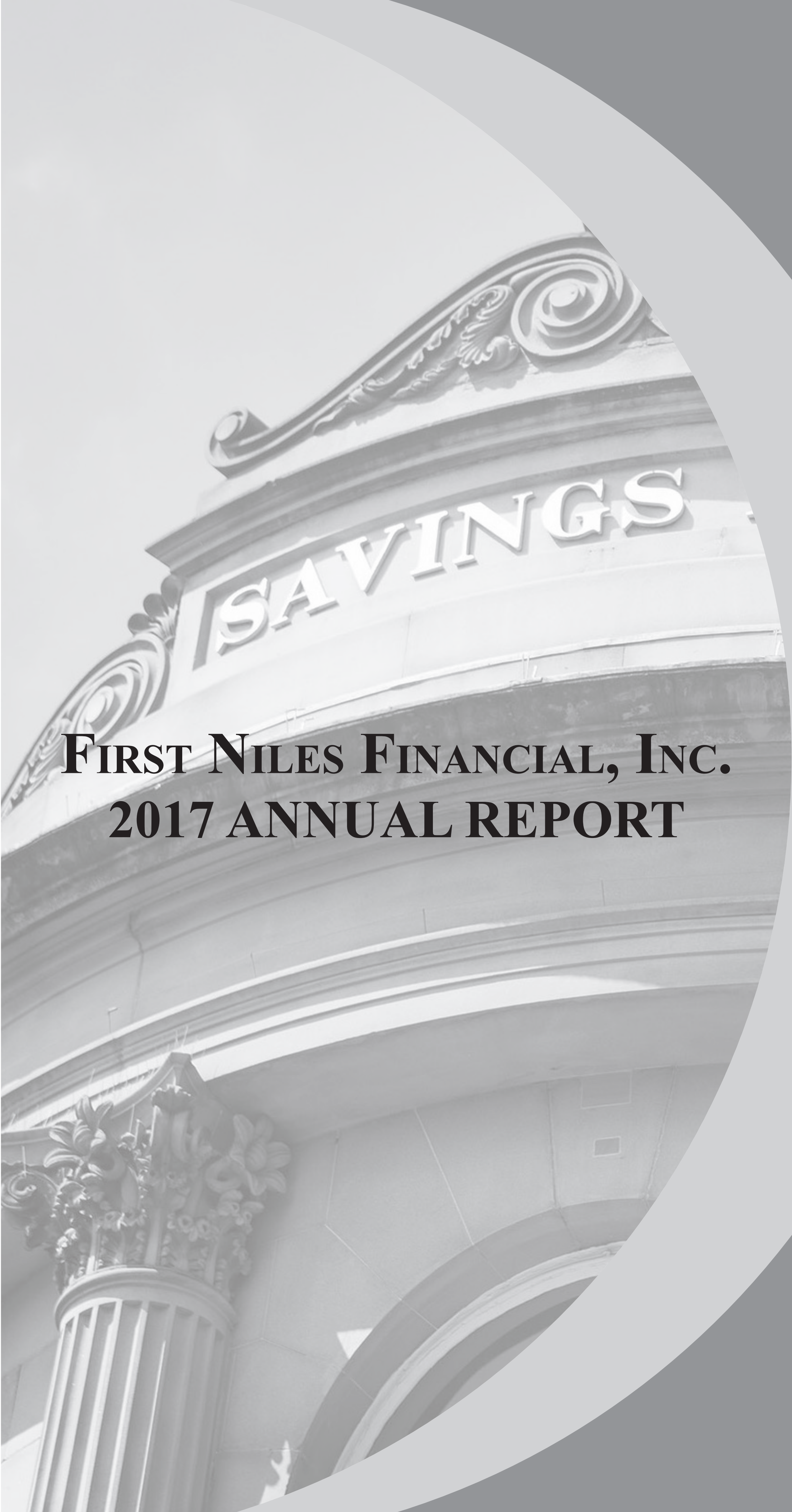
FIRST NILES FINANCIAL, INC.
2017 ANNUAL REPORT



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First Niles Financial, Inc.
55 North Main Street
P.O. Box 311
Niles, Ohio 44446-0311

Ph. (330) 652-2539 ~ Fax: (330) 652-0911

March 23, 2018

To Our Stockholders:

Management dramatically increased the Company's profitability in 2017. During the year the following was achieved:

- a 1,479.0% increase in net income, from $24,000 in 2016 to $379,000 in 2017, which translated into earnings per common share of $0.34 in 2017 versus $0.02 in 2016. Federal income tax law changes that took effect in late 2017 resulted in a $148,000 write-down of the Company's deferred tax asset. Before this one-time expense, net income was $527,000, or $0.47 per common share.

- a 21.6% decrease in noninterest expense, from $1.898 million to $1.488 million, or a decrease of $410,000.

- a 23.8% increase in net interest income after the provision for loan losses, increasing from $1.493 in 2016 to $1.849 million, or an increase of $356,000.

- a 20.1% increase in net loans receivable, from $34.483 million in 2016 to $41.398 million in 2017.

- a 66.6% increase in the dividend per common share, from $.03 to $.05. Our common stock dividend payment history now extends to nineteen years of uninterrupted quarterly dividends as of year-end 2017.

- tax equivalent net interest margin for the year increased 46 basis points, from 1.93% to 2.39%.

While the Company is proud of the progress achieved during 2017, your management team, our employees and our Board of Directors are working diligently towards improving earnings in 2018 and beyond. Controlling expenses and increasing the loan portfolio with quality credits continue to be among our primary objectives. The focus on the loan portfolio continues to be directed towards loans with adjustable rate features. With this in mind, I would like to take this opportunity to remind our shareholders to refer loan customers to our Company, whether they are consumer or commercial real estate related. Competition is strong in our market area and your assistance is always greatly appreciated and we believe will be rewarding for all involved.

Our Company's strong financial condition continues to provide flexibility for the management of our capital. This flexibility includes opportunities for increasing dividends, growth in assets, new product introductions and other strategic activities, such as the establishment of loan production offices. At December 31, 2017, stockholders' equity totaled approximately $12.2 million, or 12.2% of total assets and our book value per common share was $10.72.

Sincerely,

/s/ Daniel E. Csontos

DANIEL E. CSONTOS
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 $99.6 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. However, in the past year we also significantly increased our origination of 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. Historically, we have borrowed funds from the Federal Home Loan Bank ("FHLB") and reinvested the proceeds in investment securities at generally favorable interest rate spreads. More recently these borrowings have been used for general liquidity purposes, including the origination of the types of loans as described above.

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 2017, 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 the first part of 2017, market interest rates continued to fluctuate at or close to the lowest levels experienced in the past 50 years or more. However, during the second half of the year market short term market interest rates began to rise noticeably due to Federal Reserve Open Market Operations. During the year, longer term interest rates remained higher than short-term interest rates, resulting in an upsloping yield curve. However, during the year, the slope of the yield curve began to flatten with short term interest rates rising more than long-term interest rates. This environment could have a negative 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 decrease. 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 compliance with increased government regulation, especially in in recent years has also negatively impacted our operating expenses and thus our earnings.

As of December 31, 2017, nonperforming loans totaled 1.31% of net loans receivable. Nonperforming assets, which includes real estate owned, represented 0.90% of total assets at year-end 2017. At such date, our allowance for loan losses to nonperforming loans was 59.38% and to net loans receivable was 0.78%. At December 31, 2017, 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, 2017	2016	2015
		(In thousands)	
Selected Financial Condition Data:			
Total assets	$99,844	$97,473	$98,472
Loans receivable, net	41,398	34,483	25,848
Securities - held to maturity	5	7	9
Securities – available for sale and FHLB stock	49,365	51,447	60,626
Deposits	59,030	59,418	59,587
Total borrowings	28,395	25,973	26,500
Stockholders' equity	12,173	11,814	12,107

	Years Ended December 31, 2017	2016	2015
		(In thousands, except per share amounts)	
Selected Operations Data:			
Total interest income	$2,706	$2,411	$2,699
Total interest expense	857	918	866
Net interest income	1,849	1,493	1,833
Provision for loan losses	0	0	(56)
Net interest income after provision for loan losses	1,849	1,493	1,889
Fees and service charges	24	22	17
Gain on sales of investment securities	78	147	123
Other noninterest income	95	103	115
Total noninterest income	197	272	255
Total noninterest expense	1,488	1,898	1,969
Income (loss) before taxes and extraordinary item	558	(133)	175
Income tax provision	179	(157)	(47)
Net income (loss)	$379	$24	$212
Earnings per share – basic	$0.34	$0.02	$0.19
Diluted	$0.34	$0.02	$0.19
Dividends per share	$0.16	$0.12	$0.20

	Years Ended December 31,		
	2017	**2016**	**2015**
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on assets (ratio of net income to average total assets)	0.39%	0.02%	0.22%
Return on equity (ratio of net income to average equity)	3.10	0.19	1.73
Interest rate spread:			
Average during year	1.98	1.58	1.90
Tax equivalent average during year	2.33	1.86	2.08
End of year	2.02	1.81	1.73
Net interest margin (net interest income divided by average interest-earning assets)	2.04	1.66	1.97
Tax equivalent net interest margin (net interest income divided by average interest-earning assets)	2.39	1.93	2.16
Ratio of average interest-earning assets to average interest-bearing liabilities	1.07	1.08	1.08
Quality Ratios:			
Nonperforming assets to total assets at end of year	0.90%	1.07%	1.36%
Nonperforming loans to loans receivable, net, end of year	1.31	1.84	3.67
Allowance for loan losses to nonperforming loans, end of year	59.38	43.38	26.66
Allowance for loan losses to loans receivable, net, end of year	0.78	0.80	0.98
Capital Ratios:			
Equity to total assets at end of year	12.19%	12.12%	12.29%
Average equity to average assets	12.53	13.13	12.41
Other Data:			
Book value per common share outstanding	$10.72	$10.39	$10.65
Dividend payout ratio[1]	48.28%	570.83%	107.55%
Number of full-service offices	1	1	1

[1] Dividends per share divided by earnings per common share and common share equivalent.

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, among 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 substantiated.

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. The price movements within our securities portfolio are primarily dependent upon the movement in interest rates, particularly given the minimal inherent credit risk of these securities.

Financial Condition

The following discussion compares our consolidated financial condition at December 31, 2017 to December 31, 2016 and the results of operations for the year ended December 31, 2017 with the year ended December 31, 2016. This discussion should be read in conjunction with the consolidated financial statements and footnotes included herein.

Assets totaled \$99.8 million at December 31, 2017, an increase of \$2.4 million from December 31, 2016. Cash and cash equivalents decreased \$1.5 million and net loans receivable increased \$6.9 million during 2017. Loan growth was relatively strong in 2017, especially in the commercial real estate sector. Total investment securities declined \$2.1 million during the year. As of December 31, 2017, investment securities were comprised of \$48.0 million in securities available for sale and \$5,000 in securities held to maturity. Home Federal also had \$1.3 million in FHLB stock as of December 31, 2017, unchanged from year-end 2016.

Our loan portfolio increased \$6.9 million, or 20.1%, to \$41.4 million at December 31, 2017, as compared to \$34.5 million at December 31, 2016. Specifically, loans secured by one- to four-family properties, our largest loan category, decreased \$404,000 and ended the year with a balance of \$23.3 million. Commercial real estate loans, which includes loans secured by multi-family properties, increased $5.2 million, ending the year with a balance of $13.6 million. Home equity lines of credit ended the year at $2.0 million, $162,000 greater than at December 31, 2016. Loans for construction and development increased $1.5 million, ending the year with a balance of $1.8 million. Consumer and other loans increased $494,000 during the year, ending with a balance of $871,000. The allowance for loan losses increased $49,000 during 2017 due to net recoveries and ended the year at $323,000.

Deposits totaled $59.0 million at December 31, 2017, compared to $59.4 million at December 31, 2016, a decrease of $388,000, or 0.6%. During the year ended December 31, 2017, savings, demand and NOW accounts collectively decreased $355,000 and certificates of deposit decreased $33,000.

FHLB advances totaled $27.5 million at December 31, 2017 as compared to $25.0 million at December 31, 2016. At December 31, 2017, these FHLB advances were comprised of 17 different contracts. Twelve advances, totaling $18.5 million, have original maturities greater than one year, have fixed interest rates and remaining maturities ranging from March 2018 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. Three advances, totaling $6.7 million, with original maturities of four weeks, have fixed interest rates and cannot be prepaid. Two advances totaling $2.3 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.

The advances from the FHLB have 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. At December 31, 2017 the Company had $795,000 in other borrowings related to a commitment to fund an investment in an Affordable Housing Tax Credit Fund and $100,000 payable to a bank which was paid off subsequent to year end.

Total equity at December 31, 2017 was $12.2 million, or 12.2% of total assets. This was $359,000 greater than at year-end 2016. The increase in total equity during the year was attributable to a $98,000 decrease in accumulated other comprehensive loss and a $268,000 increase in retained earnings, partially offset by $7,000 from the repurchase of preferred stock.

During 2017 and 2016 the Company did not repurchase any shares of common stock. During 2017 the Company repurchased 625 shares of preferred stock at a total cost of $7,000, or $10.44 per share. During 2016 the Company did not repurchase any shares of preferred stock. As of December 31, 2017 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, 2017, 13,640 common shares and 1,172 preferred shares had been purchased as part of the respective authorizations. At both December 31, 2017 and December 31, 2016 there were 1,113,172 shares of common stock outstanding. Preferred shares outstanding were 22,819 at December 31, 2017 and 23,444 at December 31, 2016.

Results of Operations

Net Income. The Company recorded net income of $379,000 for the year ended December 31, 2017, an increase of $355,000 from 2016. The increase in net income was primarily due to a $356,000 increase in net interest income, a $410,000 decrease in noninterest expense, partially offset by a $75,000 decrease in noninterest income and a $336,000 increase in the federal income tax expense.

Our return on average assets was 0.39% for the year ended 2017, compared to 0.02% for the year ended 2016. Return on average equity was 3.10% for 2017, compared to 0.19% for 2016. Average equity to average assets was 12.53% for the year ended 2017, compared to 13.13% for the year ended 2016. In 2017 we paid annual, aggregate, regular quarterly dividends on common stock totaling $178,000, or $0.16 per share, and annual, aggregate, regular quarterly dividends on preferred stock totaling $5,000, or $0.20 per share. In 2016 we paid annual, aggregate, regular quarterly dividends on common stock totaling $133,000, or $0.12 per share, and annual, aggregate, regular quarterly dividends on preferred stock totaling $4,000, or $0.16 per share.

Net Interest Income. Net interest income for the year ended December 31, 2017 was $1.8 million, a $356,000 increase from the year ended December 31, 2016. Our net interest spread during 2017 was 1.98%, a 40 basis point increase from the 1.58% spread experienced during 2016. On a tax-equivalent basis the net interest spread during 2017 was 2.33%, as compared to 1.86% in 2016, an increase of 47 basis points. Net interest margin increased 38 basis points to 2.04% during 2017 from 1.66% in 2016. On a tax-equivalent basis net interest margin was 2.39% during 2017, as compared to 1.93% in 2016, an increase of 46 basis points.

The increase in net interest margin was due to an increase in total interest income of $295,000, or 12.2%, on a comparative year basis, in addition to a decrease in total interest expense of $61,000, or 6.6% on a comparative year basis. Average interest-earning assets increased to $90.6 million during 2017 from $89.9 million during 2016. The increase in average interest-earning assets primarily consisted of a $5.9 million increase in the average balance of loans receivable and a $3.4 million increase in the average balance of tax exempt investment securities, partially offset by a $4 million decrease in the average balance of taxable investment securities, a $3.2 million decrease in the average balance of interest-bearing deposits and a $1.4 million decrease in the average balance of mortgage-backed and related securities. Total interest income increased from 2016 to 2017, primarily because of an increase in the average balance of our loans receivable. The overall yield on interest earning assets increased 38 basis points, from 2.96% in 2016 to 3.34% in 2017, on a tax-equivalent basis.

The yield on our portfolio of loans receivable increased seven basis points during 2017 from 4.20% to 4.27%. The yield on our mortgage-backed and related securities portfolio increased 12 basis points on a year-to-year comparative basis from 1.94% to 2.06%. Our investment securities portfolio experienced a 42 basis point increase from 2.24% in 2016 to 2.66% in 2017. Our tax exempt investment securities yield was 3.99% in 2017 as compared to 3.78% in 2016. Adjustable-rate loans comprised approximately 43.7% of our gross loan portfolio at December 31, 2017.

The $1.9 million increase in average interest-bearing liabilities was primarily comprised of an increase in average borrowings. Total interest expense decreased $61,000, or 6.6%, from $918,000 in 2016 to $857,000 in 2017. Overall, our cost of funds decreased nine basis points from 1.10% during 2016 to 1.01% during 2017. During 2017, the weighted-average interest rate of our

FHLB advances was 1.89%, 51 basis points lower than in 2016. Our cost of deposits increased five basis points, from 0.60% during 2016 to 0.65% during 2017. The average rate paid on our certificate of deposit accounts, our largest category of deposit accounts, increased 13 basis points, from 1.03% in 2016 to 1.16% in 2017. The average rate of interest paid on savings deposits and NOW accounts decreased 1 basis point from 2016 to 2017.

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, 2017			Year Ended December 31, 2016		
	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]	$35,227	$1,505	4.27%	$29,297	$1,231	4.20%
Mortgage-backed and related securities	26,750	551	2.06%	28,129	546	1.94%
Investment securities-Taxable	6,803	181	2.66%	10,879	244	2.24%
Investment securities – Tax exempt	17,178	685	3.99%	13,824	523	3.78%
FHLB stock	1,327	66	4.97%	1,327	53	4.00%
Interest-bearing deposits	3,283	33	1.01%	6,451	60	0.93%
Total interest-earning assets [1] [2]	90,568	3,021	3.34%	89,907	2,657	2.96%
Noninterest-earning assets	7,103			6,157		
Allowance for Loan Losses	(304)			(248)		
Total Assets	$97,367			$95,816		
Interest-Bearing Liabilities:						
Savings deposits	$22,205	$25	0.11%	$21,981	$25	0.11%
Demand and NOW deposits	6,461	5	0.08%	5,701	5	0.09%
Certificates of deposit	30,518	353	1.16%	31,527	324	1.03%
FHLB Advances	24,775	469	1.89%	23,453	564	2.40%
Other Borrowings	1,020	5	0.49%	370	-	
Total interest-bearing liabilities	84,979	857	1.01%	83,032	918	1.10%
Noninterest-bearing liabilities	188			199		
Total Liabilities	85,167			83,231		
Stockholders' Equity	12,200			12,585		
Total Liabilities and Equity	$97,367			$95,816		
Tax-equivalent net interest income		$2,164			$1,739	
Less: Tax equivalent adjustment		(315)			(246)	
Net interest income		$1,849			$1,493	
Tax equivalent net interest spread			2.33%			1.86%
Net interest rate spread			1.98%			1.58%
Net earning assets	$5,589			$6,875		
Tax equivalent net yield on average interest earning assets.			2.39%			1.93%
Net yield on average interest-earning assets			2.04%			1.66%
Average interest-earning assets to average interest-bearing liabilities		1.07x			1.08x	

[1] Calculated net of deferred loan fees, loan discounts and loans in process. Includes nonaccrual loans.
[2] Tax-equivalent asset yield of 3.34% with an asset yield of 2.99% in 2017 and a tax-equivalent asset yield of 2.96% with an asset yield of 2.68% in 2016.

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, 2017 vs. 2016		
	Increase/(Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
	(In Thousands)		
Interest-earning assets:			
Loans receivable	$254	$20	$274
Mortgage-backed and related securities	(20)	25	5
Investment securities and FHLB stock	(16)	59	43
Interest-bearing deposits and other	(32)	5	(27)
Total interest-earning assets	$186	$109	$295
Interest-bearing liabilities:			
Savings deposits	$ -	$ -	$ -
Demand and NOW deposits	-	-	-
Certificates of deposit	(10)	39	29
Borrowings	53	(143)	(90)
Total interest-bearing liabilities	$43	$(104)	$(61)
Net interest income	$143	$213	$356

Provision for Loan Losses. Our provision for loan losses, which is the amount charged against income to increase the allowance for loan losses, was zero for both the year ended December 31, 2017 and the year ended December 31, 2016. Nonperforming loans, which are defined as nonaccruing loans as well as loans delinquent more than 90 days and still accruing interest, decreased by $90,000, to $544,000 at December 31, 2017, from $634,000 at December 31, 2016. Our nonperforming loans totaled 1.31% of net loans receivable at December 31, 2017, compared to 1.84% of net loans receivable at December 31, 2016. Our allowance for loan losses was $323,000 at December 31, 2017, representing 59.38% of nonperforming loans and 0.78% of net loans receivable. At December 31, 2016 the allowance for loan losses was $275,000, representing 43.38% of nonperforming loans and 0.80% of net loans receivable. At December 31, 2017 we had $355,000 in real estate owned, comprised of one single family property and one commercial property. We had

$413,000 in real estate owned at December 31, 2016, 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. Each component of our analysis is 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 management considers 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 its examination process, which may result in the establishment of an additional allowance.

Noninterest Income. Noninterest income decreased to $197,000 for the year ended December 31, 2017 from $272,000 for the year ended December 31, 2016. During 2017, noninterest income was comprised of $78,000 gain on sale of investment securities and $119,000 in service fees and other income, which includes $80,000 in accrued income from Bank Owned Life Insurance. During 2016, noninterest income was comprised of $147,000 from gain on sale of investments and $125,000 in service fees and other income, which included $83,000 in accrued income from Bank Owned Life Insurance.

Noninterest Expense. Noninterest expense decreased $410,000, or 21.6%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The decrease was primarily due to a $174,000 decrease in compensation and benefits expense, a $112,000 reduction in legal and audit expense and a $57,000 decrease in other operating expense. The decrease in compensation and benefits expense was primarily due to decreased officer staffing levels.

Federal Income Taxes. The provision for federal income taxes was $179,000 for the year ended December 31, 2017, a $336,000 increase from the $157,000 tax benefit realized in 2016. The income tax expense for 2017 was $31,000 before the Company recorded a one-time adjustment of $148,000 for the tax reform related write-down of the value of its deferred tax asset. This occurred due to the reduction in the top federal corporate income tax rate from 35.0% to 21.0% by legislation in late 2017. 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 among Home Federal's most significant market risks.

Our operations are also affected by our level of noninterest 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 our 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 changes in 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, 2017, adjustable-rate mortgage loans, including home equity lines of credit, totaled $18.2 million, or 43.7% 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, 2017, 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, 2017				
	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	$11,675	$(4,590)	(28.2)%	13.31%	(303)
+200	12,997	(3,267)	(20.1)	14.23	(211)
+100	14,237	(2,028)	(12.5)	15.00	(134)
	16,265	---	---	16.34	---
-100	15,767	(498)	(3.1)	15.50	(84)
-200	14,515	(1,750)	(10.8)	14.04	(230)
-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, 2017, Home Federal was outside the economic value of equity interest rate risk policy limits established by its Board of Directors for increases in interest rates of +100, +200 and +300 basis points. The limits at these levels are negative 10.0%, negative 18.0% and negative 26.0%, respectively. The differences between the limits and the model results as presented above are being monitored by management. 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, 2017, cash and cash equivalents totaled $1.8 million compared to $3.3 million at December 31, 2016. 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 $7.0 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, 2017. Additionally, we have the ability to borrow funds from the FHLB of Cincinnati. At December 31, 2017, we had $2.5 million in unused borrowing capacity from the FHLB of Cincinnati.

At December 31, 2017, we had commitments to fund $255,000 in construction loans and other loan origination commitments of $1.6 million. At this date, we had no investment security purchase commitments outstanding and $24,000 in performance standby letters of credit outstanding. The unused portion of home equity lines of credit and lines of credit secured by other real estate at December 31, 2016 was $1.7 million and $66,000, respectively. Certificates of deposit scheduled to mature in one year or less at December 31, 2017 totaled $15.3 million. We had $492,000 in investment or mortgage-related securities scheduled to mature in one year or less at December 31, 2017. 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 $12.2 million at December 31, 2017, or 12.2% 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, 2017, Home Federal exceeded all capital requirements of the Office of the Comptroller of the Currency. Our regulatory capital ratios at December 31, 2017 were as follows: Tier 1 (leverage) capital, 12.82%; Tier 1 risk-based capital, 26.06%; and Total risk-based capital, 26.74%. The regulatory capital requirements to be considered well capitalized are 5.0%, 8.0%, and 10.0%, respectively.

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.

Corbets & Associates, Inc.
Certified Public Accountants

33595 Bainbridge Road, Suite 205
Solon, Ohio 44139
Phone: (440) 349-0463 Fax: (440) 349-1142

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
First Niles Financial, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Niles Financial, Inc. and subsidiary, which comprise the consolidated statements of financial position as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the 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, 2017, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note A to the financial statements, in 2017, First Niles Financial, Inc. and subsidiary adopted new accounting guidance for the reclassification of certain tax effects from accumulated other comprehensive income. Our opinion is not modified with respect to this matter.

Other Matters - Predecessor

The consolidated financial statements of First Niles Financial, Inc. and subsidiary as of December 31, 2016, and for the year then ended were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 7, 2017.

Corbits + Associates

Solon, Ohio
March 13, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands, except share data)

	December 31	
	2017	2016
ASSETS		
Cash and cash equivalents:		
Noninterest bearing	$ 758	$ 726
Interest bearing	1,031	2,524
TOTAL CASH AND CASH EQUIVALENTS	1,789	3,250
Securities:		
Available-for-sale - at fair value	48,038	50,120
Held-to-maturity - at amortized cost	5	7
Interest bearing deposits with banks	1,350	2,100
Loans receivable, less valuation allowance	41,398	34,483
Accrued interest receivable	282	250
Federal Home Loan Bank stock, at cost (restricted)	1,327	1,327
Bank owned life insurance	3,403	3,324
Limited partnership - Ohio Equity Fund	955	1,000
Other real estate owned	355	413
Prepaid expenses and other assets	353	364
Deferred federal income tax asset	331	554
Premises and equipment, at cost less accumulated depreciation	258	281
TOTAL ASSETS	$ 99,844	$ 97,473
LIABILITIES		
Deposits	$ 59,030	$ 59,418
Accrued interest payable	64	57
Accounts payable and other liabilities	182	211
Federal Home Loan Bank advances	27,500	25,000
Note payable - Ohio Equity Fund	795	973
Note payable - The Pioneer Savings Bank	100	-
TOTAL LIABILITIES	87,671	85,659
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	12,931	12,663
Accumulated other comprehensive loss:		
Net unrealized losses on securities available-for-sale, net of related tax effects of $121 in 2017 and $283 in 2016	(451)	(549)
Treasury stock - 618,420 and 617,795 shares at cost at December 31, 2017 and 2016, respectively	(7,370)	(7,363)
TOTAL STOCKHOLDERS' EQUITY	12,173	11,814
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 99,844	$ 97,473

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	
	2017	2016
Interest income:		
Loans receivable:		
First mortgage loans	$ 1,392	$ 1,119
Consumer and other loans	113	112
Mortgage-backed and related securities	551	546
U.S. Agencies and other securities	618	574
Interest-bearing deposits	32	60
TOTAL INTEREST INCOME	2,706	2,411
Interest expense:		
Deposits	383	354
Borrowings	474	564
TOTAL INTEREST EXPENSE	857	918
NET INTEREST INCOME	1,849	1,493
Provision for loan losses (recovery)	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES (RECOVERY)	1,849	1,493
Noninterest income:		
Realized gains on sale of securities and interest-bearing deposits with banks	78	147
Service fees and other	119	125
TOTAL NONINTEREST INCOME	197	272
Noninterest expense:		
Real estate owned losses and expenses	19	39
General and administrative:		
Compensation and benefits	857	1,031
Occupancy and equipment	85	111
Federal deposit insurance premiums	28	47
State taxes	109	113
Other operating expense	390	557
TOTAL NONINTEREST EXPENSE	1,488	1,898
INCOME (LOSS) BEFORE INCOME TAXES	558	(133)
Federal income tax expense (benefit)	179	(157)
NET INCOME	$ 379	$ 24
EARNINGS PER SHARE - BASIC	$ 0.34	$ 0.02
- DILUTED	$ 0.34	$ 0.02

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands)

	Year Ended December 31	
	2017	2016
Net income	$ 379	$ 24
Other comprehensive income (loss), net of tax:		
Net unrealized holding gains (losses) on available-for-sale securities	335	(127)
Reclassification adjustment for gains realized in income	(75)	(146)
Net unrealized holding gains (losses)	260	(273)
Income tax effect	(90)	93
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	170	(180)
COMPREHENSIVE INCOME (LOSS)	$ 549	$ (156)

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, 2017 and 2016

(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance January 1, 2016	18	7,045	12,776	(369)	(7,363)	12,107
Comprehensive income:						
Net income	-	-	24	-	-	24
Change in unrealized losses on securities of $84, net of reclassification adjustment for gains included in net loss of $96	-	-	-	(180)	-	(180)
Treasury stock purchased	-	-	-	-	-	-
Cash dividends - $.12 per share	-	-	(137)	-	-	(137)
BALANCE DECEMBER 31, 2016	18	7,045	12,663	(549)	(7,363)	11,814
Comprehensive income:						
Net income	-	-	379	-	-	379
Change in unrealized gains on securities of $220, net of reclassification adjustment for gains included in net income of $50	-	-	-	170	-	170
Reclassification of the disproportionate tax effect of a tax reform writedown of deferred tax assets on AOCI	-	-	72	(72)	-	-
Treasury stock purchased	-	-	-	-	(7)	(7)
Cash dividends - $.16 per share	-	-	(183)	-	-	(183)
BALANCE DECEMBER 31, 2017	$ 18	$ 7,045	$ 12,931	$ (451)	$ (7,370)	$ 12,173

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	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 379	$ 24
Adjustments to reconcile net income to net cash provided by operating activities		
Deferred income tax expense (benefit)	179	(157)
Depreciation	29	30
Amortization of deferred loan fees and costs	5	17
Amortization of discounts and premiums on investments and mortgage-backed and related securities, net	261	290
Realized gains on sale of securities	(75)	(138)
Realized gains on sale of interest-bearing deposits with banks	(3)	(9)
Realized net gains on sale of real estate owned	(3)	(5)
Other real estate owned valuation adjustments	-	-
Provision for loan recovery	-	-
	772	52
Increase in accrued interest receivable, prepaid expenses and other asset	(100)	(48)
Decrease in accrued interest payable, accounts payable and other liabilities	(22)	(10)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	650	(6)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Sales	5,111	7,526
Maturities, prepayments and calls	7,182	32,579
Purchases	(10,135)	(30,025)
Activity in held-to-maturity securities:		
Maturities, prepayments and calls	2	2
Proceeds from sale of other real estate owned	61	156
Decrease in interest-bearing deposits with banks	750	998
Net Increase in loans receivable	(6,920)	(8,821)
Purchase of premises and equipment	(6)	(20)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(3,955)	2,395
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury shares	(7)	-
Dividends paid	(183)	(137)
Net Increase (decrease) in savings accounts	(355)	612
Net Increase (decrease) in certificates of deposit	(33)	(781)
Proceeds from Federal Home Loan Bank advances	55,600	13,600
Proceeds from note payable-The Pioneer Savings Bank	100	-
Payment of Federal Home Loan Bank advances	(53,100)	(15,100)
Payment on note payable-Ohio Equity Fund	(178)	(27)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,844	(1,833)
NET INCREASE (DECREASE) IN CASH	(1,461)	556
CASH AT BEGINNING OF YEAR	3,250	2,694
CASH AT END OF YEAR	$ 1,789	$ 3,250
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid during the period for:		
Interest	$ 851	$ 925
Taxes	$ -	$ -
Schedule of noncash investing and financing activities:		
Loans transferred to other real estate owned and foreclosed assets	$ -	$ 169
Investment in Ohio Equity Fund	$ -	$ 973

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

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.

Use of Estimates:

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 and cash equivalents, includes both noninterest and interest bearing cash which includes cash on hand and amounts due from correspondent banks with an original maturity of 90 days or less.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk:

Financial instruments which potentially subject the Association to concentration of credit risk consist of cash investments in excess of federally insured limits. The Association places its temporary cash with high credit quality financial institutions. At December 31, 2017 and 2016, there were balances of $1,428,000 and $2,717,000, respectively, in excess of the FDIC insured limit of $250,000.

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, 2017 and 2016.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell securities classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Association’s assets and liabilities, liquidity needs, regulatory capital consideration, and other similar factors. 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, unearned income, and deferred loan fees and origination costs. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (continued):

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 $162,000 and $271,000, respectively, are carried with outstanding loan balances at December 31, 2017.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Losses on Loans (continued):

At December 31, 2017, the Association identified seventeen loans with a carrying value of $491,000 as impaired due to uncertain conditions and delinquent payments. Accrual of interest on these loans has been suspended. Contractual interest not recognized for 2017 was $63,000. The portion of the allowance for loan loss relating to the impaired loans at December 31, 2017 totaled $-0-. The average recorded investment in impaired loans for 2017 was $557,000. The carrying value of loans 90 days past due and still accruing was $53,000 at December 31, 2017.

At December 31, 2016, the Association identified twenty-one loans with a carrying value of $634,000 as impaired due to uncertain conditions and delinquent payments. Accrual of interest on these loans has been suspended. Contractual interest not recognized for 2016 was $74,000. The portion of the allowance for loan loss relating to the impaired loans at December 31, 2016 totaled $-0-. The average recorded investment in impaired loans for 2016 was $837,000. The carrying value of loans 90 days past due and still accruing was $-0- at December 31, 2016.

Bank Stocks:

Federal Home Loan Bank of Cincinnati (FHLB) stock is carried at cost, classified as a restricted security because no ready market exists for this investment and it has no quoted market value, 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. Gains or losses realized on the disposition of property and equipment are reflected in the statements of income.

Other Real Estate Owned:

Other real estate owned includes properties that have been acquired in complete or partial satisfaction of debt. These properties are initially recorded at fair balance on the date of acquisition, establishing a new cost basis. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017 and 2016 is as follows:

	2017	2016
Basic weighted-average shares	1,113,172	1,113,172
Diluted weighted-average shares	1,113,172	1,113,172

At December 31, 2017 and 2016, there were no outstanding options to purchase shares of common stock, respectively.

New Authoritative Accounting Guidance:

The Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this Update make targeted improvements to generally accepted accounting principles (GAAP) as follows: (1) Require equity investments to be measured at fair value with changes in fair value recognized in net income. (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. (3) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. (4) Require public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. (5) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

This ASU will be effective for financial institutions other than public business entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company does not expect the guidance to have a material impact on its financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Authoritative Accounting Guidance (continued):

The FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Current GAAP requires an *incurred loss* methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Users of financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the *probable* threshold. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for financial institutions other than public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. At this time, the Company has not determined the impact on its financial statements.

The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. (2) Proceeds from the Settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this ASU will be effective for entities other than public business entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company does not expect the guidance to have a material impact on its financial statements.

Change in Accounting Policy:

The FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*, which made the following changes that affect the Company: (1) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income: The tax effects of the change in the federal corporate income tax rate from the Tax Cuts and Jobs Act are to be reclassified within accumulated other comprehensive income as discussed in Note L. This ASU was issued in February 2018 and is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company is electing early adoption as required by the FDIC.

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, 2017:		(In thousands)		
Collateralized mortgage obligations	$ 20,630	$ 20	$ (471)	$ 20,179
Mortgage-backed securities	2,871	1	(52)	2,820
	23,501	21	(523)	22,999
U.S. Agencies - callable	2,000	-	(18)	1,982
SBA Participation Certificate				
Due after five to ten years	1,927	-	(35)	1,892
U.S. Agencies – noncallable				
Due after five to ten years	1,504	-	(27)	1,477
Municipal bonds	19,678	99	(89)	19,688
TOTALS	$ 48,610	$ 120	$ (692)	$ 48,038
December 31, 2016:				
Collateralized mortgage obligations	$ 24,460	$ 66	$ (425)	$ 24,101
Mortgage-backed securities	4,920	17	(53)	4,884
	29,380	83	(478)	28,985
U.S. Agencies - callable:				
Due within one year	2,000	-	(33)	1,967
SBA Participation Certificate				
Due after ten years	2,017	-	(32)	1,985
U.S. Agencies – noncallable				
Due after five to ten years	1,505	-	(30)	1,475
Municipal bonds	16,050	19	(361)	15,708
TOTALS	$ 50,952	$ 102	$ (934)	$ 50,120

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, 2017 and 2016, the Company's equity accounts reflected net unrealized losses of ($451,000) and ($549,000) 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, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed and related securities	$ 5	$ -	$ -	$ 5
TOTALS	$ 5	$ -	$ -	$ 5

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed and related securities	$ 7	$ -	$ -	$ 7
TOTALS	$ 7	$ -	$ -	$ 7

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-eight and sixty-eight, respectively, at December 31, 2017. The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2017.

	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	$ -	$ -	$ -	$ -
Available for sale:				
Mortgage-backed and related securities	4,593	(39)	15,718	(484)
U.S. Agencies	-	-	2,459	(45)
SBA Participation Certificate	-	-	1,892	(35)
Municipal bond	3,701	(14)	5,306	(75)
TOTALS	$8,294	$ (53)	$ 25,375	$ (639)

During 2017, the Company sold available-for-sale securities for total proceeds of $5,100,000 resulting in gross realized gains of $76,000.

During 2016, the Company sold available-for-sale securities for total proceeds of $7,526,000 resulting in gross realized gains of $138,000.

NOTE C - LOANS RECEIVABLE

The composition of the loan portfolio (net of deferred fees) is as follows:

	December 31	
	2017	2016
	(In thousands)	
Real estate mortgage (primarily one-to-four family residential)	$ 23,321	$ 23,725
Construction and development	1,834	326
Commercial real estate	13,601	8,396
Consumer and other	871	377
Home equity lines of credit	2,001	1,839
Loans on deposits	93	95
	41,721	34,758
Less allowance for loan losses	323	275
TOTALS	$ 41,398	$ 34,483

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 $1,010,000 and $341,000 at December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, loans or additional draws on home equity lines of credit of $717,000 and $100,000, respectively, were made to officers, directors and their related interests, while principal repayments of $47,000 and $46,000 were received from related parties during 2017 and 2016, respectively.

The Association's lending efforts have historically focused on one-to-four family residential real estate loans and construction loans, which comprise approximately $23 million, or 56%, of the total loan portfolio at December 31, 2017, and $24 million, or 69% of the total portfolio at December 31, 2016. 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.

During 2016, the Association expanded its lending efforts to commercial real estate loans which comprise approximately $14 million, or 33% of the total loan portfolio at December 31, 2017 and $8 million, or 24% of the total portfolio at December 31, 2016.

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, 2017:

	Commercial	Real Estate Mortgage	Consumer	Construction and Development	Home Equity Lines of Credit	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 102	$ 134	$ -	$ -	$ 38	$ 1	$ 275
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	19	29	-	-	-	48
Provision		-	-	-		-	-
Ending balance	$ 102	$ 153	$ 29	$ -	$ 38	$ 1	$ 323
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 102	$ 153	$ 29	$ -	$ 38	$ 1	$ 323
Loans:							
Ending balance	$ 13,601	$ 23,321	$ 871	$ 1,834	$ 2,001	$ 93	$ 41,721
Ending balance: Individually evaluated for impairment	$ -	$ 438	$ 1	$ -	$ 52	$ -	$ 491
Ending balance: Collectively evaluated for impairment	$ 13,601	$ 22,883	$ 870	$ 1,834	$ 1,949	$ 93	$ 41,230

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, 2016:

	Commercial	Real Estate Mortgage	Consumer	Construction and Development	Home Equity Lines of Credit	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 102	$ 120	$ -	$ -	$ 30	$ 1	$ 253
Charge-offs	-	27	5	-	-	-	32
Recoveries	-	46	-	-	8	-	54
Provision	-	(5)	5	-	-	-	-
Ending balance	$ 102	$ 134	$ -	$ -	$ 38	$ 1	$ 275
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 102	$ 134	$ -	$ -	$ 38	$ 1	$ 275
Loans:							
Ending balance	$ 8,396	$ 23,725	$ 377	$ 326	$ 1,839	$ 95	$ 34,758
Ending balance: Individually evaluated for impairment	$ -	$ 570	$ 3	$ -	$ 61	$ -	$ 634
Ending balance: Collectively evaluated for impairment	$ 8,396	$ 23,155	$ 374	$ 326	$ 1,778	$ 95	$34,124

NOTE C - LOANS RECEIVABLE (CONTINUED)

Credit quality indicators by internally assigned grade as of December 31, 2017 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, 2017:

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

	Construction and Land Development	Commercial Real Estate
	(In thousands)	
Pass	$ 1,834	$13,601
Special mention	-	-
Substandard	-	-
TOTALS	$ 1,834	$13,601

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

	Residential Real Estate	Home Equity and Consumer
	(In thousands)	
Pass	$22,465	$2,580
Special mention	-	22
Substandard	856	363
TOTALS	$23,321	$2,965

NOTE C - LOANS RECEIVABLE (CONTINUED)

The following tables present each loan class by credit quality indicator for the year ended December 31, 2016:

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

	Construction and Land Development	Commercial Real Estate
	(In thousands)	
Pass	$ 326	$8,396
Special mention	-	-
Substandard	-	-
TOTALS	$ 326	$8,396

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

	Residential Real Estate	Home Equity and Consumer
	(In thousands)	
Pass	$23,042	$2,209
Special mention	-	26
Substandard	683	76
TOTALS	$23,725	$2,311

NOTE C - LOANS RECEIVABLE (CONTINUED)

Information on impaired loans for the year ended December 31, 2017 is as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	438	880	-	498	1
Consumer	1	2	-	2	-
Construction and development	-	-	-	-	-
Home equity	52	73	-	57	-
TOTALS	$ 491	$955	$ -	$557	$ 1
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	-	-	-	-	-
TOTALS	$ -	$ -	$ -	$ -	$ -
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	438	880	-	498	1
Consumer	1	2	-	2	-
Construction and development	-	-	-	-	-
Home equity	52	73	-	57	-
TOTALS	$ 491	$ 955	$ -	$557	$ 1

NOTE C - LOANS RECEIVABLE (CONTINUED)

Information on impaired loans for the year ended December 31, 2016 is as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	570	979	-	761	5
Consumer	3	33	-	1	4
Construction and development	-	-	-	-	-
Home equity	61	78	-	75	-
TOTALS	$ 634	$1,090	$ -	$837	$ 9
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity	-	-	-	-	-
TOTALS	$ -	$ -	$ -	$ -	$ -
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	570	979	-	761	5
Consumer	3	33	-	1	4
Construction and development	-	-	-	-	-
Home equity	61	78	-	75	-
TOTALS	$ 634	$1,090	$ -	$837	$ 9

NOTE C - LOANS RECEIVABLE (CONTINUED)

Age analysis of past due loans as of December 31, 2017 is as follows:

	Past Due						
	30-59 Days	60-89 Days	Over 90 Days	Total	Current	Total	Greater Than 90 Days and Still Accruing
				(In thousands)			
Construction and development	$ -	$ -	$ -	$ -	1,834	$1,834	$ -
Commercial real estate	-	-	-	-	13,601	13,601	-
Residential real estate	75	-	491	566	22,755	23,321	53
Consumer and other	20	-	53	73	2,892	2,965	-
TOTALS	$ 95	$ -	$ 544	$ 639	$41,082	$41,721	$ 53

Age analysis of past due loans as of December 31, 2016 is as follows:

	Past Due						
	30-59 Days	60-89 Days	Over 90 Days	Total	Current	Total	Greater Than 90 Days and Still Accruing
				(In thousands)			
Construction and development	$ -	$ -	$ -	$ -	$ 326	$ 326	$ -
Commercial real estate	-	-	-	-	8,396	8,396	-
Residential real estate	-	-	570	570	23,155	23,725	-
Consumer and other	18	-	64	82	2,229	2,311	-
TOTALS	$ 18	$ -	$ 634	$ 652	$34,106	$34,758	$ -

NOTE D - LIMITED PARTNERSHIP – OHIO EQUITY FUND

The Association holds an interest in a limited partnership formed to assist in the production, rehabilitation and preservation of affordable housing in Ohio and surrounding states. The Association accounts for the investment in the limited partnership using the proportional amortization method which allows the Association to amortize the cost of the investment in proportion to the tax credits and other tax benefits it receives to income tax expense. Management believes this is the best estimate of fair value. Under the terms of the limited partnership agreement, the Association agreed to a subscription price of $1,000,000 executed by a capital contribution note. During 2017 and 2016, the Association made payments on the note of $178,000 and $27,000, respectively. Principal payments on the note are due as follows:

Year ending December 31,	
2018	$ 552
2019	$ 65
2020	$ 28
2021	$ 30
2022	$ 23
Thereafter	$ 97

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31	
	2017	2016
	(In thousands)	
Land	$ 32	$ 32
Building and building improvements	625	621
Furniture and equipment	450	452
	1,107	1,105
Less accumulated depreciation	849	824
TOTALS	$ 258	$ 281

Depreciation charged to operations amounted to $29,000 and $30,000 in 2017 and 2016, respectively.

NOTE F - DEPOSITS

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

	December 31	
	2017	2016
	(In thousands)	
Savings and transaction accounts	$ 28,400	$ 28,755
Certificates of deposit	30,630	30,663
TOTALS	$ 59,030	$ 59,418

Cash and non-IRA deposits are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Individual Retirement Account (IRA) deposits in excess of $250,000 are not federally insured at December 31, 2017 and 2016. At December 31, 2017 and 2016, the aggregate amount of individual deposits including IRA deposits in excess of $250,000 was $13 million and $12 million, respectively.

Scheduled maturities of certificates of deposit are as follows:

	December 31	
	2017	2016
	(In thousands)	
Within one year	$ 15,287	$ 14,894
One to two years	5,345	7,998
Two to three years	5,366	1,218
Three to four years	2,061	4,228
Four to six years	2,571	2,325
TOTALS	$ 30,630	$ 30,663

NOTE G - FEDERAL INCOME TAXES

The FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*, which made the following changes that may affect the Company: (1) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income: The tax effects of the change in the federal corporate income tax rate from the Tax Cuts and Jobs Act are to be reclassified within accumulated other comprehensive income.

	Year Ended December 31	
	2017	2016
	(In thousands)	
Income tax expense (benefit) is summarized as follows:		
Federal:		
Current	$ 50	$ (164)
Deferred	129	7
TOTALS	$ 179	$ (157)

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

	Year Ended December 31	
	2017	2016
	(In thousands)	
Statutory tax	$ 244	$ 12
Effect of nontaxable interest	(172)	(127)
Bank owned life insurance, net	(41)	(42)
Deferred tax asset write-down	148	-
ACTUAL TAX (BENEFIT)	$ 179	$ (157)

NOTE G - FEDERAL INCOME TAXES (CONTINUED)

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

	December 31	
	2017	2016
	(In thousands)	
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	$ (132)	$ (213)
Depreciation	(9)	(15)
TOTAL DEFERRED TAX LIABILITIES	(141)	(228)
Deferred tax assets:		
Unrealized losses on securities available-for-sale	121	283
Allowance for loan losses	68	93
Imputed loan interest	74	105
Net operating loss carry forward	208	300
Other	1	1
TOTAL DEFERRED TAX ASSETS	472	782
NET DEFERRED FEDERAL INCOME TAX ASSET	$ 331	$ 554

At December 31, 2017 and 2016, respectively, the Company had approximately $676,000 and $876,000 in net operating loss carryforwards which begin to expire in 2034.

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, 2017 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 $525,000 at December 31, 2017.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT

Federal Home Loan Bank (FHLB) advances are secured by $22.3 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 $27.5 million at December 31, 2017 and $25 million at December 31, 2016. 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, 2017.

Interest Rate	Maturity	Type	Amount (in thousands)
1.39%	January, 2018	Fixed	$ 1,100
1.42%	January, 2018	Fixed	4,000
1.45%	January, 2018	Fixed	1,600
1.52%	February, 2018	Variable	650
1.52%	March, 2018	Variable	1,650
3.14%	March, 2018	Fixed	1,000
1.96%	December, 2018	Fixed	1,000
1.83%	January, 2019	Fixed	1,000
2.14%	January, 2020	Fixed	1,000
2.10%	December, 2020	Fixed	2,000
1.87%	March, 2021	Fixed	1,000
2.09%	January, 2022	Fixed	2,000
2.47%	April, 2022	Fixed	2,000
2.48%	December, 2022	Fixed	1,000
2.36%	January, 2023	Fixed	2,000
2.54%	December, 2023	Fixed	1,500
2.43%	February, 2025	Fixed	3,000
Weighted - average 2.02%		TOTAL	$ 27,500

At December 31, 2016, the outstanding advances from FHLB totaled $25 million at a weighted-average rate of 1.78%.

The note payable to The Pioneer Savings Bank is unsecured with interest only payments at 6% through February, 2018, and 8% through February, 2019, when the entire unpaid principal balance is due.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT (CONTINUED)

The Association maintains $7 million unsecured lines 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, 2017 and 2016, the lines of credit were not used and were fully available.

NOTE I - EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan:

The Company has an Employee Stock Ownership Plan ("ESOP") which provides retirement benefits for employees. During 2017, the Company began the process to terminate the plan and to replace it with a 401(k) plan. Employees were able to contribute to the 401(k) plan beginning on October 1, 2017, with no company match until 2018. The expense related to the ESOP totaled $-0- and $50,000 for years 2017 and 2016, 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 2017, the Company purchased 625 shares of preferred stock at a cost of $7,000. During 2016, the Company did not repurchase any shares.

NOTE L - OTHER COMPREHENSIVE INCOME

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

	2017		
	Pre-tax	Tax	After-tax
		(In thousands)	
Unrealized holding gains on available-for-sale securities	$ 335	$ (115)	$ 220
Reclassification adjustment for gains realized in net income	(75)	25	(50)
OTHER COMPREHENSIVE INCOME	$ 260	$ (90)	$ 170

	2016		
	Pre-tax	Tax	After-tax
		(In thousands)	
Unrealized holding losses on available-for-sale securities	$ (127)	$ 43	$ (84)
Reclassification adjustment for gains realized in net income	(146)	50	(96)
OTHER COMPREHENSIVE INCOME	$ (273)	$ 93	$ (180)

As described in Note A, the Company adopted a change in accounting principle with respect to the deferred tax impact of unrealized losses in comprehensive income. As a result of tax law changes passed in December of 2017, the top corporate tax rate was reduced from 34% to 21% creating a stranded tax in accumulated other comprehensive income since accumulated comprehensive income is presented net of income tax effect. Under previous standards the reduction in tax or tax benefit resulting from this change in rates would have been required to be included in income from continuing operations. This new standard allows for that amount to be reflected as a reclassification from accumulated other comprehensive income to retained earnings. This change resulted in a reduction of deferred tax benefit of $72,000 and is reflected as a reclassification adjustment on the statement of shareholders’ equity.

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, 2017, the Association had outstanding commitments of approximately $1.7 million of variable rate home equity lines of credit and $0.07 million of commercial lines of credit. The average interest rate of the lines of credit was 5.00% at December 31, 2017. 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, 2017	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	$20,179	$20,179	$ -	$ -
Mortgage-backed	2,820	2,820	-	-
U.S. agencies	5,351	5,351	-	-
Municipal bonds	19,688	-	19,688	-
TOTALS	$48,038	$28,350	$ 19,688	$ -

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

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2016	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	$24,101	$24,101	$ -	$ -
Mortgage-backed	4,884	4,884	-	-
U.S. agencies	5,427	5,427		
Municipal bonds	15,708	-	15,708	-
TOTALS	$50,120	$34,412	$ 15,708	$ -

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)
Limited Partnership – Ohio Equity Fund	
December 31, 2017 balance	$ 955
December 31, 2016 balance	$1,000

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, 2017				
Impaired loans	$ 491	$ -	$ -	$ 491
Assets at December 31, 2016				
Impaired loans	$ 634	$ -	$ -	$ 634

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, 2017				
Other real estate owned and foreclosed assets	$ 355	$ -	$ -	$ 355
Assets at December 31, 2016				
Other real estate owned and foreclosed assets	$ 413	$ -	$ -	$ 413

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, 2017 and 2016:

	December 31			
	2017		2016	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
	(In thousands)			
Cash and equivalents	$ 1,789	$ 1,789	$ 3,250	$3,250
Securities:				
Available-for-sale	48,038	48,038	50,120	50,120
Held-to-maturity	5	5	7	7
Federal Home Loan Bank (FHLB) stock	1,327	1,327	1,327	1,327
Interest bearing deposits with banks	1,350	1,350	2,100	2,100
Loans receivable	41,398	41,602	34,483	34,207
Accrued interest receivable	282	282	250	250
Deposits:				
Checking, savings and money market	(28,400)	(28,400)	(28,755)	(28,755)
Certificates of deposit	(30,630)	(29,957)	(30,663)	(30,327)
Accrued interest payable	(64)	(64)	(57)	(57)
Notes payable	(28,395)	(28,166)	(25,973)	(25,826)

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, 2017 and 2016, 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, 2017 and 2016, respectively, applied for the time period until maturity; the fair value of the advances at December 31, 2017 and 2016 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, 2017 or 2016, 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, 2017 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, 2017 and 2016, 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, 2017 and 2016, management believes that the Association met all capital adequacy requirements to which it was subject.

2017:

	Actual		To be Adequately Capitalized		To be "Well-Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Leverage	$ 12,501	12.8%	≥$3,902	≥ 4.0%	≥$4,877	≥ 5.0%
Total risk-based capital	$ 12,825	26.7%	≥$3,837	≥ 8.0%	≥$4,796	≥10.0%
Tier 1 risk-based capital	$ 12,501	26.1%	≥$2,878	≥ 6.0%	≥$3,837	≥ 8.0%
Tangible capital	$ 12,501	12.8%	≥$1,463	≥ 1.5%	*	*

2016:

	Actual		To be Adequately Capitalized		To be "Well-Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Leverage	$ 12,167	12.9%	≥$3,778	≥ 4.0%	≥$4,722	≥ 5.0%
Total risk-based capital	$ 12,442	27.2%	≥$3,653	≥ 8.0%	≥$4,566	≥10.0%
Tier 1 risk-based capital	$ 12,167	26.6%	≥$2,740	≥ 6.0%	≥$3,653	≥ 8.0%
Tangible capital	$ 12,167	12.9%	≥$1,417	≥ 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, 2017 and 2016, 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	
	2017	2016
ASSETS		
Cash and cash equivalents:		
Noninterest bearing	$ 44	$ 27
Interest bearing	12	12
	56	39
Investment in Home Federal Savings and Loan Association of Niles	12,050	11,618
Deferred federal income tax asset	185	204
TOTAL ASSETS	$12,291	$11,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable to Home Federal Savings and Loan Association of Niles	$ 14	$ 14
Accrued expenses	4	34
Note payable-The Pioneer Savings Bank	100	-
TOTAL LIABILITIES	118	48
Stockholders' equity	12,173	11,813
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$12,291	$11,861

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	
	2017	2016
Interest Income	$ -	$ -
TOTAL REVENUE	-	-
General and administrative expenses	63	115
LOSS BEFORE INCOME TAX CREDITS AND EQUITY IN EARNINGS OF SUBSIDIARY	(63)	(115)
Income tax expense (credit)	19	(39)
LOSS BEFORE EQUITY IN EARNINGS OF SUBSIDIARY	(82)	(76)
Equity in earnings of subsidiary	461	100
NET INCOME	$ 379	$ 24

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	
	2017	2016
Cash flows from operating activities:		
Net income for the period	$ 379	$ 24
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess distributions (undistributed income of) from consolidated subsidiary	(261)	180
Net (increase) decrease in due to subsidiary, deferred tax asset and prepaid expenses	19	(84)
Decrease in accounts payable and accrued expenses	(30)	(3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	107	117
Cash flows from investing activities:		
Net decrease in interest bearing deposits	-	1
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	1
Cash flows from financing activities:		
Proceeds from note payable	100	-
Purchase of treasury stock	(7)	(-)
Dividends paid	(183)	(137)
NET CASH USED IN FINANCING ACTIVITIES	(90)	(137)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17	(19)
Cash and cash equivalents at beginning of period	27	46
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 44	$ 27

NOTE R – RECLASSIFICATION

Certain cash and cash equivalents and statement of cash flow amounts from 2016 have been reclassified to conform with the 2017 presentation.

NOTE Q - SUBSEQUENT EVENT

The Company has evaluated all subsequent events through March 13, 2018, the date the financial statements were available to be issued.

FIRST NILES FINANCIAL, INC.
STOCKHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. local time, Wednesday, April 25, 2018, 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 OTCPink under the symbol "FNFI."

As of December 31, 2017, the Company had issued 1,724,741 shares of common stock with 1,113,172 outstanding held by approximately 104 stockholders of record. At the same date the Company had issued 29,670 shares of preferred stock with 22,819 shares outstanding held by approximately 160 stockholders of record.

The table below presents the quarterly range of high and low sales prices of First Niles' common stock for 2016 and 2017, 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, 2016)	$9.15	$8.15	$0.03
Second Quarter (ended June 30, 2016)	$9.46	$7.97	$0.03
Third Quarter (ended September 30, 2016)	$30.00	$8.25	$0.03
Fourth Quarter (ended December 31, 2016)	$11.00	$9.00	$0.03
First Quarter (ended March 31, 2017)	$11.01	$9.60	$0.03
Second Quarter (ended June 30, 2017)	$11.15	$9.67	$0.04
Third Quarter (ended September 30, 2017)	$11.15	$10.10	$0.04
Fourth Quarter (ended December 31, 2017)	$11.15	$9.96	$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	**TRANSFER AGENT**
Daniel E. Csontos, President First Niles Financial, Inc. 55 North Main Street Niles, Ohio 44446 (330) 652-2539	Computershare P.O. Box 30170 College Station, TX 77842-3170 (888) 294-8217 (toll free) 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: Daniel E. Csontos, President, 55 North Main Street, Niles, Ohio 44446, telephone (330) 652-2539.

FIRST NILES FINANCIAL, INC.
CORPORATE INFORMATION

COMPANY AND BANK ADDRESS

55 North Main Street
Niles, Ohio 44446

Telephone: (330) 652-2539
Fax: (330) 652-0911

BOARD OF DIRECTORS

DANIEL E. CSONTOS
President and Chief Executive Officer 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, Inc.

WILLIAM EDDY
President, Clinic of Osteopathic Medicine, Inc.

LANCE OSBORNE
President, Osborne Capital Group, LLC

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

EXECUTIVE OFFICERS

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

RAYMOND J. CALCAGNI
Vice President of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

MARY ANN COATES
Chief Financial Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

INDEPENDENT AUDITORS

CORBETS & ASSOCIATES, INC.
Certified Public Accountants
33595 Bainbridge Road, Suite 205
Solon, Ohio 44139

SPECIAL COUNSEL

FISHER BROYLES, LLP
1200 Abernathy Road
Northpark Town Center
Building 600, Suite 1700
Atlanta, Georgia 30328

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