



Home  
City

Financial Corporation



2017  
ANNUAL REPORT



Dear Shareholders

Please find enclosed the Annual Report and Proxy Statement as of December 31, 2017. The Annual Meeting is scheduled for Wednesday, April 25, 2018. 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. I do encourage you as Shareholders to attend the Annual Meeting. This is an opportunity to meet your Directors and Management.

Home City Financial Corporation is pleased to report annual earnings of \$2,169,000 (\$2.67 per share) for the year ending December 31, 2017, representing nine consecutive years of increasing earnings. Return on Average Assets was 1.32% with Return on Average Equity of 11.45% on Total Assets of \$165,045,000.

As a result of our earnings, your Board of Directors declared a regular quarterly dividend of \$.25 per share payable March 15, 2018 to shareholders of record March 8, 2018. As a result of our earnings performance, annual 2017 cash dividends per share were \$.87 compared to \$.52 in 2016 (67% increase compared to the previous year).

In summary, **record earnings for your bank, good asset quality, good secondary market activity, good cost controls, good net interest margin, increased shareholder dividends and increased market value per share.**

We look forward to receiving your voted proxy, so please complete it and return it in the enclosed envelope.

Thank you for your investment in Home City Financial Corporation.

Sincerely,



J. William Stapleton,  
President & CEO



## 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.

### Selected financial data:

	At December 31,									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Dollars in thousands)									
Assets	165,045	155,995	153,150	151,552	143,821	142,859	143,821	145,859	145,461	139,276
Cash and Cash equivalents (1)	6,690	5,746	5,040	9,080	3,684	4,290	5,664	23,328	16,647	3,256
Available-for-sale securities	5,717	7,318	8,774	8,845	12,243	6,024	10,243	133	1,163	7,755
Federal Home Loan Bank Stock	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,732
Loans, Gross	144,161	133,657	130,401	124,294	117,955	122,254	117,400	111,655	117,228	118,373
Allowance for Loan Loss	1,737	2,610	2,619	2,536	2,091	2,000	1,503	1,503	1,910	2,069
Deposits	117,428	114,424	108,915	106,825	105,571	109,382	113,198	107,644	99,700	96,296
Federal Home Loan Bank Advances	24,597	20,259	24,076	25,764	20,218	16,777	15,202	23,899	31,945	28,834
Shareholders' equity	19,462	17,805	16,734	15,755	14,811	13,994	13,105	12,320	11,965	11,775

(Footnotes on following page)

### Summary of earnings and other data:

	At December 31,									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Dollars in thousands)									
Total interest and dividend income	6,996	6,497	6,360	6,206	6,347	6,722	6,781	7,110	7,746	8,423
Total interest expense	1,423	1,238	1,184	1,142	1,239	1,677	2,129	3,106	3,665	4,895
Net interest income	5,573	5,259	5,176	5,064	5,108	5,045	4,652	4,004	4,081	3,528
Provision for loan losses	(800)	70	50	440	430	550	725	545	1,000	1,330
Net interest income after										
Provision for loan losses	6,373	5,189	5,126	4,624	4,678	4,495	3,927	3,459	3,081	2,198
Noninterest income (loss)	855	751	581	726	622	408	720	536	793	(323)
Noninterest expense	3,662	3,595	3,747	3,445	3,696	3,368	3,280	3,261	3,395	4,337
Income (loss) before income tax	3,566	2,345	1,960	1,905	1,604	1,535	1,267	734	479	(2,462)
Provision (benefit) for income tax	1,397	739	614	628	494	518	406	183	65	(880)
	<u>2,169</u>	<u>1,606</u>	<u>1,346</u>	<u>1,277</u>	<u>1,110</u>	<u>1,017</u>	<u>861</u>	<u>551</u>	<u>414</u>	<u>(1,582)</u>
Basic Earnings Per Share	2.67	2.00	1.67	1.59	1.38	1.26	1.07	.69	.52	(1.97)
Diluted Earnings Per Share	2.58	1.94	1.62	1.53	1.35	1.26	1.07	.69	.52	(1.97)

**Selected financial ratios:**

	<b>At December 31,</b>									
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Return on assets (2)	1.32%	1.03%	0.89%	0.87%	0.78%	0.72%	0.61%	0.38%	0.30%	(1.12)%
Return on equity (3)	11.45	9.29	8.28	8.35	7.73	7.59	6.79	4.52	3.42	(12.12)
Interest rate spread (4)	3.38	3.39	3.46	3.54	3.64	3.60	3.32	3.09	2.89	2.31
Net interest margin (5)	3.54	3.55	3.59	3.64	3.77	3.77	3.52	3.13	3.11	2.64
Noninterest expense to average assets (6)	2.23	2.32	2.48	2.35	2.58	2.37	2.41	2.25	2.42	3.05
Average equity to average assets	11.53	11.14	10.74	10.44	10.03	9.45	9.02	8.41	8.63	9.19
Equity to assets at year end	11.79	11.14	10.93	10.40	10.32	9.80	9.11	8.45	8.23	8.45
Non-performing loans to total loans	0.21	0.31	0.54	0.34	0.59	0.73	1.07	2.34	2.94	1.48
Non-performing assets to total assets (7)	0.26	0.46	0.59	0.33	0.69	1.18	1.35	2.28	2.76	1.68
Allowance for loan losses to total loans	1.20	1.95	2.01	2.04	1.77	1.64	1.28	1.35	1.63	1.75
Allowance for loan losses to non-performing loans	584.85	625.38	370.12	602.96	300.63	224.49	119.62	57.58	55.48	118.06
Net charge-offs (recoveries) to average loans	.05	.06	(.03)	.00	.29	.04	.65	.83	.98	.38
Dividend payout ratio (8)	32.58	26.00	23.95	22.64	23.19	19.05	22.43	34.78	46.15	(15.23)

- (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.

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Home City Financial Corporation  
Springfield, Ohio

We have audited the accompanying consolidated financial statements of Home City Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home City Financial Corporation at December 31, 2017 and 2016, 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 16, 2018

## Home City Financial Corporation - CONSOLIDATED BALANCE SHEETS

	(Dollars in thousands)	
	<b>December 31,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>ASSETS</b>		
Cash and due from banks	\$ 892	\$ 871
Interest-bearing deposits in other institutions	5,798	4,875
Cash and cash equivalents	<u>6,690</u>	<u>5,746</u>
Available-for-sale securities	5,717	7,318
Loans, net of allowance for loan losses of \$1,737 and \$2,610 at December 31, 2017 and 2016	142,424	131,047
Premises and equipment	2,127	2,159
Federal Home Loan Bank stock	2,734	2,734
Interest receivable	484	437
Cash surrender value of life insurance	3,978	4,901
Prepaid and deferred taxes	615	1,215
Other	<u>276</u>	<u>438</u>
<b>TOTAL ASSETS</b>	<b><u>\$165,045</u></b>	<b><u>\$155,995</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Demand	\$ 9,068	\$ 8,297
Savings, NOW and money market	43,746	46,378
Time	<u>64,614</u>	<u>59,749</u>
Total deposits	<u>117,428</u>	<u>114,424</u>
Federal Home Loan Bank advances	24,597	20,259
Interest payable and other liabilities	<u>3,558</u>	<u>3,507</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 145,583</u></b>	<b><u>\$ 138,190</u></b>
<b>Shareholders' Equity</b>		
Preferred shares, no par value: authorized 1,000,000 shares; none issued		
Common shares, no par value: authorized 5,000,000 shares; issued 983,859		
Outstanding 816,818 and 798,618 at December 31, 2017 and 2016, respectively		
Additional paid-in capital	6,443	6,231
Retained earnings	15,473	14,002
Accumulated other comprehensive income		
Unrealized holding losses on securities available for sale, net of income taxes	(56)	(30)
Treasury shares, at cost: 167,041 and 167,041 shares at December 31, 2017 and 2016, respectively	<u>(2,398)</u>	<u>(2,398)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>19,462</u></b>	<b><u>17,805</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 165,045</u></b>	<b><u>\$ 155,995</u></b>

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>2017</u>	<u>2016</u>
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans	\$ 6,652	\$ 6,254
Securities	154	110
Dividends on Federal Home Loan Bank stock	137	109
Deposits with financial institutions	53	24
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<u>6,996</u>	<u>6,497</u>
<b>INTEREST EXPENSE</b>		
Deposits	1,013	907
Borrowings	410	331
<b>TOTAL INTEREST EXPENSE</b>	<u>1,423</u>	<u>1,238</u>
<b>NET INTEREST INCOME</b>	5,573	5,259
(Recovery of) Provision for Loan Losses	(800)	70
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>6,373</u>	<u>5,189</u>
<b>NON INTEREST INCOME</b>		
Service charges on deposits	63	53
Life Insurance Earnings on bank owned life insurance	152	188
Gain on Bank Life Insurance Policy	376	0
Gain on sale of securities	0	1
Gain on sale of foreclosed assets held for sale	11	60
Gain on sale of Loans in Secondary Market	180	339
Other	73	108
<b>TOTAL NON INTEREST INCOME</b>	<u>855</u>	<u>751</u>
<b>NON INTEREST EXPENSE</b>		
Salaries and employee benefits	2,122	2,030
Net occupancy expense	171	230
Equipment expense	47	87
Data processing fees	489	462
Professional fees	286	272
Franchise taxes	142	134
FDIC Insurance	51	64
Other real estate owned expenses	28	12
Other	326	304
<b>TOTAL NON INTEREST EXPENSE</b>	<u>3,662</u>	<u>3,595</u>
Income before income tax	3,566	2,345
Provision for income taxes	1,397	739
<b>NET INCOME</b>	<u>\$ 2,169</u>	<u>\$ 1,606</u>
 <b>EARNINGS PER SHARE (BASIC)</b>	 <u>\$ 2.67</u>	 <u>\$ 2.00</u>

See notes to consolidated financial statements.



**Home City Financial Corporation - CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**

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(Dollars in thousands, except  
per share amounts)

**Years ended December 31,**  
**2017                      2016**

<b>NET INCOME</b>	<u>\$ 2,169</u>	<u>\$ 1,606</u>
Change in net unrealized loss on securities available for sale, net of tax effect of \$(8,584) and \$13,139 as of December 31, 2017 and 2016, respectively.	<u>(17)</u>	<u>26</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 2,152</u>	<u>\$ 1,632</u>

## Home City Financial Corporation — CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

### Years ended December 31, 2017 and 2016

(Dollars in thousands)

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
Balance, January 1, 2016	\$ 6,045	\$ 11,791	\$ (35)	\$(2,046)	\$ 15,755
Net income		1,606			1,606
Change in unrealized loss on securities available on sale, net of reclassification and tax effect			26		26
Stock Option Exercised	96				96
Stock Option Expense	21				21
Purchase Treasury Shares				(259)	(259)
Dividends on common stock, \$.52 per share	_____	(419)	_____	_____	(419)
Balance, December 31, 2016	\$ 6,231	\$ 14,002	\$ (30)	\$(2,398)	\$ 17,805
Net income		2,169			2,169
Change in unrealized loss on securities available on sale, net of reclassification and tax effect			(17)		(17)
Reclassification of Stranded Tax Effects from Change in Tax Rate		9	(9)		0
Stock Option Exercised	192				192
Stock Option Expense	20				20
Dividends on common stock, \$.87 per share	_____	(707)	_____	_____	(707)
Balance, December 31, 2017	<u>\$ 6,443</u>	<u>\$15,473</u>	<u>\$ (56)</u>	<u>\$(2,398)</u>	<u>\$19,462</u>

See notes to consolidated financial statements.

## Home City Financial Corporation — CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Dollars in thousands)	
	<b>Years ended December 31,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,169	\$ 1,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64	78
Amortization of premiums and discounts on securities	40	49
(Recovery of) Provision for loan losses	(800)	70
Valuation adjustment Real Estate Owned	0	8
Deferred income tax expense (benefit)	628	(3)
Increase in cash surrender value of life insurance	(82)	(124)
Gains on Sale of loans in secondary market	(180)	(339)
Loss (Gain) on sale of foreclosed assets held for sale	17	(60)
Gain on sale of securities	0	(1)
Stock option expense	20	21
Changes in:		
Interest receivable	(47)	(25)
Prepaid and other assets	(30)	(150)
Interest payable and other liabilities	51	82
Net cash provided by operating activities	<u>1,850</u>	<u>1,212</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of available-for-sale securities	(2,050)	(1,995)
Proceeds from sale of available-for-sale securities	2,445	2,329
Repayment of mortgage backed securities	1,140	1,113
Net increase in loans	(10,700)	(3,276)
Proceeds from sale of foreclosed assets held for sale	459	220
Proceeds from death benefits	1,055	0
Purchase of premises and equipment	(32)	(7)
Net cash (used in) investing activities	<u>(7,733)</u>	<u>(1,616)</u>
<b>FINANCING ACTIVITIES</b>		
Net (decrease)/increase in demand deposits, money market, NOW and savings accounts	(1,861)	5,048
Net increase in certificates of deposit	4,865	461
Proceeds from Federal Home Loan Bank advances	19,500	3,500
Repayment of Federal Home Loan Bank advances	(15,162)	(7,317)
Dividends paid	(707)	(419)
Purchase of treasury stock	0	(259)
Stock options exercised	192	96
Net cash provided by financing activities	<u>6,827</u>	<u>1,110</u>
Increase in Cash and Cash Equivalents	944	706
Cash and Cash Equivalents, Beginning of Year	<u>5,746</u>	<u>5,040</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 6,690</u>	<u>\$ 5,746</u>
Supplemental Cash Flows		
Information Interest paid	\$ 1,401	\$ 1,240
Income taxes paid	\$ 824	\$ 815
Non-cash investing activity-transfer to real estate owned.	\$ 303	\$ 280

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 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, 2017.

**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 gains (losses) on sale of securities. 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.

### **Other Comprehensive Income**

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“AOCI”). The Company early adopted this new standard in the current year. ASU 2018-02 requires reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of the newly enacted federal corporate income tax rate on items included in AOCI. The amount of this reclassification in 2017 was \$9,302.

### **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 prior interest is reversed. The interest on these loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status.

### **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 the present value of expected future cash flows discounted at the loan’s effective interest rate.

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 unless the loans are classified substandard or doubtful. These loans are collectively evaluated for impairment based on historical losses adjusted for current economic and environmental factors.

### **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. Currently the useful lives used range from three years for furniture and fixtures to fifty years used on buildings.

### **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. These restricted investments are carried at cost with no quoted market value. The Bank evaluates these investments for impairment and if impairment is identified, the carrying value is reduced accordingly.

### **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 in other real estate owned expenses

### **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 a consolidated income tax return with its subsidiary Home City Federal Savings Bank of Springfield.

### **Earnings Per Share**

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year.

### **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 consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through March 18, 2017 the date on which the consolidated 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)			
	<b>Amortized</b>	<b>Gross</b>	<b>Gross</b>	<b>Approximate</b>
<b>Available-for-Sale Securities</b>	<b>Cost</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
December 31, 2017				
Mortgage-backed securities:				
GNMA	\$ 0	\$ 0	\$ 0	\$ 0
FNMA	2,758	0	29	2,729
FHLMC	<u>3,031</u>	<u>0</u>	<u>43</u>	<u>2,988</u>
	5,789	0	72	5,717
U.S. Government agency securities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 5,789</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 72</u></b>	<b><u>\$ 5,717</u></b>
December 31, 2016				
Mortgage-backed securities:				
GNMA	\$ 0	\$ 0	\$ 0	\$ 0
FNMA	2,581	3	8	2,576
FHLMC	<u>3,558</u>	<u>0</u>	<u>36</u>	<u>3,522</u>
	6,139	3	44	6,098
U.S. Government agency securities	<u>1,225</u>	<u>0</u>	<u>5</u>	<u>1,220</u>
<b>Total</b>	<b><u>\$ 7,364</u></b>	<b><u>\$ 3</u></b>	<b><u>\$ 49</u></b>	<b><u>\$ 7,318</u></b>

The carrying value of securities pledged to the Federal Reserve Bank of Cleveland for potential future borrowings was \$887,548 at December 31, 2017 and at December 31, 2016, the value was \$989,524.

The amortized cost and estimated fair value of available-for-sale debt securities at December 31, 2017, by contractual maturity, are as follows (dollars in thousands):

	Amortized Cost	Fair Value
Amounts maturing in:		
Due in one year or less	\$ 0	\$ 0
Due after one year through five years	0	0
Due from five to ten years	<u>0</u>	<u>0</u>
	0	0
Mortgage-backed securities	<u>5,789</u>	<u>5,717</u>
	<b><u>\$ 5,789</u></b>	<b><u>\$ 5,717</u></b>

Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

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.

## 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)					
	Less than 12 Months Unrealized		12 Months or Longer Unrealized		Total Unrealized	
	<u>Fair Value</u>	<u>Losses</u>	<u>Fair Value</u>	<u>Losses</u>	<u>Fair Value</u>	<u>Losses</u>
<b>Available-for-Sale Securities</b>						
December 31, 2017						
Mortgage-backed Securities	\$ 910	\$ 8	\$ 4,807	\$ 64	\$ 5,717	\$ 72
U.S. Government Agency Securities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 910</u>	<u>\$ 8</u>	<u>\$ 4,807</u>	<u>\$ 64</u>	<u>\$ 5,717</u>	<u>\$ 72</u>

	(Dollars in thousands)					
	Less than 12 Months Unrealized		12 Months or Longer Unrealized		Total Unrealized	
	<u>Fair Value</u>	<u>Losses</u>	<u>Fair Value</u>	<u>Losses</u>	<u>Fair Value</u>	<u>Losses</u>
<b>Available-for-Sale Securities</b>						
December 31, 2016						
Mortgage-backed Securities	\$ 1,987	\$ 9	\$ 3,758	\$ 35	\$ 5,745	\$ 44
U.S. Government Agency Securities	<u>0</u>	<u>0</u>	<u>1,220</u>	<u>5</u>	<u>1,220</u>	<u>5</u>
Total	<u>\$ 1,987</u>	<u>\$ 9</u>	<u>\$ 4,978</u>	<u>\$ 40</u>	<u>\$ 6,965</u>	<u>\$ 49</u>

We recognize other than temporary impairments (OTTI) for debt securities classified as available for sale in accordance with FASB Accounting Standards Codification Topic 320. We believe unrealized losses at December 31, 2017 are a function of interest rates and therefore have not recognized OTTI.

### NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, include:

	(Dollars in thousands)	
	<u>2017</u>	<u>2016</u>
Mortgage	\$ 136,225	\$ 128,681
Commercial	9,979	9,561
Consumer	<u>1,756</u>	<u>1,379</u>
Total loans	147,960	139,621
Less		
Deferred loan fees	(414)	(390)
Undisbursed portion of loans	(3,385)	(5,574)
Allowance for loan losses	<u>\$ (1,737)</u>	<u>\$ (2,610)</u>
<b>Net Loans</b>	<u>\$ 142,424</u>	<u>\$ 131,047</u>



**Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Changes in the allowance for loan losses are as follows for the years ended December 31:

	(Dollars in thousands)			
<b>2017</b>	<u>Commercial</u>	<u>Consumer</u>	<u>Mortgage</u>	<u>Total</u>
Allowance for credit losses:				
Beginning Balance	\$ 1,946	\$ 57	\$ 607	\$ 2,610
Charge-Offs	33	17	58	108
Recoveries	6	3	26	35
Provision	(800)	0	0	(800)
Ending Balance	<u>\$ 1,119</u>	<u>\$ 43</u>	<u>\$ 575</u>	<u>\$ 1,737</u>
Ending allowance balance individually evaluated for impairment	<u>\$ 12</u>	<u>\$ 0</u>	<u>\$ 298</u>	<u>\$ 310</u>
Loan balances	<u>\$ 12</u>	<u>\$ 0</u>	<u>\$ 1,502</u>	<u>\$ 1,514</u>
Ending allowance balance collectively evaluated for impairment	<u>\$ 1,107</u>	<u>\$ 43</u>	<u>\$ 277</u>	<u>\$ 1,427</u>
Loan balances	<u>\$ 9,967</u>	<u>\$ 1,746</u>	<u>\$ 134,723</u>	<u>\$ 146,446</u>
<b>Total loans</b>	<u>\$ 9,979</u>	<u>\$ 1,756</u>	<u>\$ 136,225</u>	<u>\$ 147,960</u>
<b>2016</b>	<u>Commercial</u>	<u>Consumer</u>	<u>Mortgage</u>	<u>Total</u>
Allowance for credit losses:				
Beginning Balance	\$ 1,939	\$ 57	\$ 623	\$ 2,619
Charge-Offs	0	0	110	110
Recoveries	7	0	24	31
Provision	0	0	70	70
Ending Balance	<u>\$ 1,946</u>	<u>\$ 57</u>	<u>\$ 607</u>	<u>\$ 2,610</u>
Ending allowance balance individually evaluated for impairment	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 392</u>	<u>\$ 392</u>
Loan balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,453</u>	<u>\$ 1,453</u>
Ending allowance balance collectively evaluated for impairment	<u>\$ 1,946</u>	<u>\$ 57</u>	<u>\$ 215</u>	<u>\$ 2,218</u>
Loan balances	<u>\$ 9,561</u>	<u>\$ 1,379</u>	<u>\$ 127,228</u>	<u>\$ 138,168</u>
<b>Total loans</b>	<u>\$ 9,561</u>	<u>\$ 1,379</u>	<u>\$ 128,681</u>	<u>\$ 139,621</u>

**Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables summarize impaired loans as of December 31:

<b>2017</b>	<u>Recorded Loan</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Loan</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Consumer	0	0	0	0	0
Mortgage	<u>1,016</u>	<u>1,016</u>	<u>0</u>	<u>953</u>	<u>48</u>
	<u>1,016</u>	<u>1,016</u>	<u>0</u>	<u>953</u>	<u>48</u>
With an allowance recorded:					
Commercial	12	12	12	12	1
Consumer	0	0	0	4	1
Mortgage	<u>486</u>	<u>486</u>	<u>298</u>	<u>566</u>	<u>29</u>
	<u>498</u>	<u>498</u>	<u>310</u>	<u>582</u>	<u>31</u>
Total:					
Commercial	12	12	12	12	1
Consumer	0	0	0	4	1
Mortgage	<u>1,502</u>	<u>1,502</u>	<u>298</u>	<u>1,519</u>	<u>77</u>
	<u>\$ 1,514</u>	<u>\$ 1,514</u>	<u>\$ 310</u>	<u>\$ 1,535</u>	<u>\$ 79</u>

<b>2016</b>	<u>Recorded Loan</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Loan</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 0	\$ 0	\$ 0	\$ 39	\$ 2
Consumer	0	0	0	6	0
Mortgage	<u>652</u>	<u>652</u>	<u>0</u>	<u>1,139</u>	<u>69</u>
	<u>652</u>	<u>652</u>	<u>0</u>	<u>1,139</u>	<u>69</u>
With an allowance recorded:					
Commercial	0	0	0	0	0
Consumer	0	0	0	0	0
Mortgage	<u>801</u>	<u>801</u>	<u>392</u>	<u>814</u>	<u>37</u>
	<u>801</u>	<u>801</u>	<u>392</u>	<u>814</u>	<u>37</u>
Total:					
Commercial	0	0	0	0	0
Consumer	0	0	0	0	0
Mortgage	<u>1,453</u>	<u>1,453</u>	<u>392</u>	<u>1,139</u>	<u>106</u>
	<u>\$ 1,453</u>	<u>\$ 1,453</u>	<u>\$ 392</u>	<u>\$ 1,953</u>	<u>\$ 106</u>

There are no significant commitments outstanding to lend additional funds to clients whose loans were classified as impaired at December 31, 2017.

## Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank assigns credit risk grades to evaluated loans using grading standards described in the Bank’s Classification of Assets Policy and Procedures. Loans rated as “pass” include the Bank’s risk grades of “excellent,” “good” and “satisfactory,” which have at least two years of satisfactory repayment, or no other signs of a weakening credit situation. “Watch” loans are considered satisfactory but have increased credit risk due to financial uncertainty and are given proper additional management attention. “Special mention” loans are considered fundamentally sound, but show potential credit risk and unsatisfactory characteristics, including inability to obtain financial statements, adverse economic conditions, and/or borrower’s ability to pay is getting worse. A loan classified as “substandard” is protected inadequately by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. A loan classified as “doubtful” has all the weaknesses inherent in a substandard loan with the characteristic that the weaknesses make collection or liquidation in full questionable. A loan classified as a “loss” is considered uncollectible, but could have some recovery value. The Bank’s Asset Classification Committee assigns the credit risk grades to loans and reports to the board on a monthly basis in the “asset classification” report.

The following table summarizes the credit risk profile by internally assigned grade of loans as of December 31:

<b>2017</b>	<u>Commercial</u>	<u>Consumer</u>	<u>Mortgage</u>	<u>Total</u>
Grade				
Pass	\$ 6,971	\$ 1,711	\$ 125,160	\$ 133,842
Watch	2,996	45	8,999	12,040
Special Mention	0	0	564	564
Substandard	12	0	1,502	1,514
Totals	<u>\$ 9,979</u>	<u>\$ 1,756</u>	<u>\$ 136,225</u>	<u>\$ 147,960</u>
<b>2016</b>	<u>Commercial</u>	<u>Consumer</u>	<u>Mortgage</u>	<u>Total</u>
Grade				
Pass	\$ 7,004	\$ 1,297	\$ 115,901	\$ 124,202
Watch	2,547	67	10,229	12,843
Special Mention	0	15	1,108	1,123
Substandard	10	0	1,443	1,453
Totals	<u>\$ 9,561</u>	<u>\$ 1,379</u>	<u>\$ 128,681</u>	<u>\$ 139,621</u>

## Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Troubled Debt Restructuring (as of December 31, 2017 and December 31, 2016)

Troubled Debt Restructurings	<b>2017</b>			<b>2016</b>		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial & Comm. Farm	0	\$ 0	\$ 0	0	\$ 0	\$ 0
Commercial Real Estate – Rehab/Resell	0	0	0	0	0	0
Commercial Real Estate- Rehab/Investment	0	0	0	0	0	0
HELOC & Real Estate Mortgages	0	0	0	0	0	0
Consumer	0	0	0	0	0	0
Total	<u>0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>	<u>\$ 0</u>	<u>\$ 0</u>

There were no Troubled Debt Restructure loans made in 2017.

There was one troubled debt restructuring that subsequently became uncollectible. This loan, a one to four family, resulted in a charge against the allowance account of \$18,498.

Non-performing assets are as follows as of December 31:

	(Dollars in thousands)	
	<u><b>2017</b></u>	<u><b>2016</b></u>
Non-accrual Loans	\$ 297	\$ 417
Accruing loans 90 days or more past due	0	0
Other real estate owned	104	303
Other repossessed assets	<u>27</u>	<u>0</u>
Total nonperforming assets	<u>\$ 428</u>	<u>\$ 720</u>
<b>RATIOS</b>		
Nonperforming assets to total assets	.26%	.46%
Ratio of loan loss allowance to nonaccrual loans	584.85%	625.38%

**Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table summarizes loans by delinquency and nonaccrual status as of December 31:

	(Dollars in thousands)		(As a % of Ending Loan Balances)	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Commercial Loans				
30-89 days	\$ 12	\$ 0	0%	0%
90 days or more and still accruing	0	0	0	0
Nonaccrual	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 12</u>	<u>\$ 0</u>	<u>0%</u>	<u>0%</u>
Mortgage Loans				
30-89 days	\$ 2,029	\$ 1,525	1.38%	1.09%
90 days or more and still accruing	0	0	0	0
Nonaccrual	<u>297</u>	<u>417</u>	<u>.20</u>	<u>.30</u>
Total	<u>\$ 2,326</u>	<u>\$ 1,942</u>	<u>1.58%</u>	<u>1.39%</u>
Consumer Loans				
30-89 days	\$ 0	\$ 0	0%	0%
90 days or more and still accruing	0	0	0	0
Nonaccrual	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>	<u>0%</u>
Totals				
30-89 days	\$ 2,041	\$ 1,525	1.38%	1.09%
90 days or more and still accruing	0	0	0	0
Nonaccrual	<u>297</u>	<u>417</u>	<u>.20</u>	<u>.30</u>
Total	<u><b>\$ 2,338</b></u>	<u><b>\$ 1,942</b></u>	<u><b>1.58%</b></u>	<u><b>1.39%</b></u>

There were no loans over 90 days past due that were still accruing at December 31, 2017 and 2016.

**NOTE 4: PREMISES AND EQUIPMENT**

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

	(Dollars in thousands)	
	<u>2017</u>	<u>2016</u>
Land	\$ 729	\$ 713
Buildings and improvements	2,703	2,688
Equipment	<u>1,386</u>	<u>1,382</u>
	4,818	4,783
Less Accumulated depreciation	<u>(2,691)</u>	<u>(2,624)</u>
Net premises and equipment	<u>\$ 2,127</u>	<u>\$ 2,159</u>

**NOTE 5: INTEREST-BEARING DEPOSITS**

Interest-bearing time deposits in denominations greater than \$250,000 were \$7,650,000 on December 31, 2017, and \$6,659,000 on December 31, 2016.

At December 31, 2017, the scheduled maturities of time deposits areas follows:

	(Dollars in thousands)
2018	\$ 24,491
2019	15,611
2020	12,491
2021	6,416
2022 & on	<u>5,605</u>
<b>Total</b>	<b><u>\$ 64,614</u></b>

**NOTE 6: FEDERAL HOME LOAN BANK ADVANCES**

Aggregate annual maturities of FHLB advances at December 31, 2017, are:

	(Dollars in thousands)
2018	\$ 6,897
2019	4,105
2020	3,472
2021	2,517
2022 & on	<u>7,606</u>
<b>Total</b>	<b><u>\$ 24,597</u></b>

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$87,633,836 at December 31, 2017. Advances, at interest rates from 0.91% to 2.30%, are subject to restrictions or penalties in the event of prepayment.

The Bank has an authorized letter of credit with the Federal Home Loan Bank of \$10,000,000 with used credit lines aggregating \$4,200,000 expiring at various dates. At December 31, 2017, the Bank had available unused letters of credit with the Federal Home Loan Bank of \$5,800,000. These letters of credit are pledged as collateral for deposits in excess of federally-insured limits. At December 31, 2016, the Bank had used letters of credit with the FHLB aggregating \$2,100,000 and available unused letters of credit of \$7,900,000.

**NOTE 7: INCOME TAXES**

The provision for income taxes includes these components

	(Dollars in thousands)	
	<u>2017</u>	<u>2016</u>
Taxes currently payable	\$ 769	\$ 742
Deferred income tax benefit	<u>628</u>	<u>(3)</u>
<b>Income tax expense</b>	<b><u>\$ 1,397</u></b>	<b><u>\$ 739</u></b>

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>2017</u>	<u>2016</u>
Computed at the statutory rate (34%)	\$ 1,213	\$ 797
Increase (decrease) resulting from:		
Cash surrender value of life insurance	(52)	(64)
Gain Sale of Life Insurance	(128)	
Deferred Tax Asset Adjustment for Enacted Change in Tax Rate	338	
Other	<u>26</u>	<u>6</u>
<b>Actual tax expense</b>	<b><u>\$ 1,397</u></b>	<b><u>\$ 739</u></b>

Income tax expense for 2017 includes an adjustment of net deferred tax assets in the amount of \$338,000 recorded as a result of the enactment of H.R. 1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

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

	(Dollars in thousands)	
	<u>2017</u>	<u>2016</u>
Deferred tax assets		
Allowance for loan losses	\$ 365	\$ 888
Employee benefits	450	722
Other	21	10
REO Expense	0	3
Unrealized loss on available-for-sale securities	<u>15</u>	<u>16</u>
	<u>851</u>	<u>1,639</u>
Deferred tax liabilities		
Depreciation	(16)	(26)
Federal Home Loan Bank stock dividend	(246)	(398)
Deferred loan fees	(18)	(36)
REO Expense	(18)	0
Prepaid Expenses	<u>(8)</u>	<u>(19)</u>
	<u>(306)</u>	<u>(479)</u>
<b>Net deferred tax asset</b>	<b><u>\$ 545</u></b>	<b><u>\$ 1,160</u></b>

Retained earnings at December 31, 2017 and 2016, 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 \$228,000 (21% of \$1,084,000) at December 31, 2017 and 2016.

**NOTE 8: OTHER COMPREHENSIVE INCOME**

Other comprehensive income components and related taxes were as follows:

	(Dollars in thousands)	
	<u>2017</u>	<u>2016</u>
Change in unrealized gains (losses)/gains on securities available for sale	\$ (25)	\$ 40
Reclassification for realized gain included in loss <sup>1</sup>	0	(1)
Other comprehensive (loss)/gain income	(25)	39
Tax effect prior to tax change	8	(13)
<b>Other comprehensive (loss) income</b>	<u>\$ (17)</u>	<u>\$ 26</u>

<sup>1</sup>Gain on investments (CF)

**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, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from Office of Comptroller of the Currency 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>	
<b>As of December 31, 2017</b>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Common equity tier I (to risk-weighted assets)	\$19,184	17.3%	\$5,001	4.5%	\$7,224	6.5%
Total risk-based capital (to risk-weighted assets)	\$20,577	18.5%	\$8,891	8.0%	\$11,114	10.0%
Tier I capital (to risk-weighted assets)	\$19,184	17.3%	\$6,668	6.0%	\$8,891	8.0%
Tier I leverage ratio (to adjusted total assets)	\$19,184	11.6%	\$6,612	4.0%	\$8,265	5.0%
<b>As of December 31, 2016</b>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Common equity tier I (to risk-weighted assets)	\$16,638	15.4%	\$4,859	4.5%	\$7,018	6.5%
Total risk-based capital (to risk-weighted assets)	\$18,003	16.7%	\$8,638	8.0%	\$10,797	10.0%
Tier I capital (to risk-weighted assets)	\$16,638	15.4%	\$6,478	6.0%	\$8,638	8.0%
Tier I leverage ratio (to adjusted total assets)	\$16,638	10.7%	\$6,221	4.0%	\$7,776	5.0%

**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 was as follows:

	(Dollars in thousands)
Balances, January 1, 2017	\$ 230
New loans, including renewals	157
Payments, etc., including renewals	<u>(126)</u>
<b>Balances, December 31, 2017</b>	<b><u>\$ 261</u></b>

Deposits from related parties held by the Bank at December 31, 2017 and 2016, totaled \$1,453,965 and \$1,550,812 respectively.

**NOTE 11: EMPLOYEE BENEFITS**

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to 50% 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 2017 and 2016 were \$59,000 and \$61,000, 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 contributions expense was \$40,000 and \$40,000 for the years ended December 31, 2017 and 2016.

	<b><u>2017</u></b>	<b><u>2016</u></b>
Allocated shares	41,722	47,907
Shares purchased	3,882	663
Withdrawals	(469)	(6,848)
Transfers	<u>0</u>	<u>0</u>
<b>Total ESOP shares</b>	<b><u>45,135</u></b>	<b><u>41,722</u></b>
<b>Fair value of unearned shares at December 31</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>

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, 2017, the ESOP held 45,135 shares of the Company’s stock with a total estimated market value of approximately \$1,303,199.

**NOTE 12: SHARE-BASED AWARD PLANS**

On December 31, 2017, the Company had one share-based compensation plan, the Stock Option Plan, which is described below. The compensation cost that has been charged against income for that plan was \$20,000 and \$21,000 for 2017 and 2016, respectively.

The Company’s Stock Option Plan, (the SOP) which was shareholder approved, currently has 44,300 shares outstanding and exercisable. 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 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 grants awarded in 2017 or 2016.

A summary of option activity under the SOP as of December 31, 2017, and changes during the year then ended, is presented below:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</b>
Outstanding, beginning of year	62,500	\$ 10.34	5.0 years
Granted	0	0	
Exercised	18,200	9.79	
Forfeited	0	0	
Expired	0	0	
<b>Outstanding, end of year</b>	<b>44,300</b>	<b>\$ 10.56</b>	<b>4.1 years</b>
<b>Options exercisable, end of year</b>	<b>39,800</b>	<b>\$ 10.23</b>	<b>4.0 years</b>

**NOTE 13: EARNINGS PER SHARE**

Earnings per share (EPS) were computed as follows:

(Dollars in thousands, except per share data)

**Year Ended December 31, 2017**

	<b>Income</b>	<b>Weighted-Average Shares</b>	<b>Per Share Amount</b>
Basic earnings per share			
Income from continuing operations available to common shareholders	\$ 2,169	812,611	\$ 2.67
Effect of dilutive securities			
Stock options and awards	<u>0</u>	<u>26,977</u>	
Diluted loss per share			
Income from continuing operations available to common shareholders and assumed conversions	<u>\$ 2,169</u>	<u>839,588</u>	<u>\$ 2.58</u>

There were 26,977 options to purchase shares of common stock outstanding at December 31, 2017 that were included in the computation of diluted EPS.

(Dollars in thousands, except per share data)

**Year Ended December 31, 2016**

	<b>Income</b>	<b>Weighted-Average Shares</b>	<b>Per Share Amount</b>
Basic earnings per share			
Income from continuing operations available to common shareholders	\$ 1,606	803,827	\$ 2.00
Effect of dilutive securities			
Stock options and awards	<u>0</u>	<u>27,296</u>	
Diluted loss per share			
Income from continuing operations available to common shareholders and assumed conversions	<u>\$ 1,606</u>	<u>831,123</u>	<u>\$ 1.94</u>

There were 27,296 options to purchase shares of common stock outstanding at December 31, 2016 that were included in the computation of diluted EPS.

**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)			
	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial assets				
Cash and cash equivalents	\$ 6,690	\$ 6,690	\$ 5,746	\$ 5,746
Available-for-sale securities	5,717	5,717	7,318	7,318
Loans, net	142,424	144,034	131,047	134,206
FHLB stock	2,734	2,734	2,734	2,734
Interest receivable	484	484	437	437
Financial liabilities				
Deposits	117,428	105,211	114,424	103,474
FHLB advances	24,597	24,205	20,259	20,100
Interest payable	25	25	13	13
Unrecognized financial instruments:				
Commitments to extend credit	23,895	23,895	21,411	21,411

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2017 and 2016. 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, 2017 and 2016, 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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Loan commitments and unused lines of credit	\$ 23,895,000	\$ 21,351,000
Commercial letters of credit	<u>0</u>	<u>60,000</u>
<b>Total</b>	<b><u>\$ 23,895,000</u></b>	<b><u>\$ 21,411,000</u></b>

At December 31, 2017, the Bank’s total commitment to extend credit was approximately \$23,895,000. The amount of fixed rate commitments was approximately \$4,170,329 at December 31, 2017. The fixed rate loan commitments at December 31, 2017, have interest rates ranging from 3.00% to 8.00%.

At December 31, 2017 and 2016, the Bank had \$354,600 and \$0 , respectively, 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.

**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 and determined to be level 2 inputs. Available for sale securities include primarily U.S. agency securities, municipal bonds and mortgage-backed agency securities.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis.

The Bank may require from time to time to measure certain assets and liabilities at fair value on nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis as of December 31, 2017 and 2016 are included in the table below.

	at December 31, 2017			
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Recurring basis	December 31, 2017	(Level 1)	(Level 2)	(Level 3)
Securities available for sale:				
U.S. Government agency securities	\$ 0		\$ 0	
Mortgage-backed securities				
Equity securities	\$ 5,717		\$ 5,717	
	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Nonrecurring basis	December 31, 2017	(Level 1)	(Level 2)	(Level 3)
Assets:				
Impaired Loans	\$ 188		\$ 188	
Other Real Estate Owned	\$ 131		\$ 131	

**Home City Financial Corporation – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	at December 31, 2016			
	<b>Carrying Value</b>	<b>Quoted prices in active markets for identical assets</b>	<b>Significant other observable inputs</b>	<b>Significant other unobservable inputs</b>
	<b>December 31, 2016</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Recurring basis				
Securities available for sale:				
U.S. Government agency securities	\$ 1,220		\$ 1,220	
Mortgage-backed securities Equity securities	\$ 6,098		\$ 6,098	
	<b>Fair Value</b>	<b>Quoted prices in active markets for identical assets</b>	<b>Significant other observable inputs</b>	<b>Significant other unobservable inputs</b>
	<b>December 31, 2016</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Nonrecurring basis				
Assets:				
Impaired Loans	\$ 409		\$ 409	
Other Real Estate Owned	\$ 303		\$ 303	

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.

Real estate and other assets acquired through foreclosure are 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.



**NOTE 17: QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following tables summarize selected quarterly results of operations for 2017 and 2016.

(Dollars in thousands, except per share data)

<b><u>2017</u></b>	<b><u>March</u></b>	<b><u>June</u></b>	<b><u>September</u></b>	<b><u>December</u></b>
Interest and dividend income	\$ 1,667	\$ 1,733	\$ 1,802	\$ 1,794
Interest expense	<u>319</u>	<u>358</u>	<u>378</u>	<u>368</u>
Net interest income	1,348	1,375	1,424	1,426
Provision for loan losses	0	(800)	0	0
Noninterest income	374	228	133	120
Noninterest expense	917	959	891	895
Income tax expense	<u>188</u>	<u>438</u>	<u>227</u>	<u>544</u>
Net income	<u>\$ 617</u>	<u>\$ 1,006</u>	<u>\$ 439</u>	<u>\$ 107</u>
Earnings per share				
Basic	.76	1.24	.54	.13
Diluted	.74	1.20	.52	.12
Dividends per share	.25	.12	.25	.25
<b><u>2016</u></b>	<b><u>March</u></b>	<b><u>June</u></b>	<b><u>September</u></b>	<b><u>December</u></b>
Interest and dividend income	\$ 1,614	\$ 1,608	\$ 1,632	\$ 1,643
Interest expense	<u>302</u>	<u>307</u>	<u>316</u>	<u>313</u>
Net interest income	1,312	1,301	1,316	1,330
Provision for loan losses	0	0	70	0
Noninterest income	142	130	271	208
Noninterest expense	930	907	903	855
Income tax expense	<u>174</u>	<u>169</u>	<u>203</u>	<u>193</u>
Net income	<u>\$ 350</u>	<u>\$ 355</u>	<u>\$ 411</u>	<u>\$ 490</u>
Earnings per share				
Basic	.44	.44	.51	.61
Diluted	.42	.42	.50	.60
Dividends per share	.20	.10	.10	.12

## CORPORATE INFORMATION

### DIRECTORS OF HCFC AND HOME CITY

John D. Conroy, Retired Owner and President of Conroy Funeral Home, Inc., Springfield, Ohio

Daniel A. Haemmerle, Retired Pharmacist from Harding Road Pharmacy of Springfield, Ohio

Matthew C. Mullen, Partner with the Certified Public Accounting Firm of Bennett, Groeber, Mullen & Feltner, Springfield, Ohio

J. William Stapleton, President, and CEO of Home City Financial Corporation and Home City Federal Savings Bank of Springfield

Katy Westerfield Osborn, Attorney with the law firm of Bricker & Eckler, Dayton, Ohio

### EXECUTIVE OFFICERS OF HCFC

John D. Conroy - Chairman of the Board

J. William Stapleton - President, and CEO

Don E. Lynam - Executive Vice President

Donna M. Williams - Executive Vice President and CFO

### EXECUTIVE OFFICERS OF HOME CITY

John D. Conroy - Chairman of the Board

J. William Stapleton - President, and CEO

Don E. Lynam - Executive Vice President

Donna M. Williams - Executive Vice President and CFO

### INDEPENDENT ACCOUNTING FIRM

Clark, Schaefer, Hackett & Co.

1 E. Fourth Street, Suite 1200

Cincinnati, Ohio 45202

### SPECIAL COUNSEL

Vorys, Sater, Seymour and Pease LLP

301 E. Fourth Street

Great American Tower

Suite 3500

Cincinnati, Ohio 45202

### GENERAL COUNSEL

Gorman, Veskauf, Henson & Wineberg

202 N. Limestone Street, Suite 100

Springfield, Ohio 45503

### TRANSFER AGENT

Communication regarding change of address, transfer of shares, lost certificates and dividends should be sent to:

American Stock Transfer & Trust Co., LLC

6201 15th Avenue

Brooklyn, NY 11219

(800) 937-5449

www.amstock.com

### COMMON SHARES

There were 816,818 common shares of HCFC outstanding on March 18, 2018, held of record by approximately 80 registered shareholders. HCFC's common shares are traded on the OTCQB Marketplace under the symbol "HCFL".

The following represents high and low trading prices and dividends declared during each respective quarter during 2017 and 2016. The trading prices reflect inter-dealer prices, without retail mark-up, mark-down or commission.

The payment of dividends by HCFC to its shareholders may depend in part on the dividends paid by the Bank to HCFC, which is governed by regulations requiring the Bank to obtain approval from the Federal Reserve..

	High	Low	Dividends declared
<b>2017</b>			
First Quarter	\$ 23.75	\$ 21.00	\$ .25
Second Quarter	\$ 26.10	\$ 23.20	\$ .12
Third Quarter	\$ 27.90	\$ 25.70	\$ .25
Fourth Quarter	\$ 28.94	\$ 27.00	\$ .25
<b>2016</b>			<b>Dividends declared</b>
First Quarter	\$ 18.75	\$ 17.50	\$ .20
Second Quarter	\$ 20.50	\$ 18.00	\$ .10
Third Quarter	\$ 19.75	\$ 18.51	\$ .10
Fourth Quarter	\$ 23.54	\$ 18.71	\$ .12

### INVESTOR INFORMATION

Investors, analysts and others seeking financial information may contact:

J. William Stapleton, President, and CEO

Donna M. Williams, Executive Vice President and CFO

Home City Financial Corporation

2454 North Limestone Street

Springfield, Ohio 45503

(937) 390-0470







**HOME CITY FINANCIAL CORPORATION**

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SPRINGFIELD, OHIO 45503  
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