



Home
City

Financial Corporation



2009
ANNUAL REPORT

Dear Shareholder:

Please find enclosed the Annual Report and Proxy Statement as of December 31, 2009. The Annual Meeting is scheduled for Wednesday, April 28, 2010. Whether or not you expect to attend the Annual Meeting, we urge you to consider the accompanying Proxy Statement carefully and to sign, date and promptly return the enclosed proxy so that your shares may be voted in accordance with your wishes and the presence of a quorum may be assured at the annual meeting. The giving of a proxy does not affect your right to vote in person in the event you attend the Annual Meeting.

The economic meltdown in 2008 and 2009 brought about a tremendous uncertainty in the financial services industry with 140 bank failures for the previous year. Bank failures pushed the FDIC's deposit insurance fund into the red and banks were ultimately mandated to prepay three years of premiums. We have separately disclosed the effect of these prepayments in our financial statements. Of the reporting 8,012 insured financial institutions, more than one in four reported negative net income for 2009.

Home City is pleased to report net income of \$414,000. Our earnings were a direct result of improving net interest margins and implementing practices to reduce non-interest expenses. We were pleased that we were able to continue paying our quarterly dividend. Our price for common stock rebounded to \$6.25 at year-end as compared to a low of \$4.25 during the first quarter.

Non Performing Loans (Asset Quality) continue to be our highest priority. We recognize the importance of working closely with these customers avoiding legal action if possible. Net Charge Offs to Average Loans was approximately 1%, which resulted in a \$1,000,000 Provision for Loan Losses. We continue to analyze our loan portfolio on a quarterly basis to ensure our Loan Loss Reserve is adequately funded.

Our focus for 2010:

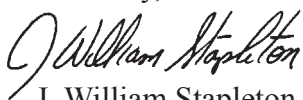
- Earnings improvement
- Implement practices to reduce noninterest expenses
- Reduce our cost of funds
- Reduce our Non Performing Loans

Our core and risk based capital continue to meet the levels required to be designated well capitalized under Office of Thrift Supervision regulations.

I will further communicate with each of you in the March quarterly report with an anticipated release date prior to our shareholder meeting.

Thank you for your investment in Home City Financial Corporation and I look forward to seeing you at the Annual Meeting.

Sincerely,



J. William Stapleton
President, CEO & COO



BUSINESS OF HOME CITY FINANCIAL CORPORATION

Home City Financial Corporation (“HCFC”) is a thrift holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Home City Federal Savings Bank of Springfield (“Home City”). Home City is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Clark County Ohio. Home City’s wholly owned subsidiary, Homciti Service Corporation (“Service Corp.”), remains dormant as of December 31, 2009.

As a thrift holding company, HCFC is subject to regulation, supervision and examination by the Office of Thrift Supervision of the United States Department of the Treasury (the “OTS”). As a savings association chartered under the laws of the United States, Home City is subject to regulation, supervision and examination by the OTS and the Federal Deposit Insurance Corporation (the “FDIC”). Home City is also a member of the Federal Home Loan Bank (the “FHLB”) of Cincinnati.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding HCFC at the dates and for the periods indicated. The financial information should be read in conjunction with the consolidated financial statements and notes. However, in the opinion of management of HCFC, all adjustments necessary for a fair presentation of such financial data have been included. All such adjustments are of a normal recurring nature.

Selected financial data:

At December 31,

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Dollars in thousands)				
Assets	\$145,461	\$139,276	\$137,776	\$146,304	\$149,553
Cash and cash equivalents (1)	16,647	3,256	9,647	15,275	6,846
Available-for-sale securities	1,163	7,755	866	1,481	5,261
Federal Home Loan Bank stock	2,734	2,734	2,627	2,627	2,480
Loans, net	115,318	116,304	116,907	119,357	127,409
Deposits	99,700	96,296	93,689	96,584	98,455
Federal Home Loan Bank advances	31,945	28,834	29,165	34,813	36,337
Shareholders’ equity	11,965	11,775	13,355	13,419	13,406

(Footnotes on following page)

Summary of earnings and other data:

	At December 31,				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Dollars in thousands)				
Total interest and dividend income	\$7,746	\$8,423	\$8,932	\$9,193	\$9,111
Total interest expense	<u>3,665</u>	<u>4,895</u>	<u>5,062</u>	<u>4,769</u>	<u>4,407</u>
Net interest income	4,081	3,528	3,870	4,424	4,704
Provision for loan losses	<u>1,000</u>	<u>1,330</u>	<u>200</u>	<u>118</u>	<u>705</u>
Net interest income after provision for loan losses	3,081	2,198	3,670	4,306	3,999
Noninterest income (loss)	793	(323)	413	104	635
Noninterest expense	<u>3,395</u>	<u>4,337</u>	<u>3,330</u>	<u>3,573</u>	<u>3,416</u>
Income (loss) before income tax	479	(2,462)	753	837	1,218
Provision (benefit) for income tax	<u>65</u>	<u>(880)</u>	<u>215</u>	<u>242</u>	<u>381</u>
Net income (loss)	<u><u>\$414</u></u>	<u><u>\$(1,582)</u></u>	<u><u>\$538</u></u>	<u><u>\$595</u></u>	<u><u>\$837</u></u>
Number of full service offices	2	2	2	2	2

Selected financial ratios:

	At or for the year ended December 31,				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Return on assets (2)	0.30%	(1.12) %	0.39%	0.41%	0.55%
Return on equity (3)	3.42	(12.12)	3.97	4.53	6.41
Interest rate spread (4)	2.89	2.31	2.60	2.94	3.02
Net interest margin (5)	3.11	2.64	3.00	3.31	3.29
Noninterest expense to average assets (6)	2.42	3.05	2.42	2.49	2.25
Average equity to average assets	8.63	9.19	9.83	9.15	8.59
Equity to assets at year end	8.23	8.45	9.69	9.17	8.96
Non-performing loans to total loans	2.94	1.48	1.21	1.16	0.68
Non-performing assets to total assets (7)	2.76	1.68	1.14	1.02	0.59
Allowance for loan losses to total loans	1.63	1.75	1.00	1.23	1.07
Allowance for loan losses to non-performing loans	55.48	118.06	83.89	107.16	158.46
Net charge-offs (recoveries) to average loans	.98	.38	0.42	0.01	0.07
Dividend payout ratio (8)	46.15	(15.23)	74.63	61.11	43.14

(1) Includes cash and amounts due from depository institutions and interest-earning deposits in other financial institutions.

(2) Net income (loss) divided by average total assets.

(3) Net income (loss) divided by average total equity.

(4) Average yield on interest-earning assets less average cost of interest-bearing liabilities.

(5) Net interest income as a percentage of average interest-earning assets.

(6) Noninterest expense divided by average total assets.

(7) Non-performing assets consist of nonaccruing loans, accruing loans 90 days or more past due and real estate acquired (or deemed acquired) in foreclosure proceedings or in lieu thereof.

(8) Dividends declared per share divided by basic earnings (loss) per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General

Home City converted from a mutual federal savings association to a stock federal savings association on December 30, 1996. After over 10 years of HCFC's stock trading on the NASDAQ Capital Market under the symbol "HCFC", the shareholders, on November 30, 2006, adopted a proposal to effect a reverse stock split followed by a forward stock split of HCFC's common shares, the "going private" transaction. On December 4, 2006, following that approval, HCFC's common shares began trading on the Over the Counter Bulletin Board (OTCBB) Market under the symbol "HCFL".

The following discussion and analysis of the financial condition and results of operations of HCFC and Home City should be read in conjunction with and with reference to the consolidated financial statements, and the notes thereto, presented in this Annual Report.

Forward-Looking Statements

In addition to the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Economic circumstances, the operations of Home City, and HCFC's actual results could differ significantly from those discussed in the forward-looking statements. Some of the factors that could cause or contribute to such differences are discussed herein, but also include changes in the economy and changes in interest rates in the nation and HCFC's primary market area.

Without limiting the generality of the foregoing, some of the forward-looking statements included herein are the statements under the following headings and regarding the following matters:

1. Financial Condition: Management's statements regarding the amount and adequacy of the allowance for loan losses at December 31, 2009.
2. Comparison of Results of Operations for the Fiscal Years Ended December 31, 2009 and 2008. Provision for Loan Losses: Management's statements regarding the adequacy of the allowance for loan losses at December 31, 2009.
3. Liquidity and Capital Resources: Management's belief that liquidity and capital reserves are sufficient to meet its outstanding short- and long-term needs.

Financial Condition

HCFC's consolidated total assets amounted to \$145.4 million at December 31, 2009, an increase of \$6.1 million from the \$139.3 million in total assets at December 31, 2008. The increase in assets resulted primarily from the \$13.3 million increase in cash and cash equivalents relating to an increase in interest-bearing deposits in other institutions.

Cash and cash equivalents totaled \$16.6 million at December 31, 2009, an increase of \$13.3 million mainly resulting from maturities of FHLB agencies as well as investing the increase in customer deposits and Federal Home Loan Bank advances.

Available-for-sale securities totaled \$1.2 million at December 31, 2009, a decrease of \$6.6 million from December 31, 2008. This decrease resulted mainly from maturities and calls of the available-for-sale securities. With interest rates at historically low levels, HCFC continues to monitor the rates paid on interest-bearing deposits and available-for-sale securities in order to maximize the highest yield possible to minimize extension risk while still obtaining a reasonable return on its total investment portfolio in the short term.

Net loans receivable totaled \$115.3 million at December 31, 2009, (See Note 3, Page 19). During the year ended December 31, 2009, loan originations amounted to \$22.0 million, with one-to four-family mortgage loans comprising \$17.0 million, commercial mortgage lending comprising \$2.9 million, commercial non-mortgage lending comprising \$1.6 million and consumer lending comprising \$493,000.

Home City's allowance for loan losses totaled \$1,910,000 at December 31, 2009, which represented 1.63% of total loans and 55.48% of non-performing loans. At December 31, 2008, the allowance for loan losses totaled \$2,069,000, an amount which represented 1.75% of total loans and 118.06% of non-performing loans. Economists are still predicting a grim 2010 outlook concerning additional mortgage defaults, foreclosures and the continued rise in unemployment. Home City's calculation of the allowance for loan loss includes two separate calculations. A maximum calculation is used with emphasis on the worst year (this represents a more aggressive approach) of charge-offs in order to compute the amount needed. The minimum calculation is used with emphasis on the average of the three worst years of charge-offs. Management uses these two methods of calculation to ensure the adequacy of the loan loss reserve.

Non-performing loans were \$3,443,000 and \$1,752,000 at December 31, 2009 and 2008, respectively. All loans classified as non-performing at December 31, 2009, were either under a workout plan or being refinanced elsewhere, the underlying collateral was in the process of being sold, or foreclosure action was being initiated. Although management believes that its allowance for loan losses at December 31, 2009, was adequate based upon the facts and circumstances available to it, there can be no assurance that additions to such allowance will not be necessary in future periods. Such additions could adversely affect HCFC's results of operations.

Deposits totaled \$99.7 million at December 31, 2009, an increase of \$2.8 million, or 2.9%, from \$96.9 million at December 31, 2008. Demand, savings, NOW and money market deposits increased \$895,000, while time deposits increased by \$1.9 million. Home City closely monitors its certificate maturities and the composition of its prime statement savings deposits and offers competitive interest rates in its deposit market. Advances from the FHLB increased from \$28.8 million at December 31, 2008, to \$31.9 million at December 31, 2009.

Shareholders' equity totaled \$11,965,000 at December 31, 2009, an increase of \$190,000, or 1.6%, from \$11,775,000 at December 31, 2008, primarily due to net income of \$414,000 offset by \$192,000 paid in dividends to shareholders.

Comparison of Results of Operations for the Fiscal Years Ended December 31, 2009 and 2008

General. The net income for the year ended December 31, 2009, was \$414,000, as compared to a \$1,582,000 net loss recorded in 2008. The increase in net income resulted primarily from an increase of \$553,000 in net interest income, gains on sale of real estate owned, a decrease of \$942,000 in noninterest expense and no additional write down of FNMA preferred stock.

Net Interest Income. Net interest income totaled \$4.0 million for the year ended December 31, 2009, an increase from the \$3.5 million recorded in 2008. Interest income on loans decreased by \$448,000, or 5.7%, during 2009 mostly due to a lower yield on loans receivable. Interest income in investment securities decreased by \$34,000 for the year ended December 31, 2009, compared to fiscal 2008. The average investment in federal funds sold and deposits in financial institutions during 2009 was \$7.1 million compared to an average investment of \$10.3 million in 2008, which, together with a lower yield, resulted in a net decrease of \$181,000 in interest income from the federal funds and deposits in other financial institution position.

Interest expense on deposits decreased by \$566,000 during 2009, almost entirely due to a decrease in the weighted-average rate paid on an increasing average balance of deposits. Interest expense on FHLB advances decreased by \$664,000 due primarily to a decrease in the average outstanding balance of FHLB Advances.

As a result of the foregoing changes in interest income and interest expense, the interest rate spread increased by 58 basis points, to 2.89% for 2009, as compared to 2.31% for 2008, while the net interest margin increased by 47 basis points to 3.11% for the year ended December 31, 2009, from 2.64% for last year.

Provision for Loan Losses. Home City maintains an allowance for loan losses in an amount that, in management's judgment, is adequate to absorb reasonably foreseeable losses inherent in the loan portfolio. The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses, after net charge-offs have been deducted, to bring the allowance to a level that is considered adequate to absorb losses inherent in the loan portfolio in accordance with generally accepted accounting principles ("GAAP").

Home City had net charge-offs of \$1,159,000 and \$443,000 during the years ended December 31, 2009 and 2008, respectively. Home City's charge-off history is a product of a variety of factors, including Home City's underwriting guidelines and the composition of its loan portfolio. Loans secured by real estate made up a significant portion of Home City's loan portfolio, and, of that portion, loans secured by first mortgages on one-to four-family residential real estate was 55.6% of total loans at December 31, 2009. Such loans typically present less risk to a lender than loans not secured by real estate. Substantially all of Home City's loans are secured by properties in its primary market area.

The provision for loan losses was \$1,000,000 and \$1,330,000 for the years ended December 31, 2009 and 2008, respectively. The ratio of non-performing loans to total loans increased to 2.94% in 2009 from 1.48% in 2008. At December 31, 2009 and 2008, Home City had a ratio of allowance for loan losses to total loans of 1.63% and 1.75%, respectively, and ratios of allowance for loan losses to non-performing loans of 55.48% and 118.06%. Due to such ratios of non-performing loans to total assets, historical charge-offs, delinquency history, and the level of commercial lending, the provisions of \$1,000,000 and \$1,330,000 made in 2009 and 2008, respectively, were deemed appropriate by management to absorb reasonably foreseeable loan losses.

Noninterest Income (Loss). Noninterest income totaled 793,000 for the year ended December 31, 2009, an increase of \$1,116,000 from the \$323,000 loss recorded in 2008. The increase was mainly due to this year's \$341,000 gain on sale of real estate owned offset by no additional write-down of the impaired FNMA preferred stock.

Noninterest Expense. Noninterest expense decreased by \$942,000 to a total of \$3.4 million for the year ended December 31, 2009, as compared to 2008. This decrease was primarily due to not exercising any prepayment penalties on FHLB advances in 2009 compared to \$715,000 that was taken in 2008. In addition, the Bank did not have any computer conversion costs in 2009 as compared to \$250,000 taken in 2008.

Federal Income Taxes. The provision for federal income taxes totaled \$65,000 for the year ended December 31, 2009, an increase from the (\$880,000) benefit recorded in fiscal 2008. This decrease was primarily the result of increased taxable income in 2009, which resulted in an effective tax rate of 13.57% in 2009 versus (35.74%) in 2008.

Critical Accounting Policies. The accounting and reporting policies of Home City are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. Home City's significant accounting policies are described in detail in the notes to Home City's consolidated financial statements for the year ended December 31, 2009. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of Home City's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

The policy of management with respect to the amount of the allowance for loan losses is a critical accounting policy for Home City. Management evaluates the adequacy of the allowance for loan losses each quarter based on management's regular review of the loan portfolio and consideration of such factors as historical loss experience, generally prevailing economic conditions, changes in the size and composition of the loan portfolio and considerations relating to specific loans, including the ability of the borrower to repay the loan and the estimated value of the underlying collateral.

Some types of loans are inherently more risky than others. The allowance for commercial loans, nonresidential real estate loans and multifamily real estate loans, which generally carry more risk than single-family residential real estate loans, is determined based upon the individual credit relationships and national and local economic factors that could affect such borrowers, as well as actual loss histories. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for one-to four-family resi-

dential real estate is based upon an analysis of national and local economic conditions and loss histories. The allowance for impaired loans is based on the collateral for collateral-dependent loans or the discounted cash flows using the loan's effective interest rate.

Although management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors. Undetected losses are probable due to inherent delays in obtaining information regarding a borrower's financial condition or changes in their unique business conditions; the judgmental nature of individual loan evaluations, collateral assessments and interpretations of economic trends; the volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits; and the sensitivity of assumptions utilized to establish allowances for homogeneous groups of loans.

Asset and Liability Management

Home City, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets reprice differently than its interest-bearing liabilities. As part of its effort to monitor and manage interest rate risk, Home City uses the net portfolio value ("NPV") methodology adopted by the OTS as part of its capital regulations.

Generally, NPV is the discounted present value of the difference between incoming cash flows on interest-earning and other assets and outgoing cash flows on interest-bearing and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the NPV that would result from various theoretical basis points changes in market interest rates. At December 31, 2009, the 300 basis point increase in market interest rates and a 100 basis point decrease in market interest rates were considered for determination of the amount of the basis point decline in the NPV Ratio for charting our interest rate risk degree of exposure.

Presented below, as of December 31, 2009, is an analysis of Home City's interest rate risk as measured by changes in NPV for instantaneous and sustained parallel shifts of 50 to 100 basis points in market interest rates. The table also contains the policy limits set by the Board of Directors of Home City as the minimum value of NPV that the Board of Directors deems advisable in the event of various changes in interest rates. Such limits have been established with consideration of the dollar impact of various rate changes and Home City's strong capital position.

As illustrated in the table, Home City's NPV is now slightly more sensitive to declining rates than rising rates. Differences in sensitivity occur principally because, as rates rise, borrowers do not prepay fixed-rate loans as quickly as they do when interest rates are declining. As a result, in a rising interest rate environment, the amount of interest Home City would receive on its loans would increase relatively slowly as loans are slowly repaid and new loans at higher rates are made. Moreover, the interest Home City would pay on its deposits would increase because Home City's deposits generally have shorter periods to repricing. Because Home City has not originated loans in accordance with traditional secondary market guidelines, the sale of fixed-rate loans may be difficult. In addition, increases in interest rates can also result in the flow of funds away from savings institutions into direct investments or other investment vehicles, such as mutual funds, which may pay higher rates of return than savings institutions. Assumptions used in calculating the amounts in this table are OTS assumptions.

Change in interest rate (1)	At December 31, 2009		
	Board minimum NPV	\$ change in NPV (Dollars in thousands)	OTS NPV
+300	8.00%	(\$1,098)	11.00%
+200	7.75	(134)	11.48
+100	7.50	198	11.57
+50	7.35	169	11.50
0	7.25	0	11.35
-50	7.15	(134)	11.23
-100	7.00	(280)	11.11

(1) As a result of the low interest rate environment at December 31, 2009, the OTS NPV Model did not produce results for the minus 200 and 300 basis point scenario.

The NPV table indicates that at each 50 to 100 basis point increment, Home City's NPV that would have been caused by the respective interest rate shock met the policy minimums set by the Board of Directors. The Board of Directors considers the results of each quarterly analysis and factors the information into its decisions in adjusting the pricing of loans and deposits in the future.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the NPV approach. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market rates, while interest rates on other types may lag behind changes in market rates. Further, in the event of a change in interest rates, expected rates of prepayment on loans and mortgage-backed securities and early withdrawal levels from certificates of deposit would likely deviate significantly from those assumed in making the risk calculations.

If interest rates continue to decline from the recent levels, Home City's net interest income will be slightly negatively affected, although those same declining interest rates may also positively affect Home City's earnings due to potentially increased loan demand. In order to maintain Home City's net interest margin, management is continually developing and modifying their strategies to stimulate the demand for quality loans and tailoring the types of loan products available that can be adjusted to match the current market conditions. Additional alternative sources of funding are being explored in anticipation of possible interest rate fluctuations.

Liquidity and Capital Resources

Home City's liquidity, primarily represented by cash and cash equivalents, is a result of its operating, investing and financing activities. These activities are summarized below for the years presented:

	Year ended December 31,	
	2009	2008
	(Dollars in thousands)	
Net income (loss)	\$ 414	\$(1,582)
Adjustments to reconcile net income (loss) to net cash provided by operating activities	740	687
Net cash provided by (used in) operating activities	1,154	(895)
Net cash provided by (used in) investing activities	6,511	(8,165)
Net cash provided by financing activities	5,726	2,669
Net change in cash and cash equivalents	13,391	(6,391)
Cash and cash equivalents at beginning of year	3,256	9,647
Cash and cash equivalents at end of year	<u>\$16,647</u>	<u>\$ 3,256</u>

Home City's principal sources of funds are deposits, loan and mortgage-backed securities repayments, maturities of securities and other funds provided by operations. Home City also borrows from the FHLB of Cincinnati. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan and mortgage-backed security prepayments are more influenced by interest rates, general economic conditions and competition. Home City maintains investments in liquid assets based upon management's assessment of (i) the need for funds, (ii) expected deposit flows, (iii) the yields available on short-term liquid assets and (iv) the objectives of the asset/liability management program. In the ordinary course of business, part of such liquid investment portfolio is composed of deposits at correspondent banks. Although the amount on deposit at such banks often exceeds the limit covered by FDIC insurance, Home City monitors the capital of such institutions to ensure that such deposits do not expose Home City to undue risk of loss.

OTS regulations require Home City to maintain an average daily balance of liquid assets, which may include, but are not limited to investments in United States Treasury obligations, federal agency obligations and other investments having maturities of five years or less, in an amount sufficient to provide a source of relatively liquid funds upon which Home City may rely if necessary to fund deposit withdrawals or other short-term funding needs. At December 31, 2009, Home City's regulatory liquidity ratio was 18.76% of its average daily balances of net withdrawable deposit accounts and borrowings payable in one year or less. At such date, Home City had commitments to originate loans totaling \$627,000 and \$593,000 in commitments to sell loans. Home City considers its liquidity and capital reserves sufficient to meet its outstanding short- and long-term needs. Adjustments to liquidity and capital reserves may be necessary, however, if loan demand increases more than expected or if deposits decrease substantially. See Note 9 of the Notes to Consolidated Financial Statements regarding Regulatory Matters.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and results of operations primarily in terms of historical dollars without considering changes in the relative purchasing power of money over time because of inflation.

Virtually all assets and liabilities of HCFC are monetary in nature. As a result, interest rates have a more significant impact on performance than the effects of general levels of inflation.

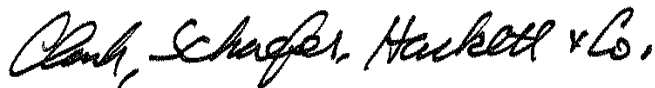
INDEPENDENT AUDITORS' REPORT

Board of Directors
Home City Financial Corporation
Springfield, Ohio

We have audited the accompanying consolidated balance sheets of Home City Financial Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home City Financial Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Cincinnati, Ohio
March 17, 2010

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Home City Financial Corporation - CONSOLIDATED BALANCE SHEETS

	(Dollars in thousands)	
	December 31,	
	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and due from banks	\$1,090	\$2,882
Interest-bearing deposits in other institutions	13,844	373
Federal funds sold	1,713	1
Cash and cash equivalents	<u>16,647</u>	<u>3,256</u>
Available-for-sale securities	1,163	7,755
Loans, net of allowance for loan losses of \$1,910 and \$2,069 at December 31, 2009 and 2008	115,318	116,304
Premises and equipment	2,852	3,016
Federal Home Loan Bank stock	2,734	2,734
Interest receivable	542	590
Cash surrender value of life insurance	3,939	3,795
Prepaid FDIC assessment	597	0
Refundable and deferred taxes	931	1,195
Other	<u>738</u>	<u>631</u>
TOTAL ASSETS	<u>\$145,461</u>	<u>\$ 139,276</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 4,959	\$ 5,363
Savings, NOW and money market	25,000	23,701
Time	<u>69,741</u>	<u>67,862</u>
Total deposits	<u>99,700</u>	<u>96,926</u>
Federal Home Loan Bank advances	31,945	28,834
Interest payable and other liabilities	<u>1,851</u>	<u>1,741</u>
TOTAL LIABILITIES	<u>\$133,496</u>	<u>\$127,501</u>
Shareholders' Equity		
Preferred shares, no par value: authorized 1,000,000 shares; none issued		
Common shares, no par value: authorized 5,000,000 shares; issued 950,659		
Additional paid-in capital	5,841	5,846
Retained earnings	8,102	7,880
Accumulated other comprehensive gain	12	39
Treasury shares, at cost: 146,223 shares	<u>(1,990)</u>	<u>(1,990)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>11,965</u>	<u>11,775</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$145,461</u>	<u>\$ 139,276</u>

See notes to consolidated financial statements.

Home City Financial Corporation - CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except
per share amounts)

Years ended December 31,

	<u>2009</u>	<u>2008</u>
INTEREST AND DIVIDEND INCOME		
Loans	\$ 7,461	\$ 7,909
Securities	88	122
Federal funds sold	7	128
Dividends on Federal Home Loan Bank stock	126	140
Deposits with financial institutions	<u>64</u>	<u>124</u>
TOTAL INTEREST AND DIVIDEND INCOME	<u>7,746</u>	<u>8,423</u>
INTEREST EXPENSE		
Deposits	2,629	3,195
Borrowings	<u>1,036</u>	<u>1,700</u>
TOTAL INTEREST EXPENSE	<u>3,665</u>	<u>4,895</u>
NET INTEREST INCOME	4,081	3,528
Provision for Loan Losses	<u>1,000</u>	<u>1,330</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>3,081</u>	<u>2,198</u>
NON INTEREST INCOME (LOSS)		
Service charges on deposits	73	65
Life Insurance	183	158
Write-down of FNMA (FANNIE MAE) preferred stock	0	(757)
Gain on sale of Real Estate Owned	341	8
Other	<u>196</u>	<u>203</u>
TOTAL NON INTEREST INCOME (LOSS)	<u>793</u>	<u>(323)</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	1,692	1,717
Net occupancy expense	231	237
Equipment expense	160	160
Data processing fees	229	591
Professional fees	239	268
Franchise taxes	159	164
FDIC Insurance	211	86
Prepayment penalty on FHLB Advances	0	715
Other real estate owned expenses	201	66
Other	<u>273</u>	<u>333</u>
TOTAL NONINTEREST EXPENSE	<u>3,395</u>	<u>4,337</u>
Income (loss) before income tax	479	(2,462)
Provision (benefit) for income taxes	<u>65</u>	<u>(880)</u>
NET INCOME (LOSS)	<u>\$ 414</u>	<u>\$(1,582)</u>
EARNINGS (LOSS) PER SHARE		
Basic	\$.52	\$ (1.97)
Diluted	\$.52	\$ (1.97)

See notes to consolidated financial statements.

Home City Financial Corporation — CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2009 and 2008

(Dollars in thousands)

	Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
Balance, January 1, 2008	950,659	\$5,813	\$9,704	\$(172)	\$ (1,990)	\$13,355
Comprehensive income						
Net income			(1,582)			(1,582)
Change in unrealized gain (loss) on securities available for sale				211		<u>211</u>
Total comprehensive income						<u>(1,371)</u>
Stock option expense		10				10
Dividends on common stock, \$.30 per share			(242)			(242)
Amortization of unearned compensation expense		<u>23</u>				<u>23</u>
Balance, December 31, 2008	950,659	\$5,846	\$7,880	\$39	\$ (1,990)	\$11,775
Comprehensive income						
Net income			414			414
Change in unrealized gain (loss) on securities available for sale				(27)		<u>(27)</u>
Total comprehensive income						<u>387</u>
Purchase of RRP stock		(8)				(8)
Dividends on common stock, \$.24 per share			(192)			(192)
Amortization of unearned compensation expense		<u>3</u>				<u>3</u>
Balance, December 31, 2009	<u>950,659</u>	<u>\$ 5,841</u>	<u>\$ 8,102</u>	<u>\$ 12</u>	<u>\$ (1,990)</u>	<u>\$ 11,965</u>

See notes to consolidated financial statements.

Home City Financial Corporation — CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Dollars in thousands)	
	Years ended December 31,	
	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income (loss)	\$ 414	\$ (1,582)
Adjustments to reconcile net income (loss) to net cash		
Provided by (used in) operating activities:		
Depreciation and amortization	184	193
Provision for loan losses	1,000	1,330
Amortization of premiums and discounts on securities	0	3
Deferred income taxes	(46)	(584)
Increase in cash surrender value of life insurance	(144)	(371)
Stock option expense	0	10
Recognition and Retention Plan compensation expense	3	23
Write-down of impaired available-for-sale securities	0	757
FHLB stock dividends	0	(107)
Loss on sale of premises and equipment	6	6
Changes in		
Interest receivable	48	24
Other assets	(380)	(766)
Interest payable and other liabilities	69	169
Net cash provided by (used in) operating activities	<u>1,154</u>	<u>(895)</u>
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(1,000)	(8,729)
Proceeds from maturities of available-for-sale securities	7,551	1,398
Net change in loans	(14)	(727)
Purchase of premises and equipment	(26)	(119)
Proceeds from sales of premises and equipment	0	12
Net cash provided by (used in) investing activities	<u>6,511</u>	<u>(8,165)</u>
FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	895	(813)
Net increase in certificates of deposit	1,879	4,050
Proceeds from Federal Home Loan Bank advances	18,250	16,500
Repayment of Federal Home Loan Bank advances	(15,139)	(16,831)
Shares purchased for RRP	(8)	0
Dividends paid	(192)	(242)
Net increase in advances from borrowers for taxes and insurance	41	5
Net cash provided by financing activities	<u>5,726</u>	<u>2,669</u>
Increase (decrease) in Cash and Cash Equivalents	13,391	(6,391)
Cash and Cash Equivalents, Beginning of Year	<u>3,256</u>	<u>9,647</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,647</u>	<u>\$ 3,256</u>
Supplemental Cash Flows Information		
Interest paid	\$1,394	\$2,061
Income taxes paid (net of refunds)	\$ 95	\$ 54

See notes to consolidated financial statements.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Home City Financial Corporation (“Company”) is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Home City Federal Savings Bank of Springfield (“Bank”). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Clark County, Ohio. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Bank’s wholly owned subsidiary, Homciti Service Corporation (“Service Corp.”), remains dormant as of December 31, 2009.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and the Service Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Securities

All securities are classified as available for sale. Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income using methods approximating the interest method over the period to maturity. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

The Company evaluates its securities portfolio for impairment throughout the year. An impairment is recorded against individual equity securities if their cost significantly exceeds their fair value for a substantial amount of time. An impairment is also recorded for investments in debt securities, unless the decrease in fair value is attributed to interest rates and management has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 a 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. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment measurements.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Treasury Shares

Treasury shares are stated at cost. Cost is determined by the first-in, first-out method.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiaries.

Uncertain Tax Positions

The Company adopted the provisions of Accounting for Uncertainty in Income Taxes on January 1, 2009. Those provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Company's income tax returns. The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2006–2008. The Company's policy with regard to interest and penalty is to recognize interest through interest expense and penalties through other expense. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.

Earnings Per Share

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year. Unearned ESOP shares and RRP shares, which have not vested, have been excluded from the computation of average shares outstanding.

Stock Options

The Company uses the modified prospective method for the accounting of stock options and other equity awards. The Company has used the Black-Scholes option-pricing model for all grant date estimations of fair value as the Company believes its stock options have characteristics for which the Black-Scholes model provides an acceptable measure of fair value.

Subsequent Events

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 17, 2010 the date on which the financial statements were available to be issued.

NOTE 2: SECURITIES

The amortized cost and approximate fair values of securities are as follows:

	(Dollars in thousands)			
	Amortized	Gross	Gross	Approximate
Available-for-Sale Securities	Cost	Unrealized	Unrealized	Fair Value
		Gains	Losses	
December 31, 2009				
Mortgage-backed securities	\$ 134	\$ 2	\$ 0	\$ 136
U.S. Government agency securities	1,000	2	0	1,002
Equity securities	<u>9</u>	<u>16</u>	<u>0</u>	<u>25</u>
Total	<u>\$ 1,143</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>1,163</u>
December 31, 2008				
Mortgage-backed securities	\$ 163	\$ 0	\$ (1)	\$ 162
Other asset-backed securities	7,525	59	0	7,584
Equity securities	<u>9</u>	<u>0</u>	<u>0</u>	<u>9</u>
Total	<u>\$ 7,697</u>	<u>\$ 59</u>	<u>\$ (1)</u>	<u>\$ 7,755</u>

The carrying value of securities pledged to the Federal Reserve Bank of Cleveland for potential future borrowings was \$1,002,411 at December 31, 2009 and at December 31, 2008, the value was \$450,799.

The amortized cost and estimated fair value of available-for-sale debt securities at December 31, 2009, by contractual maturity, are as follows (dollars in thousands):

Amounts maturing in:	Amortized	Fair
	<u>Cost</u>	<u>Value</u>
Due in one year or less	\$ 0	\$ 0
Due after one year through five years	1,000	1,002
Due from five to ten years	<u>0</u>	<u>0</u>
	1,000	1,002
Mortgage-backed securities	<u>134</u>	<u>136</u>
	<u>\$ 1,134</u>	<u>\$ 1,138</u>

During 2008, certain equity securities were deemed other than temporarily impaired by management and were written down to their fair value in the third and fourth quarter. This impairment loss amounted to \$757,000. There were no impairment losses in 2009.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2009, was \$0. Total fair value of these investments at December 31, 2008, was \$162,000.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(Dollars in thousands)

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Available-for-Sale Securities:						
December 31, 2009:						
Mortgage-backed securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

(Dollars in thousands)

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Available-for-Sale Securities:						
December 31, 2008:						
Mortgage-backed securities	<u>\$ 162</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 162</u>	<u>\$ 1</u>

NOTE 3: LOANS AND ALLOWANCE FOR LOAN

Categories of loans at December 31, include:

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Residential real estate		
One- to four-family residential	\$ 65,853	\$ 63,504
Multi-family residential	7,551	7,883
Construction	2,609	2,412
Nonresidential real estate and land	24,093	26,164
Commercial	13,944	14,787
Consumer and other	4,389	4,319
Total loans	<u>118,439</u>	<u>119,069</u>
Less		
Deferred loan fees	(224)	(254)
Undisbursed portion of loans	(987)	(442)
Allowance for loan losses	<u>(1,910)</u>	<u>(2,069)</u>
Net loans	<u>\$ 115,318</u>	<u>\$ 116,304</u>

Activity in the allowance for loan losses was as follows:

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 2,069	\$ 1,182
Provision charged to expense	1,000	1,330
Losses charged off, net of recoveries of \$209 for 2009, and \$229 for 2008	<u>(1,159)</u>	<u>(443)</u>
Balance, end of year	<u>\$ 1,910</u>	<u>\$ 2,069</u>

Impaired loans totaled \$3,748,000 and \$2,462,000 at December 31, 2009 and 2008. An allowance for loan losses of \$613,030 and \$532,000 relates to impaired loans of \$2,198,000 and \$1,074,000 at December 31, 2009 and 2008. At December 31, 2009 and 2008, impaired loans of \$1,550,000 and \$1,388,000 had no related allowance for loan losses. The Bank reports its Real Estate Owned in other assets. At December 31, 2009 and 2008, the Bank had \$474,587 and \$572,029 of Real Estate Owned, respectively.

Interest of \$95,000 and \$222,000 was recognized on average impaired loans of \$3,495,000 and \$1,723,000 for 2009 and 2008. Interest of \$182,000 and \$216,000 was recognized on impaired loans on a cash basis during 2009 and 2008.

At December 31, 2009 and 2008, the Bank had no accruing loans delinquent 90 days or more. Non-accruing loans at December 31, 2009 and 2008, were \$3,443,000 and \$1,752,000, respectively.

There are no significant commitments outstanding to lend additional funds to clients whose loans were classified as impaired at December 31, 2009.

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Land	\$ 806	\$ 806
Buildings and improvements	2,715	2,715
Equipment	<u>1,383</u>	<u>1,522</u>
	4,904	5,043
Less Accumulated depreciation	<u>(2,052)</u>	<u>(2,027)</u>
Net premises and equipment	<u>\$ 2,852</u>	<u>\$ 3,016</u>

NOTE 5: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of \$100,000 or more were \$33,994,000 on December 31, 2009, and \$32,046,000 on December 31, 2008.

At December 31, 2009, the scheduled maturities of time deposits are as follows:

	(Dollars in thousands)
2010	\$ 42,538
2011	13,982
2012	5,793
2013	6,108
2014	<u>1,320</u>
Total	<u>\$ 69,741</u>

NOTE 6: FEDERAL HOME LOAN BANK ADVANCES

Aggregate annual maturities of FHLB advances at December 31, 2009, are:

	(Dollars in thousands)
2010	\$ 12,542
2011	16,227
2012	1,832
2013 and after	<u>1,344</u>
Total	<u>\$ 31,945</u>

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$64,187,000 at December 31, 2009. Advances, at interest rates from 0.11% to 5.80%, are subject to restrictions or penalties in the event of prepayment.

The Bank has authorized letters of credit with the Federal Home Loan Bank aggregating \$5,450,000 expiring at various dates. At December 31, 2009, the Bank had unused letters of credit with the Federal Home Loan Bank of \$4,675,000. These letters of credit are pledged as collateral for deposits in excess of federally-insured limits. At December 31, 2008, the Bank had authorized letters of credit with the FHLB aggregating \$5,800,000.

The Bank elected to pay off certain high interest rate FHLB advances during 2008. This resulted in prepayment penalties of approximately \$715,000. The Bank expects to recoup this penalty across the next two years through reduced interest expense.

NOTE 7: INCOME TAXES

The provision for income taxes includes these components

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Taxes currently payable (refundable)	\$111	\$ (296)
Deferred income tax expense (benefit)	<u>(46)</u>	<u>(584)</u>
Income tax expense (benefit)	<u>\$ 65</u>	<u>\$ (880)</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Computed at the statutory rate (34%)	\$ 163	\$ (837)
Increase (decrease) resulting from:		
Cash surrender value of life insurance	(62)	(54)
Nondeductible expenses	17	20
Other	<u>(53)</u>	<u>(9)</u>
Actual tax expense	<u>\$ 65</u>	<u>\$ (880)</u>

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Deferred tax assets		
Allowance for loan losses	\$ 650	\$ 703
Employee benefits	394	349
Nonaccrual loan interest	50	21
Other	51	37
Security basis difference	<u>306</u>	<u>306</u>
	<u>1,451</u>	<u>1,416</u>
Deferred tax liabilities		
Depreciation	(41)	(72)
Federal Home Loan Bank stock dividend	(398)	(398)
Deferred loan fees	(93)	(83)
Prepaid Expenses	(20)	(10)
Unrealized gain on available-for-sale securities	<u>(6)</u>	<u>(20)</u>
	<u>(558)</u>	<u>(583)</u>
Net deferred tax asset	<u>\$ 893</u>	<u>\$ 833</u>

Retained earnings at December 31, 2009 and 2008, include approximately \$1,084,000, for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carry back of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liability on the preceding amount that would have been recorded if it was expected to reverse into taxable income in the foreseeable future was approximately \$368,000 at December 31, 2009 and 2008.

NOTE 8: OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows:

	(Dollars in thousands)	
	<u>2009</u>	<u>2008</u>
Change in unrealized gains (losses) on securities available for sale	\$ (41)	\$ (439)
Reclassification for realized loss included in loss	<u>0</u>	<u>757</u>
Other comprehensive (loss) income before tax effect	(41)	318
Tax effect	<u>14</u>	<u>(107)</u>
Other comprehensive (loss) income	<u>\$ (27)</u>	<u>\$ 211</u>

NOTE 9: REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. 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. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2009 and 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank's actual capital amounts and ratios are also presented in the table.

	(Dollars in thousands)					
	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
As of December 31, 2009	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total risk-based capital (to risk-weighted assets)	\$12,884	13.0%	\$7,916	8.0%	\$9,895	10.0%
Tier I capital (to risk-weighted assets)	11,639	11.8%	3,958	4.0%	5,937	6.0%
Tier I capital (to adjusted total assets)	11,639	8.0%	5,816	4.0%	7,270	5.0%
Tangible capital (to adjusted tangible assets)	11,639	8.0%	2,181	1.5%	N/A	N/A
As of December 31, 2008						
Total risk-based capital (to risk-weighted assets)	\$12,477	12.7%	\$7,887	8.0%	\$9,859	10.0%
Tier I capital (to risk-weighted assets)	11,234	11.4	3,944	4.0	5,915	6.0
Tier I capital (to adjusted total assets)	11,234	8.1	5,567	4.0	6,957	5.0
Tangible capital (to adjusted tangible assets)	11,234	8.1	2,087	1.5	---	N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2009, all dividend declarations are subject to prior regulatory approval.

NOTE 10: RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with certain directors, executive officers, significant shareholders and their affiliates or associates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties were as follows:

	(Dollars in thousands)
Balances, January 1, 2009	\$ 1,377
New loans, including renewals	0
Payments, etc., including renewals	<u>(201)</u>
Balances, December 31, 2009	<u>\$ 1,176</u>

Deposits from related parties held by the Bank at December 31, 2009 and 2008, totaled \$2,926,000 and \$1,741,000, respectively.

NOTE 11: EMPLOYEE BENEFITS

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to 15% of their compensation with the Company matching 75% of the employee’s contribution on the first 6% of the employee’s compensation. Employer contributions charged to expense for 2009 and 2008 were \$45,000 and \$47,000, respectively.

The Company established an ESOP covering substantially all employees of the Company and Bank. Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company and Bank, are made to the ESOP. ESOP compensation expense was \$0 for the years ended December 31, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Allocated shares	65,804	68,542
Shares released for allocation	0	0
Unearned shares	0	0
Withdrawals	(14,202)	(4,444)
Transfers	<u>0</u>	<u>1,706</u>
Total ESOP shares	<u>51,602</u>	<u>65,804</u>
Fair value of unearned shares at December 31	<u>\$ 0</u>	<u>\$ 0</u>

For companies not listed on NASDAQ, government regulations require an employer with an ESOP to provide a put option to the plan’s participants of their investments in the company’s stock at the fair value price. This regulation was enacted to provide a ready market for the participant when otherwise a market may not readily exist. At December 31, 2009, the ESOP held 51,602 shares of the Company’s stock with a total estimated value of approximately \$322,512.

NOTE 12: SHARE-BASED AWARD PLANS

On December 31, 2009, the Company has two share-based compensation plan(s), RRP and Stock Option, which are described below. The compensation cost that has been charged against income for those plans was \$7,000 and \$35,000 for 2009 and 2008, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$2,000 and \$12,000 for 2009 and 2008, respectively.

The Company’s Stock Option Plan, (the SOP) which was shareholder approved, currently has 33,571 shares outstanding and exercisable. The Company also has a Recognition and Retention Plan (the RRP) which currently has 1,078 nonvested shares outstanding. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company’s stock at the date of grant; those options awards generally vest based on five years of continuous service and have ten year contractual terms. Share awards generally vest over five years. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

The fair value of each option award is estimated on the date of grant using a closed form option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company’s stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding; the range given below

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no such grants in 2009 and 2008.

A summary of option activity under the SOP as of December 31, 2009, and changes during the year then ended, is presented below:

	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term</u>
Outstanding, beginning of year	33,571	\$ 13.40	4.37 years
Granted	0	0	
Exercised	0	0	
Forfeited	0	0	
Expired	0	0	
Outstanding, end of year	<u>33,571</u>	\$ 13.40	3.37 years
Options exercisable, end of year	<u>33,571</u>	\$ 13.40	3.37 years

A summary of the status of the Company's nonvested shares in the RRP as of December 31, 2009, and changes during the year then ended, is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value Per Share</u>
Nonvested, beginning of year	1,637	\$ 12.61
Granted	0	0
Vested	559	13.24
Forfeited	<u>0</u>	<u>0</u>
Nonvested, end of year	<u>1,078</u>	<u>\$ 12.28</u>

As of December 31, 2009, there was \$0 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. The remaining weighted-average life of the nonvested share-based compensation arrangements is 2.26 years. The total fair value of shares vested during the years ended December 31, 2009 and 2008, was \$7,000 and \$23,000 respectively.

NOTE 13: EARNINGS PER SHARE

Earnings per share (EPS) were computed as follows:

(Dollars in thousands, except per share data)

Year Ended December 31, 2009

	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income from continuing operations available to common shareholders	\$414	803,932	\$.52
Effect of dilutive securities			
Stock options and awards	<u>0</u>	<u>0</u>	
Diluted loss per share			
Income from continuing operations available to common shareholders and assumed conversions	<u>\$ 414</u>	<u>803,932</u>	<u>\$.52</u>

None of the Stock Awards and options to purchase shares of common stock outstanding at December 31, 2009, were included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

(Dollars in thousands, except per share data)

Year Ended December 31, 2008

	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income from continuing operations available to common shareholders	\$ (1,582)	802,697	\$ (1.97)
Effect of dilutive securities			
Stock options and awards	<u>0</u>	<u>0</u>	
Diluted earnings per share			
Income from continuing operations available to common shareholders and assumed conversions	<u>\$ (1,582)</u>	<u>802,697</u>	<u>\$ (1.97)</u>

None of the Stock Awards and options to purchase shares of common stock outstanding at December 31, 2008, were included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

NOTE 14: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Company’s financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	(Dollars in thousands)			
	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 16,647	\$ 16,647	\$ 3,256	\$ 3,256
Available-for-sale securities	1,163	1,163	7,755	7,755
Loans, net	115,318	119,766	116,304	118,638
FHLB stock	2,734	2,734	2,734	2,734
Interest receivable	542	542	590	590
Financial liabilities				
Deposits	99,700	101,873	96,926	100,431
FHLB advances	31,945	32,466	28,834	30,204
Interest payable	101	101	171	171
Unrecognized financial instruments:				
Commitments to extend credit	9,056	9,056	8,617	8,617

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2009 and 2008. The estimated fair value for cash and cash equivalents, interest-bearing deposits, FHLB stock, accrued interest receivable, demand deposits, savings accounts, NOW accounts, certain money market deposits, and interest payable is considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate the Bank would charge for similar loans at December 31, 2009 and 2008, applied for the time period until the loans are assumed to reprice or be paid. The estimated fair value for fixed-maturity time deposits as well as borrowings is based on estimates of the rate the Bank would pay on such liabilities at December 31, 2009 and 2008, applied for the time period until maturity. The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

NOTE 15: COMMITMENTS AND CREDIT RISK

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer’s credit-worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management’s credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer’s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

	<u>2009</u>	<u>2008</u>
Loan commitments and unused lines of credit	\$ 8,897,000	\$ 8,458,000
Commercial letters of credit	<u>159,000</u>	<u>159,000</u>
Total	<u>\$ 9,056,000</u>	<u>\$ 8,617,000</u>

At December 31, 2009, the Bank’s total commitment to extend credit was approximately \$8,897,000. The amount of fixed rate commitments was approximately \$864,964 at December 31, 2009. The fixed rate loan commitments at December 31, 2009, have interest rates ranging from 4.00% to 9.75%.

At December 31, 2009 and 2008, the Bank had \$593,000 and 0 commitments to sell loans, which it had not yet funded.

NOTE 16: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability:

- Level 1 Quoted prices in active markets for identical assets or liabilities.

- Level 2 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 for substantially the full term of the assets or liabilities.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument.

Securities available for sale: Fair values on available for sale securities were based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, which used third party data service providers. Available for sale securities include primarily U.S. agency securities, and mortgage-backed agency securities.

Fair Value Measurements at December 31, 2009

	December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Securities available for sale:				
U.S. Government agency securities	\$1,002		\$1,002	
Mortgage-backed securities	136		136	
Equity securities	25	25		

The Company is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 2 inputs. The aggregate carrying amount of impaired loans at December 31, 2009, was approximately \$3.1 million.

The Corporation has real estate acquired through foreclosure totaling \$475,000 at December 31, 2009. Real estate acquired through foreclosure is carried at the lower of the cost or fair value less estimated selling expenses at the date of acquisition. Fair values are obtained using independent appraisals, based on comparable sales which the Corporation considers to be Level 2 inputs. The aggregate amount of real estate acquired through foreclosure that is carried at fair value was approximately \$107,000 at December 31, 2009. The aggregate amount of real estate acquired through foreclosure that is carried at cost was approximately \$368,000 at December 31, 2009.

NOTE 17: QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables summarize selected quarterly results of operations for 2009 and 2008.

(Dollars in thousands, except per share data)

<u>2009</u>	<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>
Interest and dividend income	\$ 1,980	\$ 1,966	\$ 1,944	\$ 1,856
Interest expense	<u>940</u>	<u>945</u>	<u>911</u>	<u>869</u>
Net interest income	1,040	1,021	1,033	987
Provision for loan losses	130	50	215	605
Noninterest income	153	128	120	392
Noninterest expense	824	790	857	924
Income tax expense	<u>39</u>	<u>99</u>	<u>28</u>	<u>(101)</u>
Net income	<u>200</u>	<u>210</u>	<u>53</u>	<u>(49)</u>
Earnings per share				
Basic	.25	.26	.06	(.05)
Diluted	.25	.26	.06	(.05)
Dividends per share	.06	.06	.06	.06
<u>2008</u>	<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>
Interest and dividend income	\$ 2,178	\$ 2,080	\$ 2,076	\$ 2,089
Interest expense	<u>1,305</u>	<u>1,239</u>	<u>1,189</u>	<u>1,162</u>
Net interest income	873	841	887	927
Provision for loan losses	50	20	930	330
Noninterest income (loss)	77	100	(534)	34
Noninterest expense	804	836	1,090	1,607
Income tax expense (benefit)	<u>32</u>	<u>10</u>	<u>(579)</u>	<u>(343)</u>
Net income (loss)	<u>64</u>	<u>75</u>	<u>(1,088)</u>	<u>(633)</u>
Earnings (loss) per share				
Basic	0.08	0.09	(1.35)	(0.79)
Diluted	0.08	0.09	(1.35)	(0.79)
Dividends per share	0.12	0.06	0.06	0.06

CORPORATE INFORMATION

DIRECTORS OF HCFC AND HOME CITY

Glenn W. Collier, Partner with the law firm of Martin, Browne, Hull & Harper, Springfield, Ohio
John D. Conroy, Owner and President of Conroy Funeral Home, Inc., Springfield, Ohio
James M. Foreman, Chief Executive Officer of Foreman-Blair Pontiac, Buick, GMC, Cadillac, Springfield, Ohio
Terry A. Hoppes, President of Hoppes Engineering and Surveying Co.; President of Hoppes Builders and Development Co., Springfield, Ohio
J. William Stapleton, President, CEO and COO of Home City Financial Corporation and Home City Federal Savings Bank of Springfield

EXECUTIVE OFFICERS OF HCFC

John D. Conroy - Chairman of the Board
J. William Stapleton - President, CEO and COO
Don E. Lynam - Executive Vice President
Donna M. Williams - Vice President and CFO

EXECUTIVE OFFICERS OF HOME CITY

John D. Conroy - Chairman of the Board
J. William Stapleton - President, CEO and COO
Don E. Lynam - Executive Vice President
Donna M. Williams - Vice President and CFO

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GENERAL COUNSEL

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National City Bank Bldg.
4 West Main Street, Suite 723
Springfield, Ohio 45502

TRANSFER AGENT

Communication regarding change of address, transfer of shares, lost certificates and dividends should be sent to:
Illinois Stock Transfer Company
209 West Jackson Blvd., Suite 903
Chicago, Illinois 60606
(312) 427-2953

COMMON SHARES

There were 804,436 common shares of HCFC outstanding on March 8, 2010, held of record by approximately 144 shareholders. Since December 30, 1996, HCFC's common shares had traded on the NASDAQ Capital Market under the symbol "HCFC". Beginning December 4, 2006, following approval of the Stock Splits, HCFC's common shares have traded on the Over the Counter Bulletin Board (OTCBB) Market under the symbol "HCFL". The following represents high and low trading prices and dividends declared during each respective quarter during 2009 and 2008. The trading prices reflect inter-dealer prices, without retail mark-up, mark-down or commission.

2009	High	Low	Dividends declared
First Quarter	\$ 5.25	\$ 4.25	\$.06
Second Quarter	\$ 8.00	\$ 4.60	\$.06
Third Quarter	\$ 9.35	\$ 6.70	\$.06
Fourth Quarter	\$ 7.25	\$ 6.00	\$.06

2008	High	Low	Dividends declared
First Quarter	\$ 11.75	\$ 10.70	\$.12
Second Quarter	\$ 11.00	\$ 9.00	\$.06
Third Quarter	\$ 9.50	\$ 6.25	\$.06
Fourth Quarter	\$ 6.75	\$ 5.20	\$.06

The payment of dividends by HCFC to its shareholders may depend in part on the dividends paid by Home City to HCFC. Home City's ability to pay dividends is governed by OTS regulations, which require Home City to obtain approval of the OTS under certain circumstances. Home City currently is required to obtain OTS approval for all dividends to HCFC.

INVESTOR INFORMATION

Investors, analysts and others seeking financial information may contact:

J. William Stapleton, President, CEO and COO or
Donna M. Williams, Vice President and CFO
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