419,894 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 \$47,990,171 of qualifying mortgage loans and \$13,506,922 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, 2014 and is secured by shares of the Bank's stock. No amounts were outstanding under the line of credit at June 30, 2013 or 2012. 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, 2013 or 2012.

At year-end 2013 and 2012, advances from the FHLB were as follows.

	Interest Rate Ranges at June 30, 2013	2013	2012	Interest Rate Ranges at June 30, 2012
Cash management advance	0.18%	\$ 5,700,000	\$ -	-
Fixed rate advances, final maturities ranging from July 2013 to August 2016 for 2013 and final maturities ranging from July 2012 to July 2015 for 2012	0.70-1.43%	2,500,000	2,000,000	0.41-1.43%
Convertible, fixed-rate advances, final maturity of July 2012	-	-	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 July 2013 to February 2032 for 2013 and October 2012 to February 2032 for 2012	1.12-5.50%	<u>6,669,693</u>	<u>6,503,032</u>	1.14-5.50%
		<u>\$ 15,369,693</u>	<u>\$ 14,003,032</u>	

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7 . FHLB ADVANCES AND OTHER BORROWINGS (Continued)

At year-end 2013, the scheduled maturities of advances from the FHLB were as follows.

Year ended June 30,	2014	\$ 8,290,987
	2015	1,331,720
	2016	1,173,485
	2017	1,556,492
	2018	1,147,538
	thereafter	<u>1,869,471</u>
		<u>\$ 15,369,693</u>

NOTE 8 – INCOME TAXES

Income tax expense was as follows.

	<u>2013</u>	<u>2012</u>
Current tax expense	\$ 1,161,548	\$ 1,247,820
Deferred tax expense	<u>73,370</u>	<u>(165,523)</u>
	<u>\$ 1,234,918</u>	<u>\$ 1,082,297</u>

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

	<u>2013</u>	<u>2012</u>
Deferred tax assets:		
Allowance for loan losses	\$ 795,886	\$ 915,157
Deferred loan fees	16,491	16,275
Accrued benefits	118,304	75,600
Reserve for overdraft program losses	2,174	1,194
Nonaccrual loan interest	9,248	-
Impairment of other real estate owned	<u>3,060</u>	<u>-</u>
Total deferred tax assets	945,163	1,008,226
Deferred tax liabilities:		
Depreciation	(96,626)	(101,369)
Unrealized gain on securities available for sale	(1,015)	(11,214)
FHLB stock	(404,375)	(404,375)
Security discount accretion	(966)	(1,437)
Mortgage servicing rights	(55,197)	(33,713)
Prepaid expenses	(32,698)	(32,497)
Earnings from Coshocton County Title Agency	<u>(8,708)</u>	<u>(14,872)</u>
Total deferred tax liabilities	<u>(599,585)</u>	<u>(599,477)</u>
Net deferred tax asset	<u>\$ 345,578</u>	<u>\$ 408,749</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

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>2013</u>	<u>2012</u>
Income taxes computed at the statutory tax rate on pretax income	\$ 1,386,226	\$ 1,197,155
Tax effect of:		
Tax exempt interest	(36,289)	(68,839)
Bank owned life insurance	(47,192)	(47,770)
Deductible dividends on ESOP shares	(85,546)	-
Nondeductible expenses and other	<u>17,719</u>	<u>1,751</u>
	<u>\$ 1,234,918</u>	<u>\$ 1,082,297</u>
Effective tax rate	<u>30.3%</u>	<u>30.7%</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, 2013 and 2012 and no amounts accrued for penalties and interest as of June 30, 2013 and 2012. There are no unrecognized tax benefits as of June 30, 2013 and 2012. The Corporation is no longer subject to examination by taxing authorities for years before 2009.

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 \$495,078 and \$335,589 for the years ended June 30, 2013 and 2012.

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 2013 and 2012 expense related to this plan was \$60,927 and \$61,897.

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HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 2013 or 2012.

A summary of the activity in the Plan for 2013 follows.

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	23,000	\$ 20.34	1.88 yrs	\$ -
Granted	-			
Exercised	-			
Forfeited or expired	-			
Outstanding at end of year	<u>23,000</u>	<u>\$ 20.34</u>	<u>0.88 yrs</u>	<u>\$ -</u>
Exercisable at end of year	<u>23,000</u>	<u>\$ 20.34</u>	<u>0.88 yrs</u>	<u>\$ -</u>

As of June 30, 2013, there was no unrecognized compensation cost related to nonvested stock options.

On January 14, 2013, the Corporation granted 2,000 restricted stock awards which will vest in equal installments over five years. Total compensation expense recognized in the year ended June 30, 2013 totaled \$2,600. No shares had vested as of June 30, 2013. Future compensation expense of the award will be \$23,400, or \$5,200, annually.

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HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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>2013</u>	<u>2012</u>
Home equity lines of credit . variable rate	\$ 5,829,000	\$ 4,992,000
1-4 family residential real estate . variable rate	156,000	329,000
Commercial lines of credit . variable rate	18,308,000	9,146,000
Overdraft protection	1,892,000	1,850,000
Standby letters of credit	1,520,000	606,000

There were no fixed rate loan commitments at June 30, 2013 and 2012.

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 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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HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 12 – REGULATORY MATTERS (Continued)

At June 30, 2013 and 2012, 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, 2013 and 2012. 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 2013 and 2012, 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, 2013						
Total capital (to risk-weighted assets)	\$ 19,866	16.6%	\$ 9,594	8.0%	\$ 11,993	10.0%
Tier 1 (core) capital (to risk-weighted assets)	18,356	15.3	4,797	4.0	7,196	6.0
Tier 1 (core) capital (to average assets)	18,356	11.5	6,392	4.0	7,990	5.0
June 30, 2012						
Total capital (to risk-weighted assets)	\$ 19,570	16.4%	\$ 9,564	8.0%	\$ 11,955	10.0%
Tier 1 (core) capital (to risk-weighted assets)	18,061	15.1	4,782	4.0	7,173	6.0
Tier 1 (core) capital (to average assets)	18,061	10.9	6,658	4.0	8,323	5.0

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 2014, the Bank could without prior approval, declare dividends of \$786,000 plus any retained net profits for the 2014 fiscal year-end to the date of the dividend declaration.

(Continued)

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 the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 13 – FAIR VALUE (Continued)

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, a member of the Appraisal 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 with appraisals performed within 12 months and with appraisal values of less than \$200,000.

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

Fair Value Measurements at June 30, 2013 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	\$ 4,003,840	\$ -	\$ 4,003,840	\$ -
Obligations of state and political subdivisions	<u>661,631</u>	<u>-</u>	<u>661,631</u>	<u>-</u>
Total investment securities available for sale	<u>\$ 4,665,471</u>	<u>\$ -</u>	<u>\$ 4,665,471</u>	<u>\$ -</u>

Fair Value Measurements at June 30, 2012 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	\$ 3,510,490	\$ -	\$ 3,510,490	\$ -
U.S. Treasury note	500,410	-	500,410	-
Obligations of state and political subdivisions	<u>2,463,407</u>	<u>-</u>	<u>2,463,407</u>	<u>-</u>
Total investment securities available for sale	<u>\$ 6,474,307</u>	<u>\$ -</u>	<u>\$ 6,474,307</u>	<u>\$ -</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 13 – FAIR VALUE (Continued)

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

	Fair Value Measurements at June 30, 2013 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	\$ 42,500	\$ -	\$ -	\$ 42,500
Other real estate owned:				
Nonresidential real estate	\$ 81,000	\$ -	\$ -	\$ 81,000

	Fair Value Measurements at June 30, 2012 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:				
Nonresidential real estate	\$ 157,500	\$ -	\$ -	\$ 157,500
Commercial	\$ 584,343	\$ -	\$ -	\$ 584,343
Other real estate owned:				
Real estate construction and land	\$ 107,350	\$ -	\$ -	\$ 107,350

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$85,953, with a valuation allowance of \$43,453 at June 30, 2013. At June 30, 2012, impaired loans had a principal balance \$1,271,929, with a valuation allowance of \$530,086. Provision for loan losses for the year ending June 30, 2012 related to impaired loans was \$441,161. Provision related to impaired loans for the year ending June 30, 2013 was not material.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of \$81,000 for 2013 and \$107,350 for 2012. Direct write-downs of other real estate owned were \$9,000 for 2013 and \$117,260 for 2012.

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013:

	<u>Fair value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Impaired loans: Commercial	\$ 42,500	Recent list prices	Adjustment for differences between the comparable sales	20%
Other real estate owned: Nonresidential real estate	\$ 81,000	Sales comparison approach	Adjustment for differences between the comparable sales	(33%) . 33%

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 13 – FAIR VALUE (Continued)

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

	<u>2013</u>		<u>2012</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	\$ 8,596,412	8,596,412	\$ 11,200,899	\$ 11,200,899
Interest bearing time deposits	3,515,020	3,515,020	2,339,807	2,339,807
Securities available for sale	4,665,471	4,665,471	6,474,307	6,474,307
Loans, net of allowance for loan losses	136,359,178	136,659,246	135,083,853	135,670,448
FHLB stock	2,663,300	N/A	2,663,300	N/A
Accrued interest receivable	553,020	553,020	521,393	521,393
Financial liabilities:				
Demand, savings and money market deposit accounts	\$ (75,140,249)	\$ (75,140,249)	\$ (70,223,538)	\$ (70,223,538)
Certificates of deposit	(51,476,317)	(51,969,650)	(61,081,341)	(61,989,860)
FHLB advances	(15,369,693)	(15,416,896)	(14,003,032)	(15,107,636)
Accrued interest payable	(173,932)	(173,932)	(270,486)	(270,486)

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

(c) 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.

(d) 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.

(e) 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.

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 13 – FAIR VALUE (Continued)

(f) 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.

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

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

NOTE 14 – EARNINGS PER SHARE

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

	<u>2013</u>	<u>2012</u>
Basic earnings per common share		
Net income	<u>\$ 2,842,216</u>	<u>\$ 2,438,747</u>
Weighted average common shares outstanding	<u>1,396,564</u>	<u>1,412,285</u>
Basic earnings per common share	<u>\$ 2.04</u>	<u>\$ 1.73</u>
Diluted earnings per common share		
Net income	<u>\$ 2,842,216</u>	<u>\$ 2,438,747</u>
Weighted average common shares outstanding for basic earnings per common share	1,396,564	1,412,285
Add: Dilutive effects of restricted stock awards	<u>52</u>	<u>-</u>
Average shares and dilutive potential common shares	<u>1,396,616</u>	<u>1,412,285</u>
Diluted earnings per common share	<u>\$ 2.04</u>	<u>\$ 1.73</u>

23,000 stock options were not considered in computing diluted earnings per share for the years ended June 30, 2013 and June 30, 2012 because they were antidilutive.

(Continued)

HOME LOAN FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 15 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of HLFN as of June 30, 2013 and 2012, and for the years ended June 30, 2013 and 2012 was as follows.

CONDENSED BALANCE SHEETS

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 3,262,797	\$ 2,009,532
Investment in banking subsidiary	18,374,120	18,093,045
Investment in non-banking subsidiary	47,144	35,912
Other assets	<u>239,912</u>	<u>150,815</u>
Total assets	<u>\$ 21,923,974</u>	<u>\$ 20,289,304</u>
Liabilities		
Other liabilities	\$ 386,211	\$ 145,122
Deferred federal income tax	<u>8,708</u>	<u>14,872</u>
Total liabilities	394,919	159,994
Shareholders' equity	<u>21,529,055</u>	<u>20,129,310</u>
Total liabilities and shareholders' equity	<u>\$ 21,923,974</u>	<u>\$ 20,289,304</u>

CONDENSED STATEMENTS OF INCOME

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Dividends from subsidiaries	\$ 2,500,000	\$ 2,000,000
Other income	<u>128,291</u>	<u>107,833</u>
Total interest income	2,628,291	2,107,833
Operating expenses	<u>78,863</u>	<u>200,241</u>
Income before income taxes and equity in undistributed earnings of subsidiary	2,549,428	1,907,592
Income tax expense (benefit)	<u>16,716</u>	<u>(31,419)</u>
Income before equity in undistributed earnings of subsidiaries	2,532,712	1,939,011
Equity in undistributed earnings (distributions in excess of earnings) of banking subsidiary	298,271	487,872
Equity in undistributed earnings (distributions in excess of earnings) of non-banking subsidiary	<u>11,233</u>	<u>11,864</u>
Net income	<u>\$ 2,842,216</u>	<u>\$ 2,438,747</u>

(Continued)

HOME LOAN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

CONDENSED STATEMENTS OF CASH FLOWS

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net income	\$ 2,842,216	\$ 2,438,747
Adjustments to reconcile net income to cash provided by operations:		
(Equity in undistributed income) distributions in excess of earnings of subsidiaries	(309,504)	(499,736)
Loss (gain) on disposition or writedown of other real estate owned	(15,924)	114,556
Net change in other assets	(196,447)	41,734
Net change in other liabilities	241,089	84,615
Deferred taxes	<u>(6,164)</u>	<u>11,460</u>
Net cash from operating activities	2,555,266	2,191,376
 Cash flows from investing activities		
Proceeds from sale of other real estate owned	<u>123,274</u>	<u>101,762</u>
Net cash from investing activities	123,274	101,762
 Cash flows from financing activities		
Cash dividends paid	(1,425,275)	(1,272,416)
Purchase of treasury shares	<u>-</u>	<u>(220,460)</u>
Net cash from financing activities	<u>(1,425,275)</u>	<u>(1,492,876)</u>
 Net change in cash and cash equivalents	1,253,265	800,262
Cash and cash equivalents at beginning of period	<u>2,009,532</u>	<u>1,209,270</u>
 Cash and cash equivalents at end of year	<u>\$ 3,262,797</u>	<u>\$ 2,009,532</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 8, 2013 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

Corporate and Main Office

413 Main Street
Coshocton, OH 43812

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

Branch Offices

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*

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

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

Marion M. Sutton
*Chairperson of the Jones Metal Products
Company*

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

Richard R. Berg
Retired

Matthew T. Miller
President of Miller Funeral Home LLC.

**HOME LOAN FINANCIAL CORPORATION
CORPORATE INFORMATION**

Officers of the Corporation and the Bank

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
D. Sharlynn Smith, Loan Officer of the Bank
Carrie A. Mosholder, Loan Officer of the Bank

Special Counsel

Vorys, Sater, Seymour and Pease LLP
301 East Fourth Street, Suite 3500
Cincinnati, OH 45202

Independent Auditors

Crowe Horwath LLP
600 Superior Avenue East, Suite 902
Cleveland, OH 44114