FORM 10KSB40

Annual and transition reports of small business issuers [Section 13 or 15(d), S-B Item 405]

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FILER

FIRST NILES FINANCIAL INC

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SIC: **6035** Savings institution, federally chartered

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NILES OH 44446

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ___ TO ___

COMMISSION FILE NUMBER: 0-24849

FIRST NILES FINANCIAL, INC.

(Name of small business issuer in its charter)

Delaware	34-1870418
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
55 North Main Street, Niles, Ohio	44446-5097
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (330) 652-2539

Securities Registered Pursuant to Section 12(b) of the Act:
NONE

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE $0.01 PER SHARE
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
YES X. NO ___.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State the issuer's revenues for its most recent fiscal year: $5.7 million.

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the closing bid and asked price of such stock on the Nasdaq System as of March 25, 1999, was $17.8 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of March 25, 1999, there were issued and outstanding 1,754,411 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART II of Form 10-KSB -- Portions of the Annual Report to Shareholders for the fiscal year ended September 30, 1998.

PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during April 1999.

Transitional Small Business Disclosure Format: Yes ____; No X

FORWARD-LOOKING STATEMENTS

First Niles Financial, Inc., and its wholly-owned subsidiary, Home Federal Savings and Loan Association of Niles, may from time to time make written or oral "forward-looking statements", including statements contained in its filings with the Securities and Exchange Commission. These forward-looking statements may be included in this Annual Report on Form 10-KSB and the exhibits attached to it, in First Niles' reports to stockholders and in other communications by the company, which are made in good faith by us pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause First Niles' and Home Federal's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in the forward-looking statements:

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

The list of important factors stated above is not exclusive. We incorporate by reference those factors included in First Niles' Registration Statement on Form SB-2 (Reg. No. 333-58883). We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of First Niles or Home Federal.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

First Niles Financial, Inc., a Delaware corporation, was formed in July 1998 to act as the holding company for Home Federal Savings and Loan Association of Niles upon the completion of Home Federal's conversion from mutual to stock form. First Niles received approval from the Office of Thrift Supervision to acquire all of the common stock of Home Federal to be outstanding upon completion of the conversion from mutual to stock form. The conversion was completed on October 26, 1998. All references to First Niles or Home Federal, unless otherwise indicated, on or before October 26, 1998, refer to Home Federal before its conversion from mutual to stock form. References in this Form 10-KSB to "we", "us", and "our" refer to First Niles and/or Home Federal as the context requires.

The business and management of First Niles consists of the business and management of Home Federal. At December 31, 1998, we had $86.7 million of assets and stockholders' equity of $29.9 million (or 34.50% of total assets). Our common stock is traded on The Nasdaq SmallCap Market under the symbol "FNFI".

Home Federal is a federally chartered stock savings association headquartered in Niles, Ohio. Its deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation (the "FDIC") and are backed by the full faith and credit of the United States.

Our principal business is attracting retail deposits from the general public and investing those funds primarily in permanent and construction loans secured by first mortgages on owner-occupied, one- to four-family residences. We also originate, to a lesser extent, loans secured by first mortgages on non-owner-occupied one- to four-family residences, permanent and construction commercial and multi-family real estate loans, and consumer loans. Excess funds are generally invested in investment securities and mortgage-backed and related securities.

Our profitability depends primarily on net interest income, which is the difference between interest and dividend income on interest-earning assets, and interest expense on interest-bearing liabilities. Interest-earning assets include principally loans, investment securities, mortgage-backed and related securities and interest-earning deposits in other institutions. Net interest income is dependent upon the level of interest rates and the extent to which such rates are changing. Our profitability is also dependent, to a lesser extent, on the level of noninterest income, provision for loan losses, noninterest expense and income taxes. Our operations and profitability are subject to changes in interest rates, applicable statutes and regulations, and general economic conditions, as well as other factors beyond our control.

Our offices are located at 55 North Main Street, Niles, Ohio 44446-5097 and our telephone number is (330) 652-2539.

For information relating to our year 2000 preparedness, costs, risks and contingency plans, see the discussion contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Issue" in the Annual Report attached as Exhibit 13 to this Annual Report on Form 10-KSB.

MARKET AREA

Our primary market area is Niles, Ohio. Our primary lending area consists generally of the area within a 30 mile radius of the City of Niles. Although we may grant loans outside of this 30 mile radius upon the approval of our Board of Directors, we do not grant loans outside the State of Ohio.

Trumbull County, where Home Federal is located, consists primarily of suburban and rural communities with manufacturing and wholesale distribution activities serving as the basis of the local economy. Major employers in the area include General Motors Corp. and WCI Steel, Inc.

Our market area has experienced a higher current unemployment rate than Ohio and the United States. In December 1998, Trumbull County had an unemployment rate of 5.4%, compared to an unemployment rate of 3.9% in Ohio, and 4.3 % in the United States. Furthermore, the population of Niles has remained relatively stagnant from 1990 to 1998, and is expected to remain relatively constant for the foreseeable future.

Our market area comprises a broad range of income and educational levels and employment sectors. In both Niles and Trumbull County, the services and manufacturing sectors represent approximately equal shares of the business and employment base, followed by the wholesale/retail sector. The level of financial competition in both Niles and Trumbull County is strong and dominated by commercial banks, with financial institutions of varying sizes and characteristics operating in and around our market area. These economic conditions and strong competition have also resulted in reduced loan demand which, in turn, has resulted in a high concentration of investment securities and mortgage-backed and related securities in our portfolio compared to typical savings institutions. In the event current economic and market conditions persist or worsen, and loan demand remains weak, no assurances can be given that we will be able to maintain or increase our mortgage loan portfolio, which could adversely affect our operations and financial results.

LENDING ACTIVITIES

GENERAL. Our primary lending activity is the origination of loans secured by first mortgages on one- to four-family residential properties. We also make permanent and construction loans on multi-family and commercial properties, and a limited number of consumer and commercial business loans. Our mortgage loans carry either a fixed or an adjustable interest rate. Mortgage loans are generally long-term and amortize on a monthly basis with principal and interest due each month. At December 31, 1998, our net loan portfolio totaled $36.1 million, which constituted 41.7% of our total assets.

Management originates all loans, which are subject to ratification by the Board of Directors. Commercial real estate loans and multi-family loans are generally reviewed by the Board before we extend a lending commitment. Unless we are aware of factors that may lead to an environmental concern, we generally do not require any environmental study at the time a loan is made. If an environmental problem were discovered to exist after a loan has been originated and the loan has become delinquent, we may choose not to foreclose on the property if the potential environmental liability would render foreclosure imprudent.

Management is responsible for presenting to the Board information about the credit-worthiness of a borrower and the estimated value of the subject property. Information relating to credit-worthiness of a borrower generally consists of a summary of the borrower's credit history, employment, employment stability, net worth and income. The estimated value of the property must be supported by an appraisal report prepared in accordance with our appraisal policy.

At December 31, 1998, the maximum amount which we could have loaned to any one borrower and the borrower's related entities was approximately $3.3 million. At December 31, 1998, we had no loans or groups of loans to related borrowers with outstanding balances in excess of this amount. At that date, our largest lending relationship to a single borrower or a group of related borrowers consisted of nine loans totaling $2.3 million of which approximately $29,000 was unfunded at December 31, 1998. Of the nine loans, two loans were for the construction of a residential housing development, four loans were for individual home construction, and three loans were secured by apartment rental units and commercial office space. The second largest lending relationship at December 31, 1998, consisted of two purchased participation loans totaling $1.7 million for the construction of an apartment complex and a completed warehouse/office complex in Columbus, Ohio. Approximately $191,000 of the $756,000 apartment complex participation construction loan was unfunded at December 31, 1998. The third largest lending relationship at December 31, 1998, consisted of seven loans totaling $1.1 million. Five of the loans are secured by one- to four-family residences and two loans are for the development of residential real estate. Each of the foregoing loans was current and performing in accordance with its terms at December 31, 1998.

Our next largest lending relationship at December 31, 1998, totaled $1.1 million and consisted of four loans secured by commercial and residential real estate. At December 31, 1998, the largest of the four loans, with a balance of $648,000, was nonperforming. See "- Asset Quality Nonperforming Assets."

We had 13 other lending relationships which exceeded $400,000 at December 31, 1998. As of that date, all of these lending relationships were current and performing generally in accordance with their loan terms except for one lending relationship that was approximately 80 days delinquent. This lending relationship consisted of 18 loans secured primarily by single family rental units totaling $557,000.

LOAN PORTFOLIO COMPOSITION. The following table sets forth information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated. The dollar amounts and percentages were calculated before deductions for loans in process, deferred fees and discounts and allowances for losses.

	December 31,			
	1998		1997	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
REAL ESTATE LOANS:				
One- to four-family	$25,474	66.81%	$25,634	64.29%
Commercial	5,042	13.23	4,603	11.54
Multi-family	1,298	3.40	4,143	10.39
Construction or development	5,104	13.39	4,231	10.61
Total real estate loans	36,918	96.83	38,611	96.83
OTHER LOANS:				
Consumer Loans:				
Home equity	915	2.40	926	2.32
Deposit account	82	0.21	84	0.21
Total consumer loans	997	2.61	1,010	2.53
Commercial business loans	213	0.56	255	0.64
Total other loans	1,210	3.17	1,265	3.17
Total loans	38,128	100.00%	39,876	100.00%
LESS:				
Loans in process..................	1,212		2,278	
Allowance for losses..............	784		854	
	1,996		3,132	
Total loans receivable, net........	$36,132		$36,744	

The following table shows the composition of our loan portfolio by fixed- and adjustable-rate at the dates indicated.

	December 31,			
	1998		1997	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
FIXED-RATE LOANS:				
Real estate:				
One- to four-family	$13,710	35.96%	$11,997	30.09%
Commercial	318	0.83	1,430	3.59
Multi-family	188	0.49	289	0.72
Construction or development	3,698	9.70	1,776	4.45
Total real estate loans	17,914	46.98	15,492	38.85
Consumer	997	2.61	1,010	2.53
Commercial business	213	0.56	255	0.64
	1,210	3.17	1,265	3.17
Total fixed-rate loans	19,124	50.16	16,757	42.02

ADJUSTABLE-RATE LOANS:				
Real estate:				
One- to four-family	11,764	30.85	13,637	34.20
Commercial	4,724	12.39	3,173	7.96
Multi-family	1,110	2.91	3,854	9.66
Construction or development	1,406	3.69	2,455	6.16
Total real estate loans	19,004	49.84	23,119	57.98
Consumer	--	--	--	--
Total adjustable-rate loans	19,004	49.84	23,119	57.98
Total loans	38,128	100.00%	39,876	100.00%
LESS:				
Loans in process	1,212		2,278	
Deferred fees and discounts	--		--	
Allowance for loan losses	784		854	
	1,996		3,132	
Total loans receivable, net	$36,132		$36,744	

The following schedule illustrates the contractual maturity of our real estate construction and commercial business loan portfolios at December 31, 1998 before net items. Mortgage loans that have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

<TABLE>
<CAPTION>

	Real Estate Construction or Development		Commercial Business		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in Thousands)			
Due During Periods Ending December 31,						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1999(1)	734	8.50	2	7.50	736	8.50
2000 to 2003	2,047	8.24	38	8.35	2,085	8.24
After 2003	2,323	8.21	173	8.13	2,496	8.20
Totals	5,104	8.26	213	8.17	5,317	8.26

</TABLE>

(1) Includes demand loans, non-accrual loans, loans having no stated maturity and overdraft loans.

The total amount of loans in the above table due after December 31, 1999 which have fixed interest rates is $3.2 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $1.4 million.

ONE- TO FOUR-FAMILY RESIDENTIAL REAL ESTATE LENDING. Residential loan originations are generated by our marketing efforts, present and walk-in customers, and referrals from real estate brokers and builders. We have focused our lending efforts primarily on the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences in our market area. At December 31, 1998, one- to four-family residential mortgage loans totaled $25.5 million, or 66.8% of our gross loan portfolio.

Home Federal currently originates one- to four-family mortgage loans on either a fixed or adjustable basis, as consumer demand dictates. The pricing strategy for fixed-rate mortgage loans revolves around setting interest rates that are competitive with other local financial institutions. Adjustable-rate mortgage loans are offered with either one-year or three-year repricing periods. Due to their wide availability and market rate sensitivity, we currently use the one-year and three-year U.S. Treasury Security Constants plus a margin of 250 basis points for pricing of adjustable-rate mortgage loans. During the year ended December 31, 1998, we originated $2.0 million of one- to four-family adjustable-rate mortgage loans and $3.6 million of one- to four-family, fixed-rate mortgage loans. We have not sold any mortgage loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management; Market Risk Analysis"in the Annual Report attached as Exhibit 13 to this Annual Report on Form 10-KSB.

Fixed-rate loans secured by one- to four-family residences have maximum maturities of 30 years, and are fully amortizing, with payments due monthly. These loans normally remain outstanding, however, for a substantially shorter period of time because of refinancing and other prepayments. A significant change in the current level of interest rates could alter the average life of a residential loan in our portfolio considerably. Our one- to four-family loans are not assumable, do not contain prepayment penalties and do not permit negative amortization of principal. Our real estate loans generally contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property.

Our one- to four-family residential adjustable-rate mortgage loans are fully amortizing with contractual maturities of up to 30 years, and payments due monthly. Our adjustable-rate mortgage loans provide for specified minimum and maximum interest rates. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. Our adjustable-rate mortgage loans are generally not convertible into fixed-rate loans.

Adjustable-rate mortgage loans generally pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment rises, and thus, increases the potential for default. We have not experienced significant delinquencies concerning these loans. See "- Asset Quality -- Non-Performing Assets" and "-Asset Quality -- Classified Assets."

As mentioned above, we have primarily concentrated our lending activities on the origination of owner-occupied, one- to four-family residences. In recent years, however, loans secured by nonowner occupied, one-to four-family residences have accounted for a growing share of total loan volume. Generally, these loans are underwritten using the same criteria as owner-occupied, one- to four-family residential loans, but typically are originated at higher rates and lower loan-to-value ratios than owner-occupied loans.

We generally underwrite our one- to four-family loans based on the applicant's employment, credit history, and appraised value of the subject property. Presently, we lend up to 90% of the lesser of the appraised value or purchase price for one- to four-family loans. Properties securing our one- to four-family loans are appraised by independent fee appraisers approved and qualified by our Board of Directors. We generally require our borrowers to obtain title insurance and fire, property and flood insurance, if necessary, in an amount not less than the value of the security property.

COMMERCIAL AND MULTI-FAMILY REAL ESTATE LENDING. We are engaged in commercial and multi-family real estate lending. These loans are secured primarily by small retail establishments, small office buildings and other non-residential and residential properties located in our market area. At December 31, 1998, commercial real estate loans totaled $5.0 million or 13.2% of our gross loan portfolio and multi-family real estate loans totaled $1.3 million or 3.4% of our gross loan portfolio.

Our loans secured by commercial and multi-family real estate are originated with either a fixed or adjustable interest rate. The interest rate on adjustable-rate loans is based on a variety of indices, which are generally determined upon negotiation with the borrower. Loan-to-value ratios on our commercial and multi-family loans typically do not exceed 80% of the appraised value of the property securing the loan. These loans typically require monthly payments and have maximum maturities of 30 years. While maximum maturities may extend to 30 years, loans frequently have shorter maturities that generally range from 10 to 15 years.

Loans secured by commercial and multi-family real estate are granted based on the income producing potential of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. We generally require personal guaranties of the borrowers in addition to the security property as collateral for such loans. Appraisals on properties securing commercial and multi-family real estate loans are performed by independent fee appraisers approved by our Board of Directors. See "- Loan Originations, Purchases and Repayments."

Loans secured by commercial and multi-family real estate properties are generally larger and involve a greater degree of credit risk than one- to four-family residential mortgage loans because they typically involve large balances to single borrowers or groups of related borrowers. Because payments on loans secured by commercial and multi-family real estate properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. For example, cash flow from the project is reduced if leases are not obtained or renewed. See "- Asset Quality -- Nonperforming Loans."

CONSTRUCTION AND DEVELOPMENT LENDING. We originate residential construction loans to individuals as well as loans secured by building lots or raw land held for development. Presently, all of these loans are secured by property located within our market area. At December 31, 1998, we had $5.1 million in construction and development loans outstanding, representing 13.4% of our gross loan portfolio. At December 31, 1998, our two largest construction loans or lending relationships consisted of participation interests secured by two separate apartment complexes located in Columbus, Ohio. One of the participation interests totaled $1.0 million, with approximately $601,000 unfunded at December 31, 1998. The other participation interest totaled $756,000 with $191,000 unfunded at December 31, 1998.

Construction loans to individuals for their residences generally are structured to be converted to permanent loans at the end of the construction phase, which typically runs six months. These construction loans have rates and terms that match the one- to four-family loans then offered by Home Federal, except that during the construction phase the borrower pays only interest on the loan. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential loans. At December 31, 1998, $350,000 of our construction loans were to borrowers intending to live in the properties upon completion of construction.

Loans secured by building lots or raw land held for development are generally granted with terms of up to five years and are available at a fixed interest rate. Payments on loans secured by building lots are due monthly and amortized on a 20-year basis, resulting in a balloon payment at maturity. Payments on raw land held for development are due monthly, and are interest only. Loans secured by building lots or raw land for development are granted based on both the financial strength

of the borrower and the value of the underlying property. At December 31, 1998, we had $1.9 million of loans secured by building lots and raw land.

Construction loans are obtained principally through continued business from builders who have previously borrowed from Home Federal, as well as referrals from existing and walk-in customers. The application process includes submission of accurate plans, specifications and costs of the project to be constructed. These items are used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of current appraised value and/or the cost of construction (land plus building). We also conduct periodic inspections of the construction project being financed.

There are uncertainties inherent in estimating construction costs and the market for the project upon completion. Accordingly, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, the related loan-to-value ratios and the likelihood of success of the project. Construction loans to borrowers other than owner-occupants also involve many of the same risks discussed above regarding commercial real estate loans and tend to be more sensitive to general economic conditions than many other types of loans.

OTHER LENDING. We also originate a nominal amount of consumer and commercial business loans, generally as an accommodation to our customers. Our consumer loan portfolio consists almost entirely of personal loans secured by first or second mortgages on real estate. These loans are offered at fixed rates of interest with terms not exceeding ten years.

LOAN ORIGINATIONS, PURCHASES AND REPAYMENTS

We originate loans through our marketing efforts, existing and walk-in customers and referrals from real estate brokers and builders. While we originate both adjustable-rate and fixed-rate loans, our ability to originate loans is dependent upon the relative customer demand for loans in our market. Demand is affected by local competition and the interest rate environment. During the last several years, our dollar volume of fixed-rate, one- to four-family loans has exceeded the dollar volume of the same type of adjustable-rate loans. Although our primary business is the origination of one- to four-family mortgage loans, competition from other financial institutions continues to limit the volume of loans we have been able to originate and place in our portfolio. As a result, we have purchased mortgage loans and investment and mortgage-backed and related securities to supplement our portfolios. We do not sell loans and our loans are not originated according to secondary market guidelines. Furthermore, during the past few years, like many other financial institutions, we have experienced significant prepayments on loans and mortgage-backed and related securities due to the sustained low interest rate environment prevailing in the United States.

In periods of economic uncertainty, the ability of financial institutions, including Home Federal, to originate large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income.

The following table shows our loan origination, purchase and repayment activities for the periods indicated.

	Year Ended December 31,	
	1998	1997
	(In Thousands)	
ORIGINATIONS BY TYPE:		
Adjustable rate:		
Real estate - one- to four-family	$ 2,000	$ 2,876
- commercial	1,188	360
- multi-family	--	--
Total adjustable-rate	3,188	3,236
Fixed rate:		
Real estate - one- to four-family	3,555	3,188
- commercial	--	--
- multi-family	675	--
- land and development	371	95
Non-real estate - consumer	575	462
- commercial business	62	56
Total fixed-rate	5,238	3,801
Total loans originated	8,426	7,037
PURCHASES:		
Real estate - one- to four-family	--	1,000
- commercial	--	900
- multi-family	1,000	1,000
- land and development	525	--

Total loans purchased	1,525	2,900
Mortgage-backed and related securities	9,541	7,872
Total purchased	11,066	10,772
REPAYMENTS:		
Principal repayments	20,223	13,645
Total reductions	20,223	13,645
Increase (decrease) in other items, net	(37)	(668)
Net increase (decrease)	$ (540)	$ 3,496

ASSET QUALITY

When a borrower fails to make a payment on a loan on or before the default date, the loan is considered 30 days past due. At that time, we generally send out a delinquent notice to the borrower. All delinquent accounts are reviewed by our collection officer, and at his or her discretion, we attempt to cause the delinquency to be cured by contacting the borrower. If the loan becomes 60 days delinquent, the collection officer will generally send a personal letter to the borrower requesting payment of the delinquent amount in full, or the establishment of an acceptable

repayment plan to bring the loan current within 90 days. If the account becomes 90 days delinquent, and an acceptable repayment plan has not been agreed upon, the collection officer will generally refer the account to legal counsel, with instructions to prepare a notice of intent to foreclose. The notice of intent to foreclose allows the borrower up to 30 days to bring the account current. During this 30 day period, the collection officer may accept a written repayment plan from the borrower which would bring the account current within 90 days. Once the loan becomes 120 days delinquent, and an acceptable repayment plan has not been agreed upon, the collection officer, after receiving consent from our Board of Directors, will turn over the account to our legal counsel with instructions to initiate foreclosure.

DELINQUENT LOANS. The following table sets forth our loan delinquencies by type, number, amount and percentage of type at December 31, 1998.

	Loans Delinquent For:								
	30-89 Days			90 Days and Over			Total Delinquent Loans		
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
				(Dollars in Thousands)					
Real Estate:									
One- to four-family	45	$1,388	5.45%	8	$ 206	0.81%	53	$1,594	6.26%
Commercial	1	35	0.69	--	--	--	1	35	0.69
Multi-family	--	--	--	--	--	--	--	--	--
Construction or development	2	182	3.57	2	743	14.55	4	925	18.12
Consumer	1	3	0.30	1	6	0.60	2	9	0.90
Commercial	2	50	23.47	--	--	--	2	50	23.47
Total	51	$1,658	4.35%	11	$ 955	2.50%	62	$2,613	6.85%

NON-PERFORMING ASSETS. The table below sets forth the amounts and categories of our non-performing assets. Loans are placed on non-accrual status when the collection of principal and/or interest becomes doubtful. For all years presented, we have had no foreclosed assets and no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates.

	December 31,	
	1998	1997
	(Dollars in Thousands)	
Non-accruing loans:		
One- to four-family	$ --	$ --
Construction or development	648	875
Total	648	875
Accruing loans delinquent more than 90 days:		
One- to four-family	206	95
Multi-family	--	--
Commercial real estate	--	653
Construction or development	95	33
Consumer	6	6
Commercial business	--	--
Total	307	787
Total non-performing loans	$ 955	$1,662
Total as a percentage of gross loans receivable	2.59%	4.42%

Except as discussed below, there were no nonperforming loans to any one borrower or group of related borrowers that exceeded either individually or in the aggregate $300,000.

Included in the table above is a commercial real estate loan with an outstanding balance of $648,000 at December 31, 1998. This loan is for the development of 34 single-family lots and 23 condominium sites for the eventual construction of 56 condominium units. This loan was originated in June 1994 for $1.0 million with a loan-to-value ratio of approximately 79%. The development consists of three phases. The first phase is for the development of 34 single-family residential lots and phase two is for the development of 23 condominium sites. Phase three, for which we have not granted any financing commitment, is for the development of 37 additional single-family lots. The borrower initially projected that phase one would be completed in early 1995, with sales occurring during 1995 and 1996. As a result of construction delays, phases one and two were completed during the first quarter of 1997. Lot sales have been significantly slower than projected with only seven single-family lots and six condominium sites having been sold as of December 31, 1998. Lot sales remain slow.

For the year ended December 31, 1998, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $95,000. The amounts that were included in interest income on such loans were $2,000.

OTHER LOANS OF CONCERN. In addition to the non-performing assets set forth in the table above as of December 31, 1998, there was an aggregate of $1.0 million in net book value of loans with respect to which known information about the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan

repayment terms and which may result in the future inclusion of such items in the non-performing asset categories. These loans have been considered in management's determination of the adequacy of our allowance for loan losses.

The largest loan of concern consists of a $542,000 loan secured by an individual commercial property. This loan was originated in December 1994 for $582,000 and at December 31, 1998 was current and performing in accordance with its loan terms. Management is monitoring this loan based on its evaluation of the borrower's cash flow and financial condition, which raises concerns regarding the borrower's ability to service this loan in the future.

The other lending relationship of concern consisted of 19 loans to a single borrower totaling $486,000 at December 31, 1998. Each loan is secured by a residential rental property. Each of the loans comprising this lending relationship was approximately 30 days delinquent at December 31, 1998. Management is monitoring these loans as a result of the borrower's cash flow problems resulting from higher than expected vacancies on the properties.

CLASSIFIED ASSETS. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the Office of Thrift Supervision to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "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 specific loss reserve is unwarranted.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off that particular amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of Thrift Supervision and the FDIC, which may order the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the Office of Thrift Supervision and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets, at December 31, 1998, we had classified $1.5 million of our assets as substandard, which represents 5.0% of shareholders' equity and 1.8% of total assets. No assets were classified as doubtful or as loss.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses is established through a provision for loan losses which is based on management's evaluation of past loss experience, current trends in the level of delinquent and specific problem loans, loan concentration to single borrowers, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current and anticipated economic conditions in our market area. A significant portion of our loan portfolio is concentrated in one- to four-family mortgage loans which, historically, has not led to any significant loan losses. Management prepares quarterly analyses of loans classified as substandard and non-performing, and evaluates these loans in connection with its determination of the appropriate provision for loan losses to be recorded for the period. Management also analyzes borrowers with significant outstanding balances to reevaluate credit risk, the quality of the loan and factors that may affect the borrowers' ability to pay. Accordingly, the allowance represents managements's estimate of losses inherent in our loan portfolio as of a specified date.

Although management believes that it uses the best information available to determine the allowance, unforeseen market conditions could result in adjustments and net earnings could be significantly affected if circumstances differ substantially from the assumptions used in making the final determination. Future additions to our allowance will be the result of periodic loan, property and collateral reviews and thus, cannot be predicted in advance. At December 31, 1998, our total allowance for loan losses represented coverage of 82.1% of non-performing loans. See Notes A and C of the Notes to Consolidated Financial Statements.

The following table sets forth an analysis of our allowance for loan losses.

	At and For the Years Ended December 31,	
	1998	1997
	(In Thousands)	
Balance at beginning of period	$ 854	$ 301
Charge-offs: One- to four-family	21	147
Total charge-offs	21	147
Recoveries:	54	--
Net charge-offs	(33)	147
Additions charged (reductions credited) to operations	(103)	700
Balance at end of period	$ 784	$ 854
Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	(0.09)%	0.41%
Ratio of net charge-offs during the period to average non-performing loans	(2.27)%	11.51%

During the year ended December 31, 1997, we recorded a provision for loan losses of $700,000, increasing the allowance for loan losses to $854,000. We increased the allowance to reflect the additional credit risk inherent in our portfolio as a result of an increased amount of loans held in the portfolio, an increased level of nonperforming loans, a charge-off of $147,000 arising from the write-down of a loan to estimated net realizable value, as well as management's continuing reassessment of the portfolio. The allowance was increased to reflect the deterioration of loans made to four separate borrowers where full collection of loan principal had become uncertain, including three loans which had become impaired. The increased allowance also reflected management's assessment of additional credit risk resulting from a significant increase in loan concentrations to several borrowers for financing one- to four-family rental properties that are dependent on future rent collections.

During the year ended December 31, 1998, we reduced the allowance for loan losses to $784,000. To reduce the allowance, $103,000 was credited back to operations through the provision for loan losses. We reduced the allowance to reflect the decreased level of nonperforming loans and management's reassessment of the loan portfolio as of December 31, 1998.

The distribution of our allowance for loan losses at the dates indicated is summarized as follows:

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
		Percent		Percent

	Amount of Loan Loss Allowance	Loan Amounts by Category	of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	of Loans in Each Category to Total Loans
			(Dollars in Thousands)			
One- to four-family	$ 154	$25,474	66.81%	$ 115	$25,634	64.29%
Multi-family, commercial, real estate, construction or development	142	11,444	30.02	592	12,977	32.54
Consumer and commercial business.................	1	1,210	3.17	1	1,265	3.17
Unallocated	487	--	--	146	--	--
Total	$ 784	$38,128	100.00%	$ 854	$39,876	100.00%

</TABLE>

INVESTMENT ACTIVITIES

Home Federal must maintain minimum levels of investments that qualify as liquid assets under Office of Thrift Supervision regulations. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, we have maintained liquid assets at levels above the minimum requirements imposed by Office of Thrift Supervision regulations and above levels believed adequate to meet the requirements

of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained. At December 31, 1998, our liquidity ratio was 22.8%. The liquidity ratio represents liquid assets as a percentage of net withdrawable savings deposits and current borrowings.

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in investment grade commercial paper and corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. We generally invest in the foregoing types of investments. See "Regulation - Federal Regulation of Savings Associations" for a discussion of additional restrictions on our investment activities.

President Stephens and Vice President Swift have the basic responsibility for the management of our investment portfolio, subject to the direction and guidance of the Board of Directors. These officers consider various factors when making decisions, including the marketability, maturity and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds via deposit withdrawals and loans.

The general objectives of our investment portfolio are to: (i) provide and maintain liquidity within the guidelines prescribed by Office of Thrift Supervision regulations; (ii) provide liquidity when loan demand is high and to assist in maintaining earnings when loan demand is low; and (iii) maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management; Market Risk Analysis"in the Annual Report attached as Exhibit 13 to this Annual Report on Form 10-KSB.

Our investment securities consist primarily of mutual funds that have assets that conform to the investments that a federally chartered savings institution is authorized to make directly. These funds offer professional management, easy access to funds, continuous reinvestment and relatively low historical price volatility. Currently, we are invested in three different mutual funds.

Our mortgage-backed and related securities portfolio consists of securities issued under government-sponsored agency programs. We hold primarily collateralized mortgage obligations. Collateralized mortgage obligations are special types of pass-through debt securities in which the principal and interest payments on the underlying mortgages or mortgage-backed securities are used to create classes with different maturities and, in some cases, amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics.

Our policy is to purchase only collateralized mortgage obligations that are in the first or second repayment tranche (investment class) and are AAA rated. The expected life of our collateralized mortgage obligations is typically under five years at the time of purchase. Premiums associated with

collateralized mortgage obligations purchased are not significant; therefore, the risk of significant yield adjustments because of accelerated prepayments is limited. Yield adjustments are encountered as interest rates rise or decline, which in turn slows or increases prepayment rates and affects the average lives of the collateralized mortgage obligations. The purpose of our collateralized mortgage obligation investment strategy is to: (i) assist in maintaining Home Federal's qualified thrift lender status (see "Regulation - Qualified Thrift Lender"); (ii) generate high cash flow so as to lessen liquidity and reinvestment risk; (iii) preserve asset quality; and (iv) generate additional interest income. At December 31, 1998, we held collateralized mortgage obligations totaling $12.4 million, all of which were secured by underlying collateral issued under government agency-sponsored programs. All of our collateralized mortgage obligations and mortgage-backed securities are currently classified as held to maturity. At December 31, 1998, our collateralized mortgage obligations did not qualify as high risk mortgage securities under Office of Thrift Supervision regulations.

While mortgage-backed and related securities, such as collateralized mortgage obligations, carry reduced credit risk as compared to conventional loans, mortgage-backed and related securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and thus, affect both the prepayment speed, and value, of such securities.

The following table sets forth the composition of our investment and mortgage-backed and related securities portfolio at the dates indicated. Our investment securities portfolio at December 31, 1998, contained neither tax-exempt securities nor securities of any issuer with an aggregate book value in excess of 10% of our retained earnings, excluding those issued by the U.S. Government or its agencies and excluding our mutual fund investments.

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
	Book Value	% of Total	Book Value	% of Total
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Investment securities:				
Mutual funds(1)	$ 15,333	76.40%	$ 15,347	86.51%
Freddie Mac stock	2,577	12.85	2,085	11.75
Corporate debt securities	1,826	9.10	--	--
Federal Home Loan Bank stock	317	1.58	294	1.66

Other	15	0.07	15	0.08
Total investment securities and Federal Home Loan Bank stock	$ 20,068	100.00%	$ 17,741	100.00%
Mortgage-backed and related securities:				
Collateralized mortgage obligations	$ 12,385	99.62%	$ 12,238	99.02%
Freddie Mac	60	0.48	93	0.75
Government National Mortgage Association	27	0.22	53	0.43
	12,472	100.32	12,384	100.20
Unamortized discounts, net	(40)	(0.32)	(25)	(0.20)
Total mortgage-backed securities	$ 12,432	100.00%	$ 12,359	100.00%
Other interest-earning investments:				
Money market mutual fund	$ 5,404	33.50%	$ --	--%
Interest-bearing deposits with banks	1,500	9.30	727	17.92
Federal funds sold	9,225	57.20	3,330	82.08
Total	$ 16,129	100.00%	$ 4,057	100.00%

</TABLE>

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(1) Mutual funds invest primarily in obligations of the U.S. Government and its agencies.

The following table sets forth the contractual maturities of our mortgage-backed and related securities at December 31, 1998.

<TABLE>
<CAPTION>

	Due in							December 31, 1998
	6 Months or Less	6 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	10 to 20 Years	Over 20 Years	Balance Outstanding
	(In Thousands)							
Collateralized mortgage obligations	$ --	$ 46	$ --	$ --	$ 4,167	$ 1,836	$ 6,296	$12,345
Freddie Mac	--	--	--	60	--	--	--	60
Government National Mortgage Association	--	--	27	--	--	--	--	27
Total	$ --	$ 46	$ 27	$ 60	$ 4,167	$ 1,836	$ 6,296	$12,432

</TABLE>

SOURCES OF FUNDS

GENERAL. Our sources of funds are deposits, payment of principal and interest on loans, interest earned on or maturation of other investment securities and short-term investments, and funds provided from operations.

DEPOSITS. We offer a variety of deposit accounts having a wide range of interest rates and terms. Our deposits consist of passbook and statement savings accounts, money market deposit accounts, NOW accounts and certificate of deposit accounts currently ranging in terms from 91 days to three years. We only solicit deposits from our market area and do not use brokers to obtain deposits. We primarily rely on competitive pricing policies, advertising and customer service to attract and retain these deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in market interest rates, and competition. Deposit balances decreased in 1998 as a result of our customers using their funds deposited at Home Federal to purchase shares of First Niles common stock in October 1998.

The variety of deposit accounts we offer has allowed us to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. We have become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. We endeavor to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives. Based on our experience, we believe that our savings and checking accounts are relatively stable sources of funds. Our ability to attract and maintain certificates of deposit and the rates paid on these deposits, however, has been and will continue to be significantly affected by market conditions.

The following table sets forth the deposit flows at Home Federal during the periods indicated.

	Years Ended December 31,	
	1998	1997
	(Dollars in Thousands)	
Opening balance	$ 57,854	$ 57,673
Deposits	41,048	35,880
Withdrawals	(46,223)	(37,875)
Interest credited	2,158	2,176
Ending balance	$ 54,837	$ 57,854
Net increase (decrease)	$ (3,017)	$ 181
Percent increase (decrease)	(5.21)%	0.31%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs we offered for the periods indicated.

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)			
Transactions and Savings Deposits:				
<S>	<C>	<C>	<C>	<C>
Passbook and statement savings accounts (2.50%)(1)	$20,763	37.86%	$22,289	38.53%
NOW accounts (2.50%)(1)	3,081	5.62	2,830	4.89
Money market accounts (2.55%)(1)	3,811	6.95	4,145	7.16
Total non-certificates	27,655	50.43	29,264	50.58
Certificates:				
2.00-3.99%	228	0.42	53	0.10
4.00-5.99%	26,954	49.15	27,426	47.40
6.00-7.99%	--	--	1,111	1.92
Total certificates	27,182	49.57	28,590	49.42
Total deposits	$54,837	100.00%	$57,854	100.00%

	=======	======	=======	======

</TABLE>

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(1) Interest rates stated apply to December 31, 1998.

The following table shows rate and maturity information for our certificates of deposit as of December 31, 1998.

<TABLE>
<CAPTION>

	2.00-3.99%	4.00-5.99%	6.00-7.99%	Total	Percent of Total
	(Dollars in Thousands)				
Certificate Accounts Maturing in Quarter Ending:					
<S>	<C>	<C>	<C>	<C>	<C>
March 31, 1999	28	9,017	--	9,045	33.28%
June 30, 1999	--	6,989	--	6,989	25.71
September 30, 1999	--	3,102	--	3,102	11.41
December 31, 1999	200	3,313	--	3,513	12.92
March 31, 2000	--	1,733	--	1,733	6.38
June 30, 2000	--	1,489	--	1,489	5.48
September 30, 2000	--	289	--	289	1.06
December 31, 2000	--	330	--	330	1.21
March 31, 2001	--	197	--	197	0.73
June 30, 2001	--	137	--	137	0.50
September 30, 2001	--	212	--	212	0.78
December 31, 2001	--	146	--	146	0.54
Thereafter	--	--	--	--	--
Total	$ 228	$26,954	$ --	$27,182	100.00%
Percent of total..........................	0.84%	99.166%	--%	100.00%	

</TABLE>

The following table indicates the amount of our certificates of deposit and other deposits by time remaining until maturity as of December 31, 1998.

<TABLE>
<CAPTION>

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to12 Months	Over 12 Months	Total
	(In Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Certificates of deposit less than $100,000..........	$7,636	$6,034	$5,695	$4,533	$23,898
Certificates of deposit of $100,000 or more..........	1,409	955	920	--	3,284
Total certificates of deposit.......................	$9,045	$6,989	$6,615	$4,533	$27,182

</TABLE>

BORROWINGS. Although deposits are our primary source of funds, we may utilize borrowings when they are a less costly source of funds, and can be invested at a positive interest rate spread or when we desire additional capacity to fund loan demand. At December 31, 1998, we had borrowings totaling $300,000. The average balance of our borrowings during this period was $385,000. Our current borrowings relate to a five-year term note payable to a third party in connection with Home Federal's capital contribution to a limited partnership formed to construct multi-family housing units. See "-Subsidiary and Other Activities" and Note D of Notes to Consolidated Financial Statements.

SUBSIDIARY AND OTHER ACTIVITIES

As a federally chartered savings association, Home Federal is permitted by Office of Thrift Supervision regulations to invest up to 2% of its total assets, or $1.7 million at December 31, 1998, in the stock of, or unsecured loans, to service corporation subsidiaries. Home Federal may invest an additional 1% of its assets in service corporations where such additional funds are used for inner-city or community development purposes. At December 31, 1998, Home Federal had no subsidiaries.

In 1996, we acquired a fractional interest of 17.5% in an Ohio limited partnership formed to construct multi-family housing units. Under the terms of the limited partnership agreement, we will make a total capital contribution to the partnership of $500,000 and are allocated tax losses and affordable housing federal income tax credits. See Note D of Notes to Consolidated Financial Statements.

REGULATION

GENERAL. Home Federal is a federally chartered savings association, the deposits of which are federally insured by the FDIC and backed by the full faith and credit of the U.S. Government. Accordingly, we are subject to broad federal regulation and oversight extending to all our operations. We are a member of the Federal Home Loan Bank of Cincinnati and are subject to certain limited regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). As the savings and loan holding company of Home Federal, First Niles is also subject to federal regulation and oversight.

FEDERAL REGULATION OF SAVINGS ASSOCIATIONS. The Office of Thrift Supervision has extensive authority over the operations of savings associations. As part of this authority, we are required to file periodic reports with the Office of Thrift Supervision and are subject to periodic examinations by the Office of Thrift Supervision and the FDIC. The last regular Office of Thrift Supervision examination of Home Federal was as of November 1998. When these examinations are conducted by the Office of Thrift Supervision and the FDIC, the examiners may require us to provide for higher general or specific loan loss reserves. All savings associations are subject to a semi-annual assessment, based upon the savings association's total assets, to fund the operations of the Office of Thrift Supervision.

The Office of Thrift Supervision also has extensive enforcement authority over all savings institutions and their holding companies, including Home Federal and First Niles. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and- desist or removal orders and to initiate injunctive actions.

Our general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus. If the loans are fully secured by certain readily marketable collateral, the lending limit is increased to 25% of unimpaired capital and surplus. At

December 31, 1998, our lending limit under this restriction was $3.3 million. We are in compliance with the loans-to-one-borrower limitation.

INSURANCE OF ACCOUNTS AND REGULATION BY THE FEDERAL DEPOSIT INSURANCE CORPORATION. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the Savings Association Insurance Fund or the Bank Insurance Fund. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the Office of Thrift Supervision an opportunity to take action, and may terminate deposit insurance if it determines that an institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC semi-annually. At December 31, 1998, we were classified as a well-capitalized institution.

Effective January 1, 1997, the premium schedule for Bank Insurance Fund and Savings Association Insurance Fund insured institutions ranged from 0 to 27 basis points. However, Savings Association Insurance Fund-insured institutions and Bank Insurance Fund-insured institutions are required to pay a Financing Corporation assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. In 1998, this amount was equal to about six basis points for each $100 in domestic deposits for Savings Association Insurance Fund members while Bank Insurance Fund-insured institutions paid an assessment equal to about 1.50 basis points for each $100 in domestic deposits. The savings institutions assessment is expected to be reduced to about two basis points no later than January 1, 2000, when Bank Insurance Fund- insured institutions fully participate in the assessment. These assessments, which may be revised based upon the level of Bank Insurance Fund and Savings Association Insurance Fund deposits, will continue until the bonds mature in the year 2017.

REGULATORY CAPITAL REQUIREMENTS. All federally insured savings institutions are required to maintain minimum capital standards, including a tangible capital, a leverage ratio (or core capital) and a risk-based capital requirement. The capital regulations require tangible capital of at least 1.5% of adjusted total assets, as defined by regulation. At December 31, 1998, we had tangible capital of $21.2 million, or 27.0% of adjusted total assets, which is approximately $20.0 million above the minimum requirement of 1.5% of adjusted total assets in effect on that date.

The capital standards also require core capital equal to at least 3% to 4% of adjusted total assets, depending on an institution's supervisory rating. Core capital generally consists of tangible capital. At December 31, 1998, we had core capital equal to $21.2 million, or 27.0% of adjusted total

assets, which is $18.8 million above the minimum leverage ratio requirement of 3% as in effect on that date.

The Office of Thrift Supervision risk-based requirement requires savings associations to have total capital of at least 8% of risk-weighted assets. Total capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, will be multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the Office of Thrift Supervision has assigned a risk weight of 50% for prudently underwritten permanent one- to four-family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by Fannie Mae or Freddie Mac.

On December 31, 1998, we had total risk-based capital of approximately $22.8 million, including $21.2 million in core capital and $1.6 million in qualifying supplementary capital, and risk- weighted assets of $41.1 million, or total capital of 55.3% of risk-weighted assets. This amount was $19.5 million above the 8% requirement in effect on that date.

The Office of Thrift Supervision is authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis. The Office of Thrift Supervision and the FDIC are authorized and, under certain circumstances required, to take certain actions against savings associations that fail to meet their capital requirements. These actions may include submission of a capital restoration plan and various limitations on an institution's growth and operations, depending upon an institution's capital category. In certain cases the FDIC or the Office of Thrift Supervision may appoint a conservator or receiver for the institution.

The Office of Thrift Supervision is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The imposition by the Office of Thrift Supervision or the FDIC of any of these measures on Home Federal may have a substantial adverse effect on its operations and profitability.

LIMITATIONS ON DIVIDENDS AND OTHER CAPITAL DISTRIBUTIONS. Office of Thrift Supervision regulations impose various restrictions on savings associations with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Office of Thrift Supervision regulations also prohibit a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with its mutual to stock conversion.

Office of Thrift Supervision recently revised regulations provide that a savings association may make a capital distribution without notice to the Office of Thrift Supervision, unless it is a subsidiary of a holding company, provided that it has a regulatory rating in the two top examination categories, is not of supervisory concern, and would remain well-capitalized, as defined in the Office of Thrift Supervision prompt corrective action regulations, following the proposed distribution, and the distribution does not exceed its net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid). Savings associations that would remain adequately capitalized following the proposed distribution and meet the other noted requirements must notify the Office of Thrift Supervision 30 days prior to declaring a capital distribution. All other institutions or those seeking to exceed the noted amounts must file an application before making the distribution.

QUALIFIED THRIFT LENDER TEST. All savings institutions are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its portfolio assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, these assets primarily consist of residential housing related loans and investments. At December 31, 1998, we met the test and have always met the test since it became effective.

Any savings institution that fails to meet the qualified thrift lender test must convert to a national bank, unless it requalifies as a qualified thrift lender and remains a qualified thrift lender. If an institution has not yet requalified or converted to a national bank, its new investments and activities are limited to those permissible for both a savings institution and a national bank, and it is limited to national bank branching rights in its home state. In addition, the institution is immediately ineligible to receive any new Federal Home Loan Bank borrowings. If the institution has not requalified or converted to a national bank within three years after the failure, it must sell all investments and stop all activities not permissible for a national bank. In addition, it must repay promptly any outstanding Federal Home Loan Bank borrowings, which may result in prepayment penalties. If any institution that fails the qualified thrift lender test is controlled by a holding company, then within one year after the failure, the holding company must register as a bank holding company and become subject to all restrictions on bank holding companies. See "- Holding Company Regulation."

COMMUNITY REINVESTMENT ACT. Under the Community Reinvestment Act, every FDIC insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act requires the Office of Thrift Supervision, in connection with the examination of Home Federal, to assess the institution's record of meeting the credit needs of its community and to take this record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by Home Federal. An unsatisfactory rating may be used as the basis for the denial of an application by the Office of Thrift Supervision. We were examined for compliance under the Community Reinvestment Act in March 1997 and received a rating of "satisfactory."

HOLDING COMPANY REGULATION. First Niles is a unitary savings and loan holding company subject to regulatory oversight by the Office of Thrift Supervision. First Niles is required to register and file reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. In addition, the Office of Thrift Supervision has enforcement authority over First Niles and its non-savings association subsidiaries which also permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association.

As a unitary savings and loan holding company, First Niles generally is not subject to activity restrictions. If First Niles acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of First Niles and any of its subsidiaries (other than Home Federal or any other Savings Association Insurance Fund-insured savings association) would generally become subject to additional restrictions.

If we fail the qualified thrift lender test, within one year First Niles must register as, and will become subject to, the significant activity restrictions applicable to bank holding companies.

FEDERAL SECURITIES LAW. The stock of First Niles will be registered with the SEC under the Securities Exchange Act of 1934. First Niles will be subject also to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Securities Exchange Act of 1934.

First Niles stock held by persons who are affiliates, generally including the executive officers, directors and 10% stockholders, of First Niles may not be resold without registration or unless sold in accordance with certain resale restrictions. If First Niles meets specified current public information requirements, each affiliate of the company is able to sell in the public market, without registration, a limited number of shares in any three-month period.

FEDERAL HOME LOAN BANK SYSTEM. We are a member of the Federal Home Loan Bank of Cincinnati, which is one of 12 regional Federal Home Loan Banks that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It makes loans to members in accordance with policies and procedures, established by the board of directors of the Federal Home Loan Bank, which are subject to the oversight of the Federal Housing Finance Board. All advances from the Federal Home Loan Bank are required to be fully secured by sufficient collateral as determined by the Federal Home Loan Bank. In addition, all long-term advances must be used for residential home financing.

As a member, we are required to purchase and maintain a minimum amount of stock in the Federal Home Loan Bank of Cincinnati. At December 31, 1998, we had $317,000 in Federal Home Loan Bank stock, which was in compliance with this requirement. We receive dividends on our Federal Home Loan Bank stock. These dividends averaged 7.19% for 1998.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION. In August 1996, legislation was enacted that repealed the percentage of taxable income method used by many thrifts to calculate their bad debt reserve for federal income tax purposes. As a result, small thrifts must recapture that portion of the reserve that exceeds the amount that could have been taken under the experience method for tax years beginning after December 31, 1987. Due to certain limitations as to allowable additions to the bad debt reserve, Home Federal has not made additions to its allowance since 1987 and will not be subject to federal income tax recapture.

In addition to the regular income tax, corporations, including savings institutions, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

A portion of our reserves for losses on loans which are presented on the statement of financial condition as retained earnings, may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder, including distributions on redemption, dissolution or liquidation, or for any other purpose except to absorb bad debt losses. As of December 31, 1998, the portion of our reserves subject to this treatment for tax purposes totaled approximately $2.54 million.

We file federal income tax returns on a fiscal year basis using the accrual method of accounting. First Niles does not anticipate filing consolidated federal income tax returns with Home Federal.

The federal income tax returns of Home Federal for the last three years are open to possible audit by the Internal Revenue Service. No returns are being audited by the Internal Revenue Service at the current time. In the opinion of management, any examination of still open returns, including returns of predecessors or entities merged into Home Federal, would not result in a deficiency which could have a material adverse effect on the financial condition of Home Federal.

OHIO TAXATION. We are subject to the Ohio corporate franchise tax. As a financial institution, we compute our franchise tax based on our net worth. Under this method, we will compute our Ohio corporate franchise tax by multiplying our net worth, as specifically adjusted pursuant to Ohio law, by the applicable tax rate, which is currently 1.4%. First Niles will also be subject to the Ohio corporate franchise tax. The tax imposed is the greater of the tax on net worth, or the tax on net income.

DELAWARE TAXATION. As a Delaware holding company, First Niles is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual fee to the State of Delaware. First Niles is also subject to an annual franchise tax imposed by the State of Delaware.

COMPETITION

We face strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

We attract all of our deposits through Home Federal's one office in Niles, Ohio. Competition for those deposits is principally from other savings institutions, commercial banks and credit unions located in our market area, as well as mutual funds. We compete for these deposits by offering a variety of deposit accounts at competitive rates and superior service.

EXECUTIVE OFFICERS OF FIRST NILES

WILLIAM L. STEPHENS. Mr. Stephens, age 67, serves as Chairman of the Board, President and Chief Executive Officer of Home Federal and First Niles. He has served in such capacities for Home Federal since 1969 and for First Niles since its formation in October 1998.

GEORGE J. SWIFT. Mr. Swift, age 76, is Vice President and Secretary of Home Federal and First Niles. He has served in such capacities with Home Federal since 1969 and for First Niles since its formation in October 1998.

LAWRENCE SAFAREK. Mr. Safarek, age 49, currently serves as Vice President and Treasurer of Home Federal and First Niles. He has served in such capacities with Home Federal since 1995 and for First Niles since its formation in October 1998. Mr. Safarek has been employed with Home Federal in numerous other capacities since 1971.

EMPLOYEES

At December 31, 1998, we had a total of 14 employees, including one part-time employee. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

ITEM 2. DESCRIPTION OF PROPERTY

We conduct our business through Home Federal's only office located in Niles, Ohio, which is owned by Home Federal. We believe that our current facilities are adequate to meet the present and foreseeable needs of Home Federal and First Niles. The total net book value of Home Federal's premises and equipment, including land, building and leasehold improvements and furniture, fixtures and equipment, at December 31, 1998 was $256,000. See Note E of Notes to Consolidated Financial Statements.

We maintain an on-line data base with a service bureau servicing financial institutions. The net book value of the data processing and computer equipment utilized by Home Federal at December 31, 1998 was $33,000.

ITEM 3. LEGAL PROCEEDINGS

From time to time First Niles is involved as plaintiff or defendant in various legal actions arising in the normal course of business. Presently, First Niles is not involved in any legal proceedings that are expected to have a material adverse impact on its consolidated financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 1998.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Page 45 of the 1998 Annual Report to Shareholders attached to this document as Exhibit 13 is incorporated herein by reference.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Pages 4 to 16 of the 1998 Annual Report to Shareholders attached to this document as Exhibit 13 is incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS

The following information appearing in First Niles' 1998 Annual Report to Stockholders attached hereto as Exhibit 13 is incorporated herein by reference.

Annual Report Section	Pages in Annual Report
Report of Independent Auditors	17
Consolidated Balance Sheets as of December 31, 1998 and 1997	18
Consolidated Statements of Income for the Years Ended December 31, 1998 and 1997	19
Consolidated statements of Comprehensive Income for the Years Ended December 31, 1998 and 1997	20
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 1998 and 1997	21
Consolidated Statements of Cash Flows for the Years	22

Ended December 31, 1998 and 1997

Notes to Consolidated Financial Statements 23 - 44

With the exception of the aforementioned information, First Niles' Annual Report to Shareholders for the year ended December 31, 1998, is not deemed filed as part of this Annual Report on Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no Current Report on Form 8-K filed within 24 months prior to the date of the most recent financial statements reporting a change of accountants and/or reporting disagreements on any matter of accounting principle or financial statement disclosure.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS

Information concerning Directors of First Niles is incorporated herein by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held in April 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

EXECUTIVE OFFICERS

Information concerning Executive Officers of First Niles is contained under the caption "Executive Officers of First Niles" in Part I of this Form 10-KSB, and is incorporated herein by this reference.

COMPLIANCE WITH SECTION 16(A)

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires First Niles' directors and executive officers, and persons who own more than 10% of a registered class of its equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of First Niles. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish First Niles with copies of all Section 16(a) forms they file.

To First Niles' knowledge, based solely on a review of the copies of such reports furnished to the company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with during the fiscal year ended December 31, 1998.

ITEM 10. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held in April 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held in April 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held in April 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

See Index to Exhibits

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the three-month period ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST NILES FINANCIAL, INC.

Date: March 25, 1999

By: /s/ William L. Stephens

William L. Stephens
Chairman of the Board, President and Chief Executive Officer
(DULY AUTHORIZED REPRESENTATIVE)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons in the capacities and on the dates indicated.

/s/ William L. Stephens — Date: March 25, 1999

William L. Stephens, Chairman of the Board,
President and Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)

/s/ George J. Swift — Date: March 25, 1999

George J. Swift, Vice President and Secretary
(PRINCIPAL FINANCIAL AND OPERATING OFFICER)

/s/ P. James Kramer — Date: March 25, 1999

P. James Kramer, Director

/s/ Horace L. Mclean — Date: March 25, 1999

Horace L. McLean, Director

/s/ Ralph A. Zuzolo — Date: March 25, 1999

Ralph A. Zuzolo, Sr., Director

/s/ Thomas G. Maley — Date: March 25, 1999

Thomas G. Maley, Controller
(PRINCIPAL ACCOUNTING OFFICER)

INDEX TO EXHIBITS

Exhibit Number	Document
3	The Certificate of Incorporation and Bylaws, filed on July 10, 1998 as Exhibits 3.1 and 3.2, respectively, to Registrant's Registration Statement on Form SB-2 (File No. 333-58883), are incorporated by reference.
4	Registrant's Specimen Stock Certificate, filed on July 10, 1998 as Exhibit 4 to Registrant's Registration Statement on Form SB-2 (File No. 333-58883), is incorporated by reference.
10.1	Employment Agreement between the Bank and William L. Stephens
10.2	Employment Agreement between the Bank and George J. Swift
10.3	Employment Agreement between the Bank and Lawrence Safarek
13	Annual Report to Stockholders
21	Subsidiaries of the Registrant
27	Financial Data Schedule (electronic filing only)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of this 26th day of October 1998, by and between HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES, 55 North Main Street, Niles, Ohio (hereinafter referred to as the "Association" whether in mutual or stock form), and WILLIAM L. STEPHENS (the "Employee").

WHEREAS, the Employee is currently serving as President and Chief Executive Officer of the Association; and

WHEREAS, the Association has adopted a plan of conversion whereby the Association will convert to capital stock form as the subsidiary of First Niles Financial, Inc. (the "Holding Company"), subject to the approval of the Association's members and the Office of Thrift Supervision (the "Conversion"); and

WHEREAS, the Board of Directors of the Association believes it is in the best interests of the Association to enter into this Agreement with the Employee in order to assure continuity of management of the Association and to reinforce and encourage the continued attention and dedication of the Employee; and

WHEREAS, the Board of Directors of the Association has approved and authorized the execution of this Agreement with the Employee to take effect as stated in Section 4 hereof;

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, it is AGREED as follows:

1. EMPLOYMENT. The Employee is employed as President and Chief Executive Officer of the Association. As President and Chief Executive Officer, Employee shall render administrative and management services as are customarily performed by persons situated in similar executive capacities, and shall have other powers and duties as may from time to time be prescribed by the Board, provided that such duties are consistent with the Employee's position as President and Chief Executive Officer. The Employee shall continue to devote his best efforts and substantially all his business time and attention to the business and affairs of the Association and its subsidiaries and affiliated companies.

2. COMPENSATION.

(a) SALARY. The Association agrees to pay the Employee during the term of this Agreement a salary established by the Board of Directors. The salary hereunder as of the Commencement Date (as defined in Section 4 hereof) shall be $142,440 per year. The Employee's salary shall be payable not less frequently than monthly and not later than the tenth day following the expiration of the month in question. The amount of the Employee's salary shall be reviewed by the Board of Directors not less often than annually, beginning not later than the date one year after the Commencement Date (as defined in Section 4 hereof). Any adjustments in salary or other compensation shall in no way limit or reduce any other obligation of the Association hereunder. The Employee's salary in effect hereunder from time to time shall not thereafter be reduced.

(b) DISCRETIONARY BONUSES. The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Association in discretionary bonuses as authorized and declared by the Board of Directors of the Association to its executive employees. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

(c) EXPENSES. During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him in performing services hereunder, in accordance with the Association's policies and procedures, provided that the Employee properly accounts therefor in accordance with Association policy.

3. BENEFITS.

(a) PARTICIPATION IN RETIREMENT AND EMPLOYEE BENEFIT PLANS. The Employee shall be entitled while employed hereunder to participate in, and receive benefits under, all plans relating to pension, thrift, profit-sharing, group life insurance, medical coverage, education, cash bonuses, and other retirement or employee benefits or combinations thereof, that are maintained for the benefit of the Association's executive employees or for its employees generally.

(b) FRINGE BENEFITS. The Employee shall be eligible while employed hereunder to participate in, and receive benefits under, any other fringe benefit plans which are or may become applicable to the Association's executive employees or to its employees generally.

4. TERM. The term of employment under this Agreement shall be a period of three years commencing on the date of completion of the Conversion (the "Commencement Date"), subject to earlier termination as provided herein. Beginning on the first anniversary of the Commencement Date, and on each anniversary thereafter, the term of employment under this Agreement shall be extended for a period of one year in addition to the then-remaining term of employment under this Agreement, unless either the Association or the Employee gives contrary written notice to the other not less than 90 days in advance of

the date on which the term of employment under this Agreement would otherwise be extended, PROVIDED that such term will not be automatically extended unless, prior thereto, the Board of Directors of the Association explicitly reviews and approves the extension. Reference herein to the term of employment under this Agreement shall refer to both such initial term and such extended terms.

5. VACATIONS. The Employee shall be entitled, without loss of pay, to absent himself voluntarily from the performance of his employment under this Agreement, all such voluntary absences to count as vacation time, provided that:

(a) the Employee shall be entitled to an annual vacation of not less than four (4) weeks per year;

(b) the timing of vacations shall be scheduled in a reasonable manner by the Employee and the Association; and

(c) solely at the Employee's request, the Board of Directors shall be entitled to grant to the Employee a leave or leaves of absence with or without pay at such time or times and upon such terms and conditions as the Board, in its discretion, may determine.

6. TERMINATION OF EMPLOYMENT; DEATH.

(a) The Association's Board of Directors may terminate the Employee's employment at any time, but any termination by the Association's Board of Directors other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under this Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to (i) his then applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in such manner and at such times as such salary would have been payable to the Employee under Section 2 had he remained in the employ of the Association, and (ii) health insurance benefits as maintained by the Association for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof.

The terms "termination" or "involuntarily terminated" in this Agreement shall refer to the termination of the employment of Employee without his express written consent, other than retirement. In addition, a material diminution of or interference with the Employee's duties, responsibilities and benefits as President and Chief Executive Officer of the Association shall be deemed and shall constitute an involuntary termination of employment to the same extent as express notice of such involuntary termination. Any of the following actions shall constitute such diminution or interference unless consented to in writing by the Employee: (1) a change in the principal workplace of the Employee to a location outside of a 30 mile radius from the Association's headquarters office as of the date hereof; (2) a material demotion of the Employee, a material reduction in the number or seniority of other Association personnel reporting to the Employee, or a material reduction in the frequency with which, or in the nature of the matters with respect to which, such personnel are to report to the Employee, other than as part of a Association- or Holding Company-wide reduction in staff; (3) a material adverse change in the salary, perquisites, benefits, contingent benefits or vacation time which had previously been provided to the Employee, other than as part of an overall program applied uniformly and with equitable effect to all members of the senior management of the Association or the Holding Company; and (4) a material permanent increase in the required hours of work or the workload of the Employee.

In case of termination of the Employee's employment for cause, the Association shall pay the Employee his salary through the date of termination, and the Association shall have no further obligation to the Employee under this Agreement. For purposes of this Agreement, termination for "cause" shall include termination for personal dishonesty, incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of this Agreement. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for cause unless and until there shall have been delivered to the Employee a copy of a resolution, duly adopted by the

affirmative vote of not less than a majority of the entire membership of the Board of Directors of the Association at a meeting of the Board called and held for such purpose (after reasonable notice to the Employee and an opportunity for the Employee, together with the Employee's counsel, to be heard before the Board), stating that in the good faith opinion of the Board the Employee was guilty of conduct constituting "cause" as set forth above and specifying the particulars thereof in detail.

(b) The Employee's employment may be voluntarily terminated by the Employee at any time upon 90 days written notice to the Association or upon such shorter period as may be agreed upon between the Employee and the Board of Directors of the Association. In the event of such voluntary termination, the Association shall be obligated to continue to pay the Employee his salary and benefits only through the date of termination, at the time such payments are due, and the Association shall have no further obligation to the Employee under this Agreement.

(c) In the event of the death of the Employee during the term of employment under this Agreement and prior to any termination hereunder, the Employee's estate, or such person as the Employee may have previously designated in writing, shall be entitled to receive from the Association the salary of the Employee through the last day of the calendar month in which his death shall have occurred, and the term of employment under this Agreement shall end on such last day of the month.

(d) If the Employee is suspended and/or temporarily prohibited from participating in the conduct of the Association's affairs by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. ss. 1818(e)(3) and (g)(1), the Association's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Association may in its discretion (i) pay the Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate in whole or in part any of its obligations which were suspended.

(e) If the Employee is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under Section 8(e)(4) or (g)(1) of the FDIA, 12 U.S.C. ss. 1818(e)(4) and (g)(1), all obligations of the Association under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(f) If the Association is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default, but this provision shall not affect any vested rights of the contracting parties.

(g) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the Association: (i) by the Director of the Office of Thrift Supervision (the "Director") or his or her designee, at the time the Federal Deposit Insurance Corporation ("FDIC") or the Resolution Trust Corporation ("RTC") enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in Section 13(c) of the FDIA; or (ii) by the Director or his or her designee, at the time the Director or his or her designee approves a supervisory merger to

resolve problems related to operation of the Association or when the Association is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by any such action.

(h) In the event the Association purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 16 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Association has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

7. DISABILITY. If the Employee shall become disabled as defined in the Association's then current disability plan or if the Employee shall be otherwise unable to serve as President and Chief Executive Officer, the Employee shall be entitled to receive group and other disability income benefits of the type then provided by the Association for other executive employees.

8. CERTAIN REDUCTION OF PAYMENTS BY THE ASSOCIATION.

(a) Notwithstanding any other provision of this Agreement, if the value and amounts of benefits under this Agreement, together with any other amounts and the value of benefits received or to be received by the Employee would cause any amount to be nondeductible by the Association or the Holding Company for federal income tax purposes pursuant to Section 280G of the Code, then amounts and benefits under this Agreement shall be reduced (not less than zero) to the extent necessary so as to maximize amounts and the value of benefits to the Employee without causing any amount to become nondeductible by the Association or the Holding Company pursuant to or by reason of such Section 280G. The Employee shall determine the allocation of such reduction among payments and benefits to the Employee.

(b) Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. 1828(k) and any regulations promulgated thereunder.

9. NO MITIGATION. The Employee shall not be required to mitigate the amount of any salary or other payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Agreement be reduced by any compensation earned by the Employee as the result of employment by another employer, by retirement benefits after the date of termination or otherwise.

10. NO ASSIGNMENTS.

(a) This Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of its rights or obligations hereunder without first obtaining the written consent of the other party; provided, however, that the Association will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or

substantially all of the business and/or assets of the Association, by an assumption agreement in form and substance satisfactory to the Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Association would be required to perform it if no such succession or assignment had taken place. For purposes of implementing the provisions of this Section 10(a), the date on which any such succession becomes effective shall be deemed the Date of Termination.

(b) This Agreement and all rights of the Employee hereunder shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amounts would still be payable to the Employee hereunder if the Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatee or other designee or if there is no such designee, to the Employee's estate.

11. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid. All notices to the Association shall be sent to its home office, directed to the attention of the Board of Directors of the Association, with a copy to the Secretary of the Association. All notices to the Employee shall be sent to the home or other address the Employee has most recently provided in writing to the Association.

12. AMENDMENTS. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties, except as herein otherwise provided. The parties hereto agree to amend this Agreement to comply with any required provisions of 12 C.F.R. ss. 563.39(b), as the same may be amended.

13. PARAGRAPH HEADINGS. The paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

14. SEVERABILITY. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

15. GOVERNING LAW. This Agreement shall be governed by the laws of the United States to the extent applicable and otherwise by the laws of the State of Ohio.

16. ARBITRATION. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

HOME FEDERAL SAVINGS AND LOAN
ASSOCIATION OF NILES

By: /s/ Ralph A. Zuzolo, Sr.

Ralph A. Zuzolo, Sr.

EMPLOYEE

/s/ William L. Stephens

William L. Stephens

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of this 26th day of October 1998, by and between HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES, 55 North Main Street, Niles, Ohio (hereinafter referred to as the "Association" whether in mutual or stock form), and GEORGE J. SWIFT (the "Employee").

WHEREAS, the Employee is currently serving as Vice President and Secretary of the Association; and

WHEREAS, the Association has adopted a plan of conversion whereby the Association will convert to capital stock form as the subsidiary of First Niles Financial, Inc. (the "Holding Company"), subject to the approval of the Association's members and the Office of Thrift Supervision (the "Conversion"); and

WHEREAS, the Board of Directors of the Association believes it is in the best interests of the Association to enter into this Agreement with the Employee in order to assure continuity of management of the Association and to reinforce and encourage the continued attention and dedication of the Employee; and

WHEREAS, the Board of Directors of the Association has approved and authorized the execution of this Agreement with the Employee to take effect as stated in Section 4 hereof;

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, it is AGREED as follows:

1. EMPLOYMENT. The Employee is employed as Vice President and Secretary of the Association. As Vice President and Secretary, Employee shall render administrative and management services as are customarily performed by persons situated in similar executive capacities, and shall have other powers and duties as may from time to time be prescribed by the Board, provided that such duties are consistent with the Employee's position as Vice President and Secretary. The Employee shall continue to devote his best efforts and substantially all his business time and attention to the business and affairs of the Association and its subsidiaries and affiliated companies.

2. COMPENSATION.

(a) SALARY. The Association agrees to pay the Employee during the term of this Agreement a salary established by the Board of Directors. The salary hereunder as of the Commencement Date (as defined in Section 4 hereof) shall be $142,440 per year. The Employee's salary shall be payable not less frequently than monthly and not later than the tenth day following the expiration of the month in question. The amount of the Employee's salary shall be reviewed by the Board of Directors not less often than annually, beginning not later than the date one year after the Commencement Date (as defined in Section 4 hereof). Any adjustments in salary or other compensation shall in no way limit or reduce any other obligation of the Association hereunder. The Employee's salary in effect hereunder from time to time shall not thereafter be reduced.

(b) DISCRETIONARY BONUSES. The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Association in discretionary bonuses as authorized and declared by the Board of Directors of the Association to its executive employees. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

(c) EXPENSES. During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him in performing services hereunder, in accordance with the Association's policies and procedures, provided that the Employee properly accounts therefor in accordance with Association policy.

3. BENEFITS.

(a) PARTICIPATION IN RETIREMENT AND EMPLOYEE BENEFIT PLANS. The Employee shall be entitled while employed hereunder to participate in, and receive benefits under, all plans relating to pension, thrift, profit-sharing, group life insurance, medical coverage, education, cash bonuses, and other retirement or employee benefits or combinations thereof, that are maintained for the benefit of the Association's executive employees or for its employees generally.

(b) FRINGE BENEFITS. The Employee shall be eligible while employed hereunder to participate in, and receive benefits under, any other fringe benefit plans which are or may become applicable to the Association's executive employees or to its employees generally.

4. TERM. The term of employment under this Agreement shall be a period of three years commencing on the date of completion of the Conversion (the "Commencement Date"), subject to earlier termination as provided herein. Beginning on the first anniversary of the Commencement Date, and on each anniversary thereafter, the term of employment under this Agreement shall be extended for a period of one year in addition to the then-remaining term of employment under this Agreement, unless either the Association or the Employee

gives contrary written notice to the other not less than 90 days in advance of the date on which the term of employment under this Agreement would otherwise be extended, PROVIDED that such term will not be automatically extended unless, prior thereto, the Board of Directors of the Association explicitly reviews and approves the extension. Reference herein to the term of employment under this Agreement shall refer to both such initial term and such extended terms.

5. VACATIONS. The Employee shall be entitled, without loss of pay, to absent himself voluntarily from the performance of his employment under this Agreement, all such voluntary absences to count as vacation time, provided that:

(a) the Employee shall be entitled to an annual vacation of not less than six (6) weeks per year;

(b) the timing of vacations shall be scheduled in a reasonable manner by the Employee and the Association; and

(c) solely at the Employee's request, the Board of Directors shall be entitled to grant to the Employee a leave or leaves of absence with or without pay at such time or times and upon such terms and conditions as the Board, in its discretion, may determine.

6. TERMINATION OF EMPLOYMENT; DEATH.

(a) The Association's Board of Directors may terminate the Employee's employment at any time, but any termination by the Association's Board of Directors other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under this Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to (i) his then applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in such manner and at such times as such salary would have been payable to the Employee under Section 2 had he remained in the employ of the Association, and (ii) health insurance benefits as maintained by the Association for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof.

The terms "termination" or "involuntarily terminated" in this Agreement shall refer to the termination of the employment of Employee without his express written consent, other than retirement. In addition, a material diminution of or interference with the Employee's duties, responsibilities and benefits as Vice

President and Secretary of the Association shall be deemed and shall constitute an involuntary termination of employment to the same extent as express notice of such involuntary termination. Any of the following actions shall constitute such diminution or interference unless consented to in writing by the Employee: (1) a change in the principal workplace of the Employee to a location outside of a 30 mile radius from the Association's headquarters office as of the date hereof; (2) a material demotion of the Employee, a material reduction in the number or seniority of other Association personnel reporting to the Employee, or a material reduction in the frequency with which, or in the nature of the matters with respect to which, such personnel are to report to the Employee, other than as part of a Association- or Holding Company-wide reduction in staff; (3) a material adverse change in the salary, perquisites, benefits, contingent benefits or vacation time which had previously been provided to the Employee, other than as part of an overall program applied uniformly and with equitable effect to all members of the senior management of the Association or the Holding Company; and (4) a material permanent increase in the required hours of work or the workload of the Employee.

In case of termination of the Employee's employment for cause, the Association shall pay the Employee his salary through the date of termination, and the Association shall have no further obligation to the Employee under this Agreement. For purposes of this Agreement, termination for "cause" shall include termination for personal dishonesty, incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of this Agreement. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for cause unless and until there shall have been delivered to the Employee a copy of a resolution, duly adopted by the

affirmative vote of not less than a majority of the entire membership of the Board of Directors of the Association at a meeting of the Board called and held for such purpose (after reasonable notice to the Employee and an opportunity for the Employee, together with the Employee's counsel, to be heard before the Board), stating that in the good faith opinion of the Board the Employee was guilty of conduct constituting "cause" as set forth above and specifying the particulars thereof in detail.

(b) The Employee's employment may be voluntarily terminated by the Employee at any time upon 90 days written notice to the Association or upon such shorter period as may be agreed upon between the Employee and the Board of Directors of the Association. In the event of such voluntary termination, the Association shall be obligated to continue to pay the Employee his salary and benefits only through the date of termination, at the time such payments are due, and the Association shall have no further obligation to the Employee under this Agreement.

(c) In the event of the death of the Employee during the term of employment under this Agreement and prior to any termination hereunder, the Employee's estate, or such person as the Employee may have previously designated in writing, shall be entitled to receive from the Association the salary of the Employee through the last day of the calendar month in which his death shall have occurred, and the term of employment under this Agreement shall end on such last day of the month.

(d) If the Employee is suspended and/or temporarily prohibited from participating in the conduct of the Association's affairs by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. ss. 1818(e)(3) and (g)(1), the Association's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Association may in its discretion (i) pay the Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate in whole or in part any of its obligations which were suspended.

(e) If the Employee is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under Section 8(e)(4) or (g)(1) of the FDIA, 12 U.S.C. ss. 1818(e)(4) and (g)(1), all obligations of the Association under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(f) If the Association is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default, but this provision shall not affect any vested rights of the contracting parties.

(g) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the Association: (i) by the Director of the Office of Thrift Supervision (the "Director") or his or her designee, at the time the Federal Deposit Insurance Corporation ("FDIC") or the Resolution Trust Corporation ("RTC") enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in Section 13(c) of the FDIA; or (ii) by the Director or his or her designee, at the time the Director or his or her designee approves a supervisory merger to

resolve problems related to operation of the Association or when the Association is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by any such action.

(h) In the event the Association purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 16 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Association has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

7. DISABILITY. If the Employee shall become disabled as defined in the Association's then current disability plan or if the Employee shall be otherwise unable to serve as Vice President and Secretary, the Employee shall be entitled to receive group and other disability income benefits of the type then provided by the Association for other executive employees.

8. CERTAIN REDUCTION OF PAYMENTS BY THE ASSOCIATION.

(a) Notwithstanding any other provision of this Agreement, if the value and amounts of benefits under this Agreement, together with any other amounts and the value of benefits received or to be received by the Employee would cause any amount to be nondeductible by the Association or the Holding Company for federal income tax purposes pursuant to Section 280G of the Code, then amounts and benefits under this Agreement shall be reduced (not less than zero) to the extent necessary so as to maximize amounts and the value of benefits to the Employee without causing any amount to become nondeductible by the Association or the Holding Company pursuant to or by reason of such Section 280G. The Employee shall determine the allocation of such reduction among payments and benefits to the Employee.

(b) Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. 1828(k) and any regulations promulgated thereunder.

9. NO MITIGATION. The Employee shall not be required to mitigate the amount of any salary or other payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Agreement be reduced by any compensation earned by the Employee as the result of employment by another employer, by retirement benefits after the date of termination or otherwise.

10. NO ASSIGNMENTS.

(a) This Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of its rights or obligations hereunder without first obtaining the written consent of the other party; provided, however, that the Association will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or

substantially all of the business and/or assets of the Association, by an assumption agreement in form and substance satisfactory to the Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Association would be required to perform it if no such succession or assignment had taken place. For purposes of implementing the provisions of this Section 10(a), the date on which any such succession becomes effective shall be deemed the Date of Termination.

(b) This Agreement and all rights of the Employee hereunder shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amounts would still be payable to the Employee hereunder if the Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatee or other designee or if there is no such designee, to the Employee's estate.

11. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid. All notices to the Association shall be sent to its home office, directed to the attention of the Board of Directors of the Association, with a copy to the Secretary of the Association. All notices to the Employee shall be sent to the home or other address the Employee has most recently provided in writing to the Association.

12. AMENDMENTS. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties, except as herein otherwise provided. The parties hereto agree to amend this Agreement to comply with any required provisions of 12 C.F.R. ss. 563.39(b), as the same may be amended.

13. PARAGRAPH HEADINGS. The paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

14. SEVERABILITY. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

15. GOVERNING LAW. This Agreement shall be governed by the laws of the United States to the extent applicable and otherwise by the laws of the State of Ohio.

16. ARBITRATION. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

HOME FEDERAL SAVINGS AND LOAN
ASSOCIATION OF NILES

By: /s/ Ralph A. Zuzolo, Sr.

Ralph A. Zuzolo, Sr.

EMPLOYEE

/s/ George J. Swift

George J. Swift

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of this 26th day of October 1998, by and between HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES, 55 North Main Street, Niles, Ohio (hereinafter referred to as the "Association" whether in mutual or stock form), and LAWRENCE SAFAREK (the "Employee").

WHEREAS, the Employee is currently serving as Vice President and Treasurer of the Association; and

WHEREAS, the Association has adopted a plan of conversion whereby the Association will convert to capital stock form as the subsidiary of First Niles Financial, Inc. (the "Holding Company"), subject to the approval of the Association's members and the Office of Thrift Supervision (the "Conversion"); and

WHEREAS, the Board of Directors of the Association believes it is in the best interests of the Association to enter into this Agreement with the Employee in order to assure continuity of management of the Association and to reinforce and encourage the continued attention and dedication of the Employee; and

WHEREAS, the Board of Directors of the Association has approved and authorized the execution of this Agreement with the Employee to take effect as stated in Section 4 hereof;

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, it is AGREED as follows:

1. EMPLOYMENT. The Employee is employed as Vice President and Treasurer of the Association. As Vice President and Treasurer, Employee shall render administrative and management services as are customarily performed by persons situated in similar executive capacities, and shall have other powers and duties as may from time to time be prescribed by the Board, provided that such duties are consistent with the Employee's position as Vice President and Treasurer. The Employee shall continue to devote his best efforts and substantially all his business time and attention to the business and affairs of the Association and its subsidiaries and affiliated companies.

2. COMPENSATION.

(a) SALARY. The Association agrees to pay the Employee during the term of this Agreement a salary established by the Board of Directors. The salary hereunder as of the Commencement Date (as defined in Section 4 hereof) shall be $62,400 per year. The Employee's salary shall be payable not less frequently than monthly and not later than the tenth day following the expiration of the month in question. The amount of the Employee's salary shall be reviewed by the Board of Directors not less often than annually, beginning not later than the date one year after the Commencement Date (as defined in Section 4 hereof). Any adjustments in salary or other compensation shall in no way limit or reduce any other obligation of the Association hereunder. The Employee's salary in effect hereunder from time to time shall not thereafter be reduced.

(b) DISCRETIONARY BONUSES. The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Association in discretionary bonuses as authorized and declared by the Board of Directors of the Association to its executive employees. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

(c) EXPENSES. During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him in performing services hereunder, in accordance with the Association's policies and procedures, provided that the Employee properly accounts therefor in accordance with Association policy.

3. BENEFITS.

(a) PARTICIPATION IN RETIREMENT AND EMPLOYEE BENEFIT PLANS. The Employee shall be entitled while employed hereunder to participate in, and receive benefits under, all plans relating to pension, thrift, profit-sharing, group life insurance, medical coverage, education, cash bonuses, and other retirement or employee benefits or combinations thereof, that are maintained for the benefit of the Association's executive employees or for its employees generally.

(b) FRINGE BENEFITS. The Employee shall be eligible while employed hereunder to participate in, and receive benefits under, any other fringe benefit plans which are or may become applicable to the Association's executive employees or to its employees generally.

4. TERM. The term of employment under this Agreement shall be a period of three years commencing on the date of completion of the Conversion (the "Commencement Date"), subject to earlier termination as provided herein. Beginning on the first anniversary of the Commencement Date, and on each anniversary thereafter, the term of employment under this Agreement shall be extended for a period of one year in addition to the then-remaining term of

employment under this Agreement, unless either the Association or the Employee gives contrary written notice to the other not less than 90 days in advance of the date on which the term of employment under this Agreement would otherwise be extended, PROVIDED that such term will not be automatically extended unless, prior thereto, the Board of Directors of the Association explicitly reviews and approves the extension. Reference herein to the term of employment under this Agreement shall refer to both such initial term and such extended terms.

5. VACATIONS. The Employee shall be entitled, without loss of pay, to absent himself voluntarily from the performance of his employment under this Agreement, all such voluntary absences to count as vacation time, provided that:

(a) the Employee shall be entitled to an annual vacation of not less than four (4) weeks per year;

(b) the timing of vacations shall be scheduled in a reasonable manner by the Employee and the Association; and

(c) solely at the Employee's request, the Board of Directors shall be entitled to grant to the Employee a leave or leaves of absence with or without pay at such time or times and upon such terms and conditions as the Board, in its discretion, may determine.

6. TERMINATION OF EMPLOYMENT; DEATH.

(a) The Association's Board of Directors may terminate the Employee's employment at any time, but any termination by the Association's Board of Directors other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under this Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to (i) his then applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in such manner and at such times as such salary would have been payable to the Employee under Section 2 had he remained in the employ of the Association, and (ii) health insurance benefits as maintained by the Association for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof.

The terms "termination" or "involuntarily terminated" in this Agreement shall refer to the termination of the employment of Employee without his express written consent, other than retirement. In addition, a material diminution of or interference with the Employee's duties, responsibilities and benefits as Vice President and Treasurer of the Association shall be deemed and shall constitute an involuntary termination of employment to the same extent as express notice of such involuntary termination. Any of the following actions shall constitute such diminution or interference unless consented to in writing by the Employee: (1) a change in the principal workplace of the Employee to a location outside of a 30 mile radius from the Association's headquarters office as of the date hereof; (2) a material demotion of the Employee, a material reduction in the number or seniority of other Association personnel reporting to the Employee, or a material reduction in the frequency with which, or in the nature of the matters with respect to which, such personnel are to report to the Employee, other than as part of a Association- or Holding Company-wide reduction in staff; (3) a material adverse change in the salary, perquisites, benefits, contingent benefits or vacation time which had previously been provided to the Employee, other than as part of an overall program applied uniformly and with equitable effect to all members of the senior management of the Association or the Holding Company; and (4) a material permanent increase in the required hours of work or the workload of the Employee.

In case of termination of the Employee's employment for cause, the Association shall pay the Employee his salary through the date of termination, and the Association shall have no further obligation to the Employee under this Agreement. For purposes of this Agreement, termination for "cause" shall include termination for personal dishonesty, incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of this Agreement. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for cause unless and until there shall have been delivered to the Employee a copy of a resolution, duly adopted by the

affirmative vote of not less than a majority of the entire membership of the Board of Directors of the Association at a meeting of the Board called and held for such purpose (after reasonable notice to the Employee and an opportunity for the Employee, together with the Employee's counsel, to be heard before the Board), stating that in the good faith opinion of the Board the Employee was guilty of conduct constituting "cause" as set forth above and specifying the particulars thereof in detail.

(b) The Employee's employment may be voluntarily terminated by the Employee at any time upon 90 days written notice to the Association or upon such shorter period as may be agreed upon between the Employee and the Board of Directors of the Association. In the event of such voluntary termination, the Association shall be obligated to continue to pay the Employee his salary and benefits only through the date of termination, at the time such payments are due, and the Association shall have no further obligation to the Employee under this Agreement.

(c) In the event of the death of the Employee during the term of employment under this Agreement and prior to any termination hereunder, the Employee's estate, or such person as the Employee may have previously designated in writing, shall be entitled to receive from the Association the salary of the Employee through the last day of the calendar month in which his death shall have occurred, and the term of employment under this Agreement shall end on such last day of the month.

(d) If the Employee is suspended and/or temporarily prohibited from participating in the conduct of the Association's affairs by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. ss. 1818(e)(3) and (g)(1), the Association's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Association may in its discretion (i) pay the Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate in whole or in part any of its obligations which were suspended.

(e) If the Employee is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under Section 8(e)(4) or (g)(1) of the FDIA, 12 U.S.C. ss. 1818(e)(4) and (g)(1), all obligations of the Association under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(f) If the Association is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default, but this provision shall not affect any vested rights of the contracting parties.

(g) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the Association: (i) by the Director of the Office of Thrift Supervision (the "Director") or his or her designee, at the time the Federal Deposit Insurance Corporation ("FDIC") or the Resolution Trust Corporation ("RTC") enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in Section 13(c) of the FDIA; or (ii) by the Director or his or her designee, at the time the Director or his or her designee approves a supervisory merger to resolve problems related to operation of the Association or when the Association is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by any such action.

(h) In the event the Association purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 16 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Association has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

7. DISABILITY. If the Employee shall become disabled as defined in the Association's then current disability plan or if the Employee shall be otherwise unable to serve as Vice President and Treasurer, the Employee shall be entitled to receive group and other disability income benefits of the type then provided by the Association for other executive employees.

8. CERTAIN REDUCTION OF PAYMENTS BY THE ASSOCIATION.

(a) Notwithstanding any other provision of this Agreement, if the value and amounts of benefits under this Agreement, together with any other amounts and the value of benefits received or to be received by the Employee would cause any amount to be nondeductible by the Association or the Holding Company for federal income tax purposes pursuant to Section 280G of the Code, then amounts and benefits under this Agreement shall be reduced (not less than zero) to the extent necessary so as to maximize amounts and the value of benefits to the Employee without causing any amount to become nondeductible by the Association or the Holding Company pursuant to or by reason of such Section 280G. The Employee shall determine the allocation of such reduction among payments and benefits to the Employee.

(b) Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. 1828(k) and any regulations promulgated thereunder.

9. NO MITIGATION. The Employee shall not be required to mitigate the amount of any salary or other payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Agreement be reduced by any compensation earned by the Employee as the result of employment by another employer, by retirement benefits after the date of termination or otherwise.

10. NO ASSIGNMENTS.

(a) This Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of its rights or obligations hereunder without first obtaining the written consent of the other party; provided, however, that the Association will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or

substantially all of the business and/or assets of the Association, by an assumption agreement in form and substance satisfactory to the Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Association would be required to perform it if no such succession or assignment had taken place. For purposes of implementing the provisions of this Section 10(a), the date on which any such succession becomes effective shall be deemed the Date of Termination.

(b) This Agreement and all rights of the Employee hereunder shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amounts would still be payable to the Employee hereunder if the Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatee or other designee or if there is no such designee, to the Employee's estate.

11. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid. All notices to the Association shall be sent to its home office, directed to the attention of the Board of Directors of the Association, with a copy to the Secretary of the Association. All notices to the Employee shall be sent to the home or other address the Employee has most recently provided in writing to the Association.

12. AMENDMENTS. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties, except as herein otherwise provided. The parties hereto agree to amend this Agreement to comply with any required provisions of 12 C.F.R. ss. 563.39(b), as the same may be amended.

13. PARAGRAPH HEADINGS. The paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

14. SEVERABILITY. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

15. GOVERNING LAW. This Agreement shall be governed by the laws of the United States to the extent applicable and otherwise by the laws of the State of

Ohio.

16. ARBITRATION. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

HOME FEDERAL SAVINGS AND LOAN
ASSOCIATION OF NILES

By: /s/ Ralph A. Zuzolo, Sr.

Ralph A. Zuzolo, Sr.

EMPLOYEE

/s/ Lawrence Safarek

Lawrence Safarek

1998 ANNUAL REPORT

[LOGO]

FIRST NILES FINANCIAL, INC.
NILES, OHIO

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[FIRST NILES FINANCIAL, INC. LETTERHEAD]

March 17, 1999

To Our Shareholders:

It is my distinct pleasure to present to you our first Annual Report to Shareholders of First Niles Financial, Inc. The past year has been one of the most, if not the most, significant year in the 102 year history of the Home Federal Savings and Loan Association of Niles, our wholly-owned operating subsidiary.

Home Federal converted from mutual to stock form of ownership in October 1998. First Niles, upon completion of Home Federal's conversion to stock form, simultaneously acquired all of the common stock of Home Federal and issued First Niles common stock to the public, raising over $16.9 million. At December 31, 1998, total shareholders' equity equaled approximately $29.9 million.

Your Board and management are committed to building shareholder value. We will continue to be an organization which is committed to our customers and to the community we serve. We are dedicated to making your investment in First Niles a rewarding one.

I would also like to take this time to thank all of our loyal customers and new constituents, our shareholders, for their past support and faith in our future.

Sincerely,

WILLIAM L. STEPHENS
CHAIRMAN OF THE BOARD, PRESIDENT AND CEO

<TABLE>
<CAPTION>

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	December 31,		
	1998	1997	1996
Selected Financial Condition Data:	(In Thousands)		
<S>	<C>	<C>	<C>
Total assets	$86,724	$72,497	$71,213
Loans receivable, net	36,132	36,744	33,183
Mortgage-backed and related securities	12,432	12,359	12,900
Investment securities	20,068	17,741	22,098
Deposits	54,837	57,854	57,673
Total borrowings	300	400	500
Shareholders' equity	29,923	13,163	12,163

	Years Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Selected Operations Data:			
Total interest income	$ 5,221	$ 5,002	$ 4,780
Total interest expense	2,435	2,476	2,402
Net interest income	2,786	2,526	2,378
Provision (recovery) for loan losses	(103)	700	40
Net interest income after provision for loan losses	2,889	1,826	2,338
Fees and service charges	19	18	17
Gain on sales of investment securities	461	4	--
Other non-interest income	7	5	6
Total non-interest income	487	27	23
Total non-interest expense	2,290	1,380	1,751
Income before taxes and extraordinary item	1,086	473	610
Income tax provision	276	87	184
Net income	$ 810	$ 386	$ 426
Earnings per share	NM	NA	NA

Dividends per share	--	NA	NA

</TABLE>

NM - Not meaningful.
NA - Not applicable.

<TABLE>
<CAPTION>

<S>	Years Ended December 31, 1998 <C>	1997 <C>	1996 <C>
Selected Financial Ratios and Other Data:			
PERFORMANCE RATIOS:			
Return on assets (ratio of net income to average total assets)	1.06%	0.54%	0.60%
Return on equity (ratio of net income to average equity)	4.99	3.05	3.58
Interest rate spread:			
Average during year	2.68	2.78	2.63
End of year	2.54	2.82	2.85
Net interest margin (net interest income divided by average interest-earning assets)	3.68	3.56	3.39
Ratio of operating expense to average total assets	2.94	1.86	2.42
Ratio of average interest-earning assets to average interest-bearing liabilities	1.31	1.22	1.22
QUALITY RATIOS:			
Non-performing assets to total assets at end of year	1.10	2.29	1.37
Non-performing loans to loans receivable, net, end of year	2.64	4.52	2.94
Allowance for loan losses to non-performing loans, end of year	82.09	51.38	30.90
Allowance for loan losses to loans receivable, net, end of year	2.17	2.32	0.91
CAPITAL RATIOS:			
Equity to total assets at end of year	34.50	18.16	17.08
Average equity to average assets	21.30	17.72	16.78
OTHER DATA:			
Book value per common share outstanding	$17.06	NA	NA
Dividends declared per share	--	NA	NA
Dividend payout ratio(1)	--	NA	NA
Number of full-service offices	1	1	1

</TABLE>

(1) Dividends per share divided by earnings per common share and common share equivalent.

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

GENERAL

The most significant event of the last fiscal year was the October 26, 1998 conversion of Home Federal Savings and Loan Association of Niles from the mutual to stock form of ownership. On that date, First Niles Financial, Inc. issued 1,754,411 shares of common stock at $10.00 per share, raising $15.5 million, net of shares acquired by the newly formed Employee Stock Ownership Plan (the "ESOP") and net of the costs of the Conversion. Concurrent with the issuance of the shares, Home Federal converted from the mutual to stock form of organization, and First Niles acquired 100% of the stock of Home Federal. First Niles has no significant operations outside those of Home Federal. All references to First Niles prior to October 26, 1998, except where otherwise indicated, are to Home Federal. References in this Annual Report to "we", "us", and "our" refer to First Niles and/or Home Federal as the context requires.

Home Federal was established in Niles, Ohio in 1897. We are a community-oriented financial institution serving primarily the Niles, Ohio area through our one office located in Niles. We provide financial services to individuals, families and small businesses. Our principal business consists of attracting retail deposits from the general public and investing those funds primarily in permanent and construction loans secured by first mortgages on one- to four-family residences. We also originate permanent and construction loans secured by first mortgages on commercial and multi-family real estate. To a much lesser extent, we originate consumer and commercial business loans. Competition from other financial institutions has, however, limited the volume of loans we have been able to originate and place in our portfolio. As a result, our excess funds are invested in short-term, lower-yielding investment and mortgage-backed and related securities.

Proceeds received from our public offering were initially invested in interest-bearing deposits. We intend to invest these proceeds in the origination of loans and the purchase of investment and mortgage-backed and related securities, subject to market conditions. However, the level of financial competition in our market area is strong and dominated by commercial banks, with financial institutions of varying sizes and characteristics. In addition, Home Federal operates a single office in the city of Niles, which is projected to experience a continuing decrease in population and no meaningful increase in households over the next several years. Niles and Trumbull County have per capita income and median household income significantly lower than Ohio and the United States and in December 1998, Trumbull County also had an unemployment rate higher than Ohio and the United States. These economic conditions and strong competition have resulted in reduced loan demand which, in turn, has resulted in a high concentration of investment securities and mortgage-backed and related securities in our portfolio compared to typical savings institutions. In the event current economic and market conditions persist or worsen, and loan demand remains weak, we can not give any assurances that we will be able to maintain or increase our mortgage loan portfolio, which could adversely affect our operations and financial results.

FINANCIAL CONDITION

Assets totaled $86.7 million at December 31, 1998, an increase of $14.2 million, or 19.6%, from assets of $72.5 million at December 31, 1997. Assets increased as a result of the $15.5 million received from the sale of First Niles' common stock to the public in October 1998. These funds were invested in cash equivalents which increased $12.2 million, or 251%, with the balance used to fund a $2.4 million, or 8.0%, increase in mortgage-backed and investment securities.

The loan portfolio decreased $612,000, or 1.7%, to $36.1 million at December 31, 1998, compared to the prior year. This decline occurred because of the prevailing low interest rate environment and strong competition for loans in the area, which resulted in loan customers refinancing existing loans elsewhere. During the year total real estate loans decreased by $1.7 million. Specifically, loans secured by one to four-family and multi-family properties decreased by a total of $3.0 million during the year ended December 31, 1998, partially offset by a $1.3 million increase in loans secured by commercial real estate and for construction and development.

Deposits totaled $54.8 million at December 31, 1998, compared to $57.8 million at December 31, 1997, representing a $3.0 million or 5.2% decrease in deposits. During the year ended December 31, 1998, certificates of deposit decreased $1.4 million. Passbook, statement savings accounts and money market deposit accounts decreased by a collective $1.9 million, while NOW accounts increased $251,000 during the year ended December 31, 1998. The decrease in deposits experienced in every account category, except NOW accounts, is primarily attributable to deposit funds that were used by customers to purchase stock in our public offering.

Accounts payable and other liabilities increased by $438,000, or 54.9%, to $1.2 million at December 31, 1998 from $798,000 at December 31, 1997. This increase was primarily due to a $384,000 accrual to executive deferred compensation plans, which were terminated as of August 31, 1998.

Net proceeds of $15.5 million from the sale of our common stock, combined with net income of $810,000 accounted for substantially all of the net increase in shareholders' equity.

RESULTS OF OPERATIONS

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

NET INCOME. We recorded net income of $810,000 for the year ended December 31, 1998, an increase of $424,000 or 110% from the year ended December 31, 1997. The increase in net income was primarily due to a $260,000 increase in net interest income, a $803,000 reduction in the provision for loan losses and a $461,000 gain on sales of investment securities. These gains were partially offset by a $910,000 increase in non-interest expense and a $189,000 increase in federal income tax expense.

Our return on assets was 1.06% for the year ended 1998, compared to .54% for the year ended 1997. Return on equity was 4.99% for 1998, compared to 3.05% for 1997. Average equity to average assets was 21.30% for the year ended 1998, compared to 17.72% for the year ended 1997. We did not declare or pay any dividends during 1998.

NET INTEREST INCOME. Net interest income increased $260,000, or 10.3%, from last year to $2.8 million for the year ended December 31, 1998. The increase in net interest income was generated primarily by a $4.9 million increase in average interest-earning assets resulting from the proceeds we received in our public offering in October 1998. In addition, the average outstanding balance in our loan portfolio increased $1.4 million, while the overall average balance of the investment and mortgage-backed securities portfolio remained relatively constant.

Total interest expense decreased $41,000, or 1.7%, from last year to $2.4 million for the year ended December 31, 1998. An overall decline in the rate paid on deposits at Home Federal was the primary reason for the decrease in interest expense. The rate paid on our certificate of deposit accounts exhibited the largest decline, declining to 5.32% for the year ended December 31, 1998 from 5.45% for the same period in 1997. The balance of average interest-bearing liabilities remained relatively constant during 1998 and 1997.

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

AVERAGE BALANCES, INTEREST RATES AND YIELDS

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. All average balances are computed using monthly average balances.

<TABLE>
<CAPTION>

	Year Ended December 31,					
	1998			1997		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:						

Loans receivable(1)	$37,317	$3,074	8.24%	$35,946	$2,959	8.23%
Mortgage-backed and related securities	12,467	767	6.15	11,677	665	5.70
Investment securities	17,908	941	5.25	19,210	1,150	5.99
FHLB stock	306	22	7.19	283	20	7.07
Interest-bearing deposits	7,761	417	5.37	3,791	208	5.49
TOTAL INTEREST-EARNING ASSETS(1)	$75,759	5,221	6.89	$70,907	5,002	7.05
INTEREST-BEARING LIABILITIES:						
Savings deposits	$25,858	787	3.04	$26,340	806	3.06%
Demand and NOW deposits	3,069	93	3.03	2,885	88	3.05
Certificate accounts	28,545	1,520	5.32	28,231	1,539	5.45
Borrowings	385	35	9.09	488	43	8.81
TOTAL INTEREST-BEARING LIABILITIES	$57,857	2,435	4.21	$57,944	2,476	4.27
NET INTEREST INCOME		$2,786			$2,526	
NET INTEREST RATE SPREAD			2.68%			2.78%
NET EARNING ASSETS	$17,902			$12,963		
NET YIELD ON AVERAGE INTEREST-EARNING ASSETS			3.68%			3.56%
AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES		1.31x			1.22x	

</TABLE>

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(1) Calculated net of deferred loan fees, loan discounts and loans in process. Includes non-accrual loans.

RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

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

<TABLE>
<CAPTION>

	Years Ended December 31, 1998 VS. 1997		
	Increase/(decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Interest-earning assets:			
Loans receivable	$ 113	$ 2	$ 115
Mortgage-backed and related securities	46	56	102
Investment securities	(75)	(134)	(209)
Interest-bearing deposits and other	215	(4)	211
Total interest-earning assets	$ 299	$ (80)	219
Interest-bearing liabilities:			
Savings deposits	$ (15)	$ (4)	(19)
Demand and NOW deposits	6	(1)	5
Borrowings	(9)	1	(8)
Certificate accounts	17	(36)	(19)
Total interest-bearing liabilities	$ (1)	$ (40)	(41)

Net interest income....................	$ 260
	=====

</TABLE>

PROVISION FOR LOAN LOSSES. The net provision for loan losses was ($103,000) for the year ended December 31, 1998 compared to $700,000 for the year ended December 31, 1997. The significant decrease in the net provision for loan losses of $803,000 from year to year was primarily due to an improvement in the general credit quality of the overall loan portfolio. Our level of nonperforming loans, consisting of nonaccruing loans and loans delinquent more than 90 days, decreased by $707,000 to $955,000 at December 31, 1998 from $1.7 million at December 31, 1997. Our nonperforming loans totaled 2.6% of net loans receivable at December 31, 1998, compared to 4.5% of net loans receivable at December 31, 1997. Our allowance for loan losses was $784,000 at December 31, 1998, representing 82.1% of non-performing loans and 2.2% of net loans receivable. At December 31, 1997 the allowance for loan losses was $853,000, representing 51.4% of non-performing loans and 2.3% of net loans receivable. We did not have any real estate owned or other non-performing assets on our books at December 31, 1998 and 1997.

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

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

NON-INTEREST INCOME. Non-interest income increased $460,000 to $487,000 for the year ended December 31, 1998 compared to $27,000 the prior year. This $460,000 increase was the result of the sale of 9,728 shares of Freddie Mac common stock during 1998.

NON-INTEREST EXPENSE. Non-interest expense increased $910,000, or 65.9%, for the year ended December 31, 1998 compared to the same period in 1997. Compensation and benefits, our largest non-interest expense, increased $858,000, or 103%, in 1998 as compared to 1997. This increase was primarily attributable to bonuses totaling $435,000 paid to Home Federal employees in April 1998, and a $288,000 lump-sum contribution to executive deferred compensation plans in exchange for the suspension of further annual contributions to the executives under such plans. Compensation and benefits also increased as a result of contributions to the ESOP formed in connection with our conversion to the stock form of organization and simultaneous public offering of First Niles common stock.

FEDERAL INCOME TAXES. The provision for federal income taxes totaled $276,000 for the year ended December 31, 1998, an increase of $189,000, or 217% from the $87,000 provision for 1997. The increase in the provision for federal income taxes was due to significantly higher pre-tax income. Pre-tax income was $613,000 higher in 1998 than in 1997. The effective tax rate increased to 25.4% in the current one-year period compared to 18.4% in the same period one year prior.

ASSET AND LIABILITY MANAGEMENT; MARKET RISK ANALYSIS

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

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

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

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

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

To manage the interest rate risk, we attempt to originate adjustable-rate loans; however, due to the low interest rate environment over the past several years, customer demand for fixed-rate loans has been strong. At December 31, 1998, adjustable-rate mortgage loans totaled $19.0 million or 49.9% of our total gross loan portfolio. We also maintain a large portfolio of liquid assets which includes investment securities. Maintaining liquid assets, however, tends to reduce potential net income because liquid assets usually provide a lower yield than other interest-earning assets. Despite these strategies we are still more vulnerable to increases in interest rates than to decreases in interest rates given current market interest rate levels, as illustrated in the table on the following page.

In order to encourage institutions to reduce their interest rate risk, the Office of Thrift Supervision adopted a rule incorporating an interest rate risk component into the risk-based capital rules. This procedure for measuring interest rate risk was developed by the Office of Thrift Supervision to replace

the "gap" analysis, which is the difference between interest-earning assets and interest-bearing liabilities that mature or reprice within a specific time period. Net portfolio value is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in net portfolio value that will occur upon an immediate change in interest rates of at least 200 basis points with no effect given to any steps that management might take to counter the effect of that interest rate movement.

The following table sets forth the change in Home Federal's net portfolio value at December 31, 1998, based on internal assumptions, that would occur upon an immediate change in interest rates, with no effect given to any steps that management might take to counteract that change.

December 31, 1998

Change in Rate	Net Portfolio Value $ Amount	$ Change	% Change	Net Portfolio Value as % of Portfolio Value of Total Asset NPV Ratio	BP Change
	(Dollars in Thousands)				
+300	$20,455	$(3,336)	(14.0)%	27.08%	(238)
+200	21,861	(1,930)	(8.1)	28.18	(128)
+100	22,956	(835)	(3.5)	28.94	(52)
--	23,791	--	--	29.46	--
-100	24,563	772	3.2	29.92	46
-200	25,209	1,418	6.0	30.28	82
-300	25,666	1,875	7.9	30.51	105

In the above table, the first column on the left presents the basis point increments of yield curve shifts. The second column presents the overall dollar amount of net portfolio value at each basis point increment. The third and fourth columns present Home Federal's actual position in dollar change and percentage change in net portfolio value at each basis point increment. The remaining columns present Home Federal's percentage change and basis point change in its net portfolio value as a percentage of portfolio value of total assets.

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including interest rates, loan prepayments, deposit decay rates, and the market values of certain assets under the various interest rate scenarios and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in the method of analysis presented in the computation of net portfolio value. Although certain assets and liabilities may have similar maturities or periods within which they reprice, they may react differently to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above.

LIQUIDITY AND COMMITMENTS

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

Liquidity management is an ongoing and long-term function of our asset/liability management strategy. Excess funds generally are invested in interest-bearing overnight deposits at other financial institutions and in short-term investment securities. If we require funds beyond our ability to generate deposits, additional sources of funds are available. Our most liquid assets are cash and cash equivalents. At December 31, 1998, cash and cash equivalents totaled $17.1 million compared to $4.9 million at December 31, 1997. We monitor and review liquidity regularly and maintain a $2.0 million line of credit with a commercial bank which can be accessed immediately.

At December 31, 1998, the total loan origination commitments outstanding amounted to $2.1 million. At the same date, the unadvanced portion of construction loans was $1.1 million. Certificates of deposit scheduled to mature in one year or less at December 31, 1998, totaled $22.7 million. Investment and mortgage-related securities scheduled to mature in one year or less at December 31, 1998 totaled $1.3 million. Based on historical experience, we believe that a significant portion of maturing deposits will remain with us. We believe, based on our current balance sheet structure and our ability to acquire funds from the Federal Home Loan Bank of Cincinnati and other sources, that our liquidity is adequate.

CAPITAL

Consistent with our goals to operate a sound and profitable financial organization, we actively seek to maintain a "well capitalized" institution in accordance with regulatory standards. Total equity was $29.9 million at December 31, 1998, or 34.5% of total assets on that date. As of December 31, 1998, we exceeded all capital requirements of the Office of Thrift Supervision. Our regulatory capital ratios at December 31, 1998 were as follows: Tier I (leverage) capital, 27.0%; Tier I risk-based capital, 51.4%; and Total risk-based capital, 55.3%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0%, and 10.0%, respectively.

YEAR 2000 ISSUES

The approaching millennium is causing organizations of all types to review their computer systems for the ability to properly accommodate the year 2000. When computer systems were first developed, two digits were used to designate the year in date calculations and "19" was assumed for the century. As a result, there is significant concern about the integrity of date sensitive calculations when the calendar rolls over to January 1, 2000. An older system could interpret 01/01/00 as January 1, 1900 potentially causing major problems calculating interest, payment, delinquency or maturity dates. An internal committee comprised of two officers and an outside director, has been formed to address the potential risk that the year 2000 poses for Home Federal.

Financial institution regulators recently have increased their focus upon year 2000 compliance issues and have issued guidance concerning the responsibilities of senior management and directors. The Federal Financial Institutions Examination Council has issued several interagency statements on Year 2000 Project Management Awareness. These statements require financial institutions to, among other things, examine the year 2000 issue with respect to their customers, suppliers and borrowers. These statements also require each federally insured financial institution to survey its exposure, measure its risk and prepare a plan to address the year 2000 issue. In addition, the federal banking regulators have issued safety and soundness guidelines to be followed by insured depository institutions to assure resolution of any year 2000 problems. The federal banking agencies have asserted that year 2000 testing and certification is a key safety and soundness issue in conjunction with regulatory exams and that an institution's failure to address appropriately the year 2000 issue could result in supervisory action, including the reduction of the institution's supervisory ratings, the denial of applications for approval of mergers or acquisitions, or the imposition of civil money penalties.

Accurate data processing is essential to our operations and a lack of accurate processing by our vendors or us could have a significant adverse impact on our financial condition and results of operations. We have been assured by our data processing service bureau that their computer services will function properly on and after January 1, 2000. A contingency plan, however, has been developed by Home Federal in the unlikely event that our data processing service does not function properly on or after January 1, 2000. This plan focuses on conducting operations in a manual mode, including the recording of transactions on ledger cards.

We have also received year 2000 updates from most of our material, non-information system providers, including but not limited to security cameras, credit card and ATM card processors, the vault alarm, check printers, telephone systems, participation loan servicers, and institutions we invest through or with. Based on these updates, we do not anticipate any significant year 2000 issues. We expect software upgrades and new personal computers to be installed by our data processing servicer during March 1999. Our anticipated expenditure on this equipment is approximately $17,000.

In addition to expenses related to our own systems, we could incur losses if loan payments are delayed due to year 2000 problems affecting any of our significant borrowers or impairing the payroll systems of large employers in our market area. We have been communicating with our vendors to assess their progress in evaluating their systems and implementing any corrective measures required by them to be prepared for the year 2000. We have also sent year 2000 readiness request letters to certain borrowers. These borrowers were selected based on the aggregate amounts owed to Home Federal, the type of loans outstanding, and the perceived year 2000 risk based on our knowledge of the loan customers and their operations. To date, we have not been advised by such parties that they do not have plans in place to address and correct the issues associated with the year 2000 problem; however, no assurance can be given as to the adequacy of these plans or to the timeliness of their implementation. Currently, due to the types of borrowers doing business with Home Federal and the nature of our loans with these borrowers, we do not consider the year 2000 issue as part of our underwriting criteria.

RECENT ACCOUNTING PRONOUNCEMENTS

FASB STATEMENT ON REPORTING COMPREHENSIVE INCOME. In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130. SFAS No. 130 will require First Niles to classify items of other comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of equity. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. The adoption of this standard did not have a material impact on First Niles' consolidated financial statements.

FASB STATEMENT ON EARNINGS PER SHARE. In March 1997, FASB issued SFAS No. 128. SFAS No. 128 establishes standards for computing and presenting earnings per share and applies to entities with publicly held common stock or potential common stock. This statement simplifies the standards for computing earnings per share previously found in Accounting Principles Board ("APB") Opinion No. 15, Earnings per Share ("EPS"), and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and the denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is computed similarly to fully diluted EPS pursuant to APB Opinion No. 15. SFAS No. 128 supersedes Opinion 15 and AICPA Accounting Interpretation 1-102 of Opinion 15. This statement is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The adoption of this standard did not have a material impact on First Niles' consolidated financial statements.

FASB STATEMENT ON DISCLOSURE OF INFORMATION ABOUT CAPITAL STRUCTURE. In February 1997, the FASB issued SFAS No. 129. SFAS No. 129 incorporates the disclosure requirements of APB Opinion No. 15, Earnings per Share, and makes them applicable to all public and nonpublic entities that have issued securities addressed by the Statement. APB Opinion No. 15 requires disclosure of descriptive information about securities that is not necessarily related to the computation of earnings per share. This statement continues the previous requirements to disclose certain information about an entity's capital structure found in APB Opinions No. 10, Omnibus Opinion- 1966, and No. 15, Earnings per Share, and FASB Statement No. 47, Disclosure of Long-Term Obligations, for entities that were subject to the requirements of those standards. SFAS No. 129 eliminates the exemption of nonpublic entities from certain disclosure requirements of Opinion 15 as provided by FASB Statement No. 21, Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises. It supersedes specific disclosure requirements of Opinions No. 10 and No. 15 and FASB Statement No. 47 and consolidates them in this Statement for ease of retrieval and for greater visibility to nonpublic entities. FASB No. 129 is effective for financial statements for periods ending after December 15, 1997. The adoption of this standard did not have a material impact on First Niles' consolidated financial statements.

FASB STATEMENT ON DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. In June 1997, the FASB issued SFAS No. 131. SFAS No. 131 establishes standards for the way public enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. The adoption of this standard did not have a material impact on First Niles' consolidated financial statements.

FASB STATEMENT ON EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POST-RETIREMENT BENEFITS. In February 1998, the FASB issued SFAS No. 132. SFAS NO. 132 revises employers' disclosures about pension and other post-retirement benefit plans. SFAS No. 132 does not change the measurement or recognition of those plans and is effective for fiscal years beginning after December 15, 1997. The adoption of this standard did not have a material impact on First Niles' consolidated financial statements.

FASB STATEMENT ON ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. In June 1998, the FASB issued SFAS No. 133. SFAS NO. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133 requires that any entity recognize all derivatives as either asset or liabilities in the statement of financial position and measure those instruments at fair value and is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. First Niles intends to adopt SFAS No. 133 on its effective date. The adoption of this standard is not expected to have a material impact on First Niles' consolidated financial statements.

IMPACT OF INFLATION AND CHANGING PRICES

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

First Niles and Home Federal may from time to time make written or oral "forward-looking statements." These forward-looking statements may be contained in this Annual Report to Shareholders, in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-KSB and the exhibits thereto, and in other communications by us, which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation

Reform Act of 1995. The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements.

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

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

The foregoing list of important factors is not exclusive. We incorporate by reference those risk factors included in First Niles' Registration Statement on Form SB-2 (Reg. No. 333-58883) filed with the Securities and Exchange Commission under the Securities Act of 1933. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of First Niles or Home Federal.

ANNESS GERLACH & WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the consolidated statements of financial condition of First Niles Financial, Inc. (formerly Home Federal Savings and Loan Association of Niles) as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Niles Financial, Inc. as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ Anness Gerlach & Williams

Youngstown, Ohio
January 20, 1999

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands, except share data)

	DECEMBER 31	
	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents:		
Noninterest bearing	$ 995	$ 819
Interest bearing	16,129	4,057
Total cash and cash equivalents	17,124	4,876
Securities available for sale - at market	19,751	17,447

Securities to be held to maturity - at cost	12,432	12,359
Loans receivable	36,132	36,744
Accrued interest receivable	282	1
Federal Home Loan Bank stock, at cost	317	294
Real estate investment-limited partnership, at equity	383	426
Prepaid expenses and other assets	47	36
Prepaid federal income taxes	--	20
Premises and equipment, at cost less accumulated depreciation	256	294
TOTAL ASSETS	$ 86,724	$ 72,497
LIABILITIES		
Deposits	$ 54,837	$ 57,854
Accrued interest payable	110	127
Accounts payable and other liabilities	1,236	798
Note payable	300	400
Federal income tax payable	46	--
Deferred federal income tax liability	272	155
TOTAL LIABILITIES	56,801	59,334
STOCKHOLDERS' EQUITY		
Stockholders' equity:		
Preferred stock, $.01 par value, authorized 500,000 shares; none outstanding	--	--
Common stock, $.01 par value, authorized 6,000,000 shares; 1,754,411 shares issued and outstanding	18	--
Additional paid-in capital	16,897	--
Retained earnings, substantially restricted	12,709	11,899
Accumulated other comprehensive income:		
Net unrealized gains on securities available for sale, net of related tax effects of $817 in 1998 and $651 in 1997	1,586	1,264
Common stock purchased by the Employee Stock Ownership Plan	(1,287)	--
TOTAL STOCKHOLDERS' EQUITY	29,923	13,163
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 86,724	$ 72,497

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

</TABLE>

CONSOLIDATED STATEMENTS OF INCOME

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands)

	YEAR ENDED DECEMBER 31	
	1998	1997
Interest income:		
Loans receivable:		
First mortgage loans	$ 2,967	$ 2,851
Consumer and other loans	107	108
Mortgage-backed and related securities	767	665
Investments	963	1,170
Interest-bearing deposits	417	208
TOTAL INTEREST INCOME	5,221	5,002
Interest expense:		
Deposits	2,400	2,433
Borrowings	35	43
TOTAL INTEREST EXPENSE	2,435	2,476
NET INTEREST INCOME	2,786	2,526

Provision for (recoveries of) loan losses	(103)	700
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,889	1,826
Noninterest income:		
Gain on sale of securities	461	--
Service fees and other	26	27
TOTAL NONINTEREST INCOME	487	27
Noninterest expense:		
Equity in loss of limited partnership	43	38
General and administrative:		
Compensation and benefits	1,689	831
Occupancy and equipment	89	81
Federal deposit insurance premiums	35	30
Other operating expense	434	400
TOTAL NONINTEREST EXPENSE	2,290	1,380
INCOME BEFORE INCOME TAXES	1,086	473
Federal income taxes	276	87
NET INCOME	$ 810	$ 386
EARNINGS PER SHARE	N/A	N/A

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands)

	Year Ended December 31	
	1998	1997
Net income	$ 810	$ 386
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized gains arising for year	948	930
Related income tax	(322)	(316)
	626	614
Reclassification adjustment:		
Gain included in net income, net of $157 income tax	(304)	--
Other comprehensive income	322	614
COMPREHENSIVE INCOME	$ 1,132	$ 1,000

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

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<CAPTION>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

(In thousands, except share data)

<S>	Common Stock Number of Shares Outstanding <C>	Common Stock Amount <C>	Additional Paid-in Capital <C>	Retained Earnings <C>	Net Unrealized Gains On Securities Available for Sale <C>	Common Stock Purchased by Employee Stock Ownership Plan <C>	Total <C>
Balance at January 1, 1997	--	$ --	$ --	$ 11,513	$ 650	$ --	$ 12,163
Net income for the year	--	--	--	386	--	--	386
Change in unrealized gains in securities available for sale	--	--	--	--	614	--	614
Balance at December 31, 1997	--	--	--	11,899	1,264	--	13,163
Reorganization to common stock form and issuance of 1,754,411 shares	1,754,411	18	16,884	--	--	(1,404)	15,498
Net income for the year	--	--	--	810	--	--	810
Change in unrealized gains in securities available for sale	--	--	--	--	626	--	626
Less reclassification adjustment for gain realized	--	--	--	--	(304)	--	(304)
Amortization of ESOP expense	--	--	--	--	--	117	117
Difference between average fair value and cost per share of ESOP shares committed to be released	--	--	13	--	--	--	13
Balance at December 31, 1998	1,754,411	$ 18	$ 16,897	$ 12,709	$ 1,586	$ (1,287)	$ 29,923

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

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

(In thousands)

	YEAR ENDED DECEMBER 31	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income	$ 810	$ 386
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income taxes	(49)	(268)
Depreciation	49	50
Amortization of discounts and premiums on investments and mortgage-backed and related securities	(22)	(32)
Gain on sale of securities	(461)	(4)
ESOP shares committed to be released	130	--
Equity in loss of limited partnership	43	38
Provision for (recoveries of) loan losses	(103)	700
Income reinvested from asset mutual funds	--	(510)
Federal Home Loan Bank stock dividends	(23)	(20)
Net (increase) decrease in accrued interest receivable and prepaid expenses and other assets	(272)	22
Net increase in accrued interest, accounts payable and other liabilities	467	154
NET CASH PROVIDED BY OPERATING ACTIVITIES	569	516
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities available for sale	471	4,821
Purchase of securities available for sale	(1,827)	--
Proceeds from maturities of held to maturity securities	--	1,000
Proceeds from principal payments on mortgage-backed and related securities	9,490	8,445
Purchase of mortgage-backed and related securities	(9,540)	(7,872)
Net increase in interest-bearing deposits with banks	(12,072)	(2,480)
Net (increase) decrease in loans	715	(4,260)
Additions to premises and equipment	(11)	(88)
NET CASH USED IN INVESTING ACTIVITIES	(12,774)	(434)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock - net	15,498	--
Net decrease in savings accounts	(1,609)	(653)
Net increase (decrease) in certificates of deposit	(1,408)	834
Repayment of note payable	(100)	(100)
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,381	81
NET INCREASE IN CASH	176	163
CASH AT BEGINNING OF YEAR	819	656
CASH AT END OF YEAR	$ 995	$ 819
Cash paid during the period for:		
Interest on deposits	$ 2,416	$ 2,419
Income taxes	$ 259	$ 351

</TABLE>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On July 6, 1998, the Board of Directors of Home Federal Savings and Loan Association of Niles (the "Association") adopted a Plan of Conversion (the "Plan") whereby the Association would convert to the stock form of ownership, followed by the issuance of all of the Association's outstanding stock to a newly formed holding company, First Niles Financial, Inc. (the "Company"). Pursuant to the Plan, the Company offered common shares for sale to certain depositors of the Association and members of the community. The conversion was completed on October 26, 1998, and resulted in the issuance of 1,754,411 common shares of the Company which, after consideration of offering expenses totaling approximately $643,000, and share purchases by the Employee Stock Ownership Plan ("ESOP") totaling $1,404,000, resulted in net equity proceeds of $15.5 million. Condensed financial statements of the Company are presented in Note M. Future references are made either to the Company or the Association as applicable.

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

The consolidated financial information presented herein has been prepared in accordance with generally accepted accounting principles ("GAAP") and general accounting practices within the financial services industry. In preparing consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from such estimates.

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

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and the Association at December 31, 1998 and for the period October 26, 1998 through December 31, 1998. Prior to October 26, 1998, the consolidated financial statements are those of the Association.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities and Mortgage-Backed and Related Securities:

The Company accounts for investment securities and mortgage-backed and related securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that investments be categorized as held-to-maturity, trading or available for sale. Securities classified as held-to- maturity are carried at cost only if the Association has the positive intent and ability to hold these securities to maturity. Trading securities and securities designated as available for sale are carried at fair value with resulting unrealized gains or losses recorded to operations or equity, respectively. At December 31, 1998 and 1997, the Company's equity accounts reflected net unrealized gains of $1,586,000 and $1,264,000, respectively, on securities designated as available for sale. Realized gains or losses on sales of securities are recognized using the specific identification method.

Loans Receivable:

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

Loans held for sale are identified at origination and carried at the lower of cost or market, determined in the aggregate. In computing cost, deferred loan origination fees are deducted from the principal balance of the related loan. At December 31, 1998 and 1997, there were no loans identified as held for sale.

Loan Origination Fees and Costs:

The Association accounts for loan origination fees and costs in accordance with SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." Pursuant to the provisions of SFAS No. 91, all loan origination fees received net of direct origination costs, are deferred and amortized to interest income over the contractual lives of the loans using the level-yield method, giving effect to actual loan prepayments. Additionally, SFAS No. 91 generally limits the definition of loan origination costs to the direct costs attributable to originating a loan.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Losses on Loans:

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

The Association accounts for impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." SFAS No. 114 requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral.

A loan is defined under SFAS No. 114 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Association considers its investment in one- to four-family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Association's investment in commercial real estate loans, and its evaluation of impairment thereof, such loans are collateral dependent and, as a result, are carried as a practical expedient at the lower of cost or fair value.

Loans which are more than ninety days delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under SFAS No. 114 at that time.

The Association identified one loan at December 31, 1998, with a carrying value of $648,000 and three loans at December 31, 1997 with a carrying value of $1,062,000, which were considered impaired due to delinquent payments. Accrual of interest on these loans has been suspended.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment:

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

Federal Income Taxes:

The Association accounts for federal income taxes pursuant to SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 established financial accounting and reporting standards for the effects of income taxes that result from the Association's activities within the current and previous years. In accordance with SFAS No. 109, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, carried back against prior years' earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

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

Cash and Cash Equivalents:

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

Earnings Per Share:

Basic earnings per share is computed based upon the weighted-average shares outstanding during the year less weighted-average shares in the ESOP that are unallocated and not committed to be released.

Earnings per share is not presented for 1998 and 1997 as the Company completed its conversion to stock form in October 1998.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income:

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," for reporting periods as of January 1, 1997. The Statement establishes standards for reporting and presentation of comprehensive income and its components in a full set of general-purpose financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is presented with the same prominence as other financial statements. SFAS No. 130 requires that companies (i) classify terms of other comprehensive income by their nature in a financial statement and (ii) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial condition. Financial statements for earlier periods have been reclassified for comparative purposes.

Recent Accounting Standards:

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that any entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure of variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency- denominated forecasted transaction.

This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Initial application of this Statement should be as of the beginning of an entity's fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of the Statement. This Statement should not be applied retroactively to financial statements of prior periods. Management does not believe that adoption of this statement will have a material impact on the Company's financial condition and results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

NOTE B - INVESTMENTS AND MORTGAGE-BACKED SECURITIES

The amortized cost and estimated fair values of investment securities are summarized as follows:

<TABLE>
<CAPTION>

	December 31			
	1998		1997	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Available for sale securities:				
FHLMC Common Stock	$ 39	$ 2,577	$ 48	$ 2,085
Asset Management Funds:				
Income Trust	5,668	5,624	5,668	5,602
ARMS	4,006	3,872	4,006	3,928
GNMA Trust	5,795	5,837	5,795	5,817
Corporate Bonds:				
Due within one year	1,271	1,271	--	--
Due after one to ten years	555	555	--	--
Other	15	15	15	15
TOTALS	$17,349	$19,751	$15,532	$17,447

</TABLE>

The amortized cost, gross unrelated gains, gross unrealized losses and estimated fair values for mortgage-backed and related securities held to maturity are summarized as follows:

<TABLE>
<CAPTION>

	December 31, 1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Held to maturity securities:				
Mortgage-backed and related securities:				
Government National Mortgage Association participation certificates	$ 27	$ --	$ 1	$ 26
Federal National Mortgage Association collateralized mortgage obligations	6,292	9	22	6,279
Federal Home Loan Mortgage Corporation:				
Participation certificates	60	1	7	54
Collateralized mortgage obligations	6,053	21	19	6,055
TOTALS	$12,432	$ 31	$ 49	$12,414

</TABLE>

NOTE B - INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)

<TABLE>
<CAPTION>

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Held to maturity securities:				
Mortgage-backed and related securities:				
Government National Mortgage Association participation certificates	$ 48	$ --	$ --	$ 48
Federal National Mortgage Association collateralized mortgage obligations	8,482	6	12	8,476
Federal Home Loan Mortgage Corporation:				
Participation certificates	92	--	2	90
Collateralized mortgage obligations	3,737	9	25	3,721
TOTALS	$12,359	$ 15	$ 39	$12,335

</TABLE>

NOTE C - LOANS RECEIVABLE

The composition of the loan portfolio is as follows:

	December 31	
	1998	1997
	(In thousands)	
Real estate mortgage (primarily one- to four-family residential)	$ 26,772	$ 29,777
Construction and development	5,104	4,231
Commercial real estate	5,042	4,603
Consumer and other	1,128	1,181
Loans on deposits	82	84
Loans in progress	(1,212)	(2,278)
	36,916	37,598
Less allowance for loan losses	784	854
TOTALS	$ 36,132	$ 36,744

NOTE C - LOANS RECEIVABLE (CONTINUED)

In the ordinary course of business, the Association has granted loans to some of the officers, directors and their related interests. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with unrelated persons and do not involve more than normal risk of collectibility. The aggregate dollar amount of these loans was approximately $1.2 million and $1.1 million at December 31, 1998 and 1997, respectively. During the year ended December 31, 1998, loans of $159,000 were made to officers, directors and their related interests while principal repayments of approximately $39,000 were received from related parties.

The Association's lending efforts have historically focused on one-to-four-family residential real estate loans and construction loans, which comprise approximately $26.8 million, or 73%, of the total loan portfolio at December 31, 1998, and $29.8 million, or 79% of the total portfolio at December 31, 1997. Historically, such loans have been conservatively underwritten with cash down payments sufficient to provide the Association with adequate collateral coverage in the event of default. Nevertheless, the Association, as with any lending institution, is subject to the risk that real estate values or economic conditions could deteriorate in its primary lending areas within Ohio, thereby impairing collateral values. However, management is of the belief that real estate values and economic conditions in the Association's primary lending areas are presently stable.

The activity in the allowance for loan losses is summarized as follows:

	December 31	
	1998	1997
	(In thousands)	
Balance at beginning of year	$ 854	$ 301
Provision charged to operations (credit)	(103)	700
Less loans charged off	(21)	(147)
Recovery	54	--
BALANCE AT END OF YEAR	$ 784	$ 854

NOTE D - REAL ESTATE INVESTMENT - LIMITED PARTNERSHIP

In 1996, the Association acquired an interest in a limited partnership formed to construct and operate multi-family housing units. Due to the ability to exercise significant control over operations, the Association accounts for the investment in the limited partnership using the equity method. Under the terms of the limited partnership agreement, the Association has a total capital contribution of $500,000 and is allocated tax losses and affordable housing federal income tax credits based upon that investment.

The Association funded its partnership capital contribution through the proceeds of a $500,000 term note payable to a bank in five annual installments of $100,000 beginning November 15, 1997. The interest is payable semiannually beginning May 15, 1997 and ending November 15, 2001, at a fixed rate of 8.875%. The note payable is collateralized by ten membership shares of the limited partnership.

Condensed financial information for the entire partnership is summarized as of and for the years ended December 31, 1998 and 1997 as follows:

	1998	1997
	(In thousands)	
Balance Sheet:		
Investment in real estate	$4,945	$5,154
Total assets	5,086	5,274
Mortgage payable	2,874	2,891
Partners' equity	1,927	2,149
Operations:		
Rental income	512	502
Net loss	222	235

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31	
	1998	1997
	(In thousands)	
Land	$ 32	$ 32
Buildings	359	359
Furniture, equipment and vehicles	381	370
	772	761
Less accumulated depreciation	516	467
TOTALS	$256	$294

NOTE F - DEPOSITS

A comparative summary of deposits is as follows:

<TABLE>
<CAPTION>

		December 31	
	Weighted Average	1998	1997

Rate At December 31, 1998		Amount	Percent	Amount	Percent
		(In thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Savings:					
Statement savings accounts	2.50%	$ 194	-%	$ 303	1%
Passbook savings accounts	2.50%	20,563	37%	21,980	38%
Christmas club	0.00%	6	-%	6	-%
Negotiable order of withdrawal accounts	2.50%	3,081	6%	2,830	5%
Money market deposit accounts	2.55%	3,811	7%	4,145	7%
Total savings		27,655	50%	29,264	51%
Certificates of deposit:					
Less than 1 year, 3.05% to 4.70%	4.40%	6,448	12%	8,784	15%
One to two years, 4.40% to 5.91%	5.17%	11,887	22%	12,877	22%
Over two years, 4.70% to 6.00%	5.66%	2,453	4%	2,767	5%
Jumbo - over $100,000	5.41%	3,284	6%	1,049	2%
IRA accounts, six months to three years, 4.35% to 6.00%	5.34%	3,110	6%	3,113	5%
Total certificates of deposit		27,182	50%	28,590	49%
TOTAL DEPOSITS		$54,837	100%	$57,854	100%

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

NOTE F - DEPOSITS (CONTINUED)

Deposits in excess of $100,000 are not federally insured.

Scheduled maturities of certificates of deposit are as follows:

	December 31 1998	1997
	(In thousands)	
Within one year	$22,649	$24,276
One to two years	3,841	2,941
Two to three years	692	1,373
TOTALS	$27,182	$28,590

Interest expense on deposits is summarized as follows:

	Year Ended December 31 1998	1997
	(In thousands)	
Passbook savings accounts	$ 658	$ 663
Statement savings	8	10
Negotiable order of withdrawal accounts	92	88
Money market deposit accounts	121	133
Certificates of deposit	1,521	1,539
TOTALS	$2,400	$2,433

NOTE G - FEDERAL INCOME TAXES

Income tax expense is summarized as follows:

	Year Ended December 31	
	1998	1997
	(In thousands)	
Federal:		
Current	$ 325	$ 355
Deferred	(49)	(268)
TOTALS	$ 276	$ 87

NOTE G - FEDERAL INCOME TAXES (CONTINUED)

The provision for federal income taxes on earnings differ from that computed at the statutory rate of 34% is as follows:

	Year Ended December 31	
	1998	1997
	(In thousands)	
Federal taxes computed at statutory rate	$ 369	$ 161
Decrease resulting from:		
Limited partnership tax credits	(89)	(70)
Dividends received deduction	(4)	(4)
FEDERAL INCOME TAX PROVISION	$ 276	$ 87
Effective federal income tax rate	25.4%	18.4%

The composition of the Company's net deferred tax liability is as follows:

	December 31	
	1998	1997
	(In thousands)	
Taxes (payable) refundable on temporary differences at the expected statutory rate:		
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	$ (72)	$ (64)
Unrealized gains on securities available for sale	(817)	(651)
TOTAL DEFERRED TAX LIABILITIES	(889)	(715)
Deferred tax assets:		
Deferred compensation	351	220
Allowance for loan losses	266	340
TOTAL DEFERRED TAX ASSETS	617	560
NET DEFERRED FEDERAL INCOME TAX LIABILITY	$(272)	$(155)

===== =====

Prior to 1996, the Association was allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8% of otherwise taxable income, or the amount of qualifying and nonqualifying loans outstanding and subject to certain limitations based on aggregate loans and savings account balances at the end of the calendar year. The Association was subject to such limitations during the year ended December 31, 1995, and, therefore, was precluded from utilizing the percentage of earnings bad debt deduction. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for

NOTE G - FEDERAL INCOME TAXES (CONTINUED)

bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. Retained earnings at December 31, 1998, includes approximately $2.5 million for which federal income taxes have not been provided. The amount of the unrecognized deferred tax liability relating to the cumulative percentage of earnings bad debt deduction totaled approximately $863,000 at December 31, 1998. See Note L for additional information regarding the Association's future bad debt deductions.

NOTE H - EMPLOYEE RETIREMENT AND DEFERRED COMPENSATION PLANS

In conjunction with its reorganization to stock form in 1998, the Company implemented an Employee Stock Ownership Plan ("ESOP"). The ESOP provides retirement benefits for substantially all employees who have completed one year of service and have attained the age of 21. The Company accounts for the ESOP in accordance with Statement of Position ("SOP") 93-6, "Employers' Accounting for Employee Stock Ownership Plans." SOP 93-6 requires the measure of compensation expense recorded by employers to equal the fair value of ESOP shares allocated to participants during a fiscal year. Expense recognized related to the ESOP totaled $130,000 for 1998.

The Association has a noncontributory defined benefit pension plan covering all eligible employees. Benefits are based on years of service and the highest consecutive five-year average earnings preceding normal retirement date. Plan assets consist of fully-insured retirement income life insurance policies and cash deposit accounts. At plan years ended August 31, 1998 and 1997, the plan asset values were $1,049,000 and $954,000, respectively, which approximates the actuarially computed value of vested and nonvested benefits. The Association's policy is to fund pension costs accrued. Pension costs totaled approximately $33,000 for the years ended December 31, 1998 and 1997. In November, 1998, the Board of Directors voted to terminate this plan effective January 31, 1999 with all participants becoming 100% vested in the benefits accrued. The termination will not result in further liability to the Association.

The Directors of the Association had approved a non-qualified deferred compensation plan for certain officers which provided for monthly retirement benefits of specified amounts for each executive. The agreements had been subject to annual renewal, however, the Directors elected to terminate this agreement at the conclusion of the plan year ended August 31, 1998. In conjunction with the termination, the officers were provided with an additional twenty-four months of vesting, the cost of which has been included in 1998 operations. Accrued deferred compensation amounts are payable in a lump sum upon the executive's death, disability, voluntary resignation, or termination by the Association without cause. Deferred compensation expense was $384,000 and $144,000 for the years ended December 31, 1998 and 1997, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

NOTE I - COMMITMENTS AND CONTINGENCIES

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

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

At December 31, 1998, the Association had outstanding commitments of approximately $2.1 million to originate fixed and variable rate residential real estate loans. The average interest rate of loan commitments was 7.28% at December 31, 1998. In the opinion of management, the outstanding loan commitments equaled or exceeded prevalent market interest rates and such loans were underwritten in accordance with normal underwriting policies, and all commitments will be funded via cash flow from operations and existing excess liquidity.

From time to time, and in the ordinary course of business, the Association becomes a party to matters of litigation. In the opinion of the Association's counsel, there are no claims, asserted or unasserted, the resolution of which would have a material affect on the Association's consolidated financial statements.

NOTE J - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows carrying values and the related estimated fair values of financial instruments at December 31, 1998 and 1997. Items which are not financial instruments are not included.

<TABLE>
<CAPTION>

	December 31			
	1998		1997	
	Carrying Amounts	Estimated Fair Value	Fair Carrying Amounts	Estimated Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Cash and equivalents	$ 17,124	$ 17,124	$ 4,876	$ 4,876
Securities:				
Available for sale	19,751	19,751	17,447	17,447
Held to maturity	12,432	12,414	12,359	12,335
Federal Home Loan Bank stock	317	317	294	294
Loans	36,132	36,479	36,744	36,957
Accrued interest receivable	282	282	1	1
Deposits:				
Checking, savings and money market	(27,655)	(27,655)	(29,264)	(29,264)
Certificates of deposit	(27,182)	(27,254)	(28,590)	(28,984)
Accrued interest payable	(110)	(110)	(127)	(127)
Note payable	(300)	(300)	(400)	(400)

</TABLE>

NOTE J - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

For purposes of the above disclosures of estimated fair value, the following assumptions were used: the estimated fair value for cash and equivalents, accrued interest and note payable was considered to approximate cost; the estimated fair value for securities was based on quoted market values for the individual securities or for equivalent securities; the estimated fair value for loans was based on estimates of the rate the Association would charge for similar loans at December 31, 1998 and 1997, respectively, applied over estimated payment periods; the estimated fair value for demand and savings deposits was based on their carrying value; the estimated fair value for certificates of deposit was based on estimates of the rate the Company would pay on such obligations at December 31, 1998 and 1997, respectively, applied for the time period until maturity; and the estimated fair value of commitments was not material. It was not practicable to estimate the fair value of a 17% partnership interest in a non-traded real estate investment; that investment is carried at equity of $383,000 and $426,000 at December 31, 1998 and 1997, respectively.

While these estimates of fair values are based on management's judgment of appropriate factors, there is no assurance that, if the Company had disposed of such items at December 31, 1998 or 1997, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 1998 and 1997, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Company that are not defined as financial instruments were not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in financial statements (but which may have value) were not included in the above disclosures. These include, among other items, the estimated earning power of core deposit accounts, the value of a trained work force, customer goodwill, and similar items.

NOTE K - REGULATORY CAPITAL

The Association is subject to the regulatory capital requirements promulgated by the Office of Thrift Supervision (OTS). Failure to meet minimum capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that, if undertaken, could have a direct material effect on the Association's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTE K - REGULATORY CAPITAL (CONTINUED)

The OTS has adopted risk-based capital ratio guidelines to which the

Association is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighting categories, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide the capital into two tiers. The first tier ("Tier 1") includes common equity, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (except mortgage servicing rights and purchased credit card relationships, subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan losses, subject to certain limitations, less required deductions. Savings associations are required to maintain a total risk-based capital ratio of 8%, of which 4% must be Tier 1 capital. The OTS may, however, set higher capital requirements when particular circumstances warrant. Savings associations experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible OTS capital positions, well above the minimum levels.

In addition, the OTS established guidelines prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted total assets as specified in the guidelines). These guidelines provide for a minimum Tier 1 leverage ratio of 3% for savings associations that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier 1 leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points.

As of December 31, 1998 and 1997, management believes that the Association met all capital adequacy requirements to which the Association was subject.

NOTE K - REGULATORY CAPITAL (CONTINUED)

<TABLE>
<CAPTION>

	As of December 31, 1998					
	Actual		For capital adequacy purposes		To be "well-capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total capital (to risk-weighted assets)	$22,758	55.3%	>=$3,291	>=8.0%	>=$ 4,114	>=10.0%

	Actual Amount	Actual Ratio	For capital adequacy purposes Amount	For capital adequacy purposes Ratio	To be "well-capitalized" Amount	To be "well-capitalized" Ratio
Tier 1 capital (to risk-weighted assets)	$21,159	51.4%	*	*	>=$ 2,468	>= 6.0%
Core (Tier 1) capital (to adjusted total assets)	$21,159	27.0%	>=$2,354	>=3.0%	>=$ 3,923	>= 5.0%
Tangible capital (to adjusted total assets)	$21,159	27.0%	>=$1,177	>=1.5%	*	*

* Ratio not required under regulations.

	As of December 31, 1997					
	Actual		For capital adequacy purposes		To be "well-capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Total capital (to risk-weighted assets)	$12,392	31.4%	>=$3,158	>=8.0%	>=$3,948	>=10.0%
Tier 1 capital (to risk-weighted assets)	$11,899	30.1%	*	*	>=$2,369	>= 6.0%
Core (Tier 1) capital (to adjusted total assets)	$11,899	16.7%	>=$2,137	>=3.0%	>=$3,561	>= 5.0%
Tangible capital (to adjusted total assets)	$11,899	16.7%	>=$1,068	>=1.5%	*	*

* Ratio not required under regulations.

</TABLE>

NOTE K - REGULATORY CAPITAL (CONTINUED)

The following is a reconciliation of the Association's equity reported in the consolidated financial statements under generally accepted accounting principles to regulatory capital, as determined under OTS, requirements.

<TABLE>
<CAPTION>

	Tangible Capital	Core (Tier 1) Capital	Risk-based Capital
		(In thousands)	
<S>	<C>	<C>	<C>
December 31, 1998:			
Total equity of the Association	$ 22,745	$ 22,745	$ 22,745
General allowance for loan losses	--	--	518
Limitation on gross unrealized gain on available for sale securities	--	--	(505)
Net unrealized gain on available for sale securities	(1,586)	(1,586)	--
Regulatory Capital	$ 21,159	$ 21,159	$ 22,758
December 31, 1997:			
Total equity of the Association	$ 13,163	$ 13,163	$ 13,163

General allowance for loan losses	--	--	493
Net unrealized gain on available for sale securities	(1,264)	(1,264)	(1,264)
Regulatory Capital	$ 11,899	$ 11,899	$ 12,392

</TABLE>

The Company may not declare or pay cash dividends on its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements. At December 31, 1998, approximately $9.3 million of the Company's retained earnings was available to pay dividends to stockholders or to be used for other corporate purposes.

NOTE L - LEGISLATIVE MATTERS

The deposit accounts of the Association and of other savings associations are insured by the Federal Deposit Insurance Corporation ("FDIC") through the Savings Association Insurance Fund ("SAIF"). The reserves of the SAIF were below the level required by law, because a significant portion of the assessments paid into the fund are used to pay the cost of prior thrift failures. The deposit accounts of commercial banks are insured by the FDIC in the Bank Insurance Fund ("BIF"), except to the extent such banks have acquired SAIF deposits. The reserves of the BIF met the level required by law in May, 1995. As a result of the respective reserve levels of the funds, deposit insurance assessments paid by healthy savings associations exceeded those paid by healthy commercial banks by approximately $.19 per $100 in deposits in 1995. In 1996, no BIF assessments were required for healthy commercial banks except for a $2,000 minimum fee.

NOTE L - LEGISLATIVE MATTERS (CONTINUED)

During 1996, legislation was enacted to recapitalize the SAIF which provided for a special assessment of $.657 per $100 of SAIF deposits held at March 31, 1995. The Association had $58.0 million in deposits at March 31, 1995, resulting in an assessment of $378,000, or $249,000 after-tax, which was recorded during 1996.

A component of the recapitalization plan provides for the merger of the SAIF and BIF on January 1, 2000, assuming the elimination of the thrift charter or of the separate federal regulation of thrifts prior to the merger of the deposit insurance funds. This legislation would require the Association to be regulated as a bank under federal laws which would subject it to the more restrictive activity limits imposed on national banks. In the opinion of management, such restrictions would not materially affect the Association's operations.

Under separate legislation related to the recapitalization plan, the Association is required to recapture as taxable income any additions to its bad debt reserve which were added after 1987 and is unable to utilize the percentage of earnings method to compute its reserve in the future. However, the Association has not made any additions to its bad debt reserve post-1987.

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

The following condensed financial statements summarize the financial position of First Niles Financial, Inc. as of December 31, 1998, and the results of its operations and its cash flows for the period October 26, 1998 (date operations commenced) through December 31, 1998.

First Niles Financial, Inc.
STATEMENT OF FINANCIAL CONDITION
December 31, 1998
(In thousands)

ASSETS

Cash and cash equivalents:	
Noninterest bearing	$ 15
Interest bearing	5,404
	5,419
Securities available for sale	1,826
Investment in Home Federal Savings and Loan Association of Niles	22,745
Accrued interest and prepaid expense	20
TOTALS ASSETS	$30,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

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

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable to Home Federal Savings and Loan Association of Niles	$ 82
Accrued tax	5
TOTAL LIABILITIES	87
Stockholders' equity:	
Common Stock	18
Additional Paid-in Capital	16,897
Retained Earnings	12,709
Net unrealized gains on securities available for sale	1,586
Common stock purchased by the Employee Stock Ownership Plan	(1,287)
TOTAL STOCKHOLDERS' EQUITY	29,923
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,010

First Niles Financial, Inc.
CONDENSED STATEMENT OF INCOME
For the period October 26, 1998
through December 31, 1998
(In thousands)

Revenue:	
Equity in earnings of subsidiary	$272
Interest income	61
TOTAL REVENUE	333
General and administrative expenses	60
INCOME BEFORE INCOME TAXES	273
Income taxes	--
NET INCOME	$273

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

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

First Niles Financial, Inc.
CONDENSED STATEMENT OF CASH FLOWS
For the period October 26, 1998
through December 31, 1998
(In thousands)

Cash flows provided by operating activities:	
Net income for the period	$ 273
Adjustments to reconcile net income to net cash provided by operating activities:	
Undistributed income of consolidated subsidiary	(272)
Amortization of premium on securities available for sale	1
Increase in accrued interest and prepaid expenses	(20)
Increase in accounts payable and accrued tax	87
NET CASH PROVIDED BY OPERATING ACTIVITIES	69
Cash flows used in investing activities:	
Investment in subsidiary	(8,451)
Purchase of securities designated as available for sale	(1,827)
Interest bearing cash account	(5,404)
NET CASH USED IN INVESTING ACTIVITIES	(15,682)
Cash flows provided by financing activities:	
Net proceeds from issuance of common stock	15,498
Proceeds from subsidiary for Employee Stock Ownership Plan shares	130
NET CASH PROVIDED BY FINANCING ACTIVITIES	15,628
NET INCREASE IN CASH	15
Cash and cash equivalents at beginning of period	--
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15

NOTE N - CORPORATE REORGANIZATION AND CONVERSION TO STOCK FORM

On July 6, 1998, the Association's Board of Directors adopted a Plan of Conversion whereby the Association would convert to the stock form of ownership, followed by the issuance of all of the Association's outstanding common stock to a newly formed holding company, First Niles Financial, Inc.

On October 26, 1998, the Association completed its conversion to the stock form of ownership, and issued all of the Association's outstanding common shares to the Company.

In connection with the conversion, the Company sold 1,754,411 shares at a price of $10.00 per share which, after consideration of offering expenses totaling approximately $643,000, and shares purchased by the ESOP totaling $1,404,000, resulted in net equity proceeds of approximately $15.5 million.

At the date of the conversion, the Association established a liquidation account in an amount equal to retained earnings reflected in the statement of financial condition used in the conversion offering circular. The liquidation account will be maintained for the benefit of eligible savings account holders who maintained deposit accounts in the Association after conversion. In the event of a complete liquidation (and only in such event), each eligible savings account holder will be entitled to receive a liquidation distribution from the liquidation account in the amount of the then current adjusted balance of deposit accounts held, before any liquidation distribution may be made with respect to common stock. Except for the repurchase of stock and payment of dividends by the Association, the existence of the liquidation account will not restrict the use or application of such retained earnings. The Association may not declare, pay a cash dividend on, or repurchase any of its common stock, if the effect thereof would cause retained earnings to be reduced below either the amount required for the liquidation account or the regulatory capital requirements for SAIF insured institutions.

FIRST NILES FINANCIAL, INC.
SHAREHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of shareholders will be held at 2:00 P.M. local time, WEDNESDAY, APRIL 21, 1999, at the main office of First Niles, located at 55 North Main Street, Niles, Ohio.

COMMON STOCK AND DIVIDENDS

First Niles Financial, Inc.'s common stock trades on The Nasdaq SmallCap Market under the symbol "FNFI". At December 31, 1998, there were 1,754,411 shares of common stock issued and outstanding and 572 shareholders of record.

The table below presents the quarterly range of high and low bid prices of First Niles' common stock since becoming a public company on October 26, 1998. The price information set forth in the table below was provided by the Nasdaq Stock Market. Such information reflects interdealer prices, without retail mark-up, mark-down or commission and therefore may not represent actual transactions.

1998

	HIGH	LOW
Fourth Quarter (since October 26, 1998)............	$12.00	$9.00

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions. At December 31, 1998, First Niles had not paid any dividends to date. On February 22, 1999, First Niles Financial, Inc. declared a $.07 cash dividend payable on March 26, 1999 to shareholders of record on March 12, 1999. Restrictions on dividend payments are described in Note K of the Notes to Consolidated Financial Statements included in this Annual Report.

SHAREHOLDER AND GENERAL INQUIRIES

Lawrence Safarek, Vice President
First Niles Financial, Inc.
55 North Main Street
Niles, Ohio 44446
(330) 652-2539

TRANSFER AGENT

Fifth Third Bank
Corporate Trust Services
Mail Drop 10AT66
38 Fountain Square Plaza
Cincinnati, Ohio 45263
(800) 837-2755 (toll free)
(513) 579-5320 (local)

ANNUAL AND OTHER REPORTS

You may obtain First Niles' Annual Report on Form 10-KSB and other information by writing or calling: First Niles Financial, Inc. Investor Relations, Attn: Lawrence Safarek, Vice President and Treasurer, 55 North Main Street, Niles, Ohio 44446: (330) 652-2539.

<TABLE>
<CAPTION>

FIRST NILES FINANCIAL, INC.
CORPORATE INFORMATION

COMPANY AND BANK ADDRESS

55 North Main Street
Niles, Ohio 44446

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

<S>
BOARD OF DIRECTORS

WILLIAM L. STEPHENS
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF FIRST NILES FINANCIAL, INC. AND HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES

GEORGE J. SWIFT
VICE PRESIDENT AND SECRETARY OF FIRST NILES FINANCIAL, INC. AND HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES

P. JAMES KRAMER
PRESIDENT, WILLIAM KRAMER & SON

HORACE L. MCLEAN
PRESIDENT, MCLEAN ENGINEERING, INC.

RALPH A. ZUZOLO, SR.
PARTNER, LAW FIRM OF ZUZOLO, ZUZOLO & ZUZOLO

<C>
EXECUTIVE OFFICERS

WILLIAM L. STEPHENS
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF FIRST NILES FINANCIAL, INC. AND HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES

GEORGE J. SWIFT
VICE PRESIDENT AND SECRETARY OF FIRST NILES FINANCIAL, INC. AND HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES

LAWRENCE SAFAREK
VICE PRESIDENT AND TREASURER OF FIRST NILES FINANCIAL, INC. AND HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF NILES

INDEPENDENT AUDITORS

ANNESS, GERLACH & WILLIAMS,
a Professional Corporation
Certified Public Accountants
1275 Boardman-Canfield Road
Youngstown, Ohio 44513

SPECIAL COUNSEL

SILVER, FREEDMAN & TAFF, L.L.P.
1100 New York Avenue, N.W.
Seventh Floor, East Tower
Washington, D.C. 20005

</TABLE>

Exhibit 21

<TABLE>
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SUBSIDIARIES OF THE REGISTRANT

Parent	Subsidiary	Percent of Ownership	Subsidiary State of Incorporation or Organization
<S>	<C>	<C>	<C>
First Niles Financial, Inc.	Home Federal Savings and Loan Association of Niles	100%	Federal

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL REPORT ON FORM 10-KSB FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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