



Financial Corporation

2008
ANNUAL
REPORT



Dear Shareholder:

Please find enclosed the Annual Report and Proxy Statement as of December 31, 2008. Be sure to sign and return your Proxy Card and we welcome you to attend our Annual Meeting scheduled for Wednesday, April 29, 2009.

During 2008, we knowingly implemented four significant actions which impacted our current earnings.

After our analysis of the national, state and local economic environment, Home City felt it was prudent to increase the Allowance for Loan Losses. Therefore, in August and December 2008, we provided for additional loan loss reserves of \$900,000 and \$300,000, respectively. We will continue to closely monitor the status of that allowance throughout the coming year.

As a result of the mortgage meltdown, our investment in FANNIE MAE Preferred Stock, a government-sponsored entity, deteriorated. Home City was required to write down \$757,000 of this investment during 2008. Our remaining investment value in this stock is \$9,000 and therefore any future write-downs will have an immaterial impact on our financial statements. As a banker, I would have never thought that Home City would be writing down an investment in a government-sponsored entity.

Home City decided to take advantage of the abnormally low Federal Home Loan Bank advance rates by prepaying \$12,000,000 in advances with average rates of 6.34%, thereby incurring a prepayment penalty of \$715,000. Prepaying these advances will improve our 2009 earnings, as current short-term advance rates average less than 1.00%.

Home City decided to expense the \$250,000 cost of conversion to a new data processing system versus capitalizing that amount and spreading the expense over five years.

Even with the impact of the additional \$1,200,000 provision to our allowance, the \$757,000 write-down of the preferred stock, the \$715,000 prepayment penalty and the \$250,000 data conversion expense, our core and risk-based capital positions continue to sustain Home City's designation as well capitalized under Office of Thrift Supervision regulations.

The year 2008 was filled with many positive changes for Home City.

Our cost of funds continued to decrease.

We continued to see increases in our average loans outstanding reflecting new customers.

We continued to see increases in our average deposits outstanding reflecting new customers.

We have seen net interest income, before provision for loan losses, increase during the last three quarters of the year.

We have seen net charge-offs to average loans decrease when compared to 2007 in dollars as well as percentage.

Our core noninterest expenses continue to match prior years indicating improved expense management.

We implemented internet banking and bill payment services.

Although some of our actions implemented in 2008 were painful to the bottom line, they were taken with the anticipation of improving earnings in 2009 and beyond. **We are pleased to report earnings of \$115,000 for the first two months of 2009 as compared to \$33,000 for the same period last year. Also notable, loans have exceeded \$119,000,000 outstanding, deposits are approaching \$100,000,000 and our cost of funds continues to decrease.**

Our industry is facing financial uncertainty within a weakened world economy, but we are optimistic. One of our main goals for 2009 is quite simple; continue to monitor the credit risk of our current customers as well as those who seek to do business with us.

I look forward to communicating with each of you in the March quarterly report with an anticipated release prior to our shareholder meeting.

Thank you for your investment in Home City Financial Corporation.

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 is subject to competition from other financial institutions. Home City's wholly-owned subsidiary, Homciti Service Corporation ("Service Corp."), remains dormant as of December 31, 2008.

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 thereto included elsewhere herein. 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>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(Dollars in thousands)				
Assets	\$139,276	\$137,776	\$146,304	\$149,553	\$156,224
Cash and cash equivalents (1)	3,256	9,647	15,275	6,846	9,595
Available-for-sale securities	7,755	866	1,481	5,261	6,432
Federal Home Loan Bank stock	2,734	2,627	2,627	2,480	2,360
Loans, net	116,304	116,907	119,357	127,409	130,067
Deposits	96,926	93,689	96,584	98,455	107,204
Federal Home Loan Bank advances	28,834	29,165	34,813	36,337	35,120
Shareholders' equity	11,775	13,355	13,419	13,406	12,735

(Footnotes on following page)

Summary of earnings and other data:

	At December 31,				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(Dollars in thousands)				
Total interest and dividend income	\$8,423	\$8,932	\$9,193	\$9,111	\$8,772
Total interest expense	<u>4,895</u>	<u>5,062</u>	<u>4,769</u>	<u>4,407</u>	<u>4,370</u>
Net interest income	3,528	3,870	4,424	4,704	4,402
Provision for loan losses	<u>1,330</u>	<u>200</u>	<u>118</u>	<u>705</u>	<u>200</u>
Net interest income after provision for loan losses	2,198	3,670	4,306	3,999	4,202
Noninterest income (loss)	(323)	413	104	635	239
Noninterest expense	<u>4,337</u>	<u>3,330</u>	<u>3,573</u>	<u>3,416</u>	<u>3,452</u>
(Loss) income before income tax	(2,462)	753	837	1,218	989
(Benefit) provision for income tax	<u>(880)</u>	<u>215</u>	<u>242</u>	<u>381</u>	<u>307</u>
Net (loss) income	<u>\$(1,582)</u>	<u>\$538</u>	<u>\$595</u>	<u>\$837</u>	<u>\$682</u>
Number of full service offices	2	2	2	2	2

Selected financial ratios:

	At or for the year ended December 31,				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Return on assets (2)	(1.12)%	0.39%	0.41%	0.55%	0.44%
Return on equity (3)	(12.12)	3.97	4.53	6.41	5.52
Interest rate spread (4)	2.31	2.60	2.94	3.02	2.74
Net interest margin (5)	2.64	3.00	3.31	3.29	3.00
Noninterest expense to average assets (6)	3.05	2.42	2.49	2.25	2.23
Average equity to average assets	9.19	9.83	9.15	8.59	7.98
Equity to assets at year end	8.45	9.69	9.17	8.96	8.15
Non-performing loans to total loans	1.48	1.21	1.16	0.68	0.15
Non-performing assets to total assets (7)	1.68	1.14	1.02	0.59	0.28
Allowance for loan losses to total loans	1.75	1.00	1.23	1.07	0.58
Allowance for loan losses to non-performing loans	118.06	83.89	107.16	158.46	389.74
Net charge-offs (recoveries) to average loans	0.38	0.42	0.01	0.07	0.34
Dividend payout ratio (8)	(15.23)	74.63	61.11	43.14	51.16

- (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, (the "Conversion"). In connection with the Conversion, 952,200 common shares of HCFC were sold, generating net proceeds of \$8.3 million after Conversion expenses. Of this amount, \$4.6 million was utilized to purchase 100% of the common stock of Home City, and the balance was utilized to purchase investments, loan funds to the HCFC Employee Stock Ownership Plan (the "ESOP") and for other purposes. After over ten 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, 2008.
2. **Comparison of Results of Operations for the Fiscal Years Ended December 31, 2008 and 2007. Provision for Loan Losses:** Management's statements regarding the adequacy of the allowance for loan losses at December 31, 2008.
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 \$139.3 million at December 31, 2008, an increase of \$1.5 million from the \$137.8 million in total assets at December 31, 2007. The increase in assets resulted primarily from the \$1.2 million increase in other assets relating to an increase in the deferred tax asset account.

Cash and cash equivalents totaled \$3.3 million at December 31, 2008, a decrease of \$6.3 million mainly resulting from the investment in available-for-sale securities as interest rates on interest bearing deposits and federal funds dropped significantly.

Available-for-sale securities totaled \$7.8 million at December 31, 2008, an increase of \$6.9 million from December 31, 2007. This increase resulted mainly from the funding of a net \$6.9 million in 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 \$116.3 million at December 31, 2008, (See Note 3, Page 19). During the year ended December 31, 2008, loan originations amounted to \$25.5 million, with one-to four-family mortgage loans comprising \$13.6 million, commercial mortgage lending comprising \$4.0 million and commercial non-mortgage lending \$4.2 million.

Home City's allowance for loan losses totaled \$2,069,000 at December 31, 2008, which represented 1.75% of total loans and 118.06% of non-performing loans. At December 31, 2007, the allowance for loan losses totaled \$1,182,000, an amount which represented 1.00% of total loans and 83.89% of non-performing loans. Even though the pace of economic recovery has been slower and unemployment levels have been higher in our demographic area, our delinquency statistics still compare favorably to our peers. Management has continued to emphasize the consideration of both local and national economic factors in determining the adequacy of the allowance for loan losses.

Non-performing loans were \$1,752,000 and \$1,409,000 at December 31, 2008 and 2007, respectively. All loans classified as non-performing at December 31, 2008, 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, 2008, 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 \$96.9 million at December 31, 2008, an increase of \$3.2 million, or 3.42%, from \$93.7 million at December 31, 2007. Demand, savings, NOW and money market deposits decreased by \$813,000, while time deposits increased by \$4.0 million. The former reflects the diminished statement savings account balances as depositors shifted to long-term certificates with the Bank. Home City closely monitors its certificate maturities and the composition of its prime and statement savings deposits and offers competitive interest rates in its deposit market. Advances from the FHLB decreased from \$29.2 million at December 31, 2007, to \$28.8 million at December 31, 2008.

Shareholders' equity totaled \$11,775,000 at December 31, 2008, a decrease of \$1.6 million, or 11.98%, from \$13,355,000 at December 31, 2007, primarily due to a net loss of \$1,582,000.

Comparison of Results of Operations for the Fiscal Years Ended December 31, 2008 and 2007

General. The net loss for the year ended December 31, 2008, was \$1,582,000, as compared to \$538,000 in net income recorded in 2007. The decrease in net income resulted primarily from the additional provision for loan losses of \$1,200,000, prepayment penalties of \$715,000, the write down of the Fannie Mae Preferred Stock of \$757,000, and computer conversion costs of \$250,000 offset by the increase from the federal income tax benefit.

Net Interest Income. Net interest income totaled \$3.5 million for the year ended December 31, 2008, a decrease from the \$3.9 million recorded in 2007. Interest income on loans decreased by \$380,000, or 4.58%, during 2008 mostly due to a lower yield on loans receivable. Interest income in investment securities decreased by \$57,000 for the year ended December 31, 2008, compared to fiscal 2007. The average investment in federal funds sold during 2008 was \$10.3 million compared to an average investment of \$7.7 million in 2007, which, together with a lower yield, resulted in a net decrease of \$199,000 in interest income from the federal funds position.

Interest expense on deposits decreased by \$245,000 during 2008, almost entirely due to a decrease in the

weighted-average rate paid on an increasing average balance of deposits. Interest expense on FHLB advances increased by \$78,000 due primarily to an increase in the average balance of FHLB Advances.

As a result of the foregoing changes in interest income and interest expense, the interest rate spread decreased by 29 basis points, to 2.31% for 2008, as compared to 2.60% for 2007, while the net interest margin decreased by 36 basis points to 2.64% for the year ended December 31, 2008, from 3.00% 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 \$444,000 and \$499,000 during the years ended December 31, 2008 and 2007, 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 53.68% of total loans at December 31, 2008. 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 \$1,330,000 and \$200,000 for the years ended December 31, 2008 and 2007, respectively. The ratio of non-performing loans to total loans increased to 1.48% in 2008 from 1.21% in 2007. At December 31, 2008 and 2007, Home City had a ratio of allowance for loan losses to total loans of 1.75% and 1.00%, respectively, and ratios of allowance for loan losses to non-performing loans of 118.06% and 83.89%. 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 \$1,330,000 and \$200,000 made in 2008 and 2007, respectively, were deemed appropriate by management to absorb reasonably foreseeable loan losses.

Noninterest Income (Loss). Noninterest loss totaled (\$323,000) for the year ended December 31, 2008, a decrease of \$736,000 from the \$413,000 income recorded in 2007. The decrease was mainly due to this year's \$757,000 additional write-down of the impaired FNMA preferred stock.

Noninterest Expense. Noninterest expense increased by \$1.0 million to a total of \$4.3 million for the year ended December 31, 2008, as compared to 2007. This increase was primarily due to the prepayment penalty on FHLB advances of \$715,000 and computer conversion costs of \$250,000.

Federal Income Taxes. The benefit from federal income taxes totaled (\$880,000) for the year ended December 31, 2008, a decrease from the \$215,000 provision recorded in fiscal 2007. This decrease was primarily the result of decreased taxable income in 2008, which resulted in an effective tax rate of (35.74%) in 2008 versus 28.55% in 2007.

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, 2008. 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 residential 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 but the enforcement of which has been waived by the OTS.

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 point changes in market interest rates. At December 31, 2008, the 200 basis point increase in market interest rates and the 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, 2008, 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 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.

At December 31, 2008			
Change in interest rate (basis points)	Board minimum NPV	\$ change in NPV (Dollars in thousands)	OTS NPV
+300	8.00%	(\$932)	8.14%
+200	7.75	(201)	8.53
+100	7.50	100	8.63
+50	7.35	83	8.58
0	7.25	0	8.48
-50	7.15	(262)	8.27
-100	7.00	(449)	8.12
-200	6.75	---	---
-300	6.50	---	(1)

(1) As a result of the low interest rate environment at December 31, 2008, 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:

	<u>Year ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(Dollars in thousands)	
Net (loss) income	\$ (1,582)	\$ 538
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities	<u>687</u>	<u>314</u>
Net cash (used in) provided by operating activities	(895)	852
Net cash (used in) provided by investing activities	(8,165)	2,510
Net cash provided by (used in) financing activities	<u>2,669</u>	<u>(8,990)</u>
Net change in cash and cash equivalents	(6,391)	(5,628)
Cash and cash equivalents at beginning of year	<u>9,647</u>	<u>15,275</u>
Cash and cash equivalents at end of year	<u>\$ 3,256</u>	<u>\$ 9,647</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, 2008, Home City's regulatory liquidity ratio was 19.43% 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 \$808,000 and no 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 Accountants' Report

Board of Directors
Home City Financial Corporation
Springfield, Ohio

We have audited the accompanying consolidated balance sheet of Home City Financial Corporation as of December 31, 2008 and 2007, 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 financial statements based on our audit.

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, 2008 and 2007, 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

Clark, Schaefer, Hackett & Co.
Cincinnati, Ohio

March 23, 2009

Home City Financial Corporation – CONSOLIDATED BALANCE SHEETS

	(Dollars in thousands)	
	December 31,	
	2008	2007
ASSETS		
Cash and due from banks	\$ 2,882	\$ 1,917
Interest-bearing deposits in other institutions	373	4,387
Federal funds sold	<u>1</u>	<u>3,343</u>
Cash and cash equivalents	<u>3,256</u>	<u>9,647</u>
Available-for-sale securities	7,755	866
Loans, net of allowance for loan losses of \$2,069 and \$1,182 at December 31, 2008 and 2007	116,304	116,907
Premises and equipment	3,016	3,108
Federal Home Loan Bank stock	2,734	2,627
Interest receivable	590	614
Cash surrender value of life insurance	3,795	3,424
Other	<u>1,826</u>	<u>583</u>
TOTAL ASSETS	<u>\$ 139,276</u>	<u>\$ 137,776</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 5,363	\$ 5,142
Savings, NOW and money market	23,701	24,735
Time	<u>67,862</u>	<u>63,812</u>
Total deposits	<u>96,926</u>	<u>93,689</u>
Federal Home Loan Bank advances	28,834	29,165
Interest payable and other liabilities	<u>1,741</u>	<u>1,567</u>
TOTAL LIABILITIES	<u>127,501</u>	<u>124,421</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	5,846	5,813
Retained earnings	7,880	9,704
Accumulated other comprehensive gain (loss)	39	(172)
Treasury shares, at cost: 146,223 shares	<u>(1,990)</u>	<u>(1,990)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>11,775</u>	<u>13,355</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 139,276</u>	<u>\$ 137,776</u>

See notes to consolidated financial statements.

Home City Financial Corporation – CONSOLIDATED STATEMENTS OF INCOME

	(Dollars in thousands, except per share amounts)	
	<u>Years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
INTEREST AND DIVIDEND INCOME		
Loans	\$ 7,909	\$ 8,289
Securities	122	65
Federal funds sold	128	327
Dividends on Federal Home Loan Bank stock	140	173
Deposits with financial institutions	<u>124</u>	<u>78</u>
TOTAL INTEREST AND DIVIDEND INCOME	<u>8,423</u>	<u>8,932</u>
INTEREST EXPENSE		
Deposits	3,195	3,440
Borrowings	<u>1,700</u>	<u>1,622</u>
TOTAL INTEREST EXPENSE	<u>4,895</u>	<u>5,062</u>
NET INTEREST INCOME		
Provision for Loan Losses	3,528	3,870
	<u>1,330</u>	<u>200</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>2,198</u>	<u>3,670</u>
NONINTEREST INCOME (LOSS)		
Service charges on deposits	65	52
Write-down of impaired available-for-sale securities	(757)	0
Life insurance	158	150
Other	<u>211</u>	<u>211</u>
TOTAL NONINTEREST INCOME (LOSS)	<u>(323)</u>	<u>413</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	1,717	1,813
Net occupancy expense	237	273
Equipment expense	160	171
Data processing fees	591	266
Professional fees	268	287
Franchise taxes	164	165
Prepayment penalty on FHLB advances	715	0
Other	<u>485</u>	<u>355</u>
TOTAL NONINTEREST EXPENSE	<u>4,337</u>	<u>3,330</u>
(Loss) income before income tax	\$ (2,462)	\$ 753
(Benefit) provision for income taxes	<u>(880)</u>	<u>215</u>
NET (LOSS) INCOME	\$ <u>(1,582)</u>	\$ <u>538</u>
(LOSS) EARNINGS PER SHARE		
Basic	\$ (1.97)	\$ 0.67
Diluted	\$ (1.97)	\$ 0.67

See notes to consolidated financial statements.

Home City Financial Corporation – CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years ended December 31, 2008 and 2007 (Dollars in thousands)					
	<u>Shares</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accum- ulated Other Compre- hensive Income (Loss)</u>	<u>Treasury Shares</u>	<u>Total</u>
Balance, January 1, 2007	950,859	\$5,846	\$9,568	\$(5)	\$(1,990)	\$13,419
Comprehensive income						
Net income			538			538
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect of \$86				(167)		(167)
Total comprehensive income						<u>371</u>
Stock option expense		10				10
Dividends on common stock, \$.50 per share			(402)			(402)
Amortization of unearned compensation expense		38				38
Other		(6)				(6)
Shares purchased-Stock Split	(200)	(3)				(3)
Shares purchased RRP		(72)				(72)
	_____	_____	_____	_____	_____	_____
Balance, December 31, 2007	950,659	\$5,813	\$9,704	\$(172)	\$(1,990)	\$13,355
Comprehensive loss						
Net loss			(1,582)			(1,582)
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect of \$107				211		211
Total comprehensive loss						<u>(1,371)</u>
Stock option expense		10				10
Dividends on common stock, \$.30 per share			(242)			(242)
Amortization of unearned compensation expense		23				23
	_____	_____	_____	_____	_____	_____
Balance, December 31, 2008	<u>950,659</u>	<u>\$ 5,846</u>	<u>\$ 7,880</u>	<u>\$ 39</u>	<u>\$(1,990)</u>	<u>\$11,775</u>

See notes to consolidated financial statements.

Home City Financial Corporation – CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Dollars in thousands)	
	<u>Years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Net (loss) income	\$ (1,582)	\$ 538
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	193	188
Provision for loan losses	1,330	200
Amortization of premiums and discounts on securities	3	8
Deferred income taxes	(584)	61
Increase in cash surrender value of life insurance	(371)	(117)
Stock option expense	10	10
Recognition and Retention Plan compensation expense	23	38
Write-down of impaired available-for-sale securities	757	0
FHLB stock dividends	(107)	0
Loss on sale of premises and equipment	6	0
Changes in		
Interest receivable	24	(105)
Other assets	(766)	(18)
Interest payable and other liabilities	<u>169</u>	<u>49</u>
Net cash (used in) provided by operating activities	<u>(895)</u>	<u>852</u>
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(8,729)	0
Proceeds from maturities of available-for-sale securities	1,398	354
Net change in loans	(727)	2,250
Purchase of premises and equipment	(119)	(94)
Proceeds from sales of premises and equipment	<u>12</u>	<u>0</u>
Net cash (used in) provided by investing activities	<u>(8,165)</u>	<u>2,510</u>
FINANCING ACTIVITIES		
Net decrease in demand deposits, money market, NOW and savings accounts	(813)	(1,443)
Net increase (decrease) in certificates of deposit	4,050	(1,452)
Proceeds from Federal Home Loan Bank advances	16,500	2,000
Repayment of Federal Home Loan Bank advances	(16,831)	(7,648)
Stock Split shares purchased	0	(3)
Shares purchased for RRP	0	(72)
Dividends paid	(242)	(402)
Net increase in advances from borrowers for taxes and insurance	<u>5</u>	<u>30</u>
Net cash provided by (used in) financing activities	<u>2,669</u>	<u>(8,990)</u>
Decrease in Cash and Cash Equivalents	(6,391)	(5,628)
Cash and Cash Equivalents, Beginning of Year	<u>9,647</u>	<u>15,275</u>
Cash and Cash Equivalents, End of Year	\$ <u>3,256</u>	\$ <u>9,647</u>
Supplemental Cash Flows Information		
Interest paid	\$ 2,061	\$ 1,821
Income taxes paid (net of refunds)	\$ 54	\$ 129

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, 2008.

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, unless the loan is well-secured and in the process of collection.

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 uncollectibility 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 collectibility 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.

The Financial Accounting Standards Board (“FASB”) has issued Interpretation No. 48 (“FIN 48”), which clarifies generally acceptable accounting principles for recognition measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Company has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Company evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

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 follows SFAS 123(R) Share-Based Payments for the accounting of stock options and other equity awards and uses the modified prospective method. 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.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SECURITIES

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

	(Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities				
December 31, 2008				
Mortgage-backed securities	\$ 163	\$ 0	\$ (1)	\$ 162
U.S. Government agency 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>
December 31, 2007				
Mortgage-backed securities	\$ 309	\$ 0	\$ (2)	\$ 307
Other asset-backed securities	51	0	0	51
Equity securities	<u>766</u>	<u>0</u>	<u>(258)</u>	<u>508</u>
Total	<u>\$ 1,126</u>	<u>\$ 0</u>	<u>\$ (260)</u>	<u>\$ 866</u>

The carrying value of securities pledged to the Federal Reserve Bank of Cleveland for potential future borrowings was \$450,799 at December 31, 2008. There were no pledged securities at December 31, 2007.

The amortized cost and estimated fair value of available-for-sale debt securities at December 31, 2008, by contractual maturity, are as follows (dollars in thousands):

Amounts maturing in:	Amortized Cost	Fair Value
Due in one year or less	\$ 6,550	\$ 6,607
Due after one year through five years	725	727
Due from five to ten years	<u>250</u>	<u>250</u>
	7,525	7,584
Mortgage-backed securities	<u>163</u>	<u>162</u>
	<u>\$ 7,688</u>	<u>\$ 7,746</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 2007.

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, 2008, was \$162,000. Total fair value of these investments at December 31, 2007, was \$307,000.

Management believes that mortgage-backed securities' declines in fair value are temporary based on available evidence of recent changes in market interest rates. Management has both the intent and ability to hold these investments until more favorable market interest rate scenarios are attained. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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, 2008:						
Mortgage-backed securities	\$ <u>162</u>	\$ <u>1</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>162</u>	\$ <u>1</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, 2007:						
Mortgage-backed securities	\$ 0	\$ 0	\$ 307	\$ 2	\$ 307	\$ 2
Other asset-backed securities	51	0	0	0	51	0
Equity securities	<u>508</u>	<u>258</u>	<u>0</u>	<u>0</u>	<u>508</u>	<u>258</u>
Total	\$ <u>559</u>	\$ <u>258</u>	\$ <u>307</u>	\$ <u>2</u>	\$ <u>866</u>	\$ <u>260</u>

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, include:

	(Dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Residential real estate		
One- to four-family residential	\$ 63,504	\$ 62,086
Multi-family residential	7,883	8,570
Construction	2,412	1,658
Nonresidential real estate and land	26,164	29,132
Commercial	14,787	13,868
Consumer and other	<u>4,319</u>	<u>3,640</u>
Total loans	119,069	118,954
Less		
Deferred loan fees	(254)	(274)
Undisbursed portion of loans	(442)	(591)
Allowance for loan losses	<u>(2,069)</u>	<u>(1,182)</u>
Net loans	<u>\$ 116,304</u>	<u>\$ 116,907</u>

Activity in the allowance for loan losses was as follows:

	(Dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 1,182	\$ 1,481
Provision charged to expense	1,330	200
Losses charged off, net of recoveries of \$229 for 2008, and \$116 for 2007	<u>(443)</u>	<u>(499)</u>
Balance, end of year	<u>\$ 2,069</u>	<u>\$ 1,182</u>

Impaired loans totaled \$2,462,000 and \$1,828,000 at December 31, 2008 and 2007. An allowance for loan losses of \$532,000 and \$228,000 relates to impaired loans of \$1,074,000 and \$818,000 at December 31, 2008 and 2007. At December 31, 2008 and 2007, impaired loans of \$1,388,000 and \$1,010,000 had no related allowance for loan losses. The Bank reports its Real Estate Owned in other assets. At December 31, 2008 and 2007, the Bank had \$572,029 and \$161,598 of Real Estate Owned, respectively.

Interest of \$222,000 and \$106,000 was recognized on average impaired loans of \$1,723,000 and \$2,358,000 for 2008 and 2007. Interest of \$216,000 and \$101,000 was recognized on impaired loans on a cash basis during 2008 and 2007.

At December 31, 2008 and 2007, the Bank had no accruing loans delinquent 90 days or more. Non-accruing loans at December 31, 2008 and 2007, were \$1,752,000 and \$1,409,000, respectively.

There are no significant commitments outstanding to lend additional funds to clients whose loans were classified as impaired at December 31, 2008.

NOTE 4: PREMISES AND EQUIPMENT

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

	(Dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Land	\$ 806	\$ 806
Buildings and improvements	2,715	2,497
Equipment	<u>1,522</u>	<u>1,639</u>
	5,043	4,942
Less accumulated depreciation	<u>(2,027)</u>	<u>(1,834)</u>
Net premises and equipment	<u>\$ 3,016</u>	<u>\$ 3,108</u>

NOTE 5: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of \$100,000 or more were \$32,046,000 on December 31, 2008, and \$27,384,000 on December 31, 2007.

At December 31, 2008, the scheduled maturities of time deposits are as follows:

	(Dollars in thousands)
2009	\$ 32,397
2010	22,731
2011	3,854
2012	3,252
2013	<u>5,628</u>
Total	<u>\$ 67,862</u>

NOTE 6: FEDERAL HOME LOAN BANK ADVANCES

Aggregate annual maturities of FHLB advances at December 31, 2008, are:

	(Dollars in thousands)
2009	\$ 9,102
2010	6,222
2011	12,746
2012	554
2013	<u>210</u>
Total	<u>\$ 28,834</u>

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$43,071,000 at December 31, 2008. Advances, at interest rates from 0.50% 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 \$5,800,000 expiring at various dates. At December 31, 2008, the Bank had unused letters of credit with the Federal Home Loan Bank of \$1,325,000. These letters of credit are pledged as collateral for deposits in excess of federally-insured limits. At December 31, 2007, the Bank had authorized letters of credit with the FHLB aggregating \$4,360,000.

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.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: INCOME TAXES

The provision for income taxes includes these components

	(Dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Taxes currently (refundable) payable	\$ (296)	\$ 154
Deferred income tax expense (benefit)	<u>(584)</u>	<u>61</u>
Income tax (benefit) expense	<u>\$ (880)</u>	<u>\$ 215</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>2008</u>	<u>2007</u>
Computed at the statutory rate (34%)	\$ (837)	\$ 256
Increase (decrease) resulting from:		
Cash surrender value of life insurance	(54)	(40)
Nondeductible expenses	20	18
Other	<u>(9)</u>	<u>(19)</u>
Actual tax expense	<u>\$ (880)</u>	<u>\$ 215</u>

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

	(Dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Deferred tax assets		
Allowance for loan losses	\$ 703	\$ 402
Employee benefits	349	300
Nonaccrual loan interest	21	19
Other	27	22
Security basis difference	306	49
Unrealized losses on available-for-sale securities	<u>0</u>	<u>89</u>
	<u>1,406</u>	<u>881</u>
Deferred tax liabilities		
Depreciation	(72)	(86)
Federal Home Loan Bank stock dividend	(398)	(361)
Deferred loan fees	(83)	(76)
Unrealized gain on available-for-sale securities	<u>(20)</u>	<u>0</u>
	<u>(573)</u>	<u>(523)</u>
Net deferred tax asset	<u>\$ 833</u>	<u>\$ 358</u>

Retained earnings at December 31, 2008 and 2007, 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 carryback 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, 2008 and 2007.

NOTE 8: OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows:

	(Dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Change in unrealized gains (losses) on securities available for sale	\$ (439)	\$ (253)
Reclassification for realized loss included in loss	<u>757</u>	<u>0</u>
Other comprehensive income (loss) before tax effect	318	(253)
Tax effect	<u>(107)</u>	<u>86</u>
Other comprehensive income (loss)	\$ <u>211</u>	\$ <u>(167)</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, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, 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.

The Supervisory Agreement which the bank had entered into with the OTS on August 22, 2005, was terminated effective March 26, 2007.

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>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
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
As of December 31, 2007						
Total risk-based capital (to risk-weighted assets)	\$13,915	14.0%	\$7,941	8.0%	\$9,926	10.0%
Tier I capital (to risk-weighted assets)	12,733	12.8	3,970	4.0	5,955	6.0
Tier I capital (to adjusted total assets)	12,733	9.3	5,508	4.0	6,885	5.0
Tangible capital (to adjusted tangible assets)	12,733	9.3	2,066	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, 2008, 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 collectibility or present other unfavorable features.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Dollars in thousands)
Balances, January 1, 2008	\$ 1,415
New loans, including renewals	1,062
Payments, etc., including renewals	<u>1,100</u>
Balances, December 31, 2008	<u>\$ 1,377</u>

Deposits from related parties held by the Bank at December 31, 2008 and 2007, totaled \$1,741,000 and \$1,978,000, 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 were \$47,000 for 2008 and 2007.

As part of the conversion in 1996, the Company established an ESOP covering substantially all employees of the Company and Bank. The ESOP acquired shares of the Company common stock at \$10 per share in the conversion with funds provided by a loan from the Company. Accordingly, the common stock acquired by the ESOP was shown as a reduction of shareholders' equity. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares are used to repay the loan and are treated as compensation expense. 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 expense was \$0 for the years ended December 31, 2008 and 2007.

	2008	2007
Allocated shares	51,492	51,492
Shares released for allocation	0	0
Unearned shares	<u>0</u>	<u>0</u>
Total ESOP shares	<u>51,492</u>	<u>51,492</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, 2008, the ESOP held 51,492 shares of the Company's stock with a total estimated value of approximately \$277,000.

NOTE 12: SHARE-BASED AWARD PLANS

On December 31, 2008, the Company has two share-based compensation plan(s), which are described below. The compensation cost that has been charged against income for those plans was \$35,000 and \$48,000 for 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$12,000 and \$16,000 for 2008 and 2007, respectively.

The Company's Stock Option Plan, (the SOP) which is shareholder approved, permits the grant of share options and shares to its employees for up to 131,422 shares of common stock. The Company also has a Recognition and Retention Plan (the RRP) which provides for the award and issuance of up to 38,088 shares of the Company's stock to members of the Board of Directors and management. 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

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 2008 and 2007.

A summary of option activity under the SOP as of December 31, 2008, 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	5.37 years
Granted	0	0	
Exercised	0	0	
Forfeited	0	0	
Expired	<u>0</u>	0	
Outstanding, end of year	<u>33,571</u>	\$ 13.40	4.37 years
Options exercisable, end of year	<u>33,571</u>	\$ 13.40	4.37 years

A summary of the status of the Company's nonvested shares in the RRP as of December 31, 2008, 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	4,176	\$ 13.79
Granted	0	0
Vested	2,539	14.55
Forfeited	<u>0</u>	0
Nonvested, end of year	<u>1,637</u>	\$ 12.61

As of December 31, 2008, 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 1.89 years. The total fair value of shares vested during the years ended December 31, 2008 and 2007, was \$23,000 and \$48,000 respectively.

Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: EARNINGS PER SHARE

Earnings per share (EPS) were computed as follows (Dollars in thousands, except per share data):

	Year Ended December 31, 2008		
	<u>Loss</u>	<u>Weighted-Average Shares</u>	<u>Per Share Amount</u>
Basic loss per share			
Loss from continuing operations available to common shareholders	\$(1,582)	802,697	<u>(\$ 1.97)</u>
Effect of dilutive securities			
Stock options and awards	<u>0</u>	<u>0</u>	
Diluted loss per share			
Loss 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.

	Year Ended December 31, 2007		
	<u>Income</u>	<u>Weighted-Average Shares</u>	<u>Per Share Amount</u>
Basic earnings per share			
Income from continuing operations available to common shareholders	\$ 538	801,943	<u>\$ 0.67</u>
Effect of dilutive securities			
Stock options and awards	<u>0</u>	<u>7,045</u>	
Diluted earnings per share			
Income from continuing operations available to common shareholders and assumed conversions	<u>\$ 538</u>	<u>808,988</u>	<u>\$ 0.67</u>

None of the Stock Awards and options to purchase shares of common stock outstanding at December 31, 2007, 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)

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets				
Cash and cash equivalents	\$ 3,256	\$ 3,256	\$ 9,647	\$ 9,647
Available-for-sale securities	7,755	7,755	866	866
Loans, net	116,304	118,638	116,907	117,499
FHLB stock	2,734	2,734	2,627	2,627
Interest receivable	590	590	614	614
Financial liabilities				
Deposits	96,926	100,431	93,689	94,767
FHLB advances	28,834	30,204	29,165	30,342
Interest payable	171	171	186	186
Unrecognized financial instruments:				
Commitments to extend credit	8,717	8,717	9,036	9,036

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2008 and 2007. 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, 2008 and 2007, 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, 2008 and 2007, 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 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.

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>2008</u>	<u>2007</u>
Loan commitments and unused lines of credit	\$ 8,458,000	\$ 8,979,000
Commercial letters of credit	<u>159,000</u>	<u>57,000</u>
Total	<u>\$ 8,717,000</u>	<u>\$ 9,036,000</u>

At December 31, 2008, the Bank’s total commitment to extend credit was approximately \$8,458,000. The amount of fixed rate commitments was approximately \$790,000 at December 31, 2008. The fixed rate loan commitments at December 31, 2008, have interest rates ranging from 4.00% to 9.75%.

At December 31, 2008 and 2007, the Bank had no commitments to sell loans which it had not yet funded.

From time to time certain due from bank accounts are in excess of federally insured limits. At December 31, 2008 and 2007, approximately \$0 and \$3,343,000 was on deposit at US Bank, respectively.

NOTE 16: RECENT ACCOUNTING DEVELOPMENTS

FASB Statement No. 157, Fair Value Measurements (Statement No. 157) – In September 2006, the FASB issued Statement No. 157. This Statement establishes a common definition for fair value to be applied to GAAP guidance requiring use of fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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.

	<u>December 31, 2008</u>	<u>Quoted in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant other unobservable inputs (Level 3)</u>
Securities available for sale	\$7,755		\$7,755	

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, 2008, was approximately \$1,930,000.

FASB Staff Position Number FAS 157-2 delays the implementation of SFAS 157 until the first quarter of 2009 with respect to goodwill, other intangible assets, real estate and other assets acquired through foreclosure and other non-financial assets measured at fair value on a nonrecurring basis.

On October 10, 2008, the FASB issued Staff Position (“FSP”) No. 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective immediately upon issuance, and includes prior periods for which financial statements have not been issued. We applied the guidance contained in FSP 157-3 in determining fair values at December 31, 2008, although it did not have a material impact on our financial condition, results of operations, or liquidity.

FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement No. 159) – In February 2007, the FASB issued Statement No. 159. This Statement permits entities to choose to measure financial instruments and certain other financial assets and financial liabilities at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. The Bank elected not to adopt Statement No.159.

NOTE 17: QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables summarize selected quarterly results of operations for 2008 and 2007.

(Dollars in thousands, except per share data)

<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	1,305	1,239	1,189	1,162
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)	32	10	(579)	(343)
Net income (loss)	64	75	(1,088)	(633)
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
<u>2007</u>	<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>
Interest and dividend income	\$ 2,286	\$ 2,222	\$ 2,216	\$ 2,208
Interest expense	1,269	1,263	1,260	1,270
Net interest income	1,017	959	956	938
Provision for loan losses	0	0	65	135
Noninterest income	84	79	123	127
Noninterest expense	869	815	827	820
Income tax expense	69	65	56	24
Net income	163	158	131	86
Earnings per share				
Basic	0.20	0.20	0.16	0.11
Diluted	0.20	0.19	0.16	0.11
Dividends per share	0.12	0.12	0.12	0.14

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, Vice President and Treasurer of
Foreman-Blair Pontiac, Buick, GMC, Cadillac,
Springfield, Ohio
Terry A. Hoppes, Owner and 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
Charles A. Mihal Secretary, Treasurer 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
Charles A. Mihal Secretary, Treasurer and CFO

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GENERAL COUNSEL

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National City Bank Bldg.
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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 2, 2009, held of record by approximately 153
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 2007 and 2008. The trading
prices reflect inter-dealer prices, without retail mark-up,
mark-down or commission.

	High	Low	Dividends declared
<u>2007</u>			
First Quarter	\$16.250	\$14.570	\$0.12
Second Quarter	\$16.490	\$15.800	\$0.12
Third Quarter	\$15.950	\$13.500	\$0.12
Fourth Quarter	\$13.600	\$10.150	\$0.14
			Dividends declared
<u>2008</u>	High	Low	
First Quarter	\$11.750	\$10.700	\$0.12
Second Quarter	\$11.000	\$ 9.070	\$0.06
Third Quarter	\$ 9.500	\$ 6.250	\$0.06
Fourth Quarter	\$ 6.750	\$ 5.200	\$0.06

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:

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