# HOME LOAN FINANCIAL CORPORATION

Coshocton, Ohio

## ANNUAL REPORT

June 30, 2020

HOME LOAN FINANCIAL CORPORATION
ANNUAL REPORT
June 30, 2020

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Dear Fellow Shareholder:

We are pleased to share Home Loan Financial Corporation's (HLFN) fiscal 2020 consolidated financial results with you.

Net income for the year ended June 30, 2020 was $3,591,000, or $2.57 basic and diluted earnings per share, compared to $3,741,000 for the year ended June 30, 2019, or $2.67 basic and diluted earnings per share, a decrease of $151,000, or 4.0%.

This decrease in earnings for the year ended June 30, 2020 compared with June 30, 2019 was primarily attributable to a decrease in net interest income of $232,000, an increase in the provision for loan losses of $109,000 and an increase in noninterest expense of $203,000, partially offset by an increase in noninterest income of $325,000, and a decrease in income tax expense of $68,000.

Total assets at June 30, 2020 were $244.7 million compared to June 30, 2019 assets of $214.7 million, an increase of $29.9 million or 13.9%. Total deposits at June 30, 2020 were $206.6 million compared to June 30, 2019 deposits of $175.0 million, an increase of $31.7 million or 18.1%. Total equity at June 30, 2020 was $30.1 million compared to $29.4 million at June 30, 2019, an increase of $1.3 million or 4.3%.

The investors that were part of HLFN's initial conversion from a mutual to a stock company have seen their investment on March 25, 1998 grow from $5.89 per share (adjusted for the return of capital distribution in fiscal 1999) to $29.70 per share as of June 30, 2020. In addition, those shareholders have received $20.29 in dividends per share since the conversion. Based upon HLFN's ending stock price at June 30, 2019 of $29.70, the current annual dividend of $1.68 produced a yield of 5.66%.

On behalf of the HLFN management team, employees and our Board of Directors, we want to thank you for investing in HLFN. We encourage you to do your personal and business banking with The Home Loan Savings Bank, as our accounts build our company and enhance your investment.

Sincerely,

Robert C. Hamilton
Chairman of the Board and CEO

**DIXON, DAVIS, BAGENT & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

1205 WEAVE R DRIVEÅGRANV ILLE, OHIO 43023 Å740-321-1000 ÅFAX 740-321 -11 00

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Home Loan Financial Corporation
Coshocton, Ohio

## Report on Financial Statements

We have audited the accompanying consolidated financial statements of Home Loan Financial Corporation, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the 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 accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Loan Financial Corporation as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Dixon, Davis, Bagent & Co.*

Dixon, Davis, Bagent & Company

Granville, Ohio
August 28, 2020

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from financial institutions | $ 10,192,481 | $ 3,303,569 |
| Interest-bearing deposits in other financial institutions | 24,349,578 | 104,348 |
| Total cash and cash equivalents | 34,542,059 | 3,407,917 |
| Interest bearing time deposits | 1,100,000 | 850,000 |
| Securities available for sale | 4,021,597 | 3,502,312 |
| Federal Home Loan Bank stock | 2,513,400 | 2,513,400 |
| Loans held for sale | - | 460,000 |
| Loans, net of allowance of $2,154,414 and $2,175,309 in 2020 and 2019 | 192,252,086 | 194,165,691 |
| Premises and equipment, net | 2,518,662 | 2,543,684 |
| Accrued interest receivable | 625,260 | 724,868 |
| Bank owned life insurance | 5,225,001 | 5,081,501 |
| Other Real Estate Owned | 517,103 | 280,529 |
| Other assets | 1,355,229 | 1,192,266 |
| Total assets | $ 244,670,397 | $ 214,722,168 |
| **LIABILITIES** | | |
| Deposits | $ 206,604,897 | $ 174,950,253 |
| Federal Home Loan Bank advances | 5,399,830 | 8,569,882 |
| Accrued interest payable | 459,916 | 395,171 |
| Accrued expenses and other liabilities | 1,562,674 | 1,431,374 |
| Total liabilities | 214,027,317 | 185,346,680 |
| **SHAREHOLDERS' EQUITY** | | |
| Preferred stock, no par value, 500,000 shares authorized, none outstanding | - | - |
| Common stock, no par value, 9,500,000 shares authorized, 2,248,250 shares issued | - | - |
| Additional paid-in capital | 15,076,631 | 15,058,031 |
| Retained earnings | 26,522,062 | 25,284,110 |
| Treasury stock, at cost, 848,545 and 849,345 shares in 2020 and 2019 | (10,974,218) | (10,974,218) |
| Accumulated other comprehensive income (loss) | 18,605 | 7,565 |
| Total shareholdersôequity | 30,643,080 | 29,375,488 |
| Total liabilities and shareholdersôequity | $ 244,670,397 | $ 214,722,168 |

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Interest income | | |
| Loans, including fees | $ 10,779,913 | 10,701,691 |
| Taxable securities | 78,539 | 71,155 |
| Dividends on Federal Home Loan Bank stock and other | 181,213 | 179,396 |
| Total interest income | 11,039,665 | 10,952,242 |
| | | |
| Interest expense | | |
| Deposits | 1,838,389 | 1,362,694 |
| Federal Home Loan Bank advances | 131,610 | 288,210 |
| Total interest expense | 1,969,999 | 1,650,904 |
| | | |
| Net interest income | 9,069,666 | 9,301,338 |
| Provision for loan losses | 785,000 | 676,000 |
| Net interest income after provision for loan losses | 8,284,666 | 8,625,338 |
| | | |
| Noninterest income | | |
| Service charges and other fees | 671,389 | 677,681 |
| Net gains on sales of loans | 483,529 | 193,315 |
| Earnings from Coshocton County Title Agency | 85,987 | 87,248 |
| Bank owned life insurance | 143,500 | 140,500 |
| Other | 297,174 | 257,463 |
| Total noninterest income | 1,681,579 | 1,356,207 |
| | | |
| Noninterest expense | | |
| Salaries and employee benefits | 3,391,137 | 3,240,101 |
| Occupancy and equipment | 402,861 | 350,279 |
| State franchise taxes | 209,296 | 197,436 |
| Computer processing | 521,118 | 564,722 |
| Professional services | 243,473 | 225,401 |
| Director fees | 158,960 | 154,160 |
| Federal deposit insurance | 0 | 56,865 |
| Other | 658,849 | 593,495 |
| Total noninterest expense | 5,585,693 | 5,382,459 |
| | | |
| Income before income taxes | 4,380,552 | 4,599,086 |
| Income tax expense | 789,752 | 857,771 |
| | | |
| Net income | $ 3,590,800 | $ 3,741,315 |
| | | |
| Basic and diluted earnings per common share | $ 2.57 | $ 2.67 |

See accompanying notes to consolidated financial statements.

| | 2020 | 2019 |
|---|---|---|
| Net income | $ 3,590,800 | $ 3,741,315 |
| Other comprehensive income (loss) | | |
| Unrealized holding gains (loss) on securities available for sale | 13,975 | 53,121 |
| Tax effect | (2,935) | (11,155) |
| Total other comprehensive income (loss) | 11,040 | 41,966 |
| Comprehensive income | $ 3,601,840 | $ 3,783,281 |

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERSôEQUITY
Years ended June 30, 2020 and 2019

| | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| Balance at July 1, 2019 | $ 15,058,031 | $ 25,284,110 | $ (10,974,218) | $ 7,565 | $ 29,375,488 |
| Net income | - | 3,590,800 | - | - | 3,590,800 |
| Cash dividend - $1.68 per share | - | (2,352,848) | - | - | (2,352,848) |
| Compensation expense related to restricted stock awards | 18,600 | - | - | - | 18,600 |
| Other comprehensive loss | - | - | - | 11,040 | 11,040 |
| Balance at June 30, 2020 | $ 15,076,631 | $ 26,522,062 | $ (10,974,218) | $ 18,605 | $ 30,643,080 |

(Continued)

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERSôEQUITY (CONTINUED)
Years ended June 30, 2020 and 2019

| | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|
| Balance at July 1, 2018 | $ 15,039,431 | $ 23,727,584 | $ (10,974,218) | $ (34,401) | $ 27,758,396 |
| Net income | - | 3,741,315 | - | - | 3,741,315 |
| Cash dividend - $1.56 per share | - | (2,184,789) | - | - | (2,184,789) |
| Compensation expense related to restricted stock awards | 18,600 | - | - | - | 18,600 |
| Other comprehensive loss | - | - | - | 41,966 | 41,966 |
| Balance at June 30, 2019 | $ 15,058,031 | $ 25,284,110 | $ (10,974,218) | $ 7,565 | $ 29,375,488 |

See accompanying notes to consolidated financial statements.

HOME LOAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 3,590,800 | $ 3,741,315 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 143,175 | 115,773 |
| Securities amortization, net | (6,128) | 4,132 |
| Interest bearing time deposit accretion | - | - |
| Provision for loan losses | 785,000 | 676,000 |
| Originations of loans held for sale | (14,819,622) | (6,818,496) |
| Proceeds from sales of loans held for sale | 15,763,152 | 6,713,311 |
| Net gains on sale of loans | (483,530) | (193,315) |
| Net (gain) loss on disposition or write down of other real estate owned | 8,302 | 26,916 |
| Increase in cash surrender value of bank owned life insurance | (143,500) | (140,500) |
| Compensation expense related to restricted stock awards | 18,600 | 18,600 |
| Deferred taxes | (18,108) | (18,651) |
| Net change in: | | |
| Accrued interest receivable and other assets | (162,955) | 254,914 |
| Accrued expenses and other liabilities | 295,653 | 235,356 |
| Deferred loan fees | (1,827) | (3,965) |
| Net cash from operating activities | 4,969,012 | 4,611,390 |
| Cash flows from investing activities | | |
| Securities available for sale: | | |
| Proceeds from maturities | 3,000,000 | 500,000 |
| Purchases | (3,750,000) | (750,000) |
| Interest bearing time deposits: | | |
| Purchases | - | (500,000) |
| Proceeds from maturities | - | 500,000 |
| Net change in loans | 686,957 | (8,717,944) |
| Net purchases of premises and equipment | (100,045) | (158,665) |
| Proceeds from sale of other real estate owned | 196,474 | 107,184 |
| Net cash used in investing activities | 33,386 | (9,019,424) |
| Cash flows from financing activities | | |
| Net change in deposits | 31,654,643 | 13,863,416 |
| Net change in short-term FHLB advances | (2,400,000) | (7,700,000) |
| Proceeds from long term FHLB advances | - | 2,000,000 |
| Maturities and repayments of long-term FHLB advances | (770,051) | (879,041) |
| Cash dividends paid | (2,352,848) | (2,184,789) |
| Net cash from financing activities | 26,131,744 | 5,099,586 |
| Net change in cash and cash equivalents | 31,134,142 | 691,552 |
| Cash and cash equivalents at beginning of year | 3,407,917 | 2,716,364 |
| Cash and cash equivalents at end of year | $ 34,542,059 | $ 3,407,917 |

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Supplemental Information | | |
| Cash paid for interest | 1,905,254 | 1,497,785 |
| Cash paid for taxes | 800,000 | 575,000 |
| | | |
| Supplemental non-cash disclosures: | | |
| Loan provided for sale of premises | - | - |
| Transfer from loans to other real estate | - | - |

See accompanying notes to consolidated financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of Home Loan Financial Corporation (“HLFN”) and its wholly-owned subsidiaries, The Home Loan Savings Bank (“Bank”), a state chartered savings bank, and Home Loan Financial Services, Inc., an Ohio corporation providing insurance and investment services. HLFN also owns a 49% interest in Coshocton County Title Agency, LLC which is accounted for under the equity method of accounting. These entities are together referred to as the Corporation. Intercompany accounts and transactions have been eliminated in consolidation.

The Corporation provides financial services through its main and branch offices in Coshocton, Ohio and branch offices in West Lafayette and Mount Vernon, Ohio. The Corporation’s primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential mortgage, nonresidential mortgage, residential construction and land, commercial and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Substantially all revenues are derived from financial institution products and services where the branches are located and their contiguous areas. There are no significant concentrations of loans to any one industry or customer. However, the customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the area. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through August 28, 2020, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and due from banks, overnight deposits and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, and short-term borrowings with original maturities of 90 days or less.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions are carried at amortized cost.

Securities: Securities are classified as held to maturity and are carried at amortized cost when management has the intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold prior to maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (ñOTTIò) at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement; and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

<u>Federal Home Loan Bank (ñFHLBò) Stock</u>: The Bank is a member of the FHLB system. Members are required to own a minimum amount of stock based on the level of borrowings and other factors. FHLB stock is carried at cost, is classified as a restricted security, and is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

<u>Loans Held for Sale</u>: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and are charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

<u>Loans</u>: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and an allowance for loan losses.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Interest income on all loan portfolio segments is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

<u>Allowance for Loan Losses</u>: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession and for which the borrower is experiencing financial difficulties are considered troubled debt restructurings and are classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on 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.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The general component of the allowance covers non-impaired loans and loans collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent five years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified.

*Residential Real Estate Loans.* Residential mortgage loans represent loans to consumers for the purchase, refinance or improvement of a residence. These loans include 1-4 family first and second mortgages, multi-family mortgages and home equity lines of credit. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values may impact the severity of losses. Factors considered by management include unemployment levels and residential real estate values in the Corporation's market area.

*Nonresidential Real Estate Loans*. Nonresidential real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and property types. Management specifically considers vacancy rates for office and industrial properties in its market area, as well as real estate values and, to a lesser extent, unemployment and energy prices.

*Real Estate Construction and Land Loans.* The Corporation originates loans for the construction of single-family residential real estate and commercial real estate. During the first six months of the loan, while the improvements are being constructed, the borrower is required to pay interest only. Single-family residential construction loans are structured as permanent loans with adjustable rates of interest and terms of up to 30 years. Interest rates on commercial real estate construction loans are generally tied to the Wall Street Journal prime rate. Construction loans have loan-to-value ratios ("LTVs") of up to 80%, with the value of the land counting as part of the borrower's equity. Construction loans generally involve greater underwriting and default risks than do loans secured by mortgages on existing properties because construction loans are more difficult to evaluate and monitor. Loan funds are advanced upon the security of the project under construction, which is more difficult to value before the completion of construction because of the uncertainties inherent in estimating construction costs. In the event a default on a construction loan occurs and a foreclosure follows, the Corporation must take control of the project and attempt either to arrange for completion of construction or to dispose of the unfinished project. The Corporation also originates loans secured by land, some of which is purchased for the construction of single-family houses. The Corporation's land loans are generally adjustable-rate loans for terms of up to 15 years and require an LTV of 75% or less.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Commercial Loans*. Commercial credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. These loans are generally underwritten individually and are secured with the assets of the business and the personal guarantee of the business owners. Commercial business loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrower. Management specifically considers unemployment, energy prices and, to a lesser extent, real estate values and vacancies in the Corporation's market area.

*Consumer Loans*. Consumer loans are primarily comprised of loans made directly to consumers. These loans are underwritten based on several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship with the borrower. Unemployment rates and energy prices are specifically considered by management.

<u>Other Real Estate Owned</u>: Assets acquired through or instead of loan foreclosures are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Any reduction to fair value from the carrying value of the related loan at the time the property is acquired is accounted for as a loan charge-off. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. After acquisition, if fair value declines, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

<u>Premises and Equipment</u>: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 50 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense as incurred.

<u>Servicing Assets</u>: When mortgage loans are sold, servicing assets are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing assets to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Servicing assets are evaluated for impairment based upon the fair value of the assets as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing assets are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income for servicing loans is reported in other noninterest income in the consolidated statements of income and is based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing assets is netted against loan servicing fee income. Mortgage servicing assets at June 30, 2020 and 2019 totaled $206,755 and $127,766, respectively, and are included in other assets on the consolidated balance sheets. Loans serviced for others totaled $42,344,000 and $34,216,000 at June 30, 2020 and 2019, respectively.

Bank Owned Life Insurance: The Corporation has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes: Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is ñmore likely than notò that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the ñmore likely than notò test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Employee Stock Ownership Plan: All shares in the Employee Stock Ownership Plan (ñESOPò) have been allocated to plan participants. Participants receive the shares allocated to them upon the end of their employment. When a participantôs employment terminates, the participant may require stock to be repurchased by the Corporation unless the stock is traded on an established market. The fair value of allocated shares subject to a repurchase obligation totaled $7,101,151 and $8,445,325 at June 30, 2020 and 2019, respectively. No shares were allocated during the years ended June 30, 2020 and 2019. Total allocated shares at June 30, 2020 and 2019 were 239,096 and 241,295, respectively.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Stock Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity, net of tax.

Earnings per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Recognition and Retention Plan ("RRP") shares are considered outstanding as they become vested. Diluted earnings per common share include the dilutive effect of RRP shares and additional potential common shares issuable under stock options.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there are currently any such matters that will have a material effect on the financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to HLFN or by HLFN to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Reclassifications of certain amounts in the 2019 consolidated financial statements have been made to conform to the 2020 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

(Continued)

**NOTE 2 – SECURITIES**

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows.

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| June 30, 2020 | | | | |
| Securities available for sale | | | | |
| U.S. Government agencies | $ 3,998,046 | $ 24,066 | $ (515) | $ 4,021,597 |
| June 30, 2019 | | | | |
| Securities available for sale | | | | |
| U.S. Government agencies | $ 3,492,736 | $ 9,576 | $ - | $ 3,502,312 |

There were no sales of securities in 2020 and 2019.

Contractual maturities of securities available for sale at year end 2020 were as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 2,498,046 | $ 2,521,337 |
| Due after one year through five years | 1,500,000 | 1,500,260 |
| | $ 3,998,046 | $ 4,021,597 |

At June 30, 2020 and 2019, securities with a carrying value of $776,245 and $769,330, respectively, were pledged to secure public funds.

**NOTE 2 – SECURITIES** (Continued)

Securities with unrealized losses at year end 2020 and 2019 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows.

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| 2020 | | | | | | |
| U.S. government agencies | $ - | $ - | $ 919,485 | $ (515) | $ 919,485 | $ (515) |
| 2019 | | | | | | |
| U.S. government agencies | $ - | $ - | $ - | $ - | $ - | $ - |

Unrealized losses on securities have not been recognized into income because the issuersôsecurities are of high credit quality, management does not intend to sell and it is not more likely than not that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity dates.

**NOTE 3 – LOANS**

Year-end loans were as follows.

| | 2020 | 2019 |
|---|---|---|
| Residential real estate loans: | | |
| 1 - 4 family | $ 89,021,734 | $ 92,719,672 |
| Multi-family dwelling units | 551,509 | 721,680 |
| Home equity | 10,782,208 | 9,956,854 |
| Nonresidential real estate | 39,807,359 | 42,134,379 |
| Real estate construction and land | 12,790,040 | 10,429,641 |
| Commercial | 34,788,062 | 34,398.364 |
| Consumer loans | 6,368,733 | 6,115,462 |
| Total loans | 194,109,645 | 196,476,052 |
| Less: | | |
| Allowance for loan losses | (1,845,689) | (2,296,664) |
| Net deferred loan fees | (11,870) | (13,697) |
| | $ 192,252,086 | $ 194,165,691 |

Certain directors, executive officers and companies with which they are affiliated were loan customers of the Corporation. Balances with these parties totaled $2,717,117 at June 30, 2020 and $3,114,576 at June 30, 2019.

(Continued)

**NOTE 3 – LOANS** (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending of June 30, 2020 and 2019:

| June 30, 2020 | Residential Real Estate | Nonresidential Real Estate | Real Estate Construction and Land | Commercial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 1,012,973 | $ 363,672 | $ 5,210 | $ 439,089 | $ 35,553 | $ 440,167 | $ 2,296,664 |
| Provision of loans losses | 63,753 | 206,336 | 19,986 | 1,042,160 | 9,098 | (556,333) | 785,000 |
| Loans charged-off | (153,270) | (203,018) | (15,075) | (875,100) | (21,301) | - | (1,267,764) |
| Recoveries | 13,674 | - | - | 7,100 | 11,015 | - | 31,789 |
| Total ending allowance balance | $ 937,130 | $ 366,990 | $ 10,121 | $ 613,249 | $ 34,365 | $ (116,166) | $ 1,845,689 |

| June 30, 2019 | Residential Real Estate | Nonresidential Real Estate | Real Estate Construction and Land | Commercial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 1,052,800 | $ 443,809 | $ 4,390 | $ 448,596 | $ 38,841 | $ 165,978 | $ 2,154,414 |
| Provision of loans losses | 120,104 | 320,043 | 820 | (32,467) | (6,689) | 274,189 | 676,000 |
| Loans charged-off | (213,635) | (400,180) | - | - | (17,140) | - | (630,955) |
| Recoveries | 53,704 | - | - | 22,960 | 20,541 | - | 97,205 |
| Total ending allowance balance | $ 1,012,973 | $ 363,672 | $ 5,210 | $ 439,089 | $ 35,553 | $ 440,167 | $ 2,296,664 |

(Continued)

**NOTE 3 - LOANS** (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2020 and 2019. The recorded investment includes accrued interest receivable and net deferred loan costs.

| June 30, 2020 | Residential Real Estate | Nonresidential Real Estate | Real Estate Construction and Land | Commercial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | 937,130 | 366,990 | 10,121 | 613,249 | 34,365 | (116,166) | 1,845,689 |
| Total ending allowance balance | $ 937,130 | $ 366,990 | $ 10,121 | $ 613,249 | $ 34,365 | $ (116,166) | $ 1,845,689 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | $ 815,538 | $ - | $ 958,601 | $ 320,014 | $ - | $ - | $ 2,094,153 |
| Loans collectively evaluated for impairment | 99,773,361 | 39,982,167 | 11,859,382 | 34,602,609 | 6,394,515 | - | 192,612,034 |
| Total ending loans balance | $100,588,899 | $ 39,982,167 | $ 12,817,983 | $ 34,922,623 | $ 6,394,515 | $ - | $ 194,706,187 |

| June 30, 2019 | Residential Real Estate | Nonresidential Real Estate | Real Estate Construction and Land | Commercial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | 1,012,973 | 363,672 | 5,210 | 439,089 | 35,553 | 440,167 | 2,296,664 |
| Total ending allowance balance | $ 1,012,973 | $ 363,672 | $ 5,210 | $ 439,089 | $ 35,553 | $ 440,167 | $ 2,296,664 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | $ 871,515 | $ 2,186,637 | $ 10,769 | $ 146,415 | $ - | $ - | $ 3,215,336 |
| Loans collectively evaluated for impairment | 102,833,502 | 40,153,197 | 10,448,933 | 34,375,800 | 6,143,542 | - | 193,954,974 |
| Total ending loans balance | $103,705,017 | $ 42,339,834 | $ 10,459,702 | $ 34,522,215 | $ 6,143,542 | $ - | $ 197,170,310 |

(Continued)

**NOTE 3 – LOANS** (Continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the year ended June 30, 2020 and 2019:

| June 30, 2020 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized | Cash-Basis Interest Recognized |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Residential real estate | | | | | | |
| 1-4 family | $ 813,093 | $ 815,538 | $ - | $ 938,505 | $ 31,818 | $ 29,373 |
| Multi- family dwelling units | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Nonresidential real estate | | | - | 871,142 | - | - |
| Real estate construction and land | 958,601 | 958,601 | - | 961,288 | - | - |
| Commercial | 319,670 | 320,014 | - | 1,174,945 | 7,706 | 7,362 |
| Consumer loans | - | - | - | - | - | - |
| Subtotal | 2,091,364 | 2,094,153 | - | 3,945,880 | 39,524 | 36,735 |
| With an allowance recorded: | | | | | | |
| Residential real estate | | | | | | |
| 1-4 family | $ - | $ - | $ - | $ - | $ - | $ - |
| Multi- family dwelling units | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Nonresidential real estate | - | - | - | - | - | - |
| Real estate construction and land | - | - | - | - | - | - |
| Commercial | - | - | - | - | - | - |
| Consumer loans | - | - | - | - | - | - |
| Subtotal | - | - | - | - | - | - |
| Total | $ 2,091,364 | $ 2,094,153 | $ - | $ 3,945,880 | $ 39,524 | $ 36,735 |

(Continued)

**NOTE 3 – LOANS** (Continued)

| June 30, 2019 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized | Cash-Basis Interest Recognized |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Residential real estate | | | | | | |
| 1-4 family | $ 869,395 | $ 871,515 | $ - | $ 996,402 | $ 32,914 | $ 30,626 |
| Multi- family dwelling units | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Nonresidential real estate | 2,186,573 | 2,186,637 | - | 2,655,677 | 1,809 | 1,744 |
| Real estate construction and land | 10,649 | 10,769 | - | 39,552 | 2,383 | 2,192 |
| Commercial | 145,707 | 146,415 | - | 154,636 | 10,762 | 10,054 |
| Consumer loans | - | - | - | - | - | - |
| Subtotal | 3,212,324 | 3,215,336 | - | 3,846,267 | 47,868 | 44,616 |
| With an allowance recorded: | | | | | | |
| Residential real estate | | | | | | |
| 1-4 family | $ - | $ - | $ - | $ - | $ - | $ - |
| Multi- family dwelling units | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Nonresidential real estate | - | - | - | - | - | - |
| Real estate construction and land | - | - | - | - | - | - |
| Commercial | - | - | - | - | - | - |
| Consumer loans | - | - | - | - | - | - |
| Subtotal | - | - | - | - | - | - |
| Total | $ 3,212,324 | $ 3,215,336 | $ - | $ 3,846,267 | $ 47,868 | $ 44,616 |

(Continued)

**NOTE 3 – LOANS** (Continued)

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

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2020 and 2019:

| | Nonaccrual | | Loans Past Due Over 90 Days Still Accruing | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Residential real estate loans: | | | | |
| 1-4 family | $ 227,964 | $ 268,032 | $ 465,141 | $ 706,146 |
| Multi-family dwelling units | - | - | - | - |
| Home equity | - | - | 26,003 | - |
| Nonresidential real estate | - | 683,000 | - | 3,637 |
| Real estate construction and land | 958,590 | - | - | 10,912 |
| Commercial | 120,826 | 1,500,000 | - | 146,415 |
| Consumer loans | - | - | - | - |
| Total | $ 1,307,380 | $ 2,451,032 | $ 491,144 | $ 867,110 |

The following table presents the aging of the recorded investment in past due loans as of June 30, 2020 and 2019 by class of loans:

| | 31 - 60 Days Past Due | 61 - 90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| June 30, 2020 | | | | | | |
| Residential real estate | | | | | | |
| 1-4 family | $ 125,324 | $ 280,618 | $ 465,141 | $ 871,083 | $ 88,336,095 | $ 89,207,178 |
| Multi- family dwelling units | 50,086 | - | - | 50,086 | 503,204 | 553,290 |
| Home equity | - | - | 26,003 | 26,003 | 10,802,428 | 10,828,431 |
| Nonresidential real estate | 44,453 | - | - | 44,453 | 39,937,714 | 39,982,167 |
| Real estate construction and land | - | - | - | - | 12,817,983 | 12,817,983 |
| Commercial | - | - | - | - | 34,922,623 | 34,922,623 |
| Consumer loans | - | - | - | - | 6,394,515 | 6,394,515 |
| Total | $ 219,863 | $ 280,618 | $ 491,144 | $ 991,625 | $ 193,714,562 | $ 194,706,187 |

| | 31 - 60 Days Past Due | 61 - 90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| June 30, 2019 | | | | | | |
| Residential real estate | | | | | | |
| 1-4 family | $ 1,365,330 | $ 330,137 | $ 974,178 | $ 2,669,645 | $ 90,293,316 | $ 92,962,961 |
| Multi- family dwelling units | - | - | - | - | 734,317 | 734,317 |
| Home equity | 37,887 | - | - | 37,887 | 9,969,852 | 10,007,739 |
| Nonresidential real estate | - | - | 3,637 | 3,637 | 42,336,197 | 42,339,834 |
| Real estate construction and land | 969,714 | - | 10,912 | 980,626 | 9,479,076 | 10,459,702 |
| Commercial | 2,952,052 | 65,025 | 146,415 | 3,163,492 | 31,358,723 | 34,522,215 |
| Consumer loans | 50,336 | 192 | - | 50,528 | 6,093,014 | 6,143,542 |
| Total | $ 5,375,319 | $ 395,354 | $ 1,135,142 | $ 6,905,815 | $ 190,264,495 | $ 197,170,310 |

(Continued)

**NOTE 3 – LOANS** (Continued)

**Troubled Debt Restructurings:**

Impaired loans at June 30, 2020 and 2019 include $692,690 and $761,460 of loans to customers whose loan terms have been modified in troubled debt restructurings, respectively.

The Corporation has allocated no specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2020 and 2019. As a practical expedient, specific reserves on impaired loans have been determined based upon fair value of collateral. The Corporation has not committed to lend any additional amounts as of June 30, 2020 or 2019 to customers with outstanding loans that are classified as troubled debt restructurings.

There were no new loans modified as troubled debt restructurings during the years ended June 30, 2020 or June 30, 2019.

**Credit Quality Indicators:**

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans by credit risk. This analysis includes loans with an outstanding balance greater than $250,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The Corporation uses the following definitions for risk ratings:

**Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

(Continued)

**NOTE 3 – LOANS** (Continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $250,000 or are included in groups of homogeneous loans. As of June 30, 2020 and 2019, and based on the most recent analysis performed, the risk category of loans by class of loans was as follows:

| June 30, 2020 | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total |
|---|---|---|---|---|---|---|
| Residential real estate loans: | | | | | | |
| 1 ï 4 family | $ 27,334,991 | $ 3,856,676 | $ 762,639 | $ - | $ 57,252,872 | $ 89,207,178 |
| Multi-family dwelling units | 500,644 | 52,646 | - | - | - | 553,290 |
| Home equity | 4,650,514 | - | - | - | 6,177,917 | 10,828,431 |
| Nonresidential real estate | 35,222,908 | 4,454,258 | 305,001 | - | - | 39,982,167 |
| Real estate construction and land | 7,634,517 | 47,977 | 1,005,208 | - | 4,130,281 | 12,817,983 |
| Commercial | 33,623,074 | 879,463 | 420,086 | - | - | 34,922,623 |
| Consumer loans | 796 | - | - | - | 6,393,719 | 6,394,515 |
| Total | $ 108,967,444 | $ 9,291,020 | $ 2,492,934 | $ - | $ 73,954,789 | $ 194,706,187 |

| June 30, 2019 | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total |
|---|---|---|---|---|---|---|
| Residential real estate loans: | | | | | | |
| 1 ï 4 family | $ 31,711,156 | $ 1,393,440 | $ 1,509,016 | $ - | $ 58,349,349 | $ 92,962,961 |
| Multi-family dwelling units | 734,317 | - | - | - | - | 734,317 |
| Home equity | 3,839,327 | 181,361 | - | - | 5,987,051 | 10,007,739 |
| Nonresidential real estate | 39,030,459 | 2,294,073 | 924,771 | - | 90,531 | 42,339,834 |
| Real estate construction and land | 5,663,058 | 1,161,964 | - | - | 3,634,680 | 10,459,702 |
| Commercial | 28,792,751 | 1,533,597 | 3,099,032 | - | 1,096,835 | 34,522,215 |
| Consumer loans | - | - | - | - | 6,143,542 | 6,143,542 |
| Total | $ 109,771,068 | $ 6,564,435 | $ 5,532,819 | $ - | $ 75,301,988 | $ 197,170,310 |

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes that are less than $250,000 and not rated, the Corporation also evaluates credit quality based on the performing status of the loan. Nonperforming loans includes loans on nonaccrual and loans past due 90 days or more still accruing interest. The following table presents the recorded investment in residential and consumer loans based on performing status as of June 30, 2020 and 2019.

| | | Residential Real Estate | | |
|---|---|---|---|---|
| June 30, 2020 | Consumer Loans | 1-4 Family | Multi-Family | Home Equity |
| Nonperforming | $ - | $ 693,105 | $ - | $ 26,003 |
| Performing | 6,394,515 | 88,514,073 | 553,290 | 10,802,428 |
| Total | $ 6,394,515 | $ 89,207,178 | $ 553,290 | $ 10,828,431 |

**NOTE 3 – LOANS** (Continued)

| June 30, 2019 | Consumer Loans | Residential Real Estate: 1-4 Family | Residential Real Estate: Multi-Family | Residential Real Estate: Home Equity |
|---|---|---|---|---|
| Nonperforming | $ - | $ 974,178 | $ - | $ - |
| Performing | 6,143,542 | 91,988,783 | 734,317 | 10,007,739 |
| Total | $ 6,143,542 | $ 92,962,961 | $ 734,317 | $ 10,007,739 |

**NOTE 4 – ACCRUED INTEREST RECEIVABLE**

Year-end accrued interest receivable was as follows.

| | 2020 | 2019 |
|---|---|---|
| Loans | $ 608,411 | $ 707,954 |
| Securities | 16,849 | 16,914 |
| | $ 625,260 | $ 724,868 |

**NOTE 5 – PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows.

| | 2020 | 2019 |
|---|---|---|
| Land | $ 776,489 | $ 776,489 |
| Buildings and improvements | 2,683,007 | 2,681,507 |
| Furniture and equipment | 1,991,548 | 1,911,112 |
| Total cost | 5,451,044 | 5,369,108 |
| Accumulated depreciation | (2,932,382) | (2,825,424) |
| | $ 2,518,662 | $ 2,543,684 |

**NOTE 6 – DEPOSITS**

Year-end deposits consisted of the following.

| | 2020 | 2019 |
|---|---|---|
| Noninterest-bearing demand deposits | $ 26,976,251 | $ 17,719,759 |
| NOW and money market accounts | 57,056,825 | 47,849,645 |
| Savings accounts | 45,754,467 | 38,436,646 |
| Certificates of deposit | 76,817,354 | 70,944,203 |
| | $ 206,604,897 | $ 174,950,253 |

The aggregate amounts of certificates of deposit with balances of $250,000 or more at June 30, 2020 and 2019 $6,333,907 and $4,946,083, respectively. At June 30, 2020 and 2019, the Corporation had $2,816,581 and $2,545,578 in Certificate of Deposit Account Registry Service program reciprocal deposits, respectively.

Deposits from principal officers, directors, and their affiliates at year-end 2020 and 2019 were $2,098,493 and $3,119,394, respectively.

At June 30, 2020, the scheduled maturities of certificates of deposit were as follows.

| | | |
|---|---|---|
| Year ending June 30, | 2021 | $ 33,567,331 |
| | 2022 | 22,376,502 |
| | 2023 | 9,202,803 |
| | 2024 | 5,476,805 |
| | 2025 | 5,495,155 |
| | Thereafter | 698,758 |
| | | $ 76,817,354 |

**NOTE 7 – FHLB ADVANCES AND OTHER BORROWINGS**

At June 30, 2020, the Bank had a cash management line of credit enabling it to borrow up to $25,000,000 from the FHLB of Cincinnati. The line of credit must be renewed on an annual basis. Outstanding borrowings were zero at June 30, 2020 and $2,400,000 at June 30, 2019. As a member of the FHLB system and based upon the Bank's current FHLB stock ownership, the Bank has the ability to obtain additional borrowings up to a total of $37,508,404, including the line of credit. In addition, the Bank has a letter of credit for public deposit collateralization with the FHLB in the amount of $2,000,000 as of June 30, 2020. Advances can be obtained up to the lower of 50% of the Bank's total assets or 74% of the Bank's pledgeable residential mortgage loan portfolio.

Advances under the borrowing agreements are collateralized by the Bank's FHLB stock, $45,376,194 of qualifying mortgage loans and $22,090,901 of qualifying commercial real estate loans. Fixed rate advances are payable at maturity and are subject to prepayment penalties if paid off prior to maturity. The interest rates on the convertible fixed-rate advances are fixed for a specified number of years, then convertible at the option of the FHLB. If the convertible option is exercised, the advance may be prepaid without penalty. Putable advances are callable at the option of the FHLB on a quarterly basis. Select pay mortgage-matched advances require monthly principal and interest payments and annual additional principal payments.

The Corporation also has available to it a $2,000,000 revolving line of credit with First Federal Community Bank. The revolving line matures on demand and is secured by shares of the Bank's stock. No amounts were outstanding under the line of credit at June 30, 2020 or 2019. The Corporation also has available to it a $5,000,000 unsecured overnight line available with United Bankers Bank, subject to terms of a Bilateral Federal Funds Agreement. This line is subject to review and the availability is not guaranteed. No amounts were outstanding under the line of credit at June 30, 2020 or 2019.

At year-end 2020 and 2019, advances from the FHLB were as follows.

| | Interest Rate Ranges at June 30, 2020 | 2020 | 2019 | Interest Rate Ranges at June 30, 2019 |
|---|---|---|---|---|
| Cash management advance | | $ - | $ 2,400,000 | 2.56% |
| Fixed rate advance, final maturity February 2024 | 2.77 % | 2,000,000 | 2,000,000 | 2.77% |
| Select payment mortgage matched advances, final maturities ranging from January 2020 to February 2032 for 2020 and 2019 | 1.12-5.50 % | 3,399,830 | 4,169,882 | 1.12-5.50% |
| | | $ 5,399,830 | $ 8,569,882 | |

(Continued)

**NOTE 7 ï FHLB ADVANCES AND OTHER BORROWINGS** (Continued)

At year-end 2020, the scheduled maturities of advances from the FHLB were as follows.

| | | |
|---|---|---|
| Year ended June 30, | 2021 | $ 641,637 |
| | 2022 | 504,015 |
| | 2023 | 417,933 |
| | 2024 | 2,331,590 |
| | 2025 | 300,339 |
| | thereafter | 1,204,316 |
| | | $ 5,399,830 |

## NOTE 8 – INCOME TAXES

Income tax expense was as follows.

| | 2020 | 2019 |
|---|---|---|
| Current tax expense | $ 738,420 | $ 877,650 |
| Deferred tax expense | 51,332 | (19,879) |
| | $ 789,752 | $ 857,771 |

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

| | 2020 | 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 387,595 | $ 482,300 |
| Deferred loan fees | 45,719 | 52,248 |
| Accrued benefits | 255,111 | 154,770 |
| Reserve for overdraft program losses | 100 | 367 |
| Nonaccrual loan interest | 1,940 | 15,414 |
| Unrealized loss on securities available for sale | - | 815 |
| Total deferred tax assets | 690,465 | 705,914 |
| | | |
| Deferred tax liabilities: | | |
| Depreciation | (58,114) | (46,343) |
| Unrealized gain on securities available for sale | (3,907) | - |
| FHLB stock | (242,794) | (242,794) |
| Mortgage servicing rights | (43,419) | (26,831) |
| Prepaid expenses | (22,543) | (21,483) |
| FHLB lender risk account | (39,025) | (26,964) |
| Earnings from Coshocton County Title Agency | (17,783) | (7,204) |
| Total deferred tax liabilities | (427,585) | (371,619) |
| | | |
| Net deferred tax asset | $ 262,880 | $ 334,295 |

(Continued)

**NOTE 8 – INCOME TAXES** (Continued)

Effective tax rates differ from the federal statutory rates applied to financial statement income before income taxes due to the following. The fiscal year ending June 30, 2020 was subject to a 21% tax rate. The fiscal year ending June 30, 2020 was subject to a blended federal tax rate.

| | 2020 | 2019 |
|---|---|---|
| Income taxes computed at the statutory tax rate on pretax income | $ 921,915 | $ 965,808 |
| Tax effect of: | | |
| Tax exempt interest | (2,758) | (3,233) |
| Bank owned life insurance | (30,135) | (29,505) |
| Deductible dividends on ESOP shares | (8,088) | (66,286) |
| Nondeductible expenses and other | (91,182) | (9,013) |
| | $ 789,752 | $ 857,771 |
| Effective tax rate | 18.0% | 18.7% |

The Corporation has not recorded a deferred tax liability of approximately $526,000 related to approximately $1,548,000 of cumulative special bad debt deductions included in retained earnings and arising prior to June 30, 1988, the end of the Bank's base year for purposes of calculating bad debt deductions for tax purposes. If this portion of retained earnings is used in the future for any purpose other than to absorb bad debts, it will be added to future taxable income.

The Corporation and its subsidiaries are subject to U.S. federal income tax. There were no penalties or interest recorded in the income statement for the years ended June 30, 2020 or 2019 and no amounts accrued for penalties and interest as of June 30, 2020 or 2019. There were no unrecognized tax benefits as of June 30, 2020 or 2019. The Corporation is no longer subject to examination by taxing authorities for years prior to 2015.

**NOTE 9 – BENEFIT PLANS**

The Corporation has a profit-sharing plan covering officers of the Corporation. Annual awards are based upon pre-established performance criteria of the Corporation and the individual officers. Awards are discretionary. The plan's expense amounted to $359,708 and $429,543 for the years ended June 30, 2020 and 2019, respectively.

The Corporation also sponsors a 401(k) benefit plan covering its eligible employees. The Corporation makes matching contributions equal to 100% of participants' contributions up to 3% of compensation and 50% of participants' contributions up to the next 2% of compensation. Additional employer nonmatching contributions may be made at the discretion of the Board of Directors and are allocated based on compensation. Employee 401(k) contributions are vested at all times. Employer matching contributions are vested after three years of service. The 2020 and 2019 expense, related to this plan were $85,970 and $81,318, respectively.

**NOTE 9 – BENEFIT PLANS** (Continued)

In June 2012, the Corporation began providing a supplemental retirement plan for certain executive officers of the Corporation. Participants receive a fixed benefit amount in monthly installments for ten years after the normal retirement age of 65. The agreement with the participants provides for early distributions in the event of death, normal disability or a change of control. Expenses related to this plan were $148,800 in 2020 and $53,600 in 2019. The supplemental retirement plan liability at June 30, 2020 and 2019 was $439,610 and $290,810, respectively and is included in accrued expenses and other liabilities.

**NOTE 10 – STOCK BASED COMPENSATION**

The Corporation's Recognition and Retention Plan ("RRP") provides for the issuance of shares to directors and officers. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The fair value of the stock was determined using the quoted price of $23.25 on the January 1, 2016 date of grant. RRP shares vest ratably (20%) on each anniversary of the grant date for five years. Total remaining shares issuable under the plan are 3,163 at fiscal year-end 2020.

A summary of the changes in the Corporation's nonvested shares for the fiscal year follows:

| Nonvested Shares | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at June 30, 2019 | 1,600 | $ 23.25 |
| Granted | - | - |
| Vested | (800) | 23.25 |
| Nonvested at June 30, 2020 | 800 | $ 23.25 |

As of June 30, 2020, there was $9,300 of total unrecognized compensation cost related to nonvested shares granted under the RRP. The cost is expected to be recognized over a weighted-average period of 2.5 years. The total fair value of shares vested during the years ended June 30, 2020 and 2019 was $28,800 and $24,200, respectively.

**NOTE 11 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and they generally include expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

(Continued)

**NOTE 11 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES** (Continued)

The contractual amount of financial instruments with off-balance sheet risk at year-end follows.

| | 2020 | 2019 |
|---|---|---|
| Home equity lines of credit ï variable rate | $ 8,591,000 | $ 8,525,000 |
| 1-4 residential construction loan commitments | 1,368,000 | 1,890,000 |
| 1-4 family residential real estate ï variable rate | 1,630,000 | 3,045,000 |
| 1-4 family residential real estate ï fixed rate | 5,017,000 | 1,165,000 |
| Land ï variable rate | - | - |
| Commercial lines of credit ï variable rate | 12,441,000 | 8,342,000 |
| All other unused commitments | 4,653,000 | 3,023,000 |
| Overdraft protection | 2,059,000 | 2,060,000 |
| Standby letters of credit | 155,000 | 991,500 |

The Bank has entered into employment agreements with two officers of HLFN and the Bank. Both agreements provide for a term of three years beginning in 2020. Both agreements provide for annual salary and performance reviews by the Board of Directors, as well as inclusion of the employee in any formally established employee benefit, bonus, pension and profit-sharing plans for which senior management personnel are eligible. Following expiration of the initial three-year term, the agreements provide for one-year extensions on each anniversary date, subject to review and approval of the extension by disinterested members of the Board of Directors of the Bank. The employment agreements provide for vacation and sick leave in accordance with the Bank's prevailing policies and include change of control provisions.

**NOTE 12 – REGULATORY MATTERS**

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and the regulatory framework for prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (the "Basel III Rules") became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year period ending January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes that as of June 30, 2020 and 2019, the Bank had met all capital adequacy requirements to which it was subject.

Prompt corrective actions regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions, asset growth and expansion by the Bank are limited, and capital restoration plans are required. At fiscal year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized. Since the date of the most recent

(Continued)

**NOTE 12 – REGULATORY MATTERS** (Continued)

regulatory notification, no event has occurred or circumstance exists that management believes would have affected the Bank's categorization as being well capitalized.

The implementation of the capital conservation buffer under the Basel III Capital Rules began on January 1, 2016 at the 0.625% level and phases in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The current conservation buffer is 2.50% at June 30, 2020. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank. The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

At fiscal year-end 2020 and 2019, the Bank's actual capital levels and minimum required levels were as follows.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Regulations | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| June 30, 2020 | | | | | | |
| Total capital (to risk-weighted assets) | $ 27,884 | 15.8% | $ 14,095 | 8.0% | $ 17,618 | 10.0% |
| Tier 1 (core) capital (to risk-weighted assets) | 26,038 | 14.8 | 10,571 | 6.0 | 14,095 | 8.0 |
| Common equity tier 1 capital | 26,038 | 14.8 | 7,928 | 4.5 | 11,452 | 6.5 |
| Tier 1 (core) capital (to average assets) | 26,038 | 10.6 | 9,798 | 4.0 | 12,247 | 5.0 |
| June 30, 2019 | | | | | | |
| Total capital (to risk-weighted assets) | $ 27,051 | 16.0% | $13,564 | 8.0% | $ 16,955 | 10.0% |
| Tier 1 (core) capital (to risk-weighted assets) | 24,929 | 14.7 | 10,173 | 6.0 | 13,564 | 8.0 |
| Common equity tier 1 capital | 24,929 | 14.7 | 7,630 | 4.5 | 11,021 | 6.5 |
| Tier 1 (core) capital (to average assets) | 24,929 | 11.7 | 8,539 | 4.0 | 10,673 | 5.0 |

(Continued)

**NOTE 12 – REGULATORY MATTERS** (Continued)

When the Bank converted from a mutual to a stock institution, a ñliquidation accountò was established at $10,579,000, which was net worth reported in the conversion prospectus. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, will receive a distribution from this account if the Bank is liquidated. Dividends may not reduce shareholdersô equity below the required liquidation account balance.

Banking regulations limit capital distributions by financial institutions. Generally, capital distributions are limited to the current year to date undistributed net income and prior two yearsô undistributed net income, as long as the institution remains well capitalized after the proposed distribution. During the remainder of calendar 2020, the Bank could without prior approval declare dividends of $2,084,000 plus any retained net profits for the period from July 1, 2020 through December 31, 2020.

## NOTE 13 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to measure fair values.

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, a member of the Lending Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10-20% should be applied to properties appraised values.

(Continued)

**NOTE 13 – FAIR VALUE** (Continued)

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

| | | Fair Value Measurements at June 30, 2020 Using: | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment securities available for sale | | | | |
| U.S. Government agencies | $ 4,021,597 | $ - | $ 4,021,597 | $ - |

| | | Fair Value Measurements at June 30, 2019 Using: | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment securities available for sale | | | | |
| U.S. Government agencies | $ 3,502,312 | $ - | $ 3,502,312 | $ - |

(Continued)

**NOTE 13 – FAIR VALUE** (Continued)

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

| | | Fair Value Measurements at June 30, 2020 Using: | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Other real estate owned: | | | | |
| Residential real estate | $ 517,103 | $ - | $ - | $ 517,103 |

| | | Fair Value Measurements at June 30, 2019 Using: | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Other real estate owned: | | | | |
| Residential real estate | $ 280,529 | $ - | $ - | $ 280,529 |

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $517,103 for the year ended June 30, 2020. Direct write-downs of other real estate owned were zero for 2020 and 2019.

**NOTE 13 – FAIR VALUE** (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2020 and 2019:

| | Fair value | Valuation Technique | Unobservable Input | Weighted Average |
|---|---|---|---|---|
| June 30, 2020 | | | | |
| Other real estate owned: | | | | |
| Residential real estate | $ 517,103 | Sales comparison approach | Adjustment for differences between the comparable sales | 10% |

| | Fair value | Valuation Technique | Unobservable Input | Weighted Average |
|---|---|---|---|---|
| June 30, 2019 | | | | |
| Other real estate owned: | | | | |
| Residential real estate | $ 280,529 | Sales comparison Approach | Adjustment for differences between the comparable sales | 10% |

(Continued)

**NOTE 13 – FAIR VALUE** (Continued)

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 34,542,059 | 34,542,059 | $ 3,407,917 | 3,407,917 |
| Interest-bearing time deposits | 1,100,000 | 1,100,000 | 850,000 | 850,000 |
| Securities available for sale | 4,021,597 | 4,021,597 | 3,502,312 | 3,502,312 |
| Loans held for sale | - | - | 460,000 | 460,000 |
| Loans, net of allowance for loan losses | 192,252,086 | 192,508,886 | 194,165,691 | 194,265,900 |
| FHLB stock | 2,513,400 | N/A | 2,513,400 | N/A |
| Accrued interest receivable | 625,260 | 625,260 | 724,868 | 724,868 |
| Financial liabilities: | | | | |
| Demand, savings and money market deposit accounts | $ (129,787,543) | $(129,787,543) | $(104,006,050) | $(104,006,050) |
| Certificates of deposit | (76,817,354) | (78,882,043) | (70,944,203) | (71,989,165) |
| FHLB advances | (5,399,830) | (5,814,114) | (8,569,882) | (8,459,893) |
| Accrued interest payable | (459,916) | (459,916) | (395,171) | (395,171) |

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values.

(b) Interest-bearing time deposits: The carrying amounts for fixed rate interest-bearing time deposits approximate fair values.

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

(d) Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors.

(e) Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(f) Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount). The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

(Continued)

**NOTE 13 – FAIR VALUE** (Continued)

(g) Short-term Borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values.

(h) Other Borrowings: The fair values of the Corporationȇs long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

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

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

## NOTE 14 – EARNINGS PER SHARE

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

| | 2020 | 2019 |
|---|---|---|
| Basic earnings per common share | | |
| Net income | $ 3,590,800 | $ 3,741,315 |
| Weighted average common shares outstanding | 1,399,705 | 1,398,905 |
| Basic earnings per common share | $ 2.57 | $ 2.67 |
| Diluted earnings per common share | | |
| Net income | $ 3,590,800 | $ 3,741,315 |
| Weighted average common shares outstanding for basic earnings per common share | 1,399,705 | 1,398,905 |
| Add: Dilutive effects of restricted stock awards | 186 | 467 |
| Average shares and dilutive potential common shares | 1,399,891 | 1,399,372 |
| Diluted earnings per common share | $ 2.57 | $ 2.67 |

(Continued)

## NOTE 15 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of HLFN as of June 30, 2020 and 2019, and for the years ended June 30, 2020 and 2019, was as follows.

### CONDENSED BALANCE SHEETS
June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 4,938,428 | $ 4,524,180 |
| Investment in banking subsidiary | 26,057,115 | 24,928,377 |
| Investment in non-banking subsidiary | 187,666 | 164,109 |
| Other assets | 11,262 | 312,127 |
| Total assets | $ 31,194,471 | $ 29,928,793 |
| Liabilities | | |
| Other liabilities | $ 533,608 | $ 546,101 |
| Deferred federal income tax | 17,783 | 7,204 |
| Total liabilities | 551,391 | 553,305 |
| Shareholdersôequity | 30,643,080 | 29,375,488 |
| Total liabilities and shareholdersôequity | $ 31,194,471 | $ 29,928,793 |

### CONDENSED STATEMENTS OF INCOME
Years ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Dividends from subsidiaries | $ 2,500,000 | $ 2,500,000 |
| Other income | 85,987 | 87,248 |
| Total interest income | 2,585,987 | 2,587,248 |
| Operating expenses | 126,309 | 121,023 |
| Income before income taxes and equity in undistributed earnings of subsidiaries | 2,459,678 | 2,466,225 |
| Income tax benefit | (8,468) | (7,093) |
| Income before equity in undistributed earnings of subsidiaries | 2,468,146 | 2,473,318 |
| Equity in undistributed earnings of banking subsidiary | 1,099,098 | 1,255,592 |
| Equity in undistributed earnings of non-banking subsidiary | 23,556 | 12,405 |
| Net income | $ 3,590,800 | $ 3,741,315 |

(Continued)

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

**CONDENSED STATEMENTS OF CASH FLOWS**
Years ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 3,590,800 | $ 3,741,315 |
| Adjustments to reconcile net income to cash provided by operations: | | |
| Equity in undistributed income | (1,122,654) | (1,267,997) |
| Net change in other assets | 300,865 | (304,651) |
| Net change in other liabilities | (12,494) | 210,576 |
| Deferred taxes | 10,579 | 1,228 |
| Net cash from operating activities | 2,767,096 | 2,380,471 |
| | | |
| Cash flows from financing activities | | |
| Cash dividends paid | (2,352,848) | (2,184,789) |
| Net cash from financing activities | (2,352,848) | (2,184,789) |
| | | |
| Net change in cash and cash equivalents | 414,248 | 195,682 |
| Cash and cash equivalents at beginning of period | 4,524,180 | 4,328,498 |
| | | |
| Cash and cash equivalents at end of year | $ 4,938,428 | $ 4,524,180 |

## HOME LOAN FINANCIAL CORPORATION
## SHAREHOLDER INFORMATION

### ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 2 p.m. local time, on October 13, 2020, at the main office of the Bank at 413 Main Street, Coshocton, Ohio.

### STOCK INFORMATION

Home Loan Financial Corporation common stock is quoted on the Over the Counter Bulletin Board under the symbol "HLFN."

### SHAREHOLDER AND GENERAL INQUIRIES

Breann L. Miller, Chief Financial Officer
Home Loan Financial Corporation
413 Main Street
Coshocton, OH 43812
(740) 622-0444

### TRANSFER AGENT

Computershare
480 Washington Boulevard
Jersey City, NJ 07310

## HOME LOAN FINANCIAL CORPORATION
## CORPORATE INFORMATION

### CORPORATION AND BANK LOCATIONS

| | | |
|---|---|---|
| Corporate and Main Office | | |
| 413 Main Street | Telephone: | (740) 622-0444 |
| Coshocton, OH 43812 | Fax: | (740) 622-5389 |
| | | |
| Branch Offices | | |
| 590 Walnut Street | Telephone: | (740) 622-9417 |
| Coshocton, OH 43812 | | |
| | | |
| 503 West Main Street | Telephone: | (740) 545-0227 |
| West Lafayette, OH 43845 | | |
| | | |
| 1387 Coshocton Avenue | Telephone: | (740) 393-0058 |
| Mount Vernon, OH 43050 | | |

### DIRECTORS OF THE CORPORATION AND THE BANK

Robert C. Hamilton (Chairman of the Board)
*Chief Executive Officer of Home Loan Financial Corporation*

Kyle R. Hamilton
*Chief Executive Officer and President of The Home Loan Savings Bank and President of Home Loan Financial Corporation*

Thomas R. Conidi
*Executive Vice President of The Home Savings Bank and Vice President of Home Loan Financial Corporation*

Richard R. Berg
*Retired*

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

Douglas L. Randles
*Retired*

William A. Unger
*Owner of PSI Industrial Solutions, Inc., Preferred Safety Products, LLC and Tri State Environmental Services, Inc.*

Matthew T. Miller
*President of Miller Funeral Home LLC.*

Special Counsel

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

Independent Auditors

Dixon, Davis, Bagent & Company
1205 Weaver Drive
Granville, OH 43023