First Niles Financial, Inc.

2015 Annual Report



HOME Established 1897 FEDERAL

Home Federal
Savings and Loan Association of Niles

55 North Main St. • P.O. Box 311 • Niles, Ohio 44446-0311

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First Niles Financial, Inc.

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March 24, 2016

To Our Stockholders:

It is once again an honor to present to you the Annual Report to Stockholders of First Niles Financial, Inc. The past year was another exciting and challenging year within our area of Northeastern Ohio. Although the national economy is viewed as improving, the local recovery has been slower to recover than most of the nation, as evidenced recently by the loss of jobs connected to the gas and oil industry. Additionally, interest rates continue to hover near historical lows. The real estate markets and interest rate environment have the most impact on the performance of most community based depository financial institutions, including ours.

The low interest rate environment continues to compress interest rate spreads throughout the industry, limiting earnings performance. Additionally, credit quality, job uncertainty, and real estate values that have not yet fully recovered from the "housing crash", especially in the residential sector, continue to affect our ongoing performance. Despite all this, we once again produced a profit for our shareholders. In 2015, First Niles recorded net income of $212,000, or $0.19 per share.

During 2015, management continued to proactively manage the balance sheet of subsidiary Home Federal Savings and Loan Association of Niles (the "Bank") by increasing its portfolio of high quality Ohio based municipal securities, most of which are not subject to federal income tax, adding adjustable rate commercial real estate loans and keeping a large portion of the Bank's investment portfolio relatively short term in order to provide reinvestment opportunities in securities and loans at potentially higher interest rates. While this strategy potentially sacrificed possible short term earnings, it gives us the potential of better earnings performance going forward, if and when interest rates rise.

Providing value to our stockholders was, as always, the continued primary focus of our attention during 2015. During 2015 we paid a .05 per share quarterly common stock dividend. As a result, we paid dividends on our common stock of $0.20 per share during 2015. Our common stock dividend payment history now remarkably extends to seventeen years of uninterrupted quarterly dividends as of year-end 2015.

Our company's strong financial condition continues to provide flexibility for the management of our capital. At December 31, 2015, stockholders' equity totaled approximately $12.1 million, or 12.3% of total assets. Our total assets increased by $2 million and loans receivable increased by $3 million as of December 31, 2015.

As always, your Board of Directors, management and employees are committed to building long-term shareholder value, while continuing the commitment to serve our customers and community in the best way possible. We are dedicated to making your investment in First Niles a rewarding one. Thank you for your past support and continued faith in our future.

Sincerely,

Lawrence Safarek

LAWRENCE SAFAREK
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

First Niles Financial, Inc. ("First Niles" or the "Company") is a unitary, non-diversified holding company. First Niles has no significant operations outside those of its wholly owned operating subsidiary, Home Federal Savings and Loan Association of Niles ("Home Federal" or the "Bank" or the "Association"). References in this Annual Report to "we," "us," and "our" refer to First Niles and/or Home Federal as the context suggests or requires.

Home Federal is a $98.5 million federally chartered stock institution. Our principal business consists of attracting retail deposits from the general public and investing those funds primarily in permanent and construction loans secured by first mortgages on one- to four-family residences. We also originate permanent and construction loans secured by first mortgages on commercial and multi-family real estate. To a much lesser extent, we originate consumer and commercial business loans. Competition from other financial institutions limits the volume of loans we originate and place in our portfolio. As a result, our excess funds are invested in lower-yielding investment and mortgage-backed and related securities. Additionally, we borrow funds from the Federal Home Loan Bank ("FHLB") and reinvest the proceeds in investment securities at generally favorable interest rate spreads.

The level of competition in our market area is strong and dominated by commercial banks, with financial institutions of varying sizes and characteristics. In addition, our market area is projected to experience a continuing decrease in population and no meaningful increase in the number of households over the next several years. Niles and Trumbull County have per capita income and median household income lower than the medians for Ohio and the United States and, in December 2015, Trumbull County also had an unemployment rate higher than both Ohio and the United States. These economic conditions and strong competition have generally resulted in reduced loan demand which, in turn, has resulted in a high concentration of investment securities and mortgage-backed and related securities in our portfolio compared to other savings institutions. In the event current economic and market conditions persist or worsen, and loan demand remains weak, we cannot give any assurances that we will be able to maintain or increase our mortgage loan portfolio, which could adversely affect our operations and financial results.

Our results of operations depend primarily on net interest income, which is determined by (i) the difference between rates of interest we earn on interest-earning assets, consisting primarily of mortgage loans, collateralized mortgage obligations and other investments, and the rates we pay on interest-bearing liabilities, consisting primarily of deposits and borrowings; and (ii) the relative amounts of our interest-earning assets and interest-bearing liabilities. The level of noninterest income, such as fees received from customer deposit account service charges and gains on sales of investments, and the level of noninterest expense, such as federal deposit insurance premiums, salaries and benefits, office occupancy costs, and data processing costs, also affect our results of operations. Finally, our results of operations may also be affected significantly by general economic and competitive conditions, particularly changes in market interest rates, loan demand, government policies and actions of regulatory authorities, all of which are beyond our control.

During 2015, market interest rates continued to fluctuate at or close to the lowest levels experienced in the past 50 years or more. Longer term interest rates generally remained noticeably higher than short-term interest rates, resulting in an upsloping yield curve. This interest rate environment is expected to prevail for the foreseeable future. This environment could have a positive impact on our results of operations as our interest-bearing liabilities generally are priced in relation to short-term rates, while our interest-earning assets generally are priced in relation to long-term rates. In such a situation, the spread between our interest-earning assets and our interest-bearing liabilities would be expected to increase. However, interest rates on many short term instruments are near zero and further benefits from lower interest rates have generally been eliminated. Additionally, our existing level of nonaccrual loans, or any increase in this level, negatively impacts the results of operations, regardless of the interest rate environment. The cost of increased government regulation, has also negatively impacted our operating expenses and thus our earnings.

As of December 31, 2015, nonperforming loans totaled 3.67% of net loans receivable. Nonperforming assets, which includes real estate owned, represented 1.36% of total assets at year-end 2015. At such date, our allowance for loan losses to nonperforming loans was 26.66% and to net loans receivable was 0.98%. At December 31, 2015, we were in compliance with all applicable regulatory capital requirements and remain a “well-capitalized” institution.

The following tables, beginning on the next page, set forth selected consolidated financial information for the periods reported.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Selected Financial Condition Data:			
Total assets	$98,472	$96,437	$96,776
Loans receivable, net	25,848	22,869	21,452
Securities - held to maturity	9	11	1,014
Securities – available for sale and FHLB stock	61,953	61,175	62,964
Deposits	59,587	59,217	62,110
Total borrowings	26,500	25,000	24,000
Stockholders' equity	12,107	11,951	10,386

	Years Ended December 31,		
	2015	2014	2013
	(In thousands, except per share amounts)		
Selected Operations Data:			
Total interest income	$2,699	$2,593	$2,441
Total interest expense	866	821	914
Net interest income	1,833	1,772	1,527
Provision for loan losses	(56)	159	237
Net interest income after provision for loan losses	1,889	1,613	1,290
Fees and service charges	17	16	20
Gain on sales of investment securities	123	160	65
Other noninterest income	115	275	102
Total noninterest income	255	451	187
Total noninterest expense	1,969	1,917	1,968
Income (loss) before taxes and extraordinary item	175	147	(491)
Income tax provision	(37)	(78)	(207)
Net income (loss)	$212	$225	$(284)
Earnings per share – basic	$0.19	$.20	$(0.26)
Diluted	$0.19	$.20	$(0.26)
Dividends per share	$0.20	$.20	$ 0.23

	Years Ended December 31,		
	2015	2014	2013
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on assets (ratio of net income to average total assets)	0.22%	0.23%	(0.29)%
Return on equity (ratio of net income to average equity)	1.73	1.97	(2.39)
Interest rate spread:			
Average during year	1.90	1.87	1.53
Tax equivalent average during year	2.08	2.03	1.59
End of year	1.73	1.72	1.83
Net interest margin (net interest income divided by average interest-earning assets)	1.97	1.93	1.61
Tax equivalent net interest margin (net interest income divided by average interest-earning assets)	2.16	2.09	1.67
Ratio of average interest-earning assets to average interest-bearing liabilities	1.08	1.07	1.09
Quality Ratios:			
Nonperforming assets to total assets at end of year	1.36%	1.79%	1.52%
Nonperforming loans to loans receivable, net, end of year	3.67	5.89	4.87
Allowance for loan losses to nonperforming loans, end of year	26.66	20.32	24.50
Allowance for loan losses to loans receivable, net, end of year	0.98	1.20	1.19
Capital Ratios:			
Equity to total assets at end of year	12.29%	12.39%	10.73%
Average equity to average assets	12.41	12.48	12.01
Other Data:			
Book value per common share outstanding	$10.65	$10.51	$9.13
Dividend payout ratio[(1)]	107.55%	100.00%	NM
Number of full-service offices	1	1	1

[(1)] Dividends per share divided by earnings per common share and common share equivalent.
NM = Not meaningful

Critical Accounting Policies

Allowance for Loan Losses. The allowance for loan losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan losses no less frequently than on a quarterly basis. The evaluation of adequacy by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans, information about specific borrower situations and estimated collateral values, 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. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed.

Securities. Securities are classified as held to maturity or available for sale on the date of purchase. Only those securities classified as held to maturity, and which management has both the intent and ability to hold to maturity, are reported at amortized cost. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in accumulated other comprehensive income on the Consolidated Balance Sheet. The fair value of a security is determined based on quoted market prices. Realized gains and losses are reported within noninterest income in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment, such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and our intent and ability to hold the security. A decline in value that is considered to be other-than-temporary impairment is recorded as a loss within noninterest income in the Consolidated Statements of Income. We believe that the price movements within our securities portfolio are dependent upon the movement in interest rates, particularly given the negligible inherent credit risk of these securities.

Financial Condition

The following discussion compares our consolidated financial condition at December 31, 2015 to December 31, 2014 and the results of operations for the year ended December 31, 2015 with the year ended December 31, 2014. This discussion should be read in conjunction with the consolidated financial statements and footnotes included herein.

Assets totaled $98.5 million at December 31, 2015, an increase of $2.0 million from December 31, 2014. Cash and cash equivalents decreased $1.7 million and net loans receivable increased $3.0 million during 2015. Loan growth was limited since Home Federal does not typically sell its loans into the secondary market, management chose not to offer competitive loan rates, which in the current interest rate environment would increase interest rate risk and create future earnings risk. Additionally, total investment securities increased $778,000 during the year. As of December 31, 2015, investment securities were comprised of $60.6 million in securities available for sale and $9,000 in securities held to maturity. Home Federal also had $1.3 million in FHLB stock as of December 31, 2015, unchanged from year-end 2014.

Our loan portfolio increased $3.0 million, or 13.0%, to $25.8 million at December 31, 2015, as compared to $22.9 million at December 31, 2014. Specifically, loans secured by one- to four-

family properties, our largest loan category, increased $1.9 million and ended the year with a balance of $18.6 million. Commercial real estate loans, which includes loans secured by multi-family properties, increased $1.2 million, ending the year with a balance of $4.9 million. Home equity lines of credit ended the year at $2.1 million, $29,000 more than at December 31, 2014. Loans for construction and development decreased $123,000, ending the year with a balance of zero. Consumer and other loans decreased $57,000 during the year, ending with a balance of $275,000. The allowance for loan losses decreased by $21,000 during 2015 and ended the year at $253,000.

Deposits totaled $59.6 million at December 31, 2015, compared to $59.2 million at December 31, 2014, an increase of $370,000, or 0.6%. During the year ended December 31, 2015, savings, demand and NOW accounts collectively decreased $477,000 and certificates of deposit increased $847,000.

FHLB advances totaled $26.5 million at December 31, 2015 as compared to $25.0 million at December 31, 2014. At December 31, 2015, these FHLB advances were comprised of 18 different contracts. One advance, totaling $2.0 million, has a fixed interest rate with a put option, exercisable by the FHLB. This advance has a maturity date of June 2017. If the put option is exercised, the advance would have to be paid off or refinanced at new terms. The put option is currently eligible for exercise on a quarterly basis. Fifteen other advances, totaling $23.0 million, have fixed rates and remaining maturities ranging from April 2016 through February 2025. These advances may have a prepayment penalty if paid prior to maturity, depending on pre-established contractual terms, as set by the FHLB. Two other advances, totaling $1.5 million, are short-term and have variable rates of interest that can change daily. These advances mature approximately every 90 days and can be repaid at any time without penalty.

Generally, the advances from the FHLB were initially used to purchase investment securities at a favorable interest rate spread. In some instances, the advances from the FHLB have also been used for general liquidity purposes, including funding deposit withdrawals and originating loans. See Note H of the Notes to Consolidated Financial Statements contained in this Annual Report to Stockholders for additional information on our FHLB advances. As of December 31, 2015 and December 31, 2014, there were no other sources of borrowed funds outstanding.

Total equity at December 31, 2015 was $12.1 million, or 12.3% of total assets. This was $156,000 more than at year-end 2014. The increase in total equity during the year was attributable to a $177,000 reduction in net unrealized losses on investment securities available for sale, partially offset by a $16,000 decrease in retained earnings and an increase in treasury shares of $5,000.

During 2015 the Company did not repurchase any shares of common stock. During 2015 the Company purchased 575 shares of preferred stock at a total cost of $5,000, or $8.92 per share. As of December 31, 2015 there was a share repurchase program in progress authorizing the purchase of up to 3.0% of the Company's outstanding common shares and another program authorizing the purchase of up to 10.0% of the Company's class A preferred shares. As of December 31, 2015, 13,640 common shares and 547 preferred shares had been purchased as part of the respective authorizations. At December 31, 2015 there were 1,113,172 shares of common stock and 23,444 shares of preferred stock outstanding. At December 31, 2014 there were 1,113,172 shares of common stock and 24,019 shares of preferred stock outstanding.

Results of Operations

Net Income. We recorded net income of $212,000 for the year ended December 31, 2015, a decrease of $13,000 from 2014. The decrease in net income was primarily due to a $196,000 decrease in noninterest income, a $52,000 increase in noninterest expense and a $41,000 decrease in the federal income tax benefit, partially offset by a $215,000 decrease in the provision for loan losses and a $61,000 increase in net interest income. Our return on average assets was 0.22% for the year ended 2015, compared to 0.23% for the year ended 2014. Return on average equity was 1.73% for 2015, compared to 1.97% for 2014. Average equity to average assets was 12.41% for the year ended 2015, compared to 12.48% for the year ended 2014. In both 2015 and 2014 we paid aggregate, regular quarterly dividends on common stock totaling $222,000, or $0.20 per share, and regular quarterly dividends on preferred stock totaling $6,000, or $0.24 per share.

Net Interest Income. Net interest income for the year ended December 31, 2015 was $1.8 million, a $61,000 increase from the year ended December 31, 2014. Our net interest spread during 2015 was 1.90%, a three basis point increase from the 1.87% realized during 2014. On a tax-equivalent basis the net interest spread during 2015 was 2.08% as compared to 2.03% in 2014, an increase of five basis points. Net interest margin increased four basis points to 1.97% during 2014 from 1.93% in 2013. On a tax-equivalent basis net interest margin was 2.16% during 2015 as compared to 2.09% in 2014, an increase of seven basis points.

The increase in net interest margin was related to an increase in total interest income of $106,000, or 4.1%, on a comparative year basis, partially offset by an increase in total interest expense of $45,000, or 5.5% on a comparative year basis. Average interest-earning assets increased to $92.9 million during 2015 from $91.6 million during 2014. The increase in average interest-earning assets primarily consisted of a $2.6 million increase in the average balance of loans receivable, a $1.3 million increase in the average balance of tax exempt investment securities and a $302,000 increase in the average balance of interest-bearing deposits, partially offset by a $2.4 million decrease in the average balance of mortgage-backed and related securities, and a $568,000 decrease in the average balance of taxable investment securities. Total interest income increased from 2014 to 2015, primarily because of an increase in the average balance of our loan portfolio, our highest yielding balance sheet item. The overall yield on interest earning assets increased 10 basis points, from 2.99%% in 2014 to 3.09% in 2015, on a tax-equivalent basis.

The yield on our portfolio of loans receivable increased 11 basis points during 2015 from 5.05% to 5.16%. The yield on our mortgage-backed and related securities portfolio decreased four basis points on a year-to-year comparative basis from 1.83% to 1.79%. The investment securities portfolio experienced a ten basis point decrease from 2.43% in 2014 to 2.33% in 2015. The tax exempt investment securities yield was 4.65% in 2015 as compared to 4.70% in 2014. Adjustable-rate loans comprised approximately 28.3% of our gross loan portfolio at December 31, 2015.

The $379,000 increase in average interest-bearing liabilities was primarily comprised of a $2.5 million increase in average borrowings partially offset by a $1.7 million decrease in the average balance of certificates of deposit, and a $366,000 decrease in the average balance of savings accounts, demand and NOW accounts. Total interest expense increased $45,000, or 5.5%, from $821,000 in 2014 to $866,000 in 2015. Overall, our cost of funds increased five basis points from 0.96% during 2014 to 1.01% during 2015. During 2015, the weighted-average interest rate of our FHLB advances was 2.15%, eight basis points lower than in 2014. Our cost of deposits increased two basis points, from 0.47% during 2014 to 0.49% during 2015. The average rate paid on our

certificate of deposit accounts, our largest category of deposit accounts, increased eight basis points, from 0.75% in 2014 to 0.83% in 2015. The average rate of interest paid on savings deposits and NOW accounts was unchanged from 2014 to 2015.

See the tables below captioned "Average Balances, Interest Rates and Yields" and "Rate/Volume Analysis of Net Interest Income" for more detailed information regarding our net interest income.

Average Balances, Interest Rates and Yields

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, using monthly average balances.

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate
	(Dollars in Thousands)					
Interest-Earning Assets:						
Loans receivable [1]	$24,786	$1,279	5.16%	$22,171	$1,119	5.05%
Mortgage-backed and related securities	25,212	450	1.79%	27,592	504	1.83%
Investment securities-Taxable	28,288	658	2.33%	28,856	702	2.43%
Investment securities – Tax exempt	8,261	384	4.65%	6,932	326	4.70%
FHLB stock	1,327	53	4.00%	1,327	53	4.00%
Interest-bearing deposits	5,014	44	0.88%	4,712	31	0.66%
Total interest-earning assets [1][2]	92,888	2,868	3.09%	91,590	2,735	2.99%
Noninterest-earning assets	5,928			6,049		
Allowance for Loan Losses	(283)			(257)		
Total Assets Equity	$98,533			$97,382		
Interest-Bearing Liabilities:						
Savings deposits	$22,419	$25	0.11%	$23,144	$25	0.11%
Demand and NOW deposits	5,703	5	0.09%	5,344	5	0.09%
Certificate accounts	31,037	258	0.83%	32,775	247	0.75%
Borrowings	26,932	578	2.15%	24,449	544	2.23%
Total interest-bearing liabilities	86,091	866	1.01%	85,712	821	0.96%
Noninterest-bearing liabilities	211			219		
Total Liabilities	86,302			85,931		
Stockholders' Equity	12,231			11,451		
Total Liabilities and Equity	$98,533			$97,382		
Tax-equivalent net interest income		$2,002			$1,914	
Less: Tax equivalent adjustment		(169)			(142)	
Net interest income		$1,833			$1,772	
Tax equivalent net interest spread			2.08%			2.03%
Net interest rate spread			1.90%			1.87%
Net earning assets	$6,797			$5,878		
Tax equivalent net yield on avg. int.-earning assets			2.16%			2.09%
Net yield on average interest-earning assets			1.97%			1.93%
Average interest-earning assets to average interest-bearing liabilities		1.08x			1.07x	

[1] Calculated net of deferred loan fees, loan discounts and loans in process. Includes nonaccrual loans.

[2] Tax-equivalent asset yield of 3.09% with an asset yield of 2.90% in 2015 and a tax-equivalent asset yield of 2.99% with an asset yield of 2.83% in 2014.

Rate/Volume Analysis of Net Interest Income

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume (*i.e*., changes in volume multiplied by old rate) and (2) changes in rate (*i.e*., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2015 vs. 2014		
	Increase/(Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
	(In Thousands)		
Interest-earning assets:			
Loans receivable	$135	$26	$161
Mortgage-backed and related securities	(43)	(11)	(54)
Investment securities and FHLB stock	19	(34)	(15)
Interest-bearing deposits and other	2	12	14
Total interest-earning assets	$113	$(7)	$106
Interest-bearing liabilities:			
Savings deposits	$ -	$ -	$ -
Demand and NOW deposits	-	-	-
Certificate accounts	(12)	23	11
Borrowings	52	(18)	34
Total interest-bearing liabilities	$40	$5	$45
Net interest income	$73	$(12)	$61

Provision for Loan Losses. Our provision for loan losses for the year ended December 31, 2015 was negative $56,000, as compared to $159,000 for the year ended December 31, 2014. Nonperforming loans, which are defined as nonaccruing loans as well as loans delinquent more than 90 days and still accruing interest, decreased by $399,000, to $949,000 at December 31, 2015, from $1.3 million at December 31, 2014. Our nonperforming loans totaled 3.67% of net loans receivable at December 31, 2015, compared to 5.89% of net loans receivable at December 31, 2014. Our allowance for loan losses was $253,000 at December 31, 2015, representing 26.66% of nonperforming loans and 1.0% of net loans receivable. At December 31, 2014 the allowance for loan losses was $274,000, representing 20.3% of nonperforming loans and 1.2% of net loans receivable. At December 31, 2015 we had $394,000 in real estate owned, comprised of one single family property and one commercial property. We had $381,000 in real estate owned at December 31, 2014, consisting of two single family properties and one commercial property.

It is our policy to provide valuation allowances for estimated losses on loans based upon past loss experience, current trends in the level of delinquent and specific problem loans, loan concentrations to single borrowers, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current and anticipated economic conditions in our market area. Accordingly, the calculation of the adequacy of the allowance for loan losses is not based directly on the level of nonperforming assets.

Our methodology for determining the sufficiency of our allowance for loan losses primarily focuses on two separate areas of our loan portfolio. The first part of our analysis considers all classified and criticized loans as determined by regulatory standards and assigns a specific estimated loss, if any, to the balance of each classified and criticized loan based on management's judgment. The second part of our analysis focuses on the historical loss experience of the Association over the past three years on the remaining portion of the portfolio. Our analysis also considers other factors, including the overall loan portfolio delinquency trend, current and forecasted local economic conditions, management's adherence to established underwriting guidelines and the level of nonperforming loans in relation to the allowance for loan losses. The portions of our analysis are added together and compared, on a quarterly basis, to our overall allowance for loan losses. Adjustments are made to the allowance for loan losses through the provision for loan losses any time our analysis indicates a difference of $25,000 or greater.

We will continue to monitor our allowance for loan losses and make future adjustments to the allowance through the provision for loan losses as economic conditions dictate. Although we maintain our allowance for loan losses at a level which we consider to be adequate to provide for losses, there can be no assurance that future losses will not exceed estimated amounts or that additional provisions for loan losses will not be required in future periods. In addition, our determination as to the amount of the allowance for loan losses is subject to review by the Office of the Comptroller of the Currency, as part of the examination process, which may result in the establishment of an additional allowance.

Noninterest Income. Noninterest income decreased to $255,000 for the year ended December 31, 2015 from $451,000 for the year ended December 31, 2014. During 2015, noninterest income was comprised of $123,000 from gain on sale of investments, $109,000 in service fees and other income, which includes $86,000 in accrued income from Bank Owned Life Insurance, and $23,000 from gain on sale of real estate owned. During 2014 noninterest income was comprised of $167,000 gain on sale of our participation interest in an affordable housing limited partnership, $160,000 on gain on sale of investment securities and $124,000 in service fees and other income, which includes $95,000 in accrued income from Bank Owned Life Insurance.

Noninterest Expense. Noninterest expense increased $52,000, or 2.7%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase was primarily due to a $69,000 increase in compensation and benefits due to increased staffing levels.

Federal Income Taxes. The provision for federal income taxes resulted in a tax benefit of $37,000 for the year ended December 31, 2015, a $41,000 decrease from the $78,000 tax benefit in 2014. See Note G of the Notes to Consolidated Financial Statements contained in this Annual Report to Stockholders.

Asset and Liability Management; Market Risk Analysis

As stated above, we derive our income primarily from the excess of interest collected over interest paid. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. However, market interest rates change over time and our results of operations, like those of many financial institutions, are impacted by these changes and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is Home Federal's most significant market risk.

Our operations are also affected by our level of income and expenses. Noninterest income includes service charges and fees and gain on sale of investments. Noninterest expenses primarily include compensation and benefits, occupancy and equipment expenses, deposit insurance premiums, legal compliance and data processing expenses. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government legislation and regulation and monetary and fiscal policy.

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Home Federal's interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If our assets mature or reprice more rapidly or to a greater extent than our liabilities, then the market value of our portfolio equity and our net interest income would tend to increase during periods of rising interest rates and decrease during periods of falling interest rates. Conversely, if our assets mature or reprice more slowly or to a lesser extent than our liabilities, then the market value of our portfolio equity and our net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates. Our policy has been to address the interest rate risk inherent in our business of originating long-term loans funded by short-term deposits by maintaining sufficient liquid assets for material and prolonged changes in interest rates. We believe that our liquidity position and capital levels, which are well in excess of regulatory requirements, assist us in reasonably limiting the effects of our interest rate risk exposure.

Our Board of Directors is responsible for reviewing our asset and liability position. The Board performs a quarterly review of interest rate risk and trends, liquidity and capital ratios and related regulatory requirements. In addition, the Board reviews simulations of the effect of interest rates on Home Federal's capital, net interest income and net income under various interest rate scenarios. Management of Home Federal is responsible for implementing the policies and decisions of the Board of Directors with respect to our asset and liability goals and strategies.

To manage the interest rate risk, we attempt to originate adjustable-rate loans; however, due to the low interest rate environment over the past several years, customer demand for fixed-rate loans has been strong. At December 31, 2015, adjustable-rate mortgage loans, including home equity lines of credit, totaled $7.4 million, or 28.3% of our total gross loan portfolio. We also maintain a large portfolio of liquid assets which includes investment securities. Maintaining liquid assets, however, tends to reduce potential net income because liquid assets usually provide a lower yield than other

interest-earning assets, such as loans. Despite these strategies, we are still more vulnerable to increases in interest rates than to decreases in interest rates given current market interest rate levels and trends, as illustrated in the table below.

The following table sets forth the change in Home Federal's economic value of equity at December 31, 2015, based on independent models, and to a lesser extent, internal assumptions that would occur upon an immediate change in interest rates of up to 300 basis points, with no effect given to any steps that management might take to counteract that change. Economic value of equity is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

	December 31, 2015				
	Economic Value of Equity			Economic Value of Equity as % of the Economic Value of Total Assets	
Change in Rate	Amount	$ Change	% Change	EVE Ratio	BP Change
	(Dollars in Thousands)				
300	$11,897	$(3,555)	(23.0)%	13.72%	(202)
200	13,088	(2,364)	(15.3)	14.48	(126)
100	14,331	(1,121)	(7.3)	15.21	(53)
---	15,452	---	---	15.74	---
-100	14,331	(1,122)	(7.3)	14.33	(141)
-200	NM	NM	NM	NM	NM
-300	NM	NM	NM	NM	NM

NM = Not meaningful because some market interest rates would compute to a rate less than zero.

In the above table, the first column on the left presents the basis point increments of parallel yield curve shifts. The second column presents the overall dollar amount of economic value of equity at each basis point increment. The third and fourth columns present Home Federal's actual position in dollar change and percentage change in economic value of equity at each basis point increment. The remaining columns present Home Federal's percentage change and basis point change in its economic value of equity as a percentage of the economic value of total assets. At December 31, 2015, Home Federal was within all economic value of equity interest rate risk policy limits established by its Board of Directors. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including interest rates, loan prepayments, deposit decay rates, and the market values of certain assets under the various interest rate scenarios and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in the method of analysis presented in the computation of economic value of equity. Although certain assets and liabilities may have similar maturities or periods within which they reprice, they may react differently to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above.

Liquidity and Commitments

Home Federal's primary sources of funds are deposits, repayments and prepayments of loans and securities and interest income. Although maturity and scheduled amortization of loans and securities are relatively predictable sources of funds, deposit flows and prepayments on loans and securities are influenced significantly by general interest rates, economic conditions and competition. Historically, we have been able to generate sufficient cash through our deposits and have only utilized borrowings to a limited degree for liquidity purposes.

Liquidity management is an ongoing and long-term function of our asset/liability management strategy. Excess funds generally are invested in interest-bearing overnight deposits at other financial institutions and in short-term investment securities. If we require funds beyond our ability to generate deposits, additional sources of funds are available. Our most liquid assets are cash and cash equivalents. At December 31, 2015, cash and cash equivalents totaled $5.8 million compared to $7.5 million at December 31, 2014. We monitor and review liquidity regularly and maintain short-term, unsecured lines of credit with two different commercial banks which can be accessed immediately. These unsecured lines of credit aggregate $5.4 million. Home Federal also maintains a $3.2 million secured line of credit with another depository financial institution that is immediately available for longer term financing needs. All three lines of credit had no funds drawn as of December 31, 2015. Additionally, we have the ability to borrow funds from the FHLB of Cincinnati. At December 31, 2015, we had $3.1 million in unused borrowing capacity from the FHLB of Cincinnati.

At December 31, 2015, we had no loan origination commitments or investment security purchase commitments outstanding. At the same date, we had no unadvanced funds related to construction and other loans. The unused portion of home equity lines of credit and lines of credit secured by other real estate at December 31, 2015 was $1.7 million and $253,000, respectively. Certificates of deposit scheduled to mature in one year or less at December 31, 2015 totaled $17.0 million. We had no investment or mortgage-related securities scheduled to mature in one year or less at December 31, 2015. Based on historical experience, we believe that a significant portion of maturing deposits will remain with us. We believe, based on our current balance sheet structure and our ability to acquire funds from various sources, that our liquidity is adequate.

Capital

Total equity was $12.1 million, at December 31, 2015, or 12.3% of total assets on that date. Consistent with our goals to operate a sound and profitable financial organization, we actively seek to maintain a "well-capitalized" institution in accordance with regulatory standards. As of December 31, 2015, Home Federal exceeded all capital requirements of the Office of the Comptroller of the Currency. Our regulatory capital ratios at December 31, 2015 were as follows: Tier 1 (leverage) capital, 12.67%; Tier 1 risk-based capital, 31.75%; and Total risk-based capital, 32.40%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0%, and 10.0%, respectively.

Recent Accounting Pronouncements

Please see Note A of the Consolidated Financial Statements regarding recent accounting pronouncements.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Disclosure Regarding Forward-Looking Statements

First Niles and Home Federal may from time to time make written or oral "forward-looking statements." These forward-looking statements may be contained in this Annual Report to Stockholders, in our proxy statement for our annual meeting and in other communications by us, which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties. The following factors, many of which are subject to change based on various other factors beyond our control, could cause our financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements:

- the strength of the United States economy in general and the strength of the local economies in which we conduct our operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of new products and services of Home Federal and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- the success of Home Federal in gaining regulatory approval of its products and services, when required;
- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- acquisitions;

- changes in consumer spending and savings habits; and
- our success at managing the risks involved in the foregoing.

The foregoing list of important factors is not exclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of First Niles or Home Federal.

FIRST NILES FINANCIAL, INC.

NILES, OHIO

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT
OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Years ended December 31, 2015 and 2014

AGW
ANNESS GERLACH & WILLIAMS

CERTIFIED PUBLIC ACCOUNTANTS
(A PROFESSIONAL CORPORATION)

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ANNESS GERLACH & WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS
(A PROFESSIONAL CORPORATION)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders of
First Niles Financial, Inc.
Niles, Ohio

We have audited the accompanying consolidated financial statements of First Niles Financial, Inc. and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the 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.

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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 First Niles Financial, Inc. and subsidiary as of December 31, 2015 and 2014, 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.

Anness, Herlach & Williams

Youngstown, Ohio
March 5, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands, except share data)

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents:		
Noninterest bearing	$ 656	$ 855
Interest bearing	5,127	6,624
TOTAL CASH AND CASH EQUIVALENTS	5,783	7,479
Securities:		
Available-for-sale - at fair value	60,626	59,848
Held-to-maturity - at amortized cost	9	11
Loans receivable	25,848	22,869
Accrued interest receivable	301	288
Federal Home Loan Bank stock, at cost (restricted)	1,327	1,327
Bank owned life insurance	3,241	3,155
Other real estate owned	394	381
Prepaid expenses and other assets	348	370
Prepaid federal income taxes	-	32
Deferred federal income tax asset	304	358
Premises and equipment, at cost less accumulated depreciation	291	319
TOTAL ASSETS	$ 98,472	$ 96,437
LIABILITIES		
Deposits	$ 59,587	$ 59,217
Accrued interest payable	65	59
Accounts payable and other liabilities	213	210
Federal Home Loan Bank advances	26,500	25,000
TOTAL LIABILITIES	86,365	84,486
STOCKHOLDERS' EQUITY		
Stockholders' equity:		
Preferred stock, $.01 par value, authorized 500,000 shares, 29,670 shares issued and outstanding	-	-
Common stock, $.01 par value, authorized 6,000,000 shares, 1,724,741 shares issued and outstanding	18	18
Additional paid-in capital	7,045	7,045
Retained earnings	12,776	12,792
Accumulated other comprehensive loss:		
Net unrealized losses on securities available-for-sale, net of related tax effects of $190 in 2015 and $281 in 2014	(369)	(546)
Treasury stock - 611,569 common shares, 6,226 preferred shares and 611,569 common shares and 5,651 preferred shares at cost at December 31, 2015 and 2014, respectively	(7,363)	(7,358)
TOTAL STOCKHOLDERS' EQUITY	12,107	11,951
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 98,472	$ 96,437

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands, except share data)

	Year Ended December 31	
	2015	2014
Interest income:		
Loans receivable:		
First mortgage loans	$ 1,165	$ 1,004
Consumer and other loans	115	115
Mortgage-backed and related securities	450	504
U.S. Agencies and other securities	925	940
Interest-bearing deposits	44	30
TOTAL INTEREST INCOME	2,699	2,593
Interest expense:		
Deposits	288	277
Borrowings	578	544
TOTAL INTEREST EXPENSE	866	821
NET INTEREST INCOME	1,833	1,772
Provision for loan losses (recovery)	(56)	159
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES (RECOVERY)	1,889	1,613
Noninterest income:		
Realized gains on sale of securities	123	160
Gain on sale of real estate partnership investment	-	167
Service fees and other	132	124
TOTAL NONINTEREST INCOME	255	451
Noninterest expense:		
Real estate owned losses and expenses	49	71
General and administrative:		
Compensation and benefits	1,097	1,028
Occupancy and equipment	116	113
Federal deposit insurance premiums	68	74
State franchise taxes	117	100
Other operating expense	522	531
TOTAL NONINTEREST EXPENSE	1,969	1,917
INCOME BEFORE INCOME TAXES	175	147
Federal income tax benefit	(37)	(78)
NET INCOME	$ 212	$ 225
EARNINGS PER SHARE - BASIC	$ 0.19	$ 0.20
- DILUTED	$ 0.19	$ 0.20

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands)

	Year Ended December 31	
	2015	2014
Net income	$ 212	$ 225
Other comprehensive income, net of tax:		
Net unrealized holding gains on available-for-sale securities	391	2,547
Reclassification adjustment for gains realized in income	(123)	(160)
Net unrealized holding gains	268	2,387
Income tax effect	(91)	(811)
OTHER COMPREHENSIVE INCOME, NET OF TAX	177	1,576
COMPREHENSIVE INCOME	$ 389	$ 1,801

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 2015 and 2014

(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance January 1, 2014	$ 18	$ 7,045	$ 12,795	$ (2,122)	$ (7,350)	$ 10,386
Comprehensive income:						
Net income	-	-	225	-	-	225
Change in unrealized gains on securities of $1,681, net of reclassification adjustment for gains included in net gain of $106	-	-	-	1,576	-	1,576
Treasury stock purchased	-	-	-	-	(8)	(8)
Cash dividends - $.20 per share	-	-	(228)	-	-	(228)
BALANCE DECEMBER 31, 2014	18	7,045	12,792	(546)	(7,358)	11,951
				-		
Comprehensive income:						
Net income	-	-	212	-	-	212
Change in unrealized gains on securities of $258, net of reclassification adjustment for gains included in net gain of $81	-	-	-	177	-	177
Treasury stock purchased	-	-	-	-	(5)	(5)
Cash dividends - $.20 per share	-	-	(228)	-	-	(228)
BALANCE DECEMBER 31, 2015	$ 18	$ 7,045	$ 12,776	$ (369)	$ (7,363)	$ 12,107

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands)

	Year Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 212	$ 225
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense (benefit)	44	(23)
Depreciation	33	34
Amortization of deferred loan fees and costs	(26)	(14)
Amortization of discounts and premiums on investments and mortgage-backed and related securities, net	212	285
Realized gains on sale of securities	(123)	(160)
Realized net (gains) losses on sale of real estate owned	(18)	7
Other real estate owned valuation adjustments	3	24
Provision for loan losses (recovery)	(56)	159
Loss on disposition of fixed assets	-	1
Gain on sale of real estate partnership investment	-	(167)
	281	371
(Increase) decrease in accrued interest receivable, prepaid expenses and other assets	(126)	145
Increase (decrease) in accrued interest payable, accounts payable and other liabilities	9	(12)
NET CASH PROVIDED BY OPERATING ACTIVITIES	164	504
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Sales	6,600	10,483
Maturities, prepayments and calls	13,691	6,460
Purchases	(20,891)	(12,141)
Activity in held-to-maturity securities:		
Maturities, prepayments and calls	2	1,003
Proceeds from sale of other real estate owned	158	371
Proceeds from sale of real estate partnership investment	-	204
(Increase) decrease in interest-bearing deposits with banks	1,497	(2,630)
Increase in loans receivable	(3,053)	(1,924)
Purchase of premises and equipment	(4)	(57)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(2,000)	1,769
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury shares	(5)	(8)
Dividends paid	(228)	(228)
Increase (decrease) in savings accounts	(495)	1,542
Increase (decrease) in certificates of deposit	865	(4,435)
Proceeds from Federal Home Loan Bank advances	23,800	17,000
Payment of Federal Home Loan Bank advances	(22,300)	(16,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,637	(2,129)
NET INCREASE (DECREASE) IN CASH	(199)	144
CASH AT BEGINNING OF YEAR	855	711
CASH AT END OF YEAR	$ 656	$ 855
Cash paid during the period for:		
Interest	$ 860	$ 819
Income taxes	$ -	$ 10
Supplemental disclosure of cash flow activity:		
Loans transferred to other real estate owned and foreclosed assets	$ 156	$ 361

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Niles Financial, Inc. (the "Company") is a savings and loan holding company whose activities are primarily limited to holding the stock of the Home Federal Savings and Loan Association of Niles (the "Association"). The Association conducts a general banking business in Niles, Ohio which consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, consumer and nonresidential purposes. The Association's profitability is significantly dependent on its net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Association can be significantly influenced by a number of environmental factors, such as governmental monetary policy, which are outside of management's control.

The consolidated financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and general accounting practices within the financial services industry. In preparing consolidated financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from such estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

The following is a summary of significant accounting policies which have been consistently applied in the preparation of the accompanying consolidated financial statements.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and the Association. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents:

For purposes of reporting cash flows, cash includes noninterest bearing cash which includes cash on hand and amounts due from correspondent banks.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities and Mortgage-Backed and Related Securities:

The Company categorizes its investment securities and mortgage backed and related securities as held-to-maturity, trading or available-for-sale. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold until maturity. Securities classified as held-to-maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts using methods that approximate the interest method over the remaining period to contractual maturity and adjusted for anticipated prepayments. The Company did not hold any trading securities during the years ended December 31, 2015 and 2014. Securities designated as available-for-sale are carried at fair value with resulting unrealized gains or losses recorded to equity. Realized gains or losses on sales of securities are recognized using the specific identification method. Management evaluates securities for other than temporary impairment on a quarterly basis or more frequently as economic and market conditions warrant such an evaluation.

Loans Receivable:

Loans held in the portfolio are stated at the principal amount outstanding, adjusted for the allowance for loan losses and unearned income. Interest is accrued as earned, unless the collectability of the loan is in doubt. Uncollectible interest on loans that are contractually past due is charged off, or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments has returned to normal, in which case the loan is returned to accrual status. If the ultimate collectability of the loan is in doubt, in whole or in part, all payments received on nonaccrual loans are applied to reduce principal until such doubt is eliminated.

At such time that management believes loan collection can only be affected through collateral liquidation, the estimated loan loss is charged off and the residual value is carried as an other asset.

Loan Origination Fees and Costs:

Loan origination fees received net of direct origination costs, are deferred and amortized to interest income over the contractual lives of the loans using the level-yield method, giving effect to actual loan prepayments. Loan origination costs are the direct costs attributable to originating a loan. Total unamortized fees and costs of $139,000 and $130,000, respectively, are carried with outstanding loan balances at December 31, 2015.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Losses on Loans:

It is the Association's policy to provide valuation allowances for estimated losses on loans based on past loss experience, current trends in the level of delinquent and specific problem loans, loan concentrations to single borrowers, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current and anticipated economic conditions in the primary market area. When the collection of a loan becomes doubtful, or otherwise troubled, the Association ascertains if the allowance for losses on loans is sufficient to absorb a loss equal to the difference between the fair value of the property securing the loan and the loan's carrying value and records an additional loan loss provision if indicated. Major loans and major lending areas are reviewed periodically to determine potential problems at an early date. The allowance for loan losses is increased by charges to earnings and decreased by charge-offs (net of recoveries).

The Financial Accounting Standards Board (FASB) guidance requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral.

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Association considers its investment in one to four-family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Association's investment in commercial real estate loans, and its evaluation of impairment thereof, such loans are collateral dependent and, as a result, are carried as a practical expedient at the lower of cost or fair value.

Loans which are more than ninety days contractually delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment at that time. The Association evaluates each impaired loan as to its circumstances to determine if interest recognition is appropriate when payments are received.

At December 31, 2015, the Association identified twenty-four loans with a carrying value of $949,000 as impaired due to uncertain conditions and delinquent payments. Accrual of interest on these loans has been suspended. Contractual interest not recognized for 2015 was $90,000. The portion of the allowance for loan loss relating to the impaired loans at December 31, 2015 totaled $-0-. The average recorded investment in impaired loans for 2015 was $1,047,000. The carrying value of loans 90 days past due and still accruing was $-0- at December 31, 2015.

At December 31, 2014, the Association identified twenty-seven loans with a carrying value of $1,348,000 as impaired due to uncertain conditions and delinquent payments. Accrual of interest on these loans has been suspended. Contractual interest not recognized for 2014 was $104,000. The portion of the allowance for loan loss relating to the impaired loans at December 31, 2014 totaled $-0-. The average recorded investment in impaired loans for 2014 was $1,201,000. The carrying value of loans 90 days past due and still accruing was $-0- at December 31, 2014.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank Stocks:

Federal Home Loan Bank (FHLB) stock is carried at cost, classified as a restricted security, and is periodically reviewed for impairment based on ultimate recovery of par value.

Bank Owned Life Insurance:

The Association has purchased life insurance policies on certain key officers and directors. 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.

Premises and Equipment:

Premises and equipment are recorded at cost and include expenditures which extend the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. For financial reporting, depreciation is provided on the straight-line method over the estimated useful lives of the assets, estimated to be forty to fifty years for buildings and three to ten years for furniture and equipment.

Federal Income Taxes:

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. A deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, carried back against prior years' earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

Deferral of income taxes results primarily from Federal Home Loan Bank stock dividends and book/tax differences in the allowance for loan losses.

The provisions of “Accounting for Uncertainty in Income Taxes” prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes (Continued):

The Association recognizes interest and penalties accrued related to unrecognized tax uncertainties, if any, in income tax expense. As a result of the implementation of this standard, the Association determined that there are no material uncertain tax positions.

The Association is subject to potential income tax examinations for the open tax years 2012 through 2015.

Earnings Per Share:

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the year less weighted-average shares in the ESOP that are unallocated and not committed to be released. Diluted earnings per share is computed taking into consideration common shares outstanding and potential dilutive common shares to be issued under the Company's stock option plan.

A reconciliation of the weighted-average common shares outstanding on a basic and diluted basis for 2015 and 2014 is as follows:

	2015	2014
Basic weighted-average shares	1,113,172	1,113,172
Diluted weighted-average shares	1,113,172	1,113,172

At December 31, 2015 and 2014, there were no outstanding options to purchase shares of common stock, respectively.

Recent Accounting Pronouncements:

In January 2014, the FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in ASU 2014-04 to Topic 310, "Receivables - Troubled Debt Restructurings by Creditors," is to reduce diversity by clarifying when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Reclassifications:

Certain 2014 amounts have been reclassified to conform to 2015 classifications.

NOTE B - INVESTMENT SECURITIES

Available for Sale:

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015:		(In thousands)		
Collateralized mortgage obligations	$ 19,711	$ 93	$ (313)	$ 19,491
Mortgage-backed securities	4,735	22	(62)	4,695
	24,446	115	(375)	24,186
U.S. Agencies - callable:				
Due within one year	-	-	-	-
Due after one year to five years	2,000	-	-	2,000
Due after five to ten years	17,905	9	(220)	17,694
Due after ten years	-	-	-	-
U.S. Agencies - noncallable:				
Due within one year	-	-	-	-
Due after one year to five years	2,528	-	(69)	2,459
Due after five to ten years	-	-	-	-
Due after ten years	-	-	-	-
Municipal bonds	14,307	91	(111)	14,287
TOTALS	$ 61,186	$ 215	$ (775)	$ 60,626
December 31, 2014:				
Collateralized mortgage obligations	$ 18,782	$ 82	$ (348)	$ 18,516
Mortgage-backed securities	5,482	41	(43)	5,840
	24,624	123	(391)	24,356
U.S. Agencies - callable:				
Due within one year	-	-	-	-
Due after one year to five years	-	-	-	-
Due after five to ten years	22,993	-	(411)	22,582
Due after ten years	1,000	-	(16)	984
U.S. Agencies - noncallable:				
Due within one year	-	-	-	-
Due after one year to five years	-	-	-	-
Due after five to ten years	4,564	-	(145)	4,419
Due after ten years	-	-	-	-
Municipal bonds	7,494	80	(67)	7,507
TOTALS	$ 60,675	$ 203	$ (1,030)	$ 59,848

NOTE B - INVESTMENT SECURITIES (CONTINUED)

Available for Sale (Continued):

Unrealized losses on securities have not been recognized into income because the Company has the ability to hold the securities for the foreseeable future and the decline in fair value is due to increases in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market interest rates decline.

At December 31, 2015 and 2014, the Company's equity accounts reflected net unrealized losses of ($369,000) and ($546,000) respectively, on securities designated as available for sale.

Held to Maturity:

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities held to maturity are summarized as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed and related securities	$ 9	$ -	$ -	$ 9
U.S. Agencies - callable:				
Due within one year	-	-	-	-
Due after one year to five years	-	-	-	-
Due after five to ten years	-	-	-	-
Due after ten years	-	-	-	-
TOTALS	$ 9	$ -	$ -	$ 9

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed and related securities	$ 11	$ 1	$ -	$ 12
U.S. Agencies - callable:				
Due within one year	-	-	-	-
Due after one year to five years	-	-	-	-
Due after five to ten years	-	-	-	-
Due after ten years	-	-	-	-
TOTALS	$ 11	$ 1	$ -	$ 12

NOTE B - INVESTMENT SECURITIES (CONTINUED)

The number of securities that have been in a continuous unrealized loss position for less than twelve months and for more than twelve months is twenty-one and fifty-five, respectively, at December 31, 2015. The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2015.

	Less than Twelve Months		More than Twelve Months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)			
Held to maturity:				
Mortgage-backed and related securities	$ -	$ -	$ -	$ -
U.S. Agencies	-	-	-	-
Available for sale:				
Mortgage-backed and related securities	4,121	(46)	11,794	(329)
U.S. Agencies	5,743	(82)	8,320	(207)
Municipal bonds	5,762	(52)	2,286	(59)
TOTALS	$ 15,626	$ (180)	$ 22,400	$ (595)

During 2015, the Company sold available-for-sale securities for total proceeds of $6,600,000 resulting in gross realized gains of $123,000.

During 2014, the Company sold available-for-sale securities for total proceeds of $10,483,000 resulting in gross realized gains of $160,000.

NOTE C - LOANS RECEIVABLE

The composition of the loan portfolio is as follows:

	December 31	
	2015	2014
	(In thousands)	
Real estate mortgage (primarily one-to-four family residential)	$ 18,632	$ 16,745
Construction and development	-	123
Commercial real estate	4,941	3,697
Consumer and other	275	332
Home equity lines of credit	2,149	2,120
Loans on deposits	104	126
	26,101	23,143
Less allowance for loan losses	253	274
TOTALS	$ 25,848	$ 22,869

NOTE C - LOANS RECEIVABLE (CONTINUED)

In the ordinary course of business, the Association has granted loans to some of its officers, directors and their related interests. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The aggregate dollar amount of these loans was approximately $287,000 and $323,000 at December 31, 2015 and 2014, respectively. During the years ended December 31, 2015 and 2014, loans or additional draws on home equity lines of credit of $123,000 and $16,000, respectively, were made to officers, directors and their related interests, while principal repayments of $159,000 and $263,000 were received from related parties during 2015 and 2014, respectively.

The Association's lending efforts have historically focused on one-to-four family residential real estate loans and construction loans, which comprise approximately $19 million, or 72%, of the total loan portfolio at December 31, 2015, and $17 million, or 74% of the total portfolio at December 31, 2014. Historically, such loans have been underwritten with cash down payments sufficient to provide the Association with adequate collateral coverage in the event of default. Nevertheless, the Association, as with any lending institution, is subject to the risk that real estate values or economic conditions could deteriorate in its primary lending areas within Ohio, thereby impairing collateral values.

NOTE C - LOANS RECEIVABLE (CONTINUED)

The following table shows the allowance for loan losses and recorded investment in loans for the year ended December 31, 2015:

	Commercial	Real Estate Mortgage	Consumer	Construction and Development	Home Equity Lines of Credit	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 57	$ 129	$ 42	$ -	$ 45	$ 1	$ 274
Charge-offs	-	34	-	-	32	-	66
Recoveries	86	15	-	-	-	-	101
Provision	(41)	10	(42)	-	17	-	(56)
Ending balance	$ 102	$ 120	$ -	$ -	$ 30	$ 1	$ 253
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 102	$ 120	$ -	$ -	$ 30	$ 1	$ 253
Loans:							
Ending balance	$ 4,941	$ 18,632	$ 275	$ -	$ 2,149	$ 104	$ 26,101
Ending balance: Individually evaluated for impairment	$ -	$ 834	$ -	$ -	$ 115	$ -	$ 949
Ending balance: Collectively evaluated for impairment	$ 4,941	$ 17,798	$ 275	$ -	$ 2,034	$ 104	$ 25,152

NOTE C - LOANS RECEIVABLE (CONTINUED)

The following table shows the allowance for loan losses and recorded investment in loans for the year ended December 31, 2014:

	Commercial	Real Estate Mortgage	Consumer	Construction and Development	Home Equity Lines of Credit	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 57	$ 131	$ 22	$ -	$ 45	$ 1	$ 256
Charge-offs	25	141	-	-	12	-	178
Recoveries	-	17	20	-	-	-	37
Provision	25	122	-	-	12	-	159
Ending balance	$ 57	$ 129	$ 42	$ -	$ 45	$ 1	$ 274
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 57	$ 129	$ 42	$ -	$ 45	$ 1	$ 274
Loans:							
Ending balance	$ 3,697	$ 16,745	$ 332	$ 123	$ 2,120	$ 126	$23,143
Ending balance: Individually evaluated for impairment	$ 126	$ 1,013	$ -	$ -	$ 209	$ -	$ 1,348
Ending balance: Collectively evaluated for impairment	$ 3,571	$ 15,732	$ 332	$ 123	$1,911	$ 126	$21,795

NOTE C - LOANS RECEIVABLE (CONTINUED)

Credit quality indicators by internally assigned grade as of December 31, 2015 are as follows:

Pass - loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention - loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard - loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

The following tables present each loan class by credit quality indicator for the year ended December 31, 2015:

Commercial credit exposure - credit risk profile by internally assigned grade:

	Construction and Land Development	Commercial Real Estate
	(In thousands)	
Pass	$ -	$4,941
Special mention	-	-
Substandard	-	-
TOTALS	$ -	$4,941

Consumer credit exposure - credit risk profile by internally assigned grade:

	Residential Real Estate	Consumer
	(In thousands)	
Pass	$17,680	$2,370
Special mention	-	31
Substandard	952	127
TOTALS	$18,632	$2,528

NOTE C - LOANS RECEIVABLE (CONTINUED)

The following tables present each loan class by credit quality indicator for the year ended December 31, 2014:

Commercial credit exposure - credit risk profile by internally assigned grade:

	Construction and Land Development	Commercial Real Estate
	(In thousands)	
Pass	$ 123	$ 3,571
Special mention	-	-
Substandard	-	126
TOTALS	$ 123	$3,697

Consumer credit exposure - credit risk profile by internally assigned grade:

	Residential Real Estate	Consumer
	(In thousands)	
Pass	$15,610	$2,321
Special mention	-	36
Substandard	1,135	221
TOTALS	$16,745	$2,578

NOTE C - LOANS RECEIVABLE (CONTINUED)

Information on impaired loans for the year ended December 31, 2015 is as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ 25	$ -
Real estate mortgage	834	1,284	-	904	6
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	115	168	-	118	-
TOTALS	$ 949	$1,452	$ -	$1,047	$ 6
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	-	-	-	-	-
TOTALS	$ -	$ -	$ -	$ -	$ -
Total:					
Commercial	$ -	$ -	$ -	$ 25	$ -
Real estate mortgage	834	1,284	-	904	6
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	115	168	-	118	-
TOTALS	$ 949	$1,452	$ -	$ 1,047	$ 6

NOTE C - LOANS RECEIVABLE (CONTINUED)

Information on impaired loans for the year ended December 31, 2014 is as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Commercial	$ 126	$ 350	$ -	$ 207	$ -
Real estate mortgage	1,013	1,405	-	830	10
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	209	253	-	174	-
TOTALS	$1,348	$2,008	$ -	$1,211	$ 10
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	-	-	-	-	-
TOTALS	$ -	$ -	$ -	$ -	$ -
Total:					
Commercial	$ 126	$ 350	$ -	$ 207	$ -
Real estate mortgage	1,013	1,405	-	830	10
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	209	253	-	174	-
TOTALS	$ 1,348	$ 2,008	$ -	$1,211	$ 10

NOTE C - LOANS RECEIVABLE (CONTINUED)

Age analysis of past due loans as of December 31, 2015 is as follows:

	Past Due						Greater Than 90 Days and
	30-59 Days	60-89 Days	Over 90 Days	Total	Current	Total	Still Accruing
				(In thousands)			
Construction and development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	4,941	4,941	-
Residential real estate	19	30	834	883	17,749	18,632	-
Consumer and other	-	-	115	115	2,413	2,528	-
TOTALS	$ 19	$ 30	$ 949	$ 998	$25,103	$26,101	$ -

Age analysis of past due loans as of December 31, 2014 is as follows:

	Past Due						Greater Than 90 Days and
	30-59 Days	60-89 Days	Over 90 Days	Total	Current	Total	Still Accruing
				(In thousands)			
Construction and development	$ -	$ -	$ -	$ -	$ 123	$ 123	$ -
Commercial real estate	-	-	126	126	3,571	3,697	-
Residential real estate	7	-	1,013	1,020	15,725	16,745	-
Consumer and other	-	-	209	209	2,369	2,578	-
TOTALS	$ 7	$ -	$1,348	$1,355	$21,788	$23,143	$ -

NOTE D - REAL ESTATE INVESTMENT - LIMITED PARTNERSHIP

The Association held an interest in a limited partnership formed to construct and operate multi-family housing units. The Association accounts for the investment in the limited partnership using the adjusted cost method which is management's best estimate of fair value. Under the terms of the limited partnership agreement, the Association made an initial capital contribution of $500,000 and is allocated tax losses and affordable housing federal income tax credits based upon that investment. During 2007, additional capital contributions were made in the amount of $212,000. During 2014, the Association sold its interest in the limited partnership. See note N for further discussion of fair value measurements.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31	
	2015	2014
	(In thousands)	
Land	$ 32	$ 32
Building and building improvements	609	608
Furniture and equipment	457	453
	1,098	1,093
Less accumulated depreciation	807	774
TOTALS	$ 291	$ 319

NOTE F - DEPOSITS

Substantially all deposits are interest bearing. The type of deposit accounts are summarized as follows:

	December 31	
	2015	2014
	(In thousands)	
Savings and transaction accounts	$ 28,143	$ 28,638
Certificates of deposit	31,444	30,579
TOTALS	$ 59,587	$ 59,217

Cash and non-IRA deposits are guaranteed by the Federal Deposit Insurance Company (FDIC) up to $250,000. Individual Retirement Account (IRA) deposits in excess of $250,000 are not federally insured at December 31, 2015 and 2014. At December 31, 2015 and 2014, the aggregate amount of individual deposits including IRA deposits in excess of $100,000 was $31 million for each year.

NOTE F - DEPOSITS (CONTINUED)

Scheduled maturities of certificates of deposit are as follows:

	December 31	
	2015	2014
	(In thousands)	
Within one year	$ 17,010	$ 20,704
One to two years	5,411	5,059
Two to three years	4,135	3,323
Three to four years	607	1,009
Four to six years	4,281	484
TOTALS	$ 31,444	$ 30,579

NOTE G - FEDERAL INCOME TAXES

	Year Ended December 31	
	2015	2014
	(In thousands)	
Income tax expense (benefit) is summarized as follows:		
Federal:		
Current	$ (81)	$ (55)
Deferred	44	(23)
TOTALS	$ (37)	$ (78)

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following:

	Year Ended December 31	
	2015	2014
	(In thousands)	
Statutory tax (benefit)	$ 109	$ 59
Effect of nontaxable interest	(102)	(88)
Bank owned life insurance, net	(44)	(49)
ACTUAL TAX (BENEFIT)	$ (37)	$ (78)

NOTE G - FEDERAL INCOME TAXES (CONTINUED)

The components of the net deferred federal income tax asset are as follows:

	December 31	
	2015	2014
	(In thousands)	
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	$ (213)	$ (213)
Depreciation	(16)	(15)
TOTAL DEFERRED TAX LIABILITIES	(229)	(228)
Deferred tax assets:		
Unrealized losses on securities available-for-sale	190	281
Allowance for loan losses	86	93
Imputed loan interest	100	131
Net operating loss carry forward	136	55
Other	21	26
TOTAL DEFERRED TAX ASSETS	533	586
NET DEFERRED FEDERAL INCOME TAX ASSET	$ 304	$ 358

The amount of federal income tax expense attributable to continuing operations may differ from the amount of expense that would result from applying domestic federal statutory rates to pre-tax income from continuing operations primarily due to statutory deduction limitations.

The Association was previously allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8% of otherwise taxable income, or the amount of qualifying and nonqualifying loans outstanding and subject to certain limitations based on aggregate loans and savings account balances at the end of the calendar year. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. Retained earnings at December 31, 2015 includes approximately $2.5 million for which federal income taxes have not been provided. The amount of the unrecognized deferred tax liability relating to the cumulative percentage of earnings bad debt deduction totaled approximately $863,000 at December 31, 2015.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT

Federal Home Loan Bank (FHLB) advances are secured by $22.4 million of investment securities held in safekeeping at the FHLB and qualifying one-to-four family residential loans up to 125% of outstanding advances, or $26.5 million at December 31, 2015 and $25 million at December 31, 2014. Advances issued by the FHLB are at either a variable or fixed rate of interest. Additionally, some advances have a fixed rate for an initial period until a quarterly option exercisable by the FHLB may convert the issue to a variable rate. Other advances have a fixed rate for an initial period until a quarterly put option exercisable by the FHLB would subject the advance to repayment or refinancing at prevailing interest rates. Each convertible advance is subject to a prepayment penalty if paid prior to its maturity date, except when prior to maturity, an advance is converted to a variable rate. In the event of such conversion, the advance may be prepaid without penalty at conversion and on a quarterly basis thereafter. Each fixed rate or putable advance is subject to a prepayment penalty if paid prior to its maturity or put date, as applicable. Cash management advances may be prepaid at any time without penalty.

The following table summarizes the advances as of December 31, 2015.

Interest Rate	Maturity	Initial Conversion/Put	Amount (in thousands)
0.45%	March, 2016	N/A (variable)	$ 1,000
0.45%	March, 2016	N/A (variable)	500
2.39%	April, 2016	N/A (fixed)	2,000
2.01%	July, 2016	N/A (fixed)	1,000
1.38%	September, 2016	N/A (fixed)	1,000
0.97%	January, 2017	N/A (fixed)	1,000
4.58%	June, 2017	June, 2009	2,000
1.35%	December, 2017	N/A (fixed)	2,000
3.14%	March, 2018	N/A (fixed)	1,000
1.96%	December, 2018	N/A (fixed)	1,000
1.83%	January, 2019	N/A (fixed)	1,000
2.14%	January, 2020	N/A (fixed)	1,000
2.10%	December, 2020	N/A (fixed)	2,000
1.87%	March, 2021	N/A (fixed)	1,000
2.09%	January, 2022	N/A (fixed)	2,000
2.47%	April, 2022	N/A (fixed)	2,000
2.09%	January, 2023	N/A (fixed)	2,000
2.43%	April, 2025	N/A (fixed)	3,000
Weighted - average 2.19%		TOTAL	$ 26,500

At December 31, 2014, the outstanding advances from FHLB totaled $25 million at a weighted-average rate of 2.27%.

The Association maintains a $3.2 million unsecured line of credit and a $2.2 million unsecured line of credit with two other financial institutions. The Association also maintains a $3.2 million secured line of credit with a third financial institution. At December 31, 2015 and 2014, the lines of credit were not used and were fully available.

NOTE I - EMPLOYEE BENEFIT PLANS

Stock Option Plan:

The Board of Directors adopted a Stock Option Plan that provided for the issuance of 175,440 shares of authorized but unissued shares of common stock at fair value at the date of grant. During 1999, the Company granted options to purchase 157,896 shares at an exercise price of $12.53 per share.

A summary of the status of the Company's stock option plan as of December 31, 2014 and changes during the period ended on that date is presented below:

	2014	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	11,148	$12.53
Granted	-	-
Exercised	-	-
Expired	11,148	12.53
Outstanding at end of year	-	-
Options exercisable at year-end	-	-

There were no outstanding options to purchase shares as of December 31, 2015.

Employee Stock Ownership Plan:

The Company has an Employee Stock Ownership Plan ("ESOP") which provides retirement benefits for all employees who have completed one year of service and have attained the age of 21. Current FASB guidance requires the measure of compensation expense recorded by employers to equal the average fair value of ESOP shares allocated to participants during a given fiscal year. As shares are committed to be released, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings per share computation. The expense related to the ESOP totaled $62,000 and $60,000 for years 2015 and 2014, respectively.

NOTE J - PREFERRED STOCK

On December 22, 2006, pursuant to the common stockholders' approval, 30,119 preferred shares were issued in exchange for outstanding common shares, on a one-for-one basis, to all common shareholders of record owning 300 or less shares.

Shareholders owning the Series A Preferred Stock are entitled to a 5% preference in the distribution of dividends when and if declared on the common stock. Shareholders owning preferred stock do not have voting rights except for matters pertaining to change in control, such as merger, share exchange or sale of substantially all Company assets. The Series A Preferred Stock automatically converts to shares of Common Stock immediately prior to a change in control.

NOTE K - TREASURY STOCK

Historically, the Board of Directors has authorized the repurchase of its common and preferred stock in the open market or in private transactions. The repurchased shares are to be held in the treasury and used for general corporate purposes including use in the Company's benefit plans. During 2015, the Company purchased 575 shares of preferred stock at a cost of $5,000. During 2014, the Company purchased 837 shares of preferred stock at a cost of $8,000.

NOTE L - OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows:

	2015		
	Pre-tax	Tax	After-tax
		(In thousands)	
Unrealized holding gains on available-for-sale securities	$ 391	$ (133)	$ 258
Reclassification adjustment for gains realized in net income	(123)	42	(81)
OTHER COMPREHENSIVE INCOME	$ 268	$ (91)	$ 177

NOTE L - OTHER COMPREHENSIVE INCOME (CONTINUED)

	2014		
	Pre-tax	Tax	After-tax
		(In thousands)	
Unrealized holding gains on available-for-sale securities	$ 2,547	$ (866)	$ 1,681
Reclassification adjustment for gains realized in net income	(160)	55	(105)
OTHER COMPREHENSIVE INCOME	$ 2,387	$ (811)	$ 1,576

NOTE M - COMMITMENTS AND CONTINGENCIES

The Association is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers including commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of the commitments reflect the extent of the Association's involvement in such financial instruments.

The Association's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Association uses the same credit policies in making commitments and conditional obligations as those utilized for on-balance sheet instruments.

At December 31, 2015, the Association had outstanding commitments of approximately $1.7 million of variable rate home equity lines of credit and $0.30 million of commercial lines of credit. The average interest rate of the lines of credit was 5.00% at December 31, 2015. In the opinion of management, the outstanding loan commitments equaled or exceeded prevalent market interest rates and such loans were underwritten in accordance with normal underwriting policies, and all commitments will be funded via cash flow from operations and existing excess liquidity.

From time to time, and in the ordinary course of business, the Company becomes a party to litigation. In the opinion of management, after consultation with legal counsel, the ultimate disposition of any current claim, asserted or unasserted, is not expected to have a material effect on the Company's consolidated financial statements.

NOTE N - FAIR VALUE MEASUREMENTS

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 values:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.

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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals performed by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

NOTE N - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial Assets and Liabilities Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are as follows:

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2015	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Available-for-sale securities:				
CMOs	$19,491	$19,491	$ -	$ -
Mortgage-backed	4,695	4,695	-	-
U.S. agencies	22,153	22,153		
Municipal bonds	14,287	-	14,287	-
TOTALS	$60,626	$46,339	$ 14,287	$ -

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2014	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Available-for-sale securities:				
CMOs	$18,516	$18,516	$ -	$ -
Mortgage-backed	5,840	5,840	-	-
U.S. agencies	27,985	27,985		
Municipal bonds	7,507	-	7,507	-
TOTALS	$59,848	$52,341	$ 7,507	$ -

NOTE N - FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	(In thousands)
Real Estate Investment-Limited Partnership:	
January 1, 2014 balance	$ 38
Sale of partnership investment	(38)
December 31, 2014 balance	$ -

Financial Assets and Liabilities Measured on a Non-Recurring Basis

Financial assets and liabilities measured at fair value on a non-recurring basis are as follows:

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets at December 31, 2015				
Impaired loans	$ 949	$ -	$ -	$ 949
Assets at December 31, 2014				
Impaired loans	$ 1,348	$ -	$ -	$ 1,348

The valuation methodology used to measure the fair value of these loans was described earlier in this note.

NOTE N - FAIR VALUE MEASUREMENTS (CONTINUED)

Nonfinancial Assets and Liabilities Measured on a Non-Recurring Basis

Nonfinancial assets and liabilities measured at fair value on a non-recurring basis are as follows:

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets at December 31, 2015				
Other real estate owned and foreclosed assets	$ 394	$ -	$ -	$ 394
Assets at December 31, 2014				
Other real estate owned and foreclosed assets	$ 381	$ -	$ -	$ 381

Other real estate owned is valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above.

NOTE N - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial Instruments:

The following table shows carrying values and the related estimated fair values of financial instruments at December 31, 2015 and 2014:

	December 31			
	2015		2014	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
	(In thousands)			
Cash and equivalents	$ 5,783	$ 5,783	$ 7,479	$ 7,479
Securities:				
Available-for-sale	60,626	60,626	59,848	59,848
Held-to-maturity	9	9	11	12
Federal Home Loan Bank (FHLB) stock	1,327	1,327	1,327	1,327
Loans receivable	25,848	25,803	22,869	22,910
Accrued interest receivable	301	301	288	288
Deposits:				
Checking, savings and money market	(28,143)	(28,143)	(28,638)	(28,638)
Certificates of deposit	(31,444)	(31,159)	(30,579)	(30,474)
Accrued interest payable	(65)	(65)	(59)	(59)
Notes payable	(26,500)	(26,393)	(25,000)	(25,221)

For purposes of the above disclosures of estimated fair value, the following assumptions were used: the estimated fair value for cash and equivalents and accrued interest was considered to approximate cost; the estimated fair value for securities was based on quoted market values for the individual securities or for equivalent securities; the estimated fair value of FHLB stock was based on carrying value; the estimated fair value for loans was based on estimates of the rate the Association would charge for similar loans at December 31, 2015 and 2014, respectively, applied over estimated payment periods; the estimated fair value for demand and savings deposits was based on their carrying value; the estimated fair value for certificates of deposit was based on estimates of the rate the Company would pay on such obligations at December 31, 2015 and 2014, respectively, applied for the time period until maturity; the fair value of the advances at December 31, 2015 and 2014 was determined with reference to rates in effect for similar lending arrangements; and the estimated fair value of commitments was not material.

While these estimates of fair values are based on management's judgment of appropriate factors, there is no assurance that, if the Company had disposed of such items at December 31, 2015 or 2014, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2015 should not be considered to apply at any subsequent date.

NOTE O - REGULATORY CAPITAL

The Association is subject to minimum capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"), the Federal Deposit Insurance Corporation, and the Federal Reserve. 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Such minimum capital standards generally require the maintenance of regulatory capital sufficient to meet each of three tests, hereinafter described as the tangible capital requirement, the tier 1 core capital requirement and the total risk-based capital requirement.

The tangible capital requirement provides for minimum tangible capital (defined as stockholders' equity less all intangible assets) equal to 1.5% of adjusted total assets. The tier 1 core capital requirement provides for minimum core capital (tangible capital plus certain forms of supervisory goodwill and other qualifying intangible assets) generally equal to 4.0% of adjusted total assets except for those associations with the highest examination rating and acceptable levels of risk. The total risk-based capital requirement currently provides for the maintenance of core capital plus general loan loss allowances equal to 8.0% of risk-weighted assets. In computing risk-weighted assets, the Association multiplies the value of each asset on its statement of financial condition by a defined risk-weighting factor, e.g., one to four-family residential loans carry a risk-weighted factor of 50%.

As of December 31, 2015 and 2014, the Association was notified by the OCC that it was categorized as "well capitalized" under the framework for prompt corrective action. To be categorized as "well capitalized," the Association must maintain capital ratios as set forth in the following schedule.

NOTE O - REGULATORY CAPITAL (CONTINUED)

As of December 31, 2015 and 2014, management believes that the Association met all capital adequacy requirements to which it was subject.

2015:

	Actual		To be Adequately Capitalized		To be "Well-Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Tier 1 core capital	$ 12,347	12.7%	≥$3,897	≥ 4.0%	≥$4,871	≥ 5.0%
Total risk-based capital	$ 12,600	32.4%	≥$3,111	≥ 8.0%	≥$3,889	≥10.0%
Tier 1 risk-based capital	$ 12,347	31.8%	≥$1,555	≥ 4.0%	≥$2,333	≥ 6.0%
Tangible capital	$ 12,347	12.7%	≥$1,461	≥ 1.5%	*	*

2014:

	Actual		To be Adequately Capitalized		To be "Well-Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Tier 1 core capital	$ 12,870	13.3%	≥$3,871	≥ 4.0%	≥$4,839	≥ 5.0%
Total risk-based capital	$ 13,144	37.9%	≥$2,772	≥ 8.0%	≥$3,465	≥10.0%
Tier 1 risk-based capital	$ 12,870	37.1%	≥$1,386	≥ 4.0%	≥$2,079	≥ 6.0%
Tangible capital	$ 12,870	13.3%	≥$1,452	≥ 1.5%	*	*

*Ratio is not required under regulations

The Association's management believes that, under the current regulatory capital regulations, the Association will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Association, such as increased interest rates or a downturn in the economy in the primary market area, could adversely affect future earnings and, consequently, the ability to meet future minimum regulatory capital requirements.

NOTE O - REGULATORY CAPITAL (CONTINUED)

The Association is subject to regulations imposed by the OCC regarding the amount of capital distributions payable to the Company. Generally, the Association's payment of dividends is limited, without prior OCC approval, to net earnings for the current calendar year plus the two preceding calendar years, less capital distributions paid over the comparable time period. Insured institutions are required to file an application with the OCC for capital distributions in excess of this limitation. The Association must also give notice to the Federal Reserve Bank of Cleveland for approval prior to declaring a dividend to the Company.

NOTE P - CONDENSED FINANCIAL STATEMENTS OF FIRST NILES FINANCIAL, INC.

The following condensed financial statements summarize the financial position of First Niles Financial, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended.

CONDENSED STATEMENTS OF FINANCIAL CONDITION
First Niles Financial, Inc.
(In thousands)

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents:		
Noninterest bearing	$ 46	$ 36
Interest bearing	13	13
	59	49
Investment in Home Federal Savings and Loan Association of Niles	11,977	11,818
Prepaid federal income tax	167	118
TOTAL ASSETS	$12,203	$11,985
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable to Home Federal Savings and Loan Association of Niles	$ 59	$ 1
Accrued expenses	37	33
TOTAL LIABILITIES	96	34
Stockholders' equity	12,107	11,951
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$12,203	$11,985

NOTE P - CONDENSED FINANCIAL STATEMENTS OF FIRST NILES FINANCIAL, INC. (CONTINUED)

CONDENSED STATEMENTS OF INCOME
First Niles Financial, Inc.
(In thousands)

	Year Ended December 31	
	2015	2014
Interest Income	$ -	$ -
TOTAL REVENUE	-	-
General and administrative expenses	107	139
LOSS BEFORE INCOME TAX CREDITS AND EQUITY IN EARNINGS OF SUBSIDIARY	(107)	(139)
Income tax credits	(37)	(47)
LOSS BEFORE EQUITY IN EARNINGS OF SUBSIDIARY	(70)	(92)
Equity in earnings of subsidiary	282	317
NET INCOME	$ 212	$ 225

NOTE P - CONDENSED FINANCIAL STATEMENTS OF FIRST NILES FINANCIAL, INC. (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS
First Niles Financial, Inc.
(In thousands)

	Year Ended December 31	
	2015	2014
Cash flows from operating activities:		
Net income for the period	$ 212	$ 225
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess distributions (undistributed income of) from consolidated subsidiary	18	(317)
Net decrease in due from subsidiary, accrued interest and prepaid expenses	9	107
Increase (decrease) in accounts payable and accrued expenses	4	(3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	243	12
Cash flows from investing activities:		
Net decrease in interest bearing deposits	-	253
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	253
Cash flows from financing activities:		
Purchase of treasury stock	(5)	(8)
Dividends paid	(228)	(228)
NET CASH USED IN FINANCING ACTIVITIES	(233)	(236)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10	29
Cash and cash equivalents at beginning of period	36	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 46	$ 36

NOTE Q - SUBSEQUENT EVENT

The Company has evaluated all subsequent events through March 5, 2016, the date the financial statements were available to be issued.

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. local time, Wednesday, April 27, 2016, at the main office of First Niles, located at 55 North Main Street, Niles, Ohio.

COMMON STOCK AND DIVIDENDS

Before December 2006, First Niles Financial, Inc.'s common stock traded on The Nasdaq SmallCap Market under the symbol "FNFI." As a result of a stockholder-approved "going private" transaction in December 2006, the Company's stock is now quoted on the OTCQB under the symbol "FNFI."

As of December 31, 2015, the Company had issued 1,724,741 shares of common stock with 1,113,172 outstanding held by approximately 113 stockholders of record. At the same date the Company had issued 29,670 shares of preferred stock with 23,444 shares outstanding held by approximately 176 stockholders of record.

The table below presents the quarterly range of high and low sales prices of First Niles' common stock for 2014 and 2015, as well as the amount of cash distributions declared during the stated periods. The price information set forth in the table below was provided by an independent outside source.

	HIGH	LOW	Cash Dividends Declared
First Quarter (ended March 31, 2014)	$7.88	$6.00	$0.05
Second Quarter (ended June 30, 2014)	$9.25	$7.03	$0.05
Third Quarter (ended September 30, 2014)	$9.95	$9.00	$0.05
Fourth Quarter (ended December 31, 2014)	$9.45	$9.15	$0.05
First Quarter (ended March 31, 2015)	$9.40	$8.50	$0.05
Second Quarter (ended June 30, 2015)	$10.65	$8.50	$0.05
Third Quarter (ended September 30, 2015)	$9.55	$8.46	$0.05
Fourth Quarter (ended December 31, 2015)	$9.00	$8.50	$0.05

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions. Restrictions on dividend payments are described in Note O of the Notes to Consolidated Financial Statements included in this Annual Report.

STOCKHOLDER AND GENERAL INQUIRIES

Lawrence Safarek, President
First Niles Financial, Inc.
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Niles, Ohio 44446
(330) 652-2539

TRANSFER AGENT

Computershare
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College Station, TX 77842-3170
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http://www.computershare.com/investor

ANNUAL AND OTHER REPORTS

Copies of the Company's Annual Report can be obtained, without cost, by writing or calling: First Niles Financial, Inc. Investor Relations, Attn: Lawrence Safarek, President, 55 North Main Street, Niles, Ohio 44446, telephone (330) 652-2539.

FIRST NILES FINANCIAL, INC.
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BOARD OF DIRECTORS

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President and Chief Executive Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

DANIEL E. CSONTOS
Vice President and Treasurer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

P. JAMES KRAMER
Chairman, First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

President, Wm. Kramer & Sons

WILLIAM EDDY
President, Clinic of Osteopathic Medicine, Inc.

ROBERT I. SHAKER
Partner, Law Firm of Shaker & Shaker

EXECUTIVE OFFICERS

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President and Chief Executive Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

DANIEL E. CSONTOS
Vice President and Treasurer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

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Home Federal

Savings and Loan Association of Niles

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