Hometown Bancorp, Inc.

2011 ANNUAL REPORT

President's Message

Dear Stockholders and Customers:

On behalf of the Officers and Directors of Hometown Bancorp, Inc. and everyone affiliated with its subsidiary, Hometown Bank of the Hudson Valley, it is my privilege to present to you our Annual Report for the year 2011. Our Company faced many challenges during the year. We utilized the strength of our capital, our people, and our market position to face those challenges and to position ourselves for renewed growth and profitability for the future.

The year 2011 was unlike any other in my experience. Interest rates remained at historic lows, consumer confidence remained stalled and as I have seen in many other parts of the country in prior periods, our local real estate market suffered and property values declined. Declining values of real estate properties, as well as the financial pressure on some of our mortgage customers sparked an uptick in loan repayment problems. As a result, we made additional provisions for loan losses and experienced increases in charge offs and write downs. This coupled with a number of one time expenses in connection with the purchase of our new branch in Monroe, NY, the closing of one of our supermarket branches and the name change of the bank to Hometown Bank of the Hudson Valley, from its former name of Walden Federal Savings and Loan Association, resulted in a net loss of $410,000 for the year. While I am disappointed by our overall net loss, we are fortunate to have a capital base that has allowed us to absorb this loss. Financial strength and liquidity has never been more important and our subsidiary, Hometown Bank of the Hudson Valley, has core capital and risk-based capital ratios that exceeds the regulatory standards to be considered "well capitalized". We remain well-capitalized with ample liquidity.

By no means have we stood still during the year 2011. Despite the strong headwinds, we've made important investments to help us grow the franchise and notched some significant accomplishments:

- We successfully acquired our newest branch office in Monroe, NY and merged the deposit accounts into our Bank. I believe we can take pride in our ability to have completed this acquisition smoothly and with no regulatory or conversion-related issues.
- We successfully closed one of our supermarket branches, with no interruption in service for our existing customers who are now serviced out of our new Monroe branch.
- We changed our name from Walden Federal Savings and Loan Association to Hometown Bank of the Hudson Valley, which reflects the growth of our operations beyond Walden, New York. This was supported by an aggressive advertising and marketing campaign, helping us to establish a new and unique identity in the communities we serve, and
- We rolled out a new website, embodying a modern look and some of the latest interactive features now demanded by today's mobile and increasingly connected banking public.

I am also pleased to report that during 2011, the Company maintained the current payout of $.02 per share quarterly cash dividend, which extends our record of paying cash dividends to 11 consecutive quarters.

Total assets increased by $10.3 million, or 6.6% from the prior year end to $165.7 million at December 31, 2011. Total deposits also increased by $15.8 million or 12.2% from the prior year end to $144.9 million at December 31, 2011. Our acquisition during the year of the free standing branch in Monroe, NY along with its deposit base contributed to this growth in deposits.

In loan originations, 2011 saw a decrease from the robust numbers of 2010 as we originated $35.1 million in loans resulting in a net portfolio decrease in loans receivable and loans held for sale of $5.7 million dollars. We continue to sell a large portion of the loans originated, as we do not want to take the interest rate risk associated with keeping a large amount of fixed rate loans with low yielding rates on the balance sheet.

While the provision for loan losses was still high and reflected the weak economy, we did see some positive signs. Non-performing loans decreased by $4.2 million, or 57.6%. Nonperforming loans totaled $3.1 million, or 2.3%, of total loans at December 31, 2011 compared to $7.2 million, or 5.1%, of total loans at December 31, 2010. We continue to monitor the adequacy of our allowance for loan losses given the risk assessment of the loan portfolio and current economic conditions.

As in past years our Directors, Officers and employees continued their personal involvement in a wide range of charitable and community organizations. I am extremely proud of the difference that our Bank and its people make in the lives of our customers and the communities we touch.

As we look ahead to 2012, there are a number of opportunities and challenges that I see. Interest rates are expected to remain low and the economy is expected to continue to improve, however at a slow pace. We also see that new technology is changing how customers meet their financial needs. Each of these factors will directly impact the market for deposit and loan products and the choices both existing and potential customers make. Competition in the industry continues to intensify and increasing regulatory requirements continue to place demands on management and Bank resources.

We will continue to explore new technology, with mobile banking on the agenda and we intend to partner with a third party credit card processor for the upcoming year. Our emphasis on growing checking deposits will continue and the majority of marketing promotions will have a checking account component. This is the core customer account and we need to continue the success we have had in growing our customer base and enhancing those relationships. To sum up, we are primed to meet the future demands of the customers we service.

On behalf of all of us at the Company and Hometown Bank of the Hudson Valley, we offer special thanks to Judith B. Weyant in recognition of her retirement. We thank Judy for over 27 years of service, contributions and accomplishments. Her keen insights and good humor will be missed. She has provided exemplary service to our Bank, our community and our stockholders and we extend our cordial best wishes to her in her retirement.

In closing, I want to thank our staff for their everyday dedication to making good things happen at Hometown Bank of the Hudson Valley and the Board of Directors for their continued support and counsel. For stockholders, this has been a difficult period and we appreciate their continued confidence in our Company. Finally we thank our customers, who we highly appreciate and value for the level of trust they place in us.

Thomas F. Gibney

Thomas F. Gibney
President and Chief Executive Officer

Selected Financial and Other Data

The information at December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010 is derived in part from the audited consolidated financial statements that appear in this Annual Report. The following is only a summary and you should read it in conjunction with the audited consolidated financial statements and notes beginning on page 13.

(Dollars in thousands)	At or for the Year Ended December 31, 2011	2010
Financial Condition Data:		
Total assets	**$165,737**	$155,406
Cash and cash equivalents	**10,155**	4,423
Federal funds	**1,677**	-
Investment securities	**4,631**	359
Loans held for sale	**799**	1,961
Loans receivable, net	**134,116**	138,678
Deposits	**144,870**	129,103
Borrowings	**-**	4,900
Total stockholders' equity	**19,325**	19,814
Operating Data:		
Interest income	**$ 7,361**	$ 7,925
Interest expense	**752**	1,120
Net interest income	**6,609**	6,805
Provision for loan losses	**1,066**	862
Net interest income after provision for loan losses	**5,543**	5,943
Non-interest income	**1,706**	2,024
Non-interest expenses	**7,953**	7,051
(Loss) income before taxes	**(704)**	916
Income tax (benefit) expense	**(294)**	336
Net (loss) income	**$ (410)**	$ 580

	At or for the Year Ended December 31, 2011	2010
Performance Ratios:		
Return on average assets	**(0.26)%**	0.37%
Return on average equity	**(2.04)**	2.94
Interest rate spread (1)	**4.45**	4.61
Net interest margin (2)	**4.58**	4.80
Non-interest income to average assets	**1.09**	1.30
Non-interest expense to average assets	**5.06**	4.53
Efficiency ratio (3)	**95.65**	79.86
Average interest-earning assets to average interest-bearing liabilities	**125.14**	123.99
Equity to total assets	**11.66**	12.75
Average equity to average assets	**12.78**	12.68
Capital Ratios (4):		
Tangible capital	**9.21**	10.49
Core capital	**9.21**	10.49
Total risk-based capital	**13.56**	14.39
Asset Quality Ratios:		
Allowance for loan losses as a percent of total loans	**1.31**	1.67
Allowance for loan losses as a percent of nonperforming loans	**58.09**	32.70
Net charge-offs to average outstanding loans during the year	**1.20**	0.30
Nonperforming loans as a percent of total loans	**2.26**	5.12
Nonperforming loans as a percent of total assets	**1.85**	4.65
Nonperforming assets as a percent of total assets	**3.99**	5.86
Nonperforming assets and troubled debt restructurings as a percent of total assets	**8.07**	8.76
Per Share Related Data:		
Basic earnings (loss) per share	**$ (0.18)**	$ 0.26
Dividends per share	**0.08**	0.08
Book value per share (5)	**8.30**	8.52
Tangible book value per share (6)	**7.98**	8.52
Dividend payout ratio (7)	**(44.44)%**	30.77%
Other Data:		
Number of Offices	**6**	6

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(2) Represents net interest income as a percent of average interest-earning assets.
(3) Represents non-interest expense divided by the sum of net interest income and non-interest income.
(4) Capital ratios are for Hometown Bank of the Hudson Valley.
(5) Book value per share is based on total stockholders' equity divided by 2,326,939 outstanding common shares at December 31, 2011 and 2010.
(6) Tangible book value per share is based on total stockholders' equity minus deposit premium of $750,000 at December 31, 2011 divided by 2,326,939 outstanding common shares at December 31, 2011.
(7) The dividend payout ratio represents dividends per share divided by basic earnings per share.

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

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding our financial condition and results of operations. You should read this discussion in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in this Annual Report.

Overview

Our principal business is to acquire deposits from individuals and businesses in the communities surrounding our offices and to use these deposits to fund loans. We focus on providing our products and services to two segments of customers: individuals and small businesses.

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. Since the latter part of 2007, short-term interest rates (which influence the rates we earn on adjustable rate loans and we pay on deposits) have decreased. Our spread between the interest we earn on loans and investments and the interest we pay on deposits and borrowings has affected our net interest income.

A secondary source of income is non-interest income, which is revenue that we receive from providing products and services. The majority of our non-interest income generally comes from service charges and fees on deposit accounts and loans and mortgage-banking income.

Provision for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Expenses. The non-interest expenses we incur in operating our business consists of salaries and employee benefit expenses, occupancy and equipment expenses, data processing expenses, FDIC insurance premiums and other miscellaneous expenses, such as office supplies, telephone, postage, advertising and professional services.

Our largest non-interest expense is salaries and employee benefits, which consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for health insurance, retirement plans and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of branch lease expense, depreciation charges, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities.

Operating/Business Strategy

Our strategy is to operate as an independent, well-capitalized and profitable, local bank that seeks to differentiate itself from its competition by providing superior, personalized and prompt service, backed by knowledge and experience. As an independent local bank, we emphasize the local nature of our decision-making to respond effectively to the needs of our customers. We have a long tradition of focusing on the needs of the communities we serve and being an active corporate citizen and we intend to maintain this focus as we grow.

Our business model and product offerings allow us to provide a full range of financial services to both individuals and businesses. Our traditional consumer products such as conforming single family residential mortgages, time deposits, checking and savings accounts appeal to a broad customer base.

Additionally we offer a full range of financial products that are meeting the changing needs of today's customer. Those products include, but are not limited to, internet banking, remote deposit capture, cash management, debit cards, merchant services and our newest product to be release in the second quarter of 2012, mobile banking. We believe that by offering a full range of financial products and services deepens the relationships with our current customers and entice new customers to be banking with us, ultimately increasing fee income.

Our primary business is attracting retail deposits from the general public and using those deposits together with funds generated from operations, principal repayments on loans and investments, loan sales and to a lesser extent borrowed funds, for our lending and investing activities. We intend to continue to pursue lending opportunities as we have done in the past.

We shall continue to maintain our strategy to increase our core deposits, which drives our overall cost of funds, through internal growth as well as expanding the access channels as a result of new technologies that attract those deposits.

We shall continue to offer exceptional customer service, cross-selling our loan and deposit products, insurance and investment services and increasing our commercial deposits from small and medium-size businesses through the various products and services we offer.

We view the historically low interest rate environment as an opportunity to gain noninterest income by leveraging our expertise in originating residential mortgages and sell such originations in the secondary market. This strategy enables us to have a large lending capacity, provides for a comprehensive product offering and reduces the interest rate, prepayment and credit risks associated with originating residential loans for retention in our loan portfolio.

Average Balance Sheets and Related Yields and Rates

The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the years indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the years presented. For purposes of this table, average balances have been calculated using daily average balances, and nonaccrual loans are included in average balances. Loan fees and costs are deferred and recognized as an adjustment in interest income on loans.

Average Balance Table

(Dollars in thousands)	2011 Average Balance	2011 Interest and Dividends	2011 Yield/ Cost	2010 Average Balance	2010 Interest and Dividends	2010 Yield/ Cost
	Year Ended December 31,					
Assets:						
Interest-earning assets:						
Loans receivable	**$137,646**	**$7,289**	**5.30%**	$138,907	$7,855	5.65%
Investment securities, taxable	**1,265**	**33**	**2.61**	1,563	41	2.62
Other interest-earning assets	**5,493**	**39**	**0.71**	1,286	29	2.26
Total interest-earning assets	**144,404**	**7,361**	**5.10**	141,756	7,925	5.59
Non-interest-earning assets	**12,734**			13,790		
Total assets	**$157,138**			$155,546		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 9,484**	**17**	**0.18**	$ 8,165	16	0.20
Money market accounts	**15,083**	**70**	**0.46**	10,793	77	0.71
Savings accounts	**20,171**	**64**	**0.32**	17,493	81	0.46
Certificates of deposit	**67,900**	**590**	**0.87**	74,563	925	1.24
Borrowings	**2,759**	**11**	**0.40**	3,310	21	0.63
Total interest-bearing liabilities	**115,397**	**752**	**0.65**	114,324	1,120	0.98
Non-interest-bearing demand deposits	**19,477**			19,376		
Other non-interest-bearing liabilities	**2,183**			2,126		
Total liabilities	**137,057**			135,826		
Stockholders' equity	**20,081**			19,720		
Total liabilities and stockholders' equity	**$157,138**			$155,546		
Net interest income		**$6,609**			$6,805	
Interest rate spread			**4.45**			4.61
Net interest margin			**4.58**			4.80
Average interest-earning assets to average interest-bearing liabilities	**125.14%**			123.99%		

Comparison of Financial Condition at December 31, 2011 and 2010

Total Assets. Total assets grew $10.3 million, or 6.6%, to $165.7 million at December 31, 2011 from $155.4 million at December 31, 2010. The increase was due primarily to the increase in cash and cash equivalents from the branch acquisition of Route 17M, Monroe, NY branch from First Federal Savings and Loan of Middletown ("Branch Acquisition"). Cash acquired from the Branch Acquisition was used to fund the increase in investments, federal funds, certificates of deposit and to pay down borrowings. In addition, there were increases of $1.7 million in other real estate owned. These increases were offset by, a decrease in loans receivable, net of $4.6 million and a decrease in loans held for sale of $1.2 million, from December 31, 2010 to December 31, 2011.

Cash and cash equivalents. At December 31, 2011 cash and cash equivalents increased $5.7 million to $10.2 million compared to $4.4 million at December 31, 2010. The primary reason for the increase in cash and cash equivalents during 2011 was the cash acquired from the Branch Acquisition.

Federal Funds and Certificates of Deposit. At December 31, 2011 federal funds increased approximately $1.7 million and certificates of deposit increased by $500,000, as the result of deploying cash acquired from the Branch Acquisition.

Securities. The investment securities portfolio was $4.6 million, or 2.8% of total assets, at December 31, 2011 compared to $359,000 or 0.2% of total assets at December 31, 2010. The increase in the portfolio was the result of deploying cash acquired from the Branch Acquisition. Our investment securities portfolio consisted primarily of Government Agency, municipal, corporate and mortgage-backed securities at December 31, 2011.

Loans. At December 31, 2011, total loans, net, excluding loans held for sale, were $134.1 million, or 80.9% of total assets at December 31, 2011 compared to $138.7 million, or 89.2% of total assets at December 31, 2010. During the year ended December 31, 2011, the loan portfolio declined primarily as a result of decreases of $2.5 million in construction mortgages, $1.7 million in land loans, $1.1 million in home equity loans and $1.1 million in residential mortgages, offset by increases of $964,000 in commercial real estate mortgages and $299,000 in commercial business loans. Loans held for sale decreased by $1.2 million to $799,000 at December 31, 2011.

Premise and Equipment. At December 31, 2011, premise and equipment was $5.0 million, or 3.0% of total assets compared to $3.9 million, or 2.5% of total assets at December 31, 2010. The primary reason for the increase was the building and equipment acquired in the Branch Acquisition of $1.2 million less deprecation.

Other real estate owned. At December 31, 2011, other real estate owned was $3.5 million, or 2.1% of total assets compared to $1.9 million, or 1.2% of total assets at December 31, 2010. Other real estate owned at December 31, 2011 consisted of seven residential properties, five properties for residential development and two commercial buildings. During the year ended December 31, 2011, we foreclosed on eight residential properties totaling $2.0 million and three multi lot residential subdivisions totaling $1.3 million. During the year ended December 31, 2011, we sold five residential properties for $1.2 million and two residential building lots for $270,000, which resulted in an aggregate loss of approximately $48,000 compare to a $5,000 loss on other real estate sold during the year of 2010.

Deposits. Our primary source of funds is retail deposit accounts, which are comprised of non-interest-bearing demand accounts, interest-bearing demand accounts, money market accounts, savings accounts and certificates of deposit. During the year ended December 31, 2011, deposits increased $15.8 million or 12.2% to $144.9 million at December 31, 2011 from $129.1 million at December 31, 2010. The increase in deposits consisted primarily of the $19.4 million of deposits acquired in the Branch Acquisition. Deposits increased in the following categories: money market and interest-bearing demand accounts increased by $12.7 million, savings accounts increased by $3.6 million and non-interest-bearing demand accounts increased by $1.8 million, partially offset by a decrease in certificates of deposit of $2.4 million. The decrease in certificates of deposit was the result of management allowing higher interest rate accounts to mature.

Borrowings. We utilize borrowings from the Federal Home Loan Bank of New York to supplement our source of funds for loans and investments. We are able to utilize borrowings when necessary or advantageous as an alternative to deposits when a pricing advantage exists, as a temporary source of funds to meet liquidity needs or to manage our asset and liability position. We had $2.8 million in average balances of borrowings during the year ended December 31, 2011 as compared to $3.3 million in average balances of borrowings during the year ended December 31, 2010. We had no borrowings at December 31, 2011 and $4.9 million in borrowings at December 31, 2010.

Stockholders' Equity. Total stockholders' equity decreased $489,000 from $19.8 million at December 31, 2010 to $19.3 million at December 31, 2011. Equity decreased primarily due to a net loss of $410,000 for the year ended December 31, 2011, and to a lesser extent, due to dividends declared of $107,000 during 2011.

Results of Operations for the Years Ended December 31, 2011 and 2010

Overview. For the year ended December 31, 2011, we reported a net loss of $410,000, compared to net income of $580,000 for the year ended December 31, 2010. The primary reasons for the net loss for the year ended December 31, 2011 was the one time expenses incurred closing a supermarket branch, acquiring a free standing branch in Monroe and changing the Bank's name. Expenses related to these events for the year of 2011 totaled approximately $410,000 and after a tax benefit, totaled $254,000. Excluding these one time items from net loss for the year ended December 31, 2011 our net loss would have been $156,000. Our net loss was also affected by a decline in market values of one-to four family properties which required write-downs along with, increased collection and real estate expenses which resulted in an increased provision for loan losses of $204,000 and expenses related to the foreclosure process of $169,000. In addition, we had other real estate write downs of $242,000 and losses of $48,000 on the sale of other real estate owned.

Net Interest Income. Net interest income decreased $196,000, or 2.9% to $6.6 million for the year ended December 31, 2011 from $6.8 million for the year ended December 31, 2010. The decrease was primarily as a result of a reduction in interest income on loans, partially offset by a decrease in interest expense on deposits and borrowings. As a result of the low interest rate environment, the average yield of interest-earning assets decreased by 49 basis points to 5.10% and was partially offset by the decline in the average cost of interest-bearing liabilities which decreased by 33 basis points to 0.65% for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The interest rate spread decreased by 16 basis points to 4.45% for the year ended December 31, 2011 from 4.61% for the year ended December 31, 2010. The net interest margin decreased by 22 basis points to 4.58% for the year ended December 31, 2011 as compared to 4.80% for the year ended December 31, 2010. In a rising interest rate environment, if rates on deposits reprice higher faster than rates on our loans, we could experience compression of our net interest margin which could have a negative effect on our profitability.

Interest income on loans decreased $566,000, or 7.2%, to $7.3 million during the year ended December 31, 2011 as the average yield on the loan portfolio decreased by 35 basis points to 5.30% for the year ended December 31, 2011, and, to a lesser extent, by a decrease in the average balance of the loan portfolio of $1.3 million, to $137.6 million for the year ended December 31, 2011. The decrease in the average yield on loans was primarily the result of the continued low market interest rates, as the prime rate decreased from 7.25% at January 1, 2008 to 3.25% at December 31, 2011. The decline in average balances of loans was primarily the result of decreases in the average balances of residential mortgages, land and home equity loans, offset by an increase in the average balances of commercial real estate mortgages and commercial business loans.

Interest income on investment securities decreased $8,000, or 19.5%, to $33,000 for the year ended December 31, 2011 from $41,000 for the year ended December 31, 2010. The decline in interest income on investment securities was due to a decrease in the average yield of 1 basis point to 2.61% for 2011 as compared to 2.62% in 2010 and a decline in the average balance of investment securities to $1.3 million for the year ended December 31, 2011 from $1.6 million for the year ended December 31, 2010.

Interest income on other interest-earning assets increased $10,000, or 34.5%, to $39,000 for the year ended December 31, 2011 from $29,000 for the year ended December 31, 2010. The increase in interest income on other interest-earning assets was due to an increase in the average balance to $5.5 million for the year ended December 31, 2011 from $1.3 million for the year ended December 31, 2010 partially offset by the decrease in the average yield of 155 basis points to 0.71% for 2011 as compared to 2.26% in 2010.

Interest expense on deposits decreased 32.6%, to $741,000 for the year ended December 31, 2011, compared to $1.1 million for the year ended December 31, 2010. The primary reason for the decrease was maturing certificates of deposit repricing to lower interest rates during 2011. In particular, the average cost of certificates of deposit decreased 37 basis points to 0.87% during 2011. Decreases in market interest rates since 2007, combined with the shift in the deposit mix by increasing our concentration of core deposit accounts, decreased the average cost of deposits to 0.66%, for the year ended December 31, 2011, compared to 0.99% for the year ended December 31, 2010. The decrease in average cost on deposits was offset in part by an increase in the average balance of interest-bearing deposits during the year ended December 31, 2011 of $1.6 million, or 1.5% to $112.6 million, compared with $111.0 million for the prior year. The increase in the average balance of interest bearing deposits was due primarily to increases in the average balances of money market, savings and interest-bearing demand deposit accounts of $4.3 million, $2.7 million and $1.3 million, respectively, offset by a decrease in the average balance of certificates of deposit of $6.7 million during 2011.

Interest expense on borrowings decreased to $11,000 for the year ended December 31, 2011 compared to $21,000 for the prior year. The average cost of borrowings decreased 23 basis points to 0.40%, for the year ended December 31, 2011, compared to 0.63% for the year ended December 31, 2010. The average balance of borrowings during the year ended December 31, 2011 decreased to $2.8 million, compared with $3.3 million for the prior year.

Provision for Loan Losses. The provision for loan losses increased $204,000 to $1.1 million for the year ended December 31, 2011 compared to $862,000 for the year ended December 31, 2010. The increase in the provision for loan losses during the year ended December 31, 2011 was the result of net charge-offs of approximately $1.6 million during the year of 2011 (of which $926,000 was recorded in the provision for loan losses during prior periods) compared to net charge-offs of $419,000 during the prior year and an increase to the general allowance due to an elevated historical charge-off ratio and management's consideration for continued economic weakness in the Bank's market area during 2011 necessitating a higher level of allowance.

Nonperforming loans totaled $3.1 million, or 2.3%, of total loans at December 31, 2011 compared to $7.2 million, or 5.1%, of total loans at December 31, 2010. The $3.1 million in nonperforming loans at December 31, 2011 were comprised of $2.5 million in one-to four-family residential loans, one commercial real estate loan totaling $309,000 and three home equity loans totaling $211,000.

The allowance for loan losses was $1.8 million, or 1.31% of total loans outstanding as of December 31, 2011, as compared with $2.4 million, or 1.67% as of December 31, 2010.

Non-interest Income. Non-interest income decreased $318,000, or 15.7% to $1.7 million for the year ended December 31, 2011 compared to $2.0 million for the year ended December 31, 2010. The primary reason for the decrease in non-interest income for the year ended December 31, 2011, was mortgage banking income, net, which decreased by $315,000. This was a result of the decreased volume of loans sold during the year of 2011 as compared to 2010. In addition, losses on the sale of other real estate owned increased by $43,000. These decreases in non-interest income were partially offset by banking fees and service charges which increased by $9,000. In addition, other non-interest income increased by $24,000.

Non-interest Expenses. Non-interest expenses increased $902,000, or 12.8% to $8.0 million for the year ended December 31, 2011 compared to $7.1 million for 2010. Non-interest expenses increased primarily due to one time expenses associated with the branch closing, branch acquisition and the Bank's name change of approximately $410,000. Other expense increases during the year ended December 31, 2011 included other real estate owned expense which increased by $201,000, salaries and employee benefits expense which increased by $128,000 and other operating expense which increased by $170,000, which expenses were primarily a result of expenses related to the foreclosure process which increased by approximately $169,000. These increases were partially offset by a decrease of $69,000 in FDIC insurance premiums.

Income Tax Expense (Benefit). Income tax benefit was $294,000 for the year ended December 31, 2011 as compared to income tax expense of $336,000 for the year ended December 31, 2010. The net loss for 2011 resulted in the benefit in income taxes. The effective tax benefit rate was 41.8% for the year ended December 31, 2011 and the effective tax rate was 36.7% for 2010.

Interest Rate Risk Management. Our earnings and the market value of our assets and liabilities are subject to fluctuations caused by changes in the level of interest rates. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating loans with adjustable interest rates; selling residential real estate fixed-rate loans with terms greater than 10 years; and promoting core deposit products and short-term time deposits.

We have an Asset/Liability Management Committee to coordinate all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities of and payments on investment securities and borrowings from the Federal Home Loan Bank of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At December 31, 2011, cash and cash equivalents totaled $10.2 million and federal funds totaled $1.7 million. In addition, at December 31, 2011, we had borrowing capacity up to $22.8 million from the Federal Home Loan Bank of New York and an unused $2.0 million federal funds line from Atlantic Central Bankers Bank. On December 31, 2011, we had no borrowings outstanding from the Federal Home Loan Bank.

A significant use of our liquidity is the funding of loan originations. At December 31, 2011, we had $12.0 million in loan commitments outstanding, which primarily consisted of $1.6 million in unadvanced portions of construction loans, $1.4 million in commitments to fund one- to four-family residential real estate loans, $1.6 million in unused home equity lines of credit, $6.1 million in unused commercial lines of credit and $185,000 in commitments to fund commercial business loans. Historically, many of the commitments expire without being fully drawn; therefore, the total amount of commitments does not necessarily represent future cash requirements. Another significant use of our liquidity is the funding of deposit withdrawals. Certificates of deposit due within one year of December 31, 2011 totaled $60.3 million, or 89.5% of certificates of deposit. The large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the recent low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher than market rates on such deposits or other borrowings. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Capital Management. We are subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC"), including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2011, we exceeded all of our regulatory capital requirements and considered "well-capitalized" under OCC regulation.

We declared our first cash dividend of $0.02 per share on April 20, 2009, and during each subsequent quarter. Future dividend payments will depend on our profitability, approval by our Board of Directors and prevailing Federal Reserve regulations.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with accounting principles generally accepted in the United States of America, are not recorded in our consolidated financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit.

For the year ended December 31, 2011, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our consolidated financial condition, results of operations or cash flows.

This Annual Report contains certain forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like "believe," "expect," "anticipate," "estimate" and "intend" or future or conditional verbs such as "will," "would," "should," "could" or "may." Certain factors that could cause actual results to differ materially from expected results include changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business of the Company and the Bank, and changes in the securities markets. Except as required by law, the Company does not undertake any obligation to update any forward-looking statements to reflect changes in belief, expectations or events.

For more information on Hometown Bancorp, Inc. and Hometown Bank of the Hudson Valley go to our website www.hometownbankhv.com.

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Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

March 28, 2012

To the Board of Directors and Stockholders of
Hometown Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Hometown Bancorp, Inc. and subsidiary (the Company) as of December 31, 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Hometown Bancorp, Inc. and subsidiary as of and for the year ended December 31, 2010 were audited by other auditors whose report, dated March 25, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hometown Bancorp, Inc. and subsidiary as of December 31, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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Consolidated Balance Sheets

	December 31, 2011	December 31, 2010
	(Dollars in Thousands, Except Share Data)	
Assets		
Cash and due from banks	**$ 9,303**	$ 4,064
Interest earning demand deposits with banks	**852**	359
Cash and Cash Equivalents	**10,155**	4,423
Federal Funds	**1,677**	-
Certificates of deposit	**525**	25
Securities available for sale	**3,598**	-
Securities held to maturity (fair value 2011 $1,044; 2010 $379)	**1,033**	359
Loans held for sale	**799**	1,961
Loans receivable, net of allowance for loan losses (2011 $1,780; 2010 $2,361)	**134,116**	138,678
Premises and equipment, net	**5,034**	3,908
Restricted investments in bank stocks, at cost	**519**	729
Other real estate owned	**3,542**	1,887
Accrued interest receivable and other assets	**4,739**	3,436
Total Assets	**$165,737**	$155,406
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 22,203**	$ 20,363
Interest bearing	**122,667**	108,740
Total Deposits	**144,870**	129,103
Federal Home Loan Bank advances	**-**	4,900
Advances from borrowers for taxes and insurance	**750**	722
Accrued interest payable	**14**	21
Other liabilities	**778**	846
Total Liabilities	**146,412**	135,592
Commitments and Contingencies	**-**	-
Stockholders' Equity		
Preferred stock, $0.01 par value; 3,000,000 shares authorized and unissued	**-**	-
Common stock, $0.01 par value; 7,000,000 shares authorized; 2,380,500 shares issued	**24**	24
Paid-in capital	**10,044**	10,066
Retained earnings	**10,267**	10,784
Unearned ESOP shares, at cost	**(700)**	(746)
Treasury stock, at cost, 53,561 shares at December 31, 2011 and 2010	**(311)**	(311)
Accumulated other comprehensive income (loss)	**1**	(3)
Total Stockholders' Equity	**19,325**	19,814
Total Liabilities and Stockholders' Equity	**$165,737**	$155,406

See notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,	
	2011	2010
	(In Thousands Except Per Share Data)	
Interest Income		
Loans receivable, including fees	**$7,289**	$7,855
Securities, taxable	**33**	41
Other	**39**	29
Total Interest Income	**7,361**	7,925
Interest Expense		
Deposits	**741**	1,099
Federal Home Loan Bank advances	**11**	21
Total Interest Expense	**752**	1,120
Net Interest Income	**6,609**	6,805
Provision for Loan Losses	**1,066**	862
Net Interest Income after Provision for Loan Losses	**5,543**	5,943
Non-interest Income		
Banking fees and service charges	**972**	963
Mortgage banking income, net	**630**	945
Investment brokerage fees	**72**	65
Realized loss on sale of other real estate owned	**(48)**	(5)
Other	**80**	56
Total Non-interest Income	**1,706**	2,024
Non-interest Expenses		
Salaries and employee benefits	**4,085**	3,957
Occupancy and equipment	**805**	724
Professional fees	**321**	259
Advertising and marketing	**354**	139
Data processing	**668**	630
Telephone and postage	**147**	148
FDIC premiums	**152**	221
Other real estate owned expense	**593**	392
Loss on disposal of fixed assets	**77**	-
Other	**751**	581
Total Non-interest Expenses	**7,953**	7,051
Income (Loss) before Income Taxes	**(704)**	916
Income Tax (Benefit) Expense	**(294)**	336
Net (loss) income	**$ (410)**	$ 580
Net (loss) income per common share - basic	**$ (0.18)**	$ 0.26
Weighted average number of common shares outstanding – basic	**2,254**	2,249

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2011 and 2010
(In Thousands Except Share Data)

	Common Stock	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance - December 31, 2009	$ 24	$ 10,088	$ 10,285	$ (793)	$ (311)	$ (4)	$ 19,289
Comprehensive income:							
Net income	-	-	580	-	-	-	580
Other comprehensive income	-	-	-	-	-	1	1
Total Comprehensive Income							581
Cash dividends declared ($0.08 per share)	-	-	(81)	-	-	-	(81)
ESOP shares committed to be released (4,666 shares)	-	(22)	-	47	-	-	25
Balance - December 31, 2010	24	10,066	10,784	(746)	(311)	(3)	19,814
Comprehensive income:							
Net loss	**-**	**-**	**(410)**	**-**	**-**	**-**	**(410)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Total Comprehensive Loss							**(406)**
Cash dividends declared ($0.08 per share)	**-**	**-**	**(107)**	**-**	**-**	**-**	**(107)**
ESOP shares committed to be released (4,666 shares)	**-**	**(22)**	**-**	**46**	**-**	**-**	**24**
Balance - December 31, 2011	**$ 24**	**$ 10,044**	**$ 10,267**	**$ (700)**	**$ (311)**	**$ 1**	**$ 19,325**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31, 2011	2010
	(In Thousands)	
Cash Flows from Operating Activities		
Net income (loss)	**$ (410)**	$ 580
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	**234**	247
Provision for loan losses	**1,066**	862
Deferred income tax benefit	**270**	304
Amortization of deposit premium	**26**	-
Amortization of mortgage servicing rights	**149**	154
Net accretion of securities premiums and discounts	**(127)**	(4)
Net gain on sale of loans	**(281)**	(553)
Loans originated for sale	**(19,901)**	(34,083)
Proceeds from sale of loans	**21,344**	33,850
Loss on sale of other real estate owned	**48**	5
ESOP expense	**24**	25
Valuation write-down of other real estate owned	**242**	186
Increase in accrued interest receivable and other assets	**(973)**	(746)
Decrease in accrued interest payable and other liabilities	**(93)**	(627)
Net Cash Flow From Operating Activities	**1,618**	200
Cash Flows from Investing Activities		
Purchases of certificates of deposit	**(500)**	(25)
Federal funds sold	**(1,677)**	-
Activity in available for sale securities:		
Purchases	**(3,500)**	(1,000)
Maturities, calls and principal repayments	**21**	1,000
Activity in held to maturity securities:		
Purchases	**(750)**	(750)
Maturities, calls and principal repayments	**102**	1,685
Net decrease (increase) in loans receivable	**184**	(4,307)
Proceeds from sale of other real estate owned	**1,367**	638
Net decrease (increase) in restricted investment in bank stocks	**210**	(238)
Cash received for acquisition, net of cash acquired of $283 and $0	**17,440**	-
Purchases of bank premises and equipment	**(178)**	(52)
Net Cash Flow From Investing Activities	**12,719**	(3,049)
Cash Flows from Financing Activities		
Net decrease in deposits	**(3,626)**	(2,645)
Net increase (decrease) in short-term Federal Home Loan Bank advances	**(4,900)**	1,900
(Decrease) increase in advances from borrowers for taxes and insurance	**28**	(14)
Dividends paid	**(107)**	(81)
Net Cash Flow From Financing Activities	**(8,605)**	(840)
Net Change in Cash and Cash Equivalents	**5,732**	(3,689)
Cash and Cash Equivalents - Beginning	**4,423**	8,112
Cash and Cash Equivalents - Ending	**$ 10,155**	$ 4,423
Supplementary Cash Flows Information		
Interest paid	**$ 759**	$ 1,132
Income taxes paid	**$ 309**	$ 656
Supplemental Schedule of Noncash Investing Activities		
Loans transferred to other real estate owned	**$ 3,312**	$ 1,281
Debenture collateral acquired in partial settlement of loan	**$ -**	$ 279

See notes to consolidated financial statements.

Note 1 - Significant Accounting Policies

Organization and Nature of Operations

Hometown Bancorp, Inc. (the "Company"), is a federally chartered mid-tier stock holding company, and a subsidiary of Hometown Bancorp, MHC (the "Mutual Holding Company"), a federally chartered mutual holding company. The Mutual Holding Company owns 1,309,275 shares, or 56.3%, of the Company's issued stock, and the remaining Company stock is held by the public or has been repurchased by the Company. The Mutual Holding Company activity is not included in the accompanying consolidated financial statements. Walden Federal Savings and Loan Association (the "Bank") is a wholly owned subsidiary of the Company. The same directors and officers, who manage the Bank, also manage the Company and the Mutual Holding Company.

On November 23, 2010, the Company filed a Form 15 with the Securities and Exchange Commission to deregister its common stock under the Securities and Exchange Act of 1934, as amended.

On September 9, 2011 the Bank acquired the Route 17M, Monroe, NY branch from First Federal Savings and Loan of Middletown to expand our market share in Monroe. The Branch as of September 9th had $19.4 million in deposits, which a core deposit intangible of $776,000 was recorded as a result of this acquisition. The Bank also acquired approximately $1.2 in premise and equipment.

On September 12, 2011, Walden Federal Savings and Loan Association changed its name to Hometown Bank of the Hudson Valley (the "Bank").

The Bank maintains its executive offices and main branch in Walden, New York, with branches in Montgomery, Monroe, Newburgh and Otisville, New York. The Bank is a community-oriented savings institution whose business primarily consists of accepting deposits from customers within its market area and investing those funds principally in mortgage loans secured by one- to four-family residences, multi-family and commercial properties, land loans, commercial loans, consumer loans and mortgage-backed securities.

The Bank has three wholly-owned subsidiaries, Ever-Green Financial Services, Inc., which holds a 50% interest in Evergreen Title Agency, LP, Valley Services, Inc. and Balsam Realty Inc., which leases certain premises used by the Bank and holds foreclosed real estate.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly-owned subsidiaries, Ever-Green Financial Services, Inc., Valley Services, Inc. and Balsam Realty Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Concentrations of Credit Risk

Most of the Company's activities are with customers located within Orange County, New York and to a lesser extent the adjacent counties of Ulster and Sullivan. Note 2 discusses the types of securities that the Bank invests in. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations in any one industry or customer.

Note 1 - Significant Accounting Policies (Continued)

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits with an original maturity of three months or less.

Securities

Management determines the appropriate classification of debt securities at the time of purchase.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income (loss), net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, recognized in interest income using the effective interest method over the terms of the securities.

On a quarterly basis, the Bank performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Bank then assesses whether the unrealized loss is other-than-temporary. The assessment considers (i) whether the Bank intends to sell the security prior to recovery and/or maturity, (ii) whether it is more likely than not that the Bank will have to sell the security prior to recovery and/or maturity and (iii) if the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If a debt security is deemed to be other-than-temporarily impaired, the credit loss component of an other-than-temporary impairment write-down is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Bank does not intend to sell the underlying security and it is more-likely-than not that the Bank would not have to sell the security prior to recovery. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. There was no other-than-temporary impairments recorded in the years ended December 31, 2011 or 2010.

Securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost. Management reviews impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

During 2009, the Bank purchased $60,000 of restricted stock from its correspondent bank Atlantic Central Bankers Bank (ACBB). The purchase was required in order to obtain an unsecured federal funds line. The restricted stock is carried at cost. Management reviews impairment based on the ultimate recoverability of the cost basis in the ACBB stock.

Note 1 - Significant Accounting Policies (Continued)

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of interest income on the related loans. The Bank is amortizing these amounts over the expected life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Bank has issued letters of credit on behalf of customers primarily to secure construction or land development projects that involve public improvements. The letters of credit are fully secured by a note and a mortgage placed on the related property. The note contains provisions that waive any interest payments provided there are no drawdowns on the letter of credit. Funds equal to the full amount of the letters of credit are advanced and placed in a non-interest bearing deposit account in order to enhance the Bank's collateral position under New York State Lien Law. These loans and deposits are reported gross in the consolidated balance sheets as the Bank does not intend to offset them. Interest is not imputed on these loans and deposits as it is a customary lending and deposit activity of the Bank.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDR's are initially classified as impaired.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying amount of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and the probability of

Note 1 - Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial, commercial real estate, construction and land loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans Held for Sale and Loan Servicing

Loans held for sale represent residential mortgage loans originated for sale on a whole-loan basis. These loans are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Net unrealized losses are recognized in a valuation allowance by charges to operations. Premiums and discounts and origination fees and costs on loans held for sale are deferred and recognized as a component of the gain or loss on sale. Commitments to originate loans that will be held for sale and forward commitments to sell such loans are derivative instruments which are required to be recognized as assets or liabilities at fair value. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements. The fair values of these commitments have had an immaterial effect on the Company's consolidated balance sheets and income statement.

The Bank sells residential mortgage loans to third parties. The Bank, as transferor, must surrender control over the transferred assets (i.e., the loans sold) in order to record a sale. The criteria specify that (i) the transferred assets have been isolated from the transferor (put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership); (ii) each transferee has the right to pledge or exchange the assets it received; and (iii) the transferor does not maintain effective control over the transferred assets through an agreement to repurchase the assets or an ability to unilaterally cause the holder to return specific assets.

Gains and losses on sales of loans are recognized when the sales proceeds are received (including consideration of assets obtained and liabilities incurred in the transfer, if any, such as servicing rights and recourse obligations). Recourse liabilities on loan sales through December 31, 2011 and 2010 are not material to the Company's consolidated balance sheets and income statement. Loan servicing income is reported in mortgage banking income, net.

Originated mortgage servicing rights are recorded at their fair value when loans are sold and are amortized in proportion to and over the period of estimated net servicing income or loss. The carrying value of originated mortgage servicing rights is periodically evaluated for impairment.

Premises and Equipment

Premises and equipment are recorded at cost. Depreciation is computed using the straight-line method over the expected useful lives of the related assets, which is generally 15 to 40 years for buildings and building improvements and 3 to 10 years for furniture, equipment, computers and software. Leasehold improvements are amortized over the related terms of the leases or their useful life if shorter.

Other Real Estate Owned

Real estate acquired in settlement of loans is recorded at the fair value of the property at the date of acquisition. Write-downs from cost to fair value less estimated selling costs which are required at the time of foreclosure or repossession are charged to the allowance for loan losses. Subsequent write-downs to fair value, net of estimated selling costs, are charged to other real estate owned expenses.

Note 1 - Significant Accounting Policies (Continued)

Intangible Assets

Intangible assets include a core deposit intangible (CDI) arising from the acquisition of our new Monroe branch on September 9, 2011. The CDI is amortized on a straight-line basis over 10 years. CDI, which is recorded in other assets, has a net carry value of $750,000 at December 31, 2011. The gross carrying value and accumulated amortization of CDI amounted to $776,000 and $26,000, respectively, at December 31, 2011. The estimated amortization expense is $77,000 for each of the next five years ending December 31, 2016 and $365,000 thereafter.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company and its subsidiary file a consolidated federal income tax return.

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has a simple capital structure as it has not granted any restricted stock awards or stock options and, during the years ended December 31, 2011 and 2010, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated balance sheet when they are funded.

Comprehensive Income (Loss)

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and unrecognized pension losses and past service liability are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income (loss), are components of comprehensive income (loss).

Note 1 - Significant Accounting Policies (Continued)

Comprehensive Income (Loss) (Continued)

The components of other comprehensive income (loss) and related tax effects for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Change in unrealized holding gains on securities available for sale:		
Change in unrealized holding gains arising during the year	**$ 18**	$ -
Directors' retirement plan:		
Pension losses	**(14)**	(2)
Reclassification adjustment for pension gains and prior service cost recognized in pension expense	**5**	5
Net Change in Director's retirement plan liability	**(9)**	3
Other comprehensive income before tax	**9**	3
Income tax effect	**5**	2
Net of Tax Amount	**$ 4**	$ 1

At December 31, 2011 and 2010, the components of accumulated other comprehensive income (loss) is as follows:

	2011	2010
	(In Thousands)	
Unrealized gains on securities available for sale (net of tax effect 2011 $8; 2010 $0)	**$ 10**	$ -
Net losses and past service liability for Directors' retirement plan (net of tax effect 2011 $4; 2010 $1)	**$ (9)**	$ (3)
	$ 1	$ (3)

Recent Accounting Pronouncements

Accounting Standards Update No. 2011-12: Comprehensive Income (Topic 220) – ***Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*** **(ASU 2011-12).**

Earlier this year, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 was intended to increase the prominence of other comprehensive income in financial statements and help financial statement users better understand the cause of a company's change in financial position and results of operations. Stakeholders, however, recently raised concerns that new presentation requirements about the reclassification of items out of accumulated other comprehensive income would be costly for preparers and add unnecessary complexity to financial statements. ASU 2011-12 defers the specific requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. ASU 2011-12 did not defer the requirement to report comprehensive income either in a single continuous statement or in two separate but consecutive financial statements.

The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after

Note 1 - Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

December 15, 2011. Management does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2011-11: Balance Sheet (Topic 210) – *Disclosures about Offsetting Assets and Liabilities*

This Update addressed disclosure for offsetting assets and liabilities. The FASB and the International Accounting Standard Board (IASB) have issued joint requirements that will require entities to disclosure both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements.

An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Management does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2011-04: Fair Value Measurement (Topic 820) – *Amendments to Achieve Common Fair Value Measurement and Disclosures Requirements in U.S. GAAP and IFRS*

The amendments of this Update are the result of work by the FASB and the IASB to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendment clarified the FASB's intent about the application of existing fair value measurement and disclosure requirements and changed a particular principle for measuring fair value and for disclosing information about fair value measurements.

The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Management does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

Note 2 - Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available For Sale:				
December 31, 2011:				
Government agency securities	$ 2,000	$ 3	$ -	$ 2,003
Municipal securities	566	12	-	578
Mortgage-backed securities	1,014	3	-	1,017
Total	$ 3,580	$ 18	$ -	$ 3,598

Note 2 – Securities (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Held to Maturity:				
December 31, 2011:				
Corporate securities	**$ 774**	**$ 3**	**$ 3**	**$ 774**
Mortgage-backed securities	**259**	**11**	**-**	**270**
Total	**$ 1,033**	**$ 14**	**$ 3**	**$ 1,044**
December 31, 2010:				
Mortgage-backed securities	$ 359	$ 20	$ -	$ 379

There were no sales of investments in 2011 and 2010. At December 31, 2011 and 2010, the Bank had no securities in an unrealized loss position. At December 31, 2011 and 2010, no securities were pledged.

The following table shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Held to Maturity:						
December 31, 2011:						
Corporate securities	**$ 247**	**$ 3**	**$ -**	**$ -**	**$ 247**	**$ 3**

The amortized cost and fair value of securities as of December 31, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the borrowers may have the right to prepay obligations with or without any penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)		(In Thousands)	
Due in one year or less	**$ -**	**$ -**	**$ -**	**$ -**
Due after one year through five years	**2,000**	**2,003**	**774**	**774**
Due after five years through ten years	**-**	**-**	**-**	**-**
Due after ten years	**566**	**578**	**-**	**-**
Mortgage-backed securities	**1,014**	**1,017**	**259**	**270**
	$ 3,580	**$ 3,598**	**$ 1,033**	**$ 1,044**

Note 3 - Loans Receivable and Allowance for Loan Losses

The composition of loans receivable at December 31, 2011 and 2010 is as follows:

	2011	2010
	(In Thousands)	
Real estate mortgages:		
Residential	**$ 62,517**	$ 64,014
Construction	**4,239**	6,736
Multi-family	**1,978**	1,567
Commercial	**28,245**	27,281
Land	**14,808**	16,546
Total Real Estate Mortgages	**111,787**	116,144
Other loans:		
Commercial	**12,162**	11,863
Home equity loans and credit lines	**11,307**	12,415
Consumer	**572**	574
Total Loans	**135,828**	140,996
Deferred loan origination costs, net	**68**	43
Allowance for loan losses	**(1,780)**	(2,361)
Net Loans	**$ 134,116**	$ 138,678

The Bank grants loans to customers primarily within Orange County, New York, and to a lesser extent, portions of the adjacent counties of Ulster and Sullivan. A large portion of the loan portfolio is secured by real estate. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the losses inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank considers residential mortgages, home equity loans, which include credit lines, and consumer loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience. Commercial mortgage, construction, multi-family and business loans are viewed individually and considered impaired if it is probable that the Bank will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to expense) and recoveries of loans previously charged off and is reduced by net charge-offs.

The following tables present changes in the allowance for loan losses for the years ended December 31, 2011 and 2010 (In Thousands):

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

For the Year Ended December 31, 2011

	Residential mortgage	Construction	Multi-family	Commercial real estate	Land	Commercial	Home equity	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning Balance	$ 366	$ 308	$ 8	$ 278	$ 1,051	$ 174	$ 150	$ 15	$ 11	$ 2,361
Charge-offs	(419)	(135)	-	-	(758)	(41)	(294)	(22)	-	(1,669)
Recoveries	17	-	-	-	-	-	-	5	-	22
Provisions	600	(72)	2	10	126	29	365	12	(6)	1,066
Ending balance	$ 564	$ 101	$ 10	$ 288	$ 419	$ 162	$ 221	$ 10	$ 5	$ 1,780
Ending balance: individually evaluated for impairment	$ -	$ 45	$ -	$ 37	$ -	$ -	$ -	$ -	$ -	$ 82
Ending balance: collectively evaluated for impairment	$ 564	$ 56	$ 10	$ 251	$ 419	$ 162	$ 221	$ 10	$ 5	$ 1,698
Loans receivable:										
Ending balance	$ 62,517	$ 4,239	$ 1,978	$ 28,245	$ 14,808	$ 12,162	$ 11,307	$ 572		$ 135,828
Ending balance: individually evaluated for impairment	$ -	$ 1,000	$ -	$ 4,712	$ 199	$ 163	$ -	$ -		$ 6,074
Ending balance: collectively evaluated for impairment	$ 62,517	$ 3,239	$ 1,978	$ 23,533	$ 14,609	$ 11,999	$ 11,307	$ 572		$ 129,754

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

For the Year Ended December 31, 2010

	Residential mortgage	Construction	Multi-family	Commercial real estate	Land	Commercial	Home equity	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning Balance	$ 238	$ 291	$ 11	$ 246	$ 826	$ 196	$ 88	$ 13	$ 9	$ 1,918
Charge-offs	(1)	(66)	-	-	-	(313)	-	(47)	-	(427)
Recoveries	-	-	-	-	-	-	-	8	-	8
Provisions	129	83	(3)	32	225	291	62	41	2	862
Ending balance	$ 366	$ 308	$ 8	$ 278	$ 1,051	$ 174	$ 150	$ 15	$ 11	$ 2,361
Ending balance: individually evaluated for impairment	$ 47	$ 180	$ -	$ 37	$ 649	$ 25	$ 65	$ 5	$ -	$ 1,008
Ending balance: collectively evaluated for impairment	$ 319	$ 128	$ 8	$ 241	$ 402	$ 149	$ 85	$ 10	$ 11	$ 1,353
Loans receivable:										
Ending balance	$ 64,014	$ 6,736	$ 1,567	$ 27,281	$ 16,546	$ 11,863	$ 12,415	$ 574		$ 140,996
Ending balance: individually evaluated for impairment	$ 410	$ 1,094	$ -	$ 3,549	$ 1,938	$ 25	$ 519	$ 5		$ 7,540
Ending balance: collectively evaluated for impairment	$ 63,604	$ 5,642	$ 1,567	$ 23,732	$ 14,608	$ 11,838	$ 11,896	$ 569		$ 133,456

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

Nonperforming Assets and Loan Delinquencies

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Nonaccrual loans consisted primarily of loans secured by real estate at December 31, 2011. While the Bank makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans in process of foreclosure has grown substantially over the past several years. This growth has been the result of adverse changes within the economy and increases in local unemployment. The growth is also due in part to the extended length of time required to meet all of the legal requirements mandated by New York State law prior to a foreclosure sale, which may be in excess of two years. Real estate loans on nonaccrual status totaled $3.1 million at December 31, 2011 of which $1.8 million were in the process of foreclosure.

The following table represents nonaccrual loans by classes of the loan portfolio as of December 31, 2011 and 2010.

(Dollars in thousands)	December 31, 2011	December 31, 2010
Nonaccrual loans:		
Residential mortgage	**$ 2,219**	$ 3,489
Construction	**325**	621
Multi-family	**—**	—
Commercial real estate	**309**	416
Land	**—**	1,938
Commercial	**—**	25
Home equity loans and credit lines	**211**	721
Consumer	**—**	10
Total nonaccrual loans	**3,064**	7,220
Foreclosed real estate	**3,542**	1,887
Total nonperforming assets	**6,606**	9,107
Troubled debt restructurings	**6,766**	4,512
Total nonperforming assets and troubled debt restructurings	**$ 13,372**	$ 13,619
Total nonperforming loans to total loans	**2.26%**	5.12%
Total nonperforming loans to total assets	**1.85**	4.65
Total nonperforming assets and troubled debt restructurings to total assets	**8.07**	8.76

Interest not recognized on nonaccrual loans was $182,000 and $561,000 for the years ended December 31, 2011 and 2010, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2011 and 2010.

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2011 (In Thousands):

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables
Residential mortgage	**$ 785**	**$ -**	**$ 2,219**	**$ 3,004**	**$ 59,513**	**$ 62,517**
Construction	**-**	**951**	**325**	**1,276**	**2,963**	**4,239**
Multi-family	**-**	**-**	**-**	**-**	**1,978**	**1,978**
Commercial real estate	**90**	**-**	**309**	**399**	**27,846**	**28,245**
Land	**205**	**-**	**-**	**205**	**14,603**	**14,808**
Commercial	**37**	**-**	**-**	**37**	**12,125**	**12,162**
Home equity	**85**	**153**	**211**	**449**	**10,858**	**11,307**
Consumer	**1**	**-**	**-**	**1**	**571**	**572**
Total	**$ 1,203**	**$ 1,104**	**$ 3,064**	**$ 5,371**	**$ 130,457**	**$ 135,828**

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2010 (In Thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables
Residential mortgage	$ 1,056	$ 943	$ 3,489	$ 5,488	$ 58,526	$ 64,014
Construction	-	-	621	621	6,115	6,736
Multi-family	-	-	-	-	1,567	1,567
Commercial real estate	516	227	416	1,159	26,122	27,281
Land	-	-	1,938	1,938	14,608	16,546
Commercial	91	-	25	116	11,747	11,863
Home equity	141	79	721	941	11,474	12,415
Consumer	-	2	10	12	562	574
Total	$ 1,804	$ 1,251	$ 7,220	$ 10,275	$ 130,721	$ 140,996

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality and profitability of the Bank's loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship's credit risk. Consistent with regulatory guidelines, the Bank provides for the classification of loans considered being of lesser quality. Such ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a full loss reserve and/or charge-off is not warranted. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk. When the Bank classifies problem assets as either Substandard or Doubtful, it generally establishes a valuation allowance or "loss reserve" in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When the Bank identifies problem assets as being impaired, it is required either to establish a specific allowance for losses equal to the amount of impairment of the assets, or to charge-off such amount. The Bank's determination as to the classification of its assets and the amount of its valuation allowance is subject to review by its regulatory agencies, which can

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

order the establishment of additional general or specific loss allowances. The Bank reviews its portfolio monthly to determine whether any assets require classification in accordance with applicable regulations.

The inherent risk within the loan portfolio varies depending upon the loan type. The Bank's primary lending activity is the origination of residential mortgage loans, including home equity loans, which are collateralized by residences. Generally, residential mortgage loans are made in amounts up to 85.0% of the appraised value of the property. However, the Bank will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. In the event of default by the borrower, the Bank will acquire and liquidate the underlying collateral. By originating the loan at a loan-to-value ratio of 85% or less, the Bank limits its risk of loss in the even of default. However, the market values of the collateral may be adversely impacted by declines in the economy. Home equity loans may have an additional inherent risk if the Bank does not hold the first mortgage. The Bank may stand in a secondary position in the event of collateral liquidation resulting in a greater chance of insufficiency to meet all obligations.

Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property. The Bank completes inspections during the construction phase prior to any disbursements. The
Bank limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan.

Loans collateralized by commercial real estate, and multi-family loans, such as apartment buildings generally are larger than residential loans and involve a greater degree of risk. Commercial mortgage loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for management to monitor and evaluate.

Loans collateralized by land generally are larger than residential loans and involve a greater degree of risk. Payments on these loans depend to a large degree on the results of operations and sales of the properties, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of land loans makes them more difficult for management to monitor and evaluate.

Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans. In addition, consumer loans expand the products and services offered by the Bank to better meet the financial services needs of its customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based, with loan amounts based on fixed-rate loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

Credit Quality Indicators

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, (In Thousands):

2011	Pass	Special Mention	Substandard	Total
Residential mortgage	**$ 60,022**	**$ 276**	**$ 2,219**	**$ 62,517**
Construction	**2,762**	**153**	**1,324**	**4,239**
Multi-family	**1,978**	**-**	**-**	**1,978**
Commercial real estate	**21,453**	**1,129**	**5,663**	**28,245**
Land	**10,096**	**4,513**	**199**	**14,808**
Commercial	**11,577**	**422**	**163**	**12,162**
Home equity	**10,996**	**100**	**211**	**11,307**
Consumer	**572**	**-**	**-**	**572**
Total	**$ 119,456**	**$ 6,593**	**$ 9,779**	**$ 135,828**

2010

	Pass	Special Mention	Substandard	Total
Residential mortgage	$ 59,083	$ 915	$ 4,016	$ 64,014
Construction	5,562	80	1,094	6,736
Multi-family	1,567	-	-	1,567
Commercial real estate	22,194	1,226	3,861	27,281
Land	12,296	2,311	1,939	16,546
Commercial	10,880	958	25	11,863
Home equity	11,771	125	519	12,415
Consumer	565	-	9	574
Total	$ 123,918	$ 5,615	$ 11,463	$ 140,996

The Bank had no loans classified as Doubtful or Loss at December 31, 2011 and 2010.

Impaired Loans

The Bank identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "*Receivables – Loan Impairment.*" A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. Loans are reviewed on a regular basis to assess collectability of all principal and interest payments due. Management determines that a loan is impaired or nonperforming when it is probable at least a portion of the loan will not be collected due to an irreversible deterioration in the financial condition of the borrower or the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral dependent loans are measured for impairment based on the fair value of the collateral. The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2011 and 2010 (In Thousands):

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential mortgage	$ -	$ -	$ -	$ -	$ -
Construction	-	-	-	-	-
Commercial real estate	4,427	4,427	-	4,298	162
Land	199	199	-	105	9
Commercial	163	163	-	8	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	**$ 4,789**	**$ 4,789**	**$ -**	**$ 4,411**	**$ 171**
With an allowance recorded:					
Residential mortgage	-	-	-	-	-
Construction	1,000	1,000	45	869	33
Commercial real estate	285	285	37	285	13
Land	-	-	-	-	-
Commercial	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	**$ 1,285**	**$ 1,285**	**$ 82**	**$ 1,154**	**$ 46**
Total:					
Residential mortgage	$ -	$ -	$ -	$ -	$ -
Construction	1,000	1,000	45	869	33
Commercial real estate	4,712	4,712	37	4,583	175
Land	199	199	-	105	9
Commercial	163	163	-	8	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	**$ 6,074**	**$ 6,074**	**$ 82**	**$ 5,565**	**$ 217**

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential mortgage	$ 160	$ 160	$ -	$ -	$ -
Construction	-	-	-	-	-
Commercial real estate	3,264	3,264	-	557	18
Land	-	-	-	-	-
Commercial	-	-	-	-	-
Home equity	391	391	-	141	-
Consumer	-	-	-	-	-
Total	**$ 3,815**	**$ 3,815**	**$ -**	**$ 698**	**$ 18**
With an allowance recorded:					
Residential mortgage	250	250	47	1	-
Construction	1,094	1,094	180	299	-
Commercial real estate	285	285	37	285	17
Land	1,938	1,938	649	1,733	-
Commercial	25	25	25	6	-
Home equity	128	128	65	49	-
Consumer	5	5	5	1	-
Total	**$ 3,725**	**$ 3,725**	**$ 1,008**	**$ 2,374**	**$ 17**
Total:					
Residential mortgage	$ 410	$ 410	$ 47	$ 1	$ -
Construction	1,094	1,094	180	299	-
Commercial real estate	3,549	3,549	37	842	35
Land	1,938	1,938	649	1,733	-
Commercial	25	25	25	6	-
Home equity	519	519	65	190	-
Consumer	5	5	5	1	-
Total	**$ 7,540**	**$ 7,540**	**$ 1,008**	**$ 3,072**	**$ 35**

The Bank generally does not separately identify individual residential mortgages, home equity and consumer loans for impairment unless loan is restructured in a troubled debt restructuring.

The following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2011:

	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled Debt Restructurings			
Commercial real estate	2	$ 1,280	$ 1,280
Residential Mortgage	6	$ 2,177	$ 2,159

There have been no trouble debt restructurings modified within the last 12 months that defaulted during 2011.

At December 31, 2011 and 2010, one- to four-family residential mortgage loans serviced for others amounted to approximately $103.7 million and $96.4 million, respectively. Advances from borrowers for taxes and insurance related to loans serviced for others amounted to approximately $1.3 million at December 31, 2011 and 2010. These loans and related advances are not included in the accompanying consolidated balance sheets.

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

The following summarizes activity pertaining to mortgage servicing rights for the years ended December 31, 2011 and 2010:

	2011	2010
	(In Thousands)	
Balance, beginning	**$ 550**	$ 397
Capitalized during the year	**223**	307
Amortization	**(149)**	(154)
Balance, ending	**$ 624**	$ 550

Note 4 - Premises and Equipment

The components of premises and equipment at December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Land	**$ 1,801**	$ 901
Buildings and leasehold improvements	**4,073**	3,724
Furniture and equipment	**1,157**	1,085
Automobiles	**61**	61
	7,092	5,771
Accumulated depreciation	**2,058**	1,863
	$ 5,034	$ 3,908

Note 5 - Deposits

Deposits at December 31, 2011 and 2010 consist of the following major classifications:

	2011	2010
	(In Thousands)	
Non-interest bearing demand	**$ 22,203**	$ 20,363
NOW	**10,957**	9,382
Money market	**22,045**	10,876
Savings	**22,227**	18,613
Certificates of deposit	**67,438**	69,869
	$ 144,870	$ 129,103

A summary of certificates of deposit by maturity at December 31, 2011 is as follows (In Thousands):

Year ending December 31:	
2012	**$ 60,348**
2013	**5,238**
2014	**1,536**
2015	**78**
2016	**238**
	$ 67,438

Note 5 – Deposits (Continued)

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was $27.3 million and $30.3 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, $10.0 million of certificates of deposit consisted of one municipal deposit from the New York State Office of the Comptroller which is secured by a municipal letter of credit issued by the Federal Home Loan Bank (see Note 6).

A summary of interest expense on deposits for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
	(In Thousands)	
NOW and money market demand	**$ 87**	$ 93
Savings	**64**	81
Certificates of deposit	**590**	925
	$ 741	$ 1,099

Note 6 – Federal Home Loan Bank and Other Borrowings

As a member of the FHLB, the Bank may borrow in the form of term and overnight borrowing up to the amount of eligible residential mortgage loans and securities that have been pledged as collateral under a blanket security agreement. As of December 31, 2011, the Bank had pledged residential mortgage loans totaling $33.2 million. Based on no outstanding borrowings and a secured $10.0 million municipal letter of credit, the Bank had unused borrowing capacity with FHLB of approximately $22.8 million at December 31, 2011.

At December 31, 2011, the Bank had no borrowing outstanding. The Bank had two short-term advances totaling $4.9 million outstanding at December 31, 2010, which matured between January and March 2011, with an interest rate range from 0.40% to 0.57%.

The Bank also has an unused $2.0 million federal funds line from its correspondent bank, Atlantic Central Bankers Bank at December 31, 2011 and 2010.

Note 7 - Legal Contingencies

Various legal claims arise from time to time in the normal course of business, which in the opinion of management will have no material effect on the Company's consolidated financial statements.

Note 8 - Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends which may be paid at any date is generally limited to retained net income of the Bank for the current and preceding two years. Loans or advances are limited to 10% of the Bank's capital and surplus on a secured basis.

At December 31, 2011, the Bank's retained earnings available for the payment of dividends was approximately $880,000. Funds available for loans or advances by the Bank to the Company amounted to approximately $1.5 million.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below minimum capital requirements. The Company's ability to pay dividends is generally dependent on the Bank's ability to pay dividends to the Company.

Note 9 - Lease Commitments and Total Rental Expense

The Bank leases three branch locations under long-term operating leases. Future minimum lease payments by year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more, consisted of the following at December 31, 2011 (In Thousands):

Years ending December 31:	
2012	**$ 78**
2013	**78**
2014	**76**
2015	**57**
2016	**16**
	$ 305

The leases contain options to extend for periods up to ten years. The cost of such extensions is not included above. The total rental expense for all leases for the years ended December 31, 2011 and 2010 was approximately $113,000 and $99,000, respectively.

Note 10 - Income Taxes

The income tax provision (benefit) consists of the following for the years ended December 31, 2011 and 2010:

	2011	**2010**
	(In Thousands)	
Federal:		
Current	**$ (18)**	$ 514
Deferred	**(211)**	(238)
	(229)	276
State		
Current	**(6)**	126
Deferred	**(59)**	(66)
	(65)	60
Income Tax (Benefit) Provision	**$ (294)**	$ 336

A reconciliation of the statutory federal income tax at a rate of 34% to the income tax expense included in the consolidated statements of income for the years ended December 31, 2011 and 2010 is as follows:

	2011		**2010**	
	Amount	**% of Pretax Income**	**Amount**	**% of Pretax Income**
	(Dollars in Thousands)			
Federal income tax at statutory rate	**$ (239)**	**(34.0)** %	$ 312	34.0 %
State income taxes, net of federal tax benefit	**(43)**	**(6.1)**	39	4.3
Other	**(12)**	**(1.7)**	(15)	(1.6)
	$ (294)	**(41.8)** %	$ 336	36.7 %

Note 10 - Income Taxes (Continued)

Items that gave rise to significant portions of deferred taxes are as follows:

	December 31,	
	2011	**2010**
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	**$ 579**	$ 827
Directors' retirement plan	**127**	93
Nonaccrual interest	**72**	223
Other real estate owned	**198**	74
Net operating losses	**554**	-
	1,530	1,217
Deferred tax liabilities:		
Premises and equipment	**229**	222
Mortgage servicing rights	**247**	218
Other	**24**	17
	500	457
Net Deferred Tax Asset	**$ 1,030**	$ 760

Net deferred tax assets are recorded in accrued interest receivable and other assets. Management determines the need for a deferred tax asset valuation allowance based upon an evaluation of the realizability of tax benefits from the reversal of temporary differences creating the deferred tax assets. Based on historical and anticipated future pre-tax earnings, management believes it is more likely than not that the company will realize its deferred tax assets, and thus no deferred tax asset valuation allowance was considered necessary at December 31, 2011 or 2010.

As a thrift institution, the Bank is subject to special provisions in the Federal and New York State tax laws regarding its allowable tax bad debt deductions and related tax bad debt reserves. These reserves consist primarily of a defined base-year amount for Federal and New York income tax purposes. Deferred tax liabilities are recognized with respect to any portion of the base-year amount which is expected to become taxable (or "recaptured") in the foreseeable future.

Under current tax laws, Federal base-year reserves would be subject to recapture if the Bank pays a cash dividend in excess of earnings and profits or liquidates. In order for the Bank to permissibly maintain a New York State tax bad debt reserve for thrifts, certain thrift definitional tests must be satisfied on an ongoing basis. These definitional tests include maintaining at least 60% of assets in thrift qualifying assets, as defined for tax purposes, and maintaining a thrift charter. The Bank expects that it will take no action in the foreseeable future which would require the establishment of a tax liability associated with these bad debt reserves. Deferred tax liabilities have not been recognized with respect to the base-year reserve of approximately $500,000 at December 31, 2011, since the Bank does not expect that these amounts will become taxable in the foreseeable future. The unrecognized deferred tax liability with respect to the base-year reserves was approximately $170,000 at December 31, 2011.

The Company recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2011 and 2010. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the consolidated statements of income. No interest and penalties were recorded in 2011 and 2010. The Company's Federal and New York tax returns, constituting the returns of the major taxing jurisdictions, are subject to examination by the taxing authorities for 2010, 2009 and 2008 as prescribed by applicable statute. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute. As of December 31, 2011 and 2010 the Company has no uncertain tax positions.

Note 11 - Employee Benefit Plans

401(k)

The Bank has a 401(k) savings plan, which is offered to all eligible employees, defined as those who are at least 21 years of age that have worked for the Bank for one year and work a minimum of 1,000 hours per Plan year. The Plan permits tax deferred employee contributions of up to 15% of compensation and provides for employer discretionary matching and additional contributions determined annually by the Board of Directors. Employer contributions are subject to the employee completing 1,000 hours of service during the Plan year and being employed on the last day of the Plan year. Employer contributions vest to the employee at the rate of 20% after completion of two years of service and 20% per year, thereafter, becoming 100% vested upon the completion of six years of service.

In 2011 and 2010, the Board of Directors approved matching contributions of 100% of employee contributions up to 2% of the employee's compensation. Matching contributions amounted to $44,000 and $42,000 in 2011 and 2010, respectively. In 2011 and 2010, the Board of Directors approved additional contributions of 1% and 2%, respectively, of employees' compensation. Additional contributions were $26,000 and $52,000, respectively, for 2011 and 2010.

Employee Stock Ownership Plan ("ESOP")

In June 2007, the Bank established an ESOP which acquired 93,315 shares of the Company's common stock in the stock offering with funds provided by a loan from the Company. The stock acquired by the ESOP but not yet released to participants is shown as a reduction of stockholders' equity in the accompanying consolidated balance sheets. The ESOP loan will be repaid principally from the Bank's contributions to the ESOP in annual payments through 2027 at a fixed interest rate of 8.25%. Shares are released to participants on a straight-line basis over the loan term and allocated based on participant compensation. The Bank recognizes compensation benefit expense as shares are committed for release at their current market price. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized $24,000 and $25,000 of compensation expense related to this plan for the years ended December 31, 2011 and 2010. At December 31, 2011, there were 69,985 shares not yet released having an aggregate market value of approximately $332,000. Participant eligibility requirements and vesting provisions for the ESOP are the same as the 401(k) savings plan outlined above.

Directors' Retirement Plan

Effective March 2007, the Bank adopted an unfunded directors' retirement plan for the benefit of non-employee directors. Under the plan, directors who have attained the normal retirement age of 65 receive a retirement benefit based on their length of service upon termination. Benefits vest at the rate of 20% per year over a five year period commencing on the date of adoption for existing directors or the initial date of service for directors who join the Board of Directors after the adoption date. The plan's projected benefit obligation and funded status as of the December 31, 2011 and 2010 measurement date, activity in the plan and the amounts recognized in the accompanying consolidated financial statements follows:

	Year Ended December 31, 2011	Year Ended December 31, 2010
	(In Thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 233**	$ 167
Service cost	**60**	54
Interest cost	**12**	9
Losses	**15**	3
Projected benefit obligation at end of year	**$ 320**	$ 233

The discount rate used to determine the benefit obligation at December 31, 2011 and 2010 was 4.50% and 5.50%, respectively.

Note 11 - Employee Benefit Plans (Continued)

Directors' Retirement Plan (Continued)

Amounts recognized in accumulated other comprehensive income (loss) were:

	December 31, 2011	December 31, 2010
	(In Thousands)	
Unrecognized net gain (loss)	**$ (11)**	$ 3
Prior service cost	**(2)**	(7)
Pre-tax adjustment	**(13)**	(4)
Income tax effect	**(4)**	1
	$ (9)	$ (3)

The estimated cost that will be amortized from accumulated other comprehensive loss into net periodic pension expense for the year ending December 31, 2012 is $-0- of net gain and $2,000 of prior service cost.

Using an actuarial measurement date of December 31, 2011 and 2010, the components of net periodic pension expense follow (In Thousands):

	2011	2010
Service cost	**$ 60**	$ 54
Interest cost	**12**	9
Amortization of past service liability	**5**	5
Net periodic pension expense	**$ 77**	$ 68

Discount rates of 5.25% and 5.50% were used to determine net periodic pension expense for the years ended December 31, 2011 and 2010, respectively.

The Company does not expect to contribute to the plan in 2011.

The following table shows the expected benefit payments to be paid to participants for the years indicated (In Thousands):

Years ending December 31,	
2013	**$ 40**
2014	**40**
2015	**40**
2016	**40**
2017 - 2021	**200**

Hometown Bancorp, Inc. 2008 Equity Incentive Plan

In 2008, the stockholders approved the 2008 Equity Incentive Plan ("Equity Plan") the purpose of which is to promote the long-term financial success of the Company and the Bank, by providing a means to attract, retain and reward individuals who can and do contribute to such success and to further align their interests with those of our stockholders. The Compensation Committee determines which executives will receive stock awards as well as type, size and restrictions on the awards. Under the Equity Plan, the Compensation Committee may make grants of incentive stock options, nonqualified stock options, stock appreciation rights or restricted stock of up to 163,301 shares. Grants have not yet been made under the Equity Plan.

Note 12 - Transactions with Officers and Directors

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, their immediate families, and affiliated companies (commonly referred to as related parties), on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Bank. These persons were indebted to the Bank for loans totaling approximately $1.5 million and $1.1 million at December 31, 2011 and 2010, respectively. During 2011, approximately $571,000 of new loans and approximately $194,000 of repayments were made.

Deposits from related parties held by the Bank at both December 31, 2011 and 2010 amounted to approximately $1.2 million.

A director of the Company is associated with a law firm which provides legal services to the Bank and its subsidiaries. During 2011 and 2010, the law firm was paid approximately $443,000 and $358,000, respectively, for legal services of which $58,000 and $48,000, respectively, is included in professional fees in the accompanying consolidated statements of income. The Bank paid legal fees to the law firm of approximately $153,000 during 2011 and $132,000 during 2010 that was recorded in other real estate expense and other expense. The balance was paid by customers of the Bank in connection with loan transactions.

Note 13 - Off-Balance Sheet Risk

The Bank 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. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Bank'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 amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instruments with off-balance sheet risk at December 31, 2011 and 2010 is as follows:

	2011	2010
	(In Thousands)	
Commitments to grant loans	**$ 3,211**	$ 5,546
Unfunded commitments under lines of credit	**8,123**	8,206
Letters of credit	**616**	591
	$ 11,950	$ 14,343

Fixed rate commitments to grant loans amounted to approximately $2.2 million at December 31, 2011, and had interest rates that ranged from 3.50% to 7.00%.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but includes principally residential or commercial real estate.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and generally expire within one year. Those guarantees are primarily issued to municipalities to ensure the

Note 13 - Off-Balance Sheet Risk (Continued)

completion of public improvements in residential subdivisions by contractors that are customers of the Bank. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds savings accounts as collateral supporting these commitments for which collateral is deemed necessary. At December 31, 2011 and 2010, such collateral amounted to $284,000 and $194,000, respectively. The current amount of the liability as of December 31, 2011 and 2010 for guarantees under standby letters of credit issued is not material.

Note 14 - Regulatory Capital Requirements

The Bank is required to maintain a cash reserve balance in vault cash or with the Federal Reserve Bank. The total of this reserve balance was approximately $672,000 and $622,000 at December 31, 2011 and 2010, respectively.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible, core, and risk-based capital as defined in the regulations. Management believes, as of December 31, 2011, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from the regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum core, Tier 1 risk-based and total risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented below.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2011:						
Tangible	**$15,186**	**9.21 %**	**$≥2,473**	**≥1.5 %**	**N/A**	**N/A**
Core (leverage)	**15,186**	**9.21**	**≥6,595**	**≥4.0**	**$≥8,244**	**≥ 5.0 %**
Tier 1 risk-based	**15,186**	**12.35**	**≥4,917**	**≥4.0**	**≥7,375**	**≥ 6.0**
Total risk-based	**16,664**	**13.56**	**≥9,833**	**≥8.0**	**≥12,292**	**≥10.0**
As of December 31, 2010:						
Tangible	$16,302	10.49 %	$≥2,331	≥1.5 %	N/A	N/A
Core (leverage)	16,302	10.49	≥6,216	≥4.0	$≥7,770	≥ 5.0 %
Tier 1 risk-based	16,302	13.52	≥4,822	≥4.0	≥7,233	≥ 6.0
Total risk-based	17,345	14.39	≥9,644	≥8.0	≥12,055	≥10.0

Note 15 - Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of December 31, 2011 and 2010 and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 are as follows:

Description	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Government agency securities	$ 2,003	$ -	$ 2,003	$ -
Municipal securities	$ 578	$ -	$ 578	$ -
Mortgage-backed securities	$ 1,017	$ -	$ 1,017	$ -
Forward sales contract	$ 17	$ -	$ 17	$ -

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 are as follows:

Description	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Forward sales contract	$ 53	$ -	$ 53	$ -

Note 15 - Fair Value of Financial Instruments (Continued)

The Company enters into forward sales contracts to sell certain residential real estate loans. Such commitments are considered to be derivative financial instruments and, therefore, are carried at estimated fair value in the other assets or other liability section of the consolidated balance sheets. The fair value of these forward sales contracts is primarily measured by obtaining pricing from certain government-sponsored entities. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Company and therefore, are classified as Level 2 in the fair value hierarchy.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 are as follows:

Description	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired loans	**$ 1,203**	**$ -**	**$ -**	**$ 1,203**
Other real estate owned	**$ 600**	**$ -**	**$ -**	**$ 600**

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 are as follows:

Description	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired loans	$ 2,717	$ -	$ -	$ 2,717

Fair value of impaired loans is generally determined based upon independent third party appraisals of the properties or other indications of value based on recent comparable sales of similar properties, or discounted cash flows based upon expected proceeds. These assets are included in Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of loan balances less their valuation allowances as determined under ASC 310-10. At December 31, 2011, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1.2 million, net of a valuation allowance of $82,000. For the year ended December 31, 2011, no provision was added to the provision for loan losses for impaired loans. At December 31, 2010, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2.7 million, net of a valuation allowance of $1 million.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2011 and 2010:

Note 15 - Fair Value of Financial Instruments (Continued)

Cash and Cash Equivalents, Federal Funds and Certificates of Deposit

The carrying amounts reported in the consolidated balance sheet for these instruments approximate the fair value.

Securities

Fair values of available for sale and held to maturity securities are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix pricing from a third party pricing vendor to determine fair value pricing.

Matrix prices, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans Held for Sale

Fair values for loans held for sale are based on existing commitments from investors or prevailing market prices.

Loans Receivable

For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, fair values are based on carrying values. The fair value of fixed-rate loans are estimated using discounted cash flow analyses at interest rates currently offered in the market for loans with similar terms to borrowers of similar credit quality.

Impaired Loans

Impaired loans are those that are accounted for under ASC 310-10 in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the properties or other indications of value based on recent comparable sales of similar properties, or discounted cash flows based upon expected proceeds. These assets are included in Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of loan balances less their valuation allowances.

Other Real Estate Owned

Fair values of foreclosed real estate are generally determined based upon independent third party appraisals of the properties, less estimated cost to sell, or discounted cash flows based upon expected proceeds.

Restricted Investments in Bank Stock

The carrying amount of Federal Home Loan Bank and Atlantic Central Bankers Bank stock approximates fair value.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

Mortgage Servicing Rights

The Company accounts for mortgage servicing rights (MSRs) at amortized cost. The Company performs a valuation of fair value to determine if there is any impairment. Fair value for MSRs is determined using a static discounted cash flow valuation approach. This approach consists of projecting servicing cash flows under static interest-rate scenarios and discounting these cash flows using risk-adjusted rates. The model assumptions used in the valuation of MSRs include mortgage prepayment speeds and discount rates. The fair value of MSRs is primarily affected by changes in prepayments that result from shifts in mortgage interest rates.

Note 15 - Fair Value of Financial Instruments (Continued)

Deposits

Fair values for demand deposits, savings accounts and certain money market deposits are, by definition, equal to the amount payable on demand at the reporting date. Fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on similar instruments with similar maturities.

Federal Home Loan Bank Advances

The carrying amount of Federal Home Loan Bank Advances approximates fair value.

Off-Balance Sheet Financial Instruments

Fair values of commitments to extend credit and letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms, and present credit worthiness of the counterparties. At December 31, 2011 and 2010, the fair value of these instruments was not material.

The estimated fair values of the Company's financial instruments at December 31, 2011 and 2010 were as follows:

	December 31,			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	**$ 10,155**	**$ 10,155**	$ 4,423	$ 4,423
Federal funds	**1,677**	**1,677**	-	-
Certificates of deposit	**525**	**525**	25	25
Securities available for sale	**3,598**	**3,598**	-	-
Securities held to maturity	**1,033**	**1,044**	359	379
Loans held for sale	**799**	**799**	1,961	1,961
Loans receivable, net	**134,116**	**139,660**	138,678	144,100
Restricted investments in bank stock	**519**	**519**	729	729
Accrued interest receivable	**587**	**587**	577	577
Mortgage servicing rights	**624**	**631**	550	791
Financial liabilities:				
Non-interest bearing demand accounts	**22,203**	**22,203**	20,363	20,363
NOW accounts	**10,957**	**10,957**	9,382	9,382
Money market accounts	**22,045**	**22,045**	10,876	10,876
Savings accounts	**22,227**	**22,227**	18,613	18,613
Certificates of deposit	**67,438**	**67,856**	69,869	70,331
Federal Home Loan Bank advances	**-**	**-**	4,900	4,900
Accrued interest payable	**14**	**14**	21	21
Off-balance sheet financial instruments:				
Commitments to extend credit	**-**	**-**	-	-
Letters of credit	**-**	**-**	-	-

Note 16 – Subsequent Events

On January 19, 2012, the Board of Directors declared a quarterly cash dividend of $0.02 per share of Hometown Bancorp, Inc. common stock. The dividend was payable to stockholders of record as of February 17, 2012, and was paid on March 2, 2012. Hometown Bancorp MHC which holds approximately 56.3% of the Company's total outstanding shares waived receipt of the dividend on its shares. The Company has evaluated subsequent events through March 28, 2012, the date that the consolidated financial statements were available to be issued.

STOCKHOLDER INFORMATION

Corporate Office
Hometown Bancorp, Inc.
12 Main Street
Walden, NY 12586
(845) 778-2171

Annual Meeting of Stockholders
The annual meeting of Hometown Bancorp, Inc. will be held May 9, 2012 at 4:00pm at the Company's office, 12 Main Street, Walden, NY 12586.

Stock Transfer Agent & Registrar
Stockholders wishing to change name, address or ownership of stock, or to report lost certificates or to consolidate accounts should contact the Company's stock registrar and transfer agent directly at:

Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948

Regulatory Counsel
Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, N.W. Suite 780
Washington, DC 20015

Independent Accounting Firm
Bonadio & Co., LLP
115 Solar Street, Suite 100
Syracuse, NY 13204

Market Information for Common Stock
The common stock of Hometown Bancorp, Inc. trades on the Over-the-Counter market under the symbol "HTWC.PK." At December 31, 2011, there were approximately 283 stockholders of record, not including the number of persons or entities holding stock in nominee or street names through various brokers and banks.

DIRECTORS AND OFFICERS
Hometown Bancorp, Inc.

Board of Directors
Graham S. Jamison: Chairman of the Board, Retired dairy farmer and Supervisor for the Town of Crawford, NY

Thomas F. Gibney: President & Chief Executive Officer, Hometown Bancorp, Inc.

Joseph B. Horan: President and funeral Director of Gridley Horan, Inc.

Steven E. Howell: CPA and partner with Vanacore, DeBenedictus, DiGovanni & Weddell, LLP, CPAs.

Gerald N. Jacobowitz: Senior partner in the law firm of Jacobowitz and Gubits, LLP

Stephen E. Sabine: Retired Division Manager from New York State Electric & Gas Corp.

Kenneth R. Schliphack: Retired from B&C Fuel Oil Co. Inc.

Curtis J. Schoeberl, Sr.: Assessor for the Town of Shawangunk, NY

Officers
Thomas F. Gibney: President & Chief Executive Officer, Hometown Bancorp, Inc.

Judith B. Weyant: Senior Vice President and Chief Operating Officer

L. Bruce Lott: Senior Vice President and Chief Lending Officer

Stephen W. Dederick: Senior Vice President and Chief Financial Officer

Amy Sherwood: Vice President and Operations Officer and Corporate Secretary

Hometown Bancorp, Inc.

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Walden, New York 12586
(845) 778-2171