Hometown Bancorp, Inc.

2010 ANNUAL REPORT

PRESIDENT'S LETTER

Dear Stockholders and Customers:

On behalf of the Officers and Directors of Hometown Bancorp, Inc. and all those affiliated with its subsidiary, Walden Federal Savings and Loan Association, it is again my privilege to present to you our Annual Report. The year 2010 was a very challenging one. The economic health of our region continues to play a significant role in our financial performance. I am pleased to report, however, that we have weathered the economic storm of 2010 with respectable results.

Total assets declined by $861,000, or 0.6% from the prior year end to $155.4 million at December 31, 2010. Total deposits also decreased by $2.6 million or 2.0% from the prior year end to $129.1 million at December 31, 2010 as the result of management's decision to realign the deposit product mix.

During the year our lending activity was again robust as we originated in excess of $57.0 million in loans resulting in a net portfolio growth in loans receivable and loans held for sale of $2.7 million. Our volume of residential loan originations was second only to 2009 over the last five years. We sold a large portion of the loans originated, as we did not want to take the interest rate risk associated with keeping a large amount of fixed rate loans on the balance sheet.

In 2010 the pressures of unemployment and declining real estate values in the markets we serve took a toll on our borrowers. Our level of nonperforming assets remained higher than we prefer. We incurred loan losses and increased our allowance for loan losses. The allowance for loan losses was $2.4 million, or 1.67% of total loans outstanding as of year end 2010, as compared with $1.9 million, or 1.38% as of year end 2009. Nonperforming loans totaled $7.2 million, or 5.1% of total loans at December 31, 2010 compared to $5.6 million, or 4.0% of total loans at December 31, 2009. We have customers who are struggling due to current economic and employment conditions, particularly a few large loan customers, and we are not immune to the impact of these pressures. As a result we have proactively worked with creditworthy borrowers to monitor and mitigate losses in this challenging economic environment. Although the economic environment will continue to be challenging in 2011, we are working diligently to manage and resolve our nonperforming loans and other real estate owned.

While the past 12 months were difficult, our earnings were only down slightly from 2009 levels. Through the efforts and hard work of our staff and support of our board of directors, our net income was $580,000, down $5,000 from last year's net income.

We continue to be "well capitalized" as measured by banking regulatory standards. This is certainly an indication of the strong financial condition of the company, and we continued to pay a quarterly cash dividend of $.02 per share.

During the year we deregistered the Company's stock as continuing increased costs and administrative burdens of public company status, including our reporting obligations with the SEC, outweighed the benefits of public reporting. While we are no longer required to file reports with the SEC we will continue to provide our stockholders with quarterly reports, annual reports and updates on our website (http://www.waldenfederal.com).

Over the past year we have upheld our longstanding commitment to the communities we serve. Our Directors, Officers and employees contributed their talent and expertise supporting community service. Additionally the Bank continued its history of financial support to a variety of programs, initiatives and non-profit organizations.

As we head into 2011 many of the economic challenges of the past year remain with us; and the full impact of regulatory reform passed in 2010 has yet to be fully assessed. The future is going to be challenging, however we are very optimistic and look for continued success in the years ahead.

I want to thank the Board of Directors, the management team and all employees for their hard work and ability to adapt to changing circumstances during 2010. I would also like to thank our stockholders for their continued loyalty and confidence in our Company.

Thomas F. Gibney
President and Chief Executive Officer

Selected Financial and Other Data

The information at December 31, 2010 and 2009 and for the years ended December 31, 2010 and 2009 is derived in part from the audited consolidated financial statements that appear in this Annual Report. The following is only a summary and you should read it in conjunction with the audited consolidated financial statements and notes beginning on page 14.

	At or for the Year Ended December 31,	
(Dollars in thousands)	**2010**	**2009**
Financial Condition Data:		
Total assets	**$155,406**	$156,267
Investment securities	**359**	1,290
Loans held for sale	**1,961**	1,175
Loans receivable, net	**138,678**	136,793
Deposits	**129,103**	131,748
Borrowings	**4,900**	3,000
Total stockholders' equity	**19,814**	19,289
Operating Data:		
Interest income	**$ 7,925**	$ 8,344
Interest expense	**1,120**	1,916
Net interest income	**6,805**	6,428
Provision for loan losses	**862**	656
Net interest income after provision for loan losses	**5,943**	5,772
Non-interest income	**2,024**	2,069
Non-interest expenses	**7,051**	6,887
Income before taxes	**916**	954
Income tax expense	**336**	369
Net income	**$ 580**	$ 585

	At or for the Year Ended December 31,	
	2010	**2009**
Performance Ratios:		
Return on average assets	**0.37%**	0.38%
Return on average equity	**2.94**	3.06
Interest rate spread (1)	**4.61**	4.15
Net interest margin (2)	**4.80**	4.50
Non-interest income to average assets	**1.30**	1.35
Non-interest expense to average assets	**4.53**	4.50
Efficiency ratio (3)	**79.86**	81.05
Average interest-earning assets to average interest-bearing liabilities	**123.99**	125.78
Equity to total assets	**12.75**	12.34
Average equity to average assets	**12.68**	12.50
Capital Ratios (4):		
Tangible capital	**10.49**	10.01
Core capital	**10.49**	10.01
Total risk-based capital	**14.39**	14.15
Asset Quality Ratios:		
Allowance for loan losses as a percent of total loans	**1.67**	1.38
Allowance for loan losses as a percent of nonperforming loans	**32.70**	34.48
Net charge-offs to average outstanding loans during the year	**0.30**	0.06
Nonperforming loans as a percent of total loans	**5.12**	4.01
Nonperforming loans as a percent of total assets	**4.65**	3.56
Nonperforming assets and troubled debt restructurings as a percent of total assets	**8.76**	5.17
Per Share Related Data:		
Basic earnings per share	**$ 0.26**	$ 0.26
Dividends per share	**0.08**	0.06
Book value per share (5)	**8.52**	8.29
Dividend payout ratio (6)	**30.77%**	23.08%
Other Data:		
Number of Offices	**6**	6

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(2) Represents net interest income as a percent of average interest-earning assets.
(3) Represents non-interest expense divided by the sum of net interest income and non-interest income.
(4) Capital ratios are for Walden Federal Savings and Loan Association.
(5) Book value per share is based on total stockholders' equity divided by 2,326,939 outstanding common shares at December 31, 2010 and 2009.
(6) The dividend payout ratio represents dividends per share divided by basic earnings per share.

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

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

Overview

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

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

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

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

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

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

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

New Federal Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes in the regulation of federal savings and loan associations such as the Association. Under the Dodd-Frank Act, the OTS will be eliminated. Responsibility for the supervision and regulation of federal savings and loan associations will be transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The Office of the Comptroller of the Currency will assume responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings and loan associations. The transfer of regulatory functions will take place over a transition period of up to one year from the Dodd-Frank Act enactment date of July 21, 2010, subject to a possible six-month extension. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as the Company will be transferred to the Federal Reserve Board, which currently supervises bank holding companies.

Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than $10 billion in assets, such as the Association, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

In addition to eliminating the Office of Thrift Supervision and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of securitized loans to retain a percentage of the risk for the transferred loans, regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations can not yet be fully assessed. However, there is significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We have identified the allowance for loan losses as a critical accounting policy.

The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision (OTS), as an integral part of its examination process, periodically reviews our allowance for loan losses. We may be required to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. See Note 1 of the notes to the consolidated financial statements in this Annual Report for the Company's significant accounting policies.

Operating/Business Strategy

Our strategy is to operate a well-capitalized and profitable community bank dedicated to providing quality customer service backed by knowledge and experience. Our strategy historically has been to emphasize one- to four-family residential lending. While we have continued to focus on residential lending, we have broadened the range of our products and services to enhance profitability consistent with safety and soundness. We now offer a full range of business products, as well as commercial real estate, builder/developer loans and construction lending. We have also introduced additional products and services, such as "Command Online Business Banking" and "e-statements." Additionally, we have developed a more proactive sales culture throughout the organization. While we cannot guarantee our success, we plan to achieve our goals by executing our strategy of:

Continuing to pursue opportunities to expand and diversify our lending portfolio

Historically, we have emphasized single family residential lending within our markets. While this focus remains important because of our expertise with this type of lending, we have also originated commercial real estate loans as a means of increasing both interest income and non-interest income. We understand that commercial real estate loans generally expose a lender to greater credit risk than loans secured by single family properties because the repayment of these loans depends on the business and financial condition of the borrower. As a result, we, like other banks, generally charge higher rates of interest for these types of loans than single family residential loans. Our commercial real estate loans have grown to $27.3 million or 19.3% of total loans at December 31, 2010 from $25.7 million, or 18.6% of total loans at December 31, 2009. We have focused on maintaining asset quality by following conservative underwriting criteria with a focus on loans secured by real estate.

Increasing core deposits through aggressive marketing and the offering of new deposit products and services

We continue to emphasize the generation of core deposits as they are our preferred source of funds for investing and lending. Core deposits, which include all deposit account types except certificates of deposit, comprised 45.9% of total deposits at December 31, 2010 as compared to 40.7% at the previous year end. As of December 31, 2010, certificates of deposit constituted 54.1% of total deposits as compared to 59.3% as of December 31, 2009. We will continue to market our core deposits through in-branch and local mail, print and radio advertising, as well as programs that link various accounts and services together. We will continue to customize existing deposit products and introduce new products to meet the needs of our customers and the communities we serve. We will promote and emphasize the generation of core deposits targeting commercial customers, in particular using our "Command Online Business Banking," which was released in 2009.

Expanding our branch network to enable us to continue to build our lending and deposit franchise

We continue to review potential branch sites, as well as other physical plant/locations to meet the overall needs of the organization. We would also consider expansion of our branch network by acquisition. There can be no assurance as to whether or when we will open or acquire such offices or locations. The Bank opened its sixth full-service branch office in Newburgh, Orange County, New York in 2007. In 2008, we purchased the building in Newburgh that houses this branch. We moved our commercial real estate/business loan division to that building during the second quarter of 2009.

Remaining a Community Oriented Institution

As a community-oriented financial institution, we emphasize providing quality customer service backed by knowledge and experience. We deliver personalized service and respond with flexibility to customer needs. We have been, and continue to be, committed to meeting the financial needs of the communities in which we operate as shown by our CRA rating of "outstanding" by our primary regulator. Our commitment to the communities we serve has been broadened due to the expansion of our branch locations. We contribute to worthy community and non-profit causes. Our officers and employees who give their time, talent and resources, volunteered hundreds of hours in community and fundraising events, from walk-a-thons to town clean-up days to community celebrations.

Average Balance Sheets and Related Yields and Rates

The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the years indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the years presented. For purposes of this table, average balances have been calculated using daily average balances, and nonaccrual loans are included in average balances. Loan fees and costs are deferred and recognized as an adjustment in interest income on loans. None of the income reflected in the following table is tax-exempt income.

Average Balance Table

	Year Ended December 31,					
	2010			2009		
(Dollars in thousands)	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Assets:						
Interest-earning assets:						
Loans receivable	**$ 138,907**	**$7,855**	**5.65%**	$ 138,938	$8,256	5.94%
Investment securities, taxable	**1,563**	**41**	**2.62**	2,362	67	2.84
Other interest-earning assets	**1,286**	**29**	**2.26**	1,457	21	1.44
Total interest-earning assets	**141,756**	**7,925**	**5.59**	142,757	8,344	5.84
Non-interest-earning assets	**13,790**			10,379		
Total assets	**$155,546**			$153,136		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 8,165**	**16**	**0.20**	$ 6,660	15	0.23
Money market accounts	**10,793**	**77**	**0.71**	10,900	104	0.95
Savings accounts	**17,493**	**81**	**0.46**	15,508	91	0.59
Certificates of deposit	**74,563**	**925**	**1.24**	77,618	1,678	2.16
Borrowings	**3,310**	**21**	**0.63**	2,810	28	1.00
Total interest-bearing liabilities	**114,324**	**1,120**	**0.98**	113,496	1,916	1.69
Non-interest-bearing demand deposits	**19,376**			18,382		
Other non-interest-bearing liabilities	**2,126**			2,113		
Total liabilities	**135,826**			133,991		
Stockholders' equity	**19,720**			19,145		
Total liabilities and stockholders' equity	**$155,546**			$153,136		
Net interest income		**$6,805**			$6,428	
Interest rate spread			**4.61**			4.15
Net interest margin			**4.80**			4.50
Average interest-earning assets to average interest-bearing liabilities	**123.99%**			125.78%		

Comparison of Financial Condition at December 31, 2010 and 2009

Total Assets. Total assets declined $861,000, or 0.6%, to $155.4 million at December 31, 2010 from $156.3 million at December 31, 2009. The decrease was due primarily to a decrease in cash and cash equivalents of $3.7 million and a decrease in securities held to maturity of $931,000, offset by an increase in loans receivable, net of $1.9 million, an increase in loans held for sale of $786,000 and an increase in other real estate owned of $452,000, from December 31, 2009 to December 31, 2010.

Cash and cash equivalents. At December 31, 2010 cash and cash equivalents decreased $3.7 million to $4.4 million compared to $8.1 million at December 31, 2009. The primary reasons for the decrease in cash and cash equivalents during 2010 was a decrease in deposits by $2.6 million and increases in loans, net by $1.9 million and loans held for sale by $786,000 partially offset by an increase in borrowings by $1.9 million.

Loans. At December 31, 2010, total loans, net, excluding loans held for sale, were $138.7 million, or 89.2% of total assets at December 31, 2010 compared to $136.8 million, or 87.5% of total assets at December 31, 2009. During the year ended December 31, 2010, the loan portfolio grew primarily as a result of increases of $4.4 million in residential mortgages, increases of $1.2 million in land loans and increases of $1.5 million in commercial real estate loans, offset by decreases of $1.0 million in construction mortgages and $3.4 million in commercial business loans. Loans held for sale increased by $786,000.

Securities. The investment securities portfolio was $359,000, or 0.2% of total assets, at December 31, 2010 compared to $1.3 million or 0.8% of total assets at December 31, 2009. Our investment portfolio consists primarily of GNMA and FHLMC mortgage-backed securities at December 31, 2010. The decrease in securities was primarily due to a $750,000 call of a U.S. Government agency security in 2010 and principal paydowns on the mortgage-backed securities.

Deposits. Our primary source of funds is retail deposit accounts, which are comprised of non-interest-bearing demand accounts, interest-bearing demand accounts, money market accounts, savings accounts and certificates of deposit. During the year ended December 31, 2010, deposits decreased $2.6 million or 2.0% to $129.1 million at December 31, 2010 from $131.7 million at December 31, 2009. The decrease in deposits consisted primarily of a decrease in certificates of deposit of $8.3 million. The decrease in certificates of deposit was the result of management allowing higher interest rate accounts to mature and also increased competition in the market. This decrease was offset by an increase in savings accounts of $2.7 million and an increase in money market and interest checking accounts of approximately $2.3 million.

Borrowings. We utilize borrowings from the Federal Home Loan Bank of New York to supplement our source of funds for loans and investments. We are able to utilize borrowings when necessary or advantageous as an alternative to deposits when a pricing advantage exists, as a temporary source of funds to meet liquidity needs or to manage our asset and liability position. We had $3.3 million in average balances of borrowings during the year ended December 31, 2010 as compared to $2.8 million in average balances of borrowings during the year ended December 31, 2009. We had borrowings of $4.9 million at December 31, 2010 and $3.0 million in borrowings at December 31, 2009.

Stockholders' Equity. Total stockholders' equity increased $525,000 from $19.3 million at December 31, 2009 to $19.8 million at December 31, 2010. Equity increased primarily due to net income of $580,000 for the year ended December 31, 2010, partially offset by dividends declared of $81,000 during 2010.

Results of Operations for the Years Ended December 31, 2010 and 2009

Overview. For the year ended December 31, 2010, we reported a $5,000, or 0.9% decrease in net income to $580,000 compared to $585,000 for the year ended December 31, 2009. This decrease was primarily the result of an increase in the provision for loan losses, an increase in non-interest expense and a decrease in non-interest income, partially offset by an increase in net interest income.

Net Interest Income. Net interest income increased $377,000, or 5.9% to $6.8 million for the year ended December 31, 2010 from $6.4 million for the year ended December 31, 2009. The increase was primarily as a result of a reduction in interest expense on deposits and borrowings, partially offset by a decrease in interest income on loans and securities. As a result of the low interest rate environment, the average cost of interest-bearing liabilities decreased by 71 basis points to 0.98% and was partially offset by the decline in the average yield of interest-earning assets which decreased by 25 basis points to 5.59% for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The interest rate spread increased by 46 basis points to 4.61% for the year ended December 31, 2010 from 4.15% for the year ended December 31, 2009. The net interest margin increased by 30 basis points to 4.80% for the year ended December 31, 2010 as compared to 4.50% for the year ended December 31, 2009. If rates on deposits reprice higher faster than rates on our loans, we could experience compression of our net interest margin which could have a negative effect on our profitability.

Interest income on loans decreased $401,000, or 4.9%, to $7.9 million during the year ended December 31, 2010 as the average yield on the loan portfolio decreased by 29 basis points to 5.65% for the year ended December 31, 2010, and, to a lesser extent, by a decrease in the average balance of the loan portfolio of $31,000, to $138.9 million for the year ended December 31, 2010. The decrease in the average yield on loans was primarily the result of the decreases in market interest rates, as the prime rate decreased from 7.25% at January 1, 2009 to 3.25% at December 31, 2010. Loan growth was driven primarily by an increase in residential mortgages, land and commercial mortgage, offset by a decrease in commercial business loans.

Interest income on investment securities decreased $26,000, or 38.8%, to $41,000 for the year ended December 31, 2010 from $67,000 for the year ended December 31, 2009. The decline in interest income on investment securities was due to a decrease in the average yield of 22 basis points to 2.62% for 2010 as compared to 2.84% in 2009 and a decline in the average balance of investment securities to $1.6 million for the year ended December 31, 2010 from $2.4 million for the year ended December 31, 2009.

Interest expense on deposits decreased 41.8%, to $1.1 million for the year ended December 31, 2010, compared to $1.9 million for the year ended December 31, 2009. The primary reason for the decrease was maturing certificates of deposit repricing to lower interest rates during 2010. Decreases in market interest rates since 2007, combined with the shift in the deposit mix by increasing the concentration of core deposit accounts, decreased the average cost of deposits to 0.99%, for the year ended December 31, 2010, compared to 1.71% for the year ended December 31, 2009. The decrease in average cost on deposits was offset in part by an increase in the average balance of interest-bearing deposits during the year ended December 31, 2010 of $328,000, or 0.3% to $111.0 million, compared with $110.7 million for the prior year. The increase in the average balance of interest bearing deposits was due primarily to an increase in the average balance of savings and interest-bearing demand deposit accounts of $2.0 million and $1.5 million, respectively, offset by a decrease in the average balance of certificates of deposit of $3.1 million and a decrease in the average balance of money market accounts of $107,000 during 2010.

Interest expense on borrowings decreased to $21,000 for the year ended December 31, 2010 compared to $28,000 for the prior year. The average cost of borrowings decreased 37 basis points to 0.63%, for the year ended December 31, 2010, compared to 1.00% for the year ended December 31, 2009. The average balance of borrowings during the year ended December 31, 2010 increased to $3.3 million, compared with $2.8 million for the prior year.

Provision for Loan Losses. The provision for loan losses increased $206,000 to $862,000 for the year ended December 31, 2010 compared to $656,000 for the year ended December 31, 2009. The increase in the provision for loan losses during the year ended December 31, 2010 was partially the result of management's increase in the specific allowance of $375,000 for non-performing loan relationships in the Bank's market area and management's consideration for continued economic weakness in the Bank's market area during 2010 necessitating a higher level of allowance.

Nonperforming loans totaled $7.2 million, or 5.1%, of total loans at December 31, 2010 compared to $5.6 million, or 4.0%, of total loans at December 31, 2009. Nonperforming loans at December 31, 2010 were comprised primarily of $4.2 million in one- to -four family residential loans, $1.9 million of land loans (which included $1.7 million of loans extended to two residential subdivisions), two loans to builders for construction of unsold homes totaling $621,000, commercial real estate loans of $416,000 and commercial business loans of $25,000.

We had net charge-offs of $419,000 for the year ended December 31, 2010 compared to $85,000 for the year ended December 31, 2009.

The allowance for loan losses was $2.4 million, or 1.67% of total loans outstanding as of December 31, 2010, as compared with $1.9 million, or 1.38% as of December 31, 2009.

Non-interest Income. Non-interest income decreased $45,000, or 2.2% to $2.0 million for the year ended December 31, 2010 compared to $2.1 million for the year ended December 31, 2009. The primary reason for the decrease in non-interest income was a decline in banking fees and service charges. Banking fees and service charges decreased by $104,000 as a result of customer preference for service charge free accounts and the competitive banking environment for core deposits. Other non-interest income decreased by $32,000, primarily due to a loss of rental income of $29,000 compared to the year ended December 31, 2009. The decrease was partially offset by an increase in mortgage banking income, net, by $83,000. This gain was a result of increased volume of loans sold and unfunded loans committed to be sold during the second half of 2010.

Non-interest Income Summary

Year Ended December 31, (Dollars in thousands)	2010	2009	$ Change	% Change
Banking fees and service charges	**$ 963**	$ 1,067	$ (104)	(9.7)%
Mortgage banking income, net	**945**	862	83	9.6
Investment brokerage fees	**65**	71	(6)	(8.5)
Loss on other real estate owned	**(5)**	(19)	14	73.7
Other	**56**	88	(32)	(36.4)
Total	**$2,024**	$2,069	$ (45)	(2.2)%

Non-interest Expenses. Non-interest expenses increased $164,000, or 2.4% to $7.1 million for the year ended December 31, 2010 compared to $6.9 million for 2009. Non-interest expenses increased primarily due to increases in other real estate owned expense of $277,000, and increases in salaries and employee benefits expense of $64,000. The increase in non-interest expenses was partially offset by a decrease in FDIC deposit insurance premiums of $115,000, as a result of the special FDIC assessment paid in 2009 and a decrease in professional fees of $83,000. The increases in other real estate owned expense were because of the increase in other real estate owned due to increased foreclosure activity in 2010 and the write-downs in value of the other real estate of $186,000 due to reduced appraised values.

Non-interest Expenses Summary

Year Ended December 31, (Dollars in thousands)	2010	2009	$ Change	% Change
Salaries and employee benefits	**$3,957**	$3,893	$ 64	1.6%
Advertising and marketing	**139**	129	10	7.8
Telephone and postage	**148**	189	(41)	(21.7)
Occupancy and equipment	**724**	735	(11)	(1.5)
FDIC premiums	**221**	336	(115)	(34.2)
Data processing	**630**	608	22	3.6
Professional fees	**259**	342	(83)	(24.3)
Printing and supplies	**72**	80	(8)	(10.0)
Other real estate owned expense	**392**	115	277	240.9
Other	**509**	460	49	10.7
Total	**$7,051**	$6,887	$164	2.4%

Income Tax Expense. Income tax expense was $336,000 for the year ended December 31, 2010 as compared to $369,000 for the year ended December 31, 2009. Lower levels of pre-tax income have resulted in a decrease in income tax expense. The effective tax rate was 36.7% for the year ended December 31, 2010 and 38.7% for 2009.

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

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

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At December 31, 2010, cash and cash equivalents totaled $4.4 million. In addition, at December 31, 2010, we had borrowing capacity up to $15.4 million from the Federal Home Loan Bank of New York and an unused $2.0 million federal funds line from Atlantic Central Bankers Bank. On December 31, 2010, we had $4.9 million in advances outstanding from the Federal Home Loan Bank (FHLB).

A significant use of our liquidity is the funding of loan originations. At December 31, 2010, we had $14.3 million in loan commitments outstanding, which primarily consisted of $2.1 million in unadvanced portions of construction loans, $2.8 million in commitments to fund one- to four-family residential real estate loans, $1.8 million in unused home equity lines of credit, $6.0 million in unused commercial lines of credit and $575,000 in commitments to fund commercial mortgages. Historically, many of the commitments expire without being fully drawn; therefore, the total amount of commitments does not necessarily represent future cash requirements. Another significant use of our liquidity is the funding of deposit withdrawals. Certificates of deposit due within one year of December 31, 2010 totaled $63.4 million, or 90.8% of certificates of deposit. The large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the recent low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher than market rates on such deposits or other borrowings. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Capital Management. We are subject to various regulatory capital requirements administered by the OTS, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2010, we exceeded all of our regulatory capital requirements.

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

In 2009, we repurchased 7,061 shares to complete our stock repurchase program that was announced in July 2008. No shares were repurchased in 2010.

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

For the year ended December 31, 2010, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our consolidated financial condition, results of operations or cash flows.

Impact of Recent Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see note 1 of the notes to the consolidated financial statements included in this annual report.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this annual report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change 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 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 do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Index to Consolidated Financial Statements

Independent Auditors' Report

Board of Directors and Stockholders
Hometown Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Hometown Bancorp, Inc. and subsidiary (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hometown Bancorp, Inc. and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Syracuse, New York
March 25, 2011

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
	(Dollars in Thousands, Except Share Data)	
Assets		
Cash and due from banks	**$ 4,064**	$ 6,458
Interest earning demand deposits with banks	**359**	1,654
Cash and Cash Equivalents	**4,423**	8,112
Certificates of deposit	**25**	-
Securities held to maturity (fair value 2010 $379; 2009 $1,323)	**359**	1,290
Loans held for sale	**1,961**	1,175
Loans receivable, net of allowance for loan losses (2010 $2,361; 2009 $1,918)	**138,678**	136,793
Premises and equipment, net	**3,908**	4,103
Restricted investments in bank stocks, at cost	**729**	491
Other real estate owned	**1,887**	1,435
Accrued interest receivable and other assets	**3,436**	2,868
Total Assets	**$155,406**	$156,267
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 20,363**	$ 19,770
Interest bearing	**108,740**	111,978
Total Deposits	**129,103**	131,748
Federal Home Loan Bank advances	**4,900**	3,000
Advances from borrowers for taxes and insurance	**722**	736
Accrued interest payable	**21**	33
Other liabilities	**846**	1,461
Total Liabilities	**135,592**	136,978
Commitments and Contingencies	**-**	-
Stockholders' Equity		
Preferred stock, $0.01 par value; 3,000,000 shares authorized and unissued	**-**	-
Common stock, $0.01 par value; 7,000,000 shares authorized; 2,380,500 shares issued	**24**	24
Paid-in capital	**10,066**	10,088
Retained earnings	**10,784**	10,285
Unearned ESOP shares, at cost	**(746)**	(793)
Treasury stock, at cost, 53,561 shares at December 31, 2010 and 2009	**(311)**	(311)
Accumulated other comprehensive loss	**(3)**	(4)
Total Stockholders' Equity	**19,814**	19,289
Total Liabilities and Stockholders' Equity	**$155,406**	$156,267

See notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,	
	2010	2009
	(In Thousands Except Per Share Data)	
Interest Income		
Loans receivable, including fees	**$7,855**	$8,256
Securities, taxable	**41**	67
Other	**29**	21
Total Interest Income	**7,925**	8,344
Interest Expense		
Deposits	**1,099**	1,888
Federal Home Loan Bank advances	**21**	28
Total Interest Expense	**1,120**	1,916
Net Interest Income	**6,805**	6,428
Provision for Loan Losses	**862**	656
Net Interest Income after Provision for Loan Losses	**5,943**	5,772
Non-interest Income		
Banking fees and service charges	**963**	1,067
Mortgage banking income, net	**945**	862
Investment brokerage fees	**65**	71
Realized loss on sale of other real estate owned	**(5)**	(19)
Other	**56**	88
Total Non-interest Income	**2,024**	2,069
Non-interest Expenses		
Salaries and employee benefits	**3,957**	3,893
Occupancy and equipment	**724**	735
Professional fees	**259**	342
Advertising and marketing	**139**	129
Data processing	**630**	608
Telephone and postage	**148**	189
FDIC premiums	**221**	336
Other real estate owned expense	**392**	115
Other	**581**	540
Total Non-interest Expenses	**7,051**	6,887
Income before Income Taxes	**916**	954
Income Tax Expense	**336**	369
Net Income	**$ 580**	$ 585
Net Income per common share - basic	**$ 0.26**	$ 0.26
Weighted average number of common shares outstanding – basic	**2,249**	2,246

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2010 and 2009
(In Thousands Except Share Data)

	Common Stock	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 2008	$ 24	$ 10,112	$ 9,787	$ (840)	$ (284)	$ (5)	$ 18,794
Comprehensive income:							
Net income	-	-	585	-	-	-	585
Other comprehensive income	-	-	-	-	-	1	1
Total Comprehensive Income							586
Treasury stock purchased (7,061 shares)	-	-	-	-	(27)	-	(27)
Cash dividends declared ($0.06 per share)	-	-	(87)	-	-	-	(87)
ESOP shares committed to be released (4,666 shares)	-	(24)	-	47	-	-	23
Balance - December 31, 2009	24	10,088	10,285	(793)	(311)	(4)	19,289
Comprehensive income:							
Net income	**-**	**-**	**580**	**-**	**-**	**-**	**580**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Total Comprehensive Income							**581**
Cash dividends declared ($0.08 per share)	**-**	**-**	**(81)**	**-**	**-**	**-**	**(81)**
ESOP shares committed to be released (4,666 shares)	**-**	**(22)**	**-**	**47**	**-**	**-**	**25**
Balance - December 31, 2010	**$ 24**	**$ 10,066**	**$ 10,784**	**$ (746)**	**$ (311)**	**$ (3)**	**$ 19,814**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31, 2010	2009
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	**$ 580**	$ 585
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	**247**	261
Provision for loan losses	**862**	656
Deferred income tax benefit	**304**	112
Amortization of mortgage servicing rights	**154**	168
Net accretion of securities premiums and discounts	**(4)**	(5)
Net gain on sale of loans	**(553)**	(540)
Loans originated for sale	**(34,083)**	(40,257)
Proceeds from sale of loans	**33,850**	39,728
Loss on other real estate owned	**5**	19
ESOP expense	**25**	23
Valuation write-down of other real estate owned	**186**	-
Increase in accrued interest receivable and other assets	**(746)**	(947)
Decrease in accrued interest payable and other liabilities	**(627)**	(259)
Net Cash Provided (Used) by Operating Activities	**200**	(456)
Cash Flows from Investing Activities		
Purchases of certificates of deposit	**(25)**	-
Activity in available for sale securities:		
Purchases	**(1,000)**	-
Maturities, calls and principal repayments	**1,000**	1,000
Activity in held to maturity securities:		
Purchases	**(750)**	(750)
Maturities, calls and principal repayments	**1,685**	975
Net increase in loans receivable	**(4,307)**	(1,085)
Proceeds from sale of other real estate owned	**638**	50
Net increase in restricted investment in bank stocks	**(238)**	(96)
Purchases of bank premises and equipment	**(52)**	(277)
Net Cash Used by Investing Activities	**(3,049)**	(183)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	**(2,645)**	7,009
Net increase (decrease) in short-term Federal Home Loan Bank advances	**1,900**	(1,375)
(Decrease) increase in advances from borrowers for taxes and insurance	**(14)**	28
Dividends paid	**(81)**	(87)
Treasury stock purchased	**-**	(27)
Net Cash (Used) Provided by Financing Activities	**(840)**	5,548
Net (Decrease) Increase in Cash and Cash Equivalents	**(3,689)**	4,909
Cash and Cash Equivalents - Beginning	**8,112**	3,203
Cash and Cash Equivalents - Ending	**$ 4,423**	$ 8,112
Supplementary Cash Flows Information		
Interest paid	**$ 1,132**	$ 2,026
Income taxes paid	**$ 656**	$ 664
Supplemental Schedule of Noncash Investing Activities		
Loans transferred to other real estate owned	**$ 1,281**	$ 1,504
Debenture collateral acquired in partial settlement of loan	**$ 279**	$ -

See notes to consolidated financial statements.

Note 1 - Significant Accounting Policies

Organization and Nature of Operations

In May 2006, Walden Federal Savings and Loan Association (the "Association") reorganized into the two-tier mutual holding company structure. As part of the reorganization, the Association formed Hometown Bancorp, Inc. (the "Company"), a federally chartered mid-tier stock holding company, and Hometown Bancorp, MHC (the "Mutual Holding Company"), a federally chartered mutual holding company. The Association became a federally chartered stock savings association, and a wholly-owned subsidiary of the Company. The Company became the wholly-owned subsidiary of the Mutual Holding Company, whose activity is not included in the accompanying consolidated financial statements. The same directors and officers, who manage the Association, also manage the Company and the Mutual Holding Company.

The Association, the Mutual Holding Company and the Company are subject to regulation and supervision by the Office of Thrift Supervision (OTS).

On June 28, 2007, the Company completed its minority stock offering of 45% of the aggregate total voting stock of the Company. In connection with the minority offering, 2,380,500 shares of common stock were issued, of which 1,071,225 shares were sold to the Association's eligible account holders and the employee stock ownership plan (the "ESOP") for $10 per share, resulting in net proceeds of approximately $9.1 million after offering expenses and ESOP. Currently, 56.3% of the Company's outstanding common stock, or 1,309,275 shares, are owned by Hometown Bancorp MHC.

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

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

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

Principles of Consolidation

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

Estimates

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

Concentrations of Credit Risk

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

Note 1 - Significant Accounting Policies (Continued)

Presentation of Cash Flows

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

Securities

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

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

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

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers whether (a) the Association does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Association does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. There were no other-than-temporary impairments recorded in the years ended December 31, 2010 or 2009.

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

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

Loans Receivable

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

Note 1 - Significant Accounting Policies (Continued)

Loans Receivable (Continued)

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

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

Allowance for Loan Losses

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

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

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying amount of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial, commercial real estate, construction and land loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

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

Note 1 - Significant Accounting Policies (Continued)

Loans Held for Sale and Loan Servicing

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

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

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

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

Premises and Equipment

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

Other Real Estate Owned

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

Transfers of Financial Assets

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

Advertising Costs

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

Note 1 - Significant Accounting Policies (Continued)

Income Taxes

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

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has a simple capital structure as it has not granted any restricted stock awards or stock options and, during the years ended December 31, 2010 and 2009, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

Off-Balance Sheet Financial Instruments

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

Comprehensive Income

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

Note 1 - Significant Accounting Policies (Continued)

Comprehensive Income (Continued)

The components of other comprehensive income and related tax effects for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Change in unrealized holding losses on securities available for sale:		
Change in unrealized holding losses arising during the year	**$ -**	$ (2)
Directors' retirement plan:		
Pension losses	**(2)**	(2)
Reclassification adjustment for pension gains and prior service cost recognized in pension expense	**5**	5
Net Change in Director's retirement plan liability	**3**	3
Other comprehensive income before tax	**3**	1
Income tax effect	**2**	-
Net of Tax Amount	**$ 1**	$ 1

At December 31, 2010 and 2009, the components of accumulated other comprehensive loss are as follows:

	2010	2009
	(In Thousands)	
Net losses and past service liability for Directors' retirement plan (net of tax effect 2010 $1; 2009 $3)	**$ (3)**	$ (4)

Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2011-01

The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay is intended to allow the Financial Accounting Standards Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The deferral in this amendment is effective upon issuance.

Note 1 - Significant Accounting Policies (Continued)

ASU 2010-20

ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods *ending* on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods *beginning* on or after December 15, 2010.

Subsequent Events

On January 21, 2011, the Board of Directors declared a quarterly cash dividend of $0.02 per share of Hometown Bancorp, Inc. common stock. The dividend was payable to stockholders of record as of February 4, 2011, and was paid on February 18, 2011. Hometown Bancorp MHC which holds approximately 56.3% of the Company's total outstanding shares will waive receipt of the dividend on its shares. The Company has evaluated subsequent events through March 25, 2011, the date that the consolidated financial statements were available to be issued.

Note 2 - Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Held to Maturity:				
December 31, 2010:				
Mortgage-backed securities	**$ 359**	**20**	**-**	**379**
December 31, 2009:				
U.S. Government agencies	$ 750	$ 2	$ -	$ 752
Mortgage-backed securities	540	31	-	571
	$ 1,290	$ 33	$ -	$ 1,323

There were no sales of investments in 2010 and 2009. At December 31, 2010 and 2009, the Association had no securities in an unrealized loss position. At December 31, 2009, securities with a carrying value of $100,000 were pledged to secure public deposits and for other purposes required or permitted by law. No securities were pledged at December 31, 2010.

Note 3 - Loans Receivable and Allowance for Loan Losses

The composition of loans receivable at December 31, 2010 and 2009 is as follows:

	2010	2009
	(In Thousands)	
Real estate mortgages:		
Residential	**$ 64,014**	$ 59,590
Construction	**6,736**	7,750
Multi-family	**1,567**	2,421
Commercial	**27,281**	25,735
Land	**16,546**	15,345
Total Real Estate Mortgages	**116,144**	110,841
Other loans:		
Commercial	**11,863**	15,235
Home equity loans and credit lines	**12,415**	11,950
Consumer	**574**	648
Total Loans	**140,996**	138,674
Deferred loan origination costs, net	**43**	37
Allowance for loan losses	**(2,361)**	(1,918)
Net Loans	**$ 138,678**	$ 136,793

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

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

The following tables present changes in the allowance for loan losses for the years ended December 31, 2010 and 2009 (In Thousands):

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

For the Year Ended December 31, 2010

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

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

	2009
	(In Thousands)
Balance, beginning	$ 1,347
Provision for loan losses	656
Loans charged off	(99)
Loan recoveries	14
Balance, ending	$ 1,918

Nonperforming Assets and Loan Delinquencies

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectibility is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Nonaccrual loans consisted primarily of loans secured by real estate at December 31, 2010. While the Association makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans in process of foreclosure has grown substantially over the past several years. This growth has been the result of adverse changes within the economy and increases in local unemployment. The growth is also due in part to the extended length of time required to meet all of the legal requirements mandated by New York State law prior to a foreclosure sale, which may be in excess of two years. Real estate loans on nonaccrual status totaled $6.5 million at December 31, 2010 of which $3.2 million were in the process of foreclosure.

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

The following table represents nonaccrual loans by classes of the loan portfolio as of December 31, 2010 and 2009.

(Dollars in thousands)	December 31, 2010	December 31, 2009
Nonaccrual loans:		
Residential mortgage	**$ 3,489**	$ 2,409
Construction	**621**	599
Multi-family	**—**	—
Commercial real estate	**416**	360
Land	**1,938**	2,004
Commercial	**25**	-
Home equity loans and credit lines	**721**	191
Consumer	**10**	-
Total nonaccrual loans	**7,220**	5,563
Foreclosed real estate	**1,887**	1,435
Other nonperforming assets	**—**	—
Total nonperforming assets	**9,107**	6,998
Troubled debt restructurings	**4,512**	1,076
Total nonperforming assets and troubled debt restructurings	**$13,619**	$8,074
Total nonperforming loans to total loans	**5.12%**	4.01%
Total nonperforming loans to total assets	**4.65**	3.56
Total nonperforming assets and troubled debt restructurings to total assets	**8.76**	5.17

Interest not recognized on nonaccrual loans was $561,000 and $381,000 for the years ended December 31, 2010 and 2009. There were no loans past due 90 days or more and still accruing interest at December 31, 2010 and 2009.

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2010 (In Thousands):

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

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

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2009 (In Thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables
Residential mortgage	$ 836	$ 239	$ 2,409	$ 3,484	$ 56,106	$ 59,590
Construction	-	-	599	599	7,151	7,750
Multi-family	-	-	-	-	2,421	2,421
Commercial real estate	-	-	360	360	25,375	25,735
Land	32	-	2,004	2,036	13,309	15,345
Commercial	-	-	-	-	15,235	15,235
Home equity	111	81	191	383	11,567	11,950
Consumer	14	5	-	19	629	648
Total	$ 993	$ 325	$ 5,563	$ 6,881	$ 131,793	$ 138,674

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

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

Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property. The Association completes inspections during the construction phase prior to any disbursements. The

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

Association limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan.

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

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

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

Credit Quality Indicators

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Association's internal risk rating system as of December 31, 2010 (In Thousands):

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

The Association had $8,495 of loans classified as Substandard as of December 31, 2009. The Association had no loans classified Doubtful or Loss at December 31, 2010 and 2009.

The Association identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "*Receivables – Loan Impairment.*" A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt

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

restructuring. Loans are reviewed on a regular basis to assess collectability of all principal and interest payments due. Management determines that a loan is impaired or nonperforming when it is probable at least a portion of the loan will not be collected due to an irreversible deterioration in the financial condition of the borrower or the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral dependent loans are measured for impairment based on the fair value of the collateral.

Impaired Loans

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2010 (In Thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential mortgage	$ 160	$ 160	$ -	$ -	$ -
Construction	-	-	-	226	45
Commercial real estate	3,264	3,264	-	557	18
Land	-	-	-	233	-
Commercial	-	-	-	-	-
Home equity	391	391	-	141	-
Consumer	-	-	-	-	-
Total	**$ 3,815**	**$ 3,815**	**$ -**	**$ 1,157**	**$ 63**
With an allowance recorded:					
Residential mortgage	250	250	47	1	-
Construction	1,094	1,094	180	299	-
Commercial real estate	285	285	37	285	17
Land	1,938	1,938	649	1,733	-
Commercial	25	25	25	6	-
Home equity	128	128	65	49	-
Consumer	5	5	5	1	-
Total	**$ 3,725**	**$ 3,725**	**$ 1,008**	**$ 2,374**	**$ 17**
Total:					
Residential mortgage	$ 410	$ 410	$ 47	$ 1	$ -
Construction	1,094	1,094	180	525	45
Commercial real estate	3,549	3,549	37	842	35
Land	1,938	1,938	649	1,966	-
Commercial	25	25	25	6	-
Home equity	519	519	65	190	-
Consumer	5	5	5	1	-
Total	**$ 7,540**	**$ 7,540**	**$ 1,008**	**$ 3,531**	**$ 80**

The following is a summary of information pertaining to impaired loans at December 31:

	2009
	(In Thousands)
Impaired loans without a valuation allowance	$ 1,885
Impaired loans with a valuation allowance	2,328
Total Impaired Loans	$ 4,213
Valuation allowance related to impaired loans	$ 633

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

During 2010, interest income of $80,000 was recognized on impaired loans and $21,000 in interest income was recognized on impaired loans in 2009. The average balance of impaired loans with an allowance was $2.4 million in 2010, compared to $1.5 million in 2009. The Association generally does not separately identify individual residential mortgages, home equity and consumer loans for impairment.

At December 31, 2010 and 2009, one- to four-family residential mortgage loans serviced for others amounted to approximately $96.4 million and $86.7 million, respectively. Advances from borrowers for taxes and insurance related to loans serviced for others amounted to approximately $1.3 million at December 31, 2010 and 2009. These loans and related advances are not included in the accompanying consolidated balance sheets.

The following summarizes activity pertaining to mortgage servicing rights for the years ended December 31, 2010 and 2009:

	2010	2009
	(In Thousands)	
Balance, beginning	**$ 397**	$ 310
Capitalized during the year	**307**	255
Amortization	**(154)**	(168)
Balance, ending	**$ 550**	$ 397

Note 4 - Premises and Equipment

The components of premises and equipment at December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Land	**$ 901**	$ 901
Buildings and leasehold improvements	**3,724**	3,708
Furniture and equipment	**1,085**	1,134
Automobiles	**61**	61
	5,771	5,804
Accumulated depreciation	**1,863**	1,701
	$ 3,908	$ 4,103

Note 5 - Deposits

Deposits at December 31, 2010 and 2009 consist of the following major classifications:

	2010	2009
	(In Thousands)	
Non-interest bearing demand	**$ 20,363**	$ 19,770
NOW	**9,382**	7,395
Money market	**10,876**	10,526
Savings	**18,613**	15,868
Certificates of deposit	**69,869**	78,189
	$ 129,103	$ 131,748

A summary of certificates of deposit by maturity at December 31, 2010 is as follows (In Thousands):

Year ending December 31:	
2011	**$63,446**
2012	**4,726**
2013	**1,604**
2014	**58**
2015	**35**
	$69,869

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was $30.3 million and $34.1 million at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, $10.0 million of certificates of deposit consisted of one municipal deposit from the New York State Office of the Comptroller which is secured by a municipal letter of credit issued by the Federal Home Loan Bank (see Note 6).

A summary of interest expense on deposits for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
	(In Thousands)	
NOW and money market demand	**$ 93**	$ 119
Savings	**81**	91
Certificates of deposit	**925**	1,678
	$1,099	$1,888

Note 6 – Federal Home Loan Bank and Other Borrowings

As a member of the FHLB, the Association may borrow in the form of term and overnight borrowing up to the amount of eligible residential mortgage loans and securities that have been pledged as collateral under a blanket security agreement. As of December 31, 2010, the Association had pledged residential mortgage loans totaling $30.9 million. Based on total outstanding borrowings of $4.9 million and a secured $10.0 million municipal letter of credit, the Association had unused borrowing capacity with FHLB of $15.4 million at December 31, 2010.

Note 6 – Federal Home Loan Bank and Other Borrowings (Continued)

At December 31, 2010, the Association's $4.9 million advances outstanding consisted of two short-term advances, which are due between January and March 2011. The interest rates on the advances range from 0.40% to 0.57%. The Association had three short-term advances totaling $3.0 million outstanding at December 31, 2009, which matured between April and September 2010, with an interest rate range from 0.65% to 0.98%.

The Association also has an unused $2.0 million federal funds line from its correspondent bank, Atlantic Central Bankers Bank at December 31, 2010 and 2009.

Note 7 - Legal Contingencies

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

Note 8 - Restrictions on Dividends, Loans and Advances

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

At December 31, 2010, the Association's retained earnings available for the payment of dividends was approximately $1.7 million. Funds available for loans or advances by the Association to the Company amounted to approximately $1.6 million.

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

Note 9 - Lease Commitments and Total Rental Expense

The Association leases four branch locations under long-term operating leases. Future minimum lease payments by year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more, consisted of the following at December 31, 2010 (In Thousands):

Years ending December 31:	
2011	**$ 84**
2012	**57**
2013	**57**
2014	**55**
2015	**36**
	$ 289

The leases contain options to extend for periods from two to ten years. The cost of such extensions is not included above. The total rental expense for all leases for the years ended December 31, 2010 and 2009 was approximately $99,000 and $95,000, respectively.

Note 10 - Income Taxes

The income tax provision (benefit) consists of the following for the years ended December 31, 2010 and 2009:

	2010	2009
	(In Thousands)	
Federal:		
Current	**$514**	$425
Deferred	**(238)**	(135)
	276	290
State		
Current	**126**	56
Deferred	**(66)**	23
	60	79
Income Tax Expense	**$336**	$369

A reconciliation of the statutory federal income tax at a rate of 34% to the income tax expense included in the consolidated statements of income for the years ended December 31, 2010 and 2009 is as follows:

	2010			2009		
	Amount	% of Pretax Income		Amount	% of Pretax Income	
	(Dollars in Thousands)					
Federal income tax at statutory rate	**$312**	**34.0**	%	$324	34.0	%
State income taxes, net of federal tax benefit	**39**	**4.3**		47	5.0	
Other	**(15)**	**(1.6)**		(2)	(0.3)	
	$336	**36.7**	%	$369	38.7	%

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

	December 31,	
	2010	2009
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	**$827**	$651
Directors' retirement plan	**93**	66
Nonaccrual interest	**223**	152
Other real estate owned	**74**	-
	1,217	869
Deferred tax liabilities:		
Premises and equipment	**222**	243
Mortgage servicing rights	**218**	157
Other	**17**	15
	457	415
Net Deferred Tax Asset	**$ 760**	$ 454

Note 10 - Income Taxes (Continued)

Management determines the need for a deferred tax asset valuation allowance based upon an evaluation of the realizability of tax benefits from the reversal of temporary differences creating the deferred tax assets. Based on historical and anticipated future pre-tax earnings, management believes it is more likely than not that the company will realize its deferred tax assets, and thus no deferred tax asset valuation allowance was considered necessary at December 31, 2010 or 2009.

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

Under current tax laws, Federal base-year reserves would be subject to recapture if the Association pays a cash dividend in excess of earnings and profits or liquidates. In order for the Association to permissibly maintain a New York State tax bad debt reserve for thrifts, certain thrift definitional tests must be satisfied on an ongoing basis. These definitional tests include maintaining at least 60% of assets in thrift qualifying assets, as defined for tax purposes, and maintaining a thrift charter. The Association expects that it will take no action in the foreseeable future which would require the establishment of a tax liability associated with these bad debt reserves. Deferred tax liabilities have not been recognized with respect to the Federal base-year reserve of approximately $500,000 at December 31, 2010, and the New York State base-year reserve of approximately $5.2 million at December 31, 2010, since the Association does not expect that these amounts will become taxable in the foreseeable future. The unrecognized deferred tax liability with respect to the Federal and New York State base-year reserves was approximately $170,000 and $296,000 (net of federal benefit), respectively, at December 31, 2010.

The Company recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2010 and 2009. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the consolidated statements of income. The Company's Federal and New York tax returns, constituting the returns of the major taxing jurisdictions, are subject to examination by the taxing authorities for 2009, 2008 and 2007 as prescribed by applicable statute. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute. As of December 31, 2010 and 2009 the Company has no uncertain tax positions.

Note 11 - Employee Benefit Plans

401(k)

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

In 2010 and 2009, the Board of Directors approved matching contributions of 100% of employee contributions up to 2% of the employee's compensation. Matching contributions amounted to $42,000 and $43,000 in 2010 and 2009, respectively. In 2010 and 2009, the Board of Directors approved additional contributions of 2% and 2%, respectively, of employees' compensation. Additional contributions were $52,000 and $48,000, respectively, for 2010 and 2009.

Employee Stock Ownership Plan ("ESOP")

In June 2007, the Association established an ESOP which acquired 93,315 shares of the Company's common stock in the stock offering with funds provided by a loan from the Company. The stock acquired by the ESOP but not yet released to participants is shown as a reduction of stockholders' equity in the accompanying consolidated balance sheets. The ESOP loan will be repaid principally from the Association's contributions to the ESOP in annual payments through 2027 at a fixed

Note 11 - Employee Benefit Plans (Continued)

Employee Stock Ownership Plan ("ESOP") (Continued)

interest rate of 8.25%. Shares are released to participants on a straight-line basis over the loan term and allocated based on participant compensation. The Association recognizes compensation benefit expense as shares are committed for release at their current market price. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized $25,000 and $23,000 of compensation expense related to this plan for the years ended December 31, 2010 and 2009. At December 31, 2010, there were 74,651 shares not yet released having an aggregate market value of approximately $373,000. Participant eligibility requirements and vesting provisions for the ESOP are the same as the 401(k) savings plan outlined above.

Directors' Retirement Plan

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

	Year Ended December 31, 2010	**Year Ended December 31, 2009**
	(In Thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 167**	$ 110
Service cost	**54**	48
Interest cost	**9**	6
Losses	**3**	3
Projected benefit obligation at end of year (funded status)	**$ 233**	$ 167

The discount rate used to determine the benefit obligation at December 31, 2010 and 2009 was 5.50%.

Amounts recognized in accumulated other comprehensive loss were:

	December 31, 2010	**December 31, 2009**
	(In Thousands)	
Unrecognized net gain	**$ 3**	$ 5
Prior service cost	**(7)**	(12)
Pre-tax adjustment	**(4)**	(7)
Income tax effect	**1**	3
	$ (3)	$ (4)

The estimated cost that will be amortized from accumulated other comprehensive loss into net periodic pension expense for the year ending December 31, 2011 is $-0- of net gain and $5,000 of prior service cost.

Using an actuarial measurement date of December 31, 2010 and 2009, the components of net periodic pension expense follow (In Thousands):

Note 11 - Employee Benefit Plans (Continued)

Directors' Retirement Plan (Continued)

	2010	2009
Service cost	**$ 54**	$ 48
Interest cost	**9**	6
Amortization of past service liability	**5**	5
Net periodic pension expense	**$ 68**	$ 59

Discount rates of 5.50% and 6.00% were used to determine net periodic pension expense for the years ended December 31, 2010 and 2009, respectively.

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

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

Years ending December 31,	
2012	**$ 38**
2013	**38**
2014	**37**
2015	**37**
2016 - 2020	**188**

Hometown Bancorp, Inc. 2008 Equity Incentive Plan

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

Note 12 - Transactions with Officers and Directors

The Association has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, their immediate families, and affiliated companies (commonly referred to as related parties), on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Association. These persons were indebted to the Association for loans totaling approximately $1.1 million and $1.3 million at December 31, 2010 and 2009, respectively. During 2010, approximately $118,000 of new loans and approximately $381,000 of repayments were made.

Deposits from related parties held by the Association at both December 31, 2010 and 2009 amounted to $1.2 million.

A director of the Company is associated with a law firm which provides legal services to the Association and its subsidiaries. During 2010 and 2009, the law firm was paid approximately $358,000 and $395,000, respectively, for legal services of which $48,000 and $52,000, respectively, is included in professional fees in the accompanying consolidated statements of income. During 2010, the Association paid legal fees to the law firm of approximately $81,000 and $51,000 in other real estate expense and other expense, respectively, compared to $40,000 in other real estate expense in 2009. The balance was paid by customers of the Association in connection with loan transactions.

Note 13 - Off-Balance Sheet Risk

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

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

A summary of the Association's financial instruments with off-balance sheet risk at December 31, 2010 and 2009 is as follows:

	2010	2009
	(In Thousands)	
Commitments to grant loans	**$ 5,546**	$ 5,222
Unfunded commitments under lines of credit	**8,206**	8,122
Letters of credit	**591**	579
Security purchase commitments	**-**	1,000
	$14,343	$14,923

Fixed rate commitments to grant loans amounted to approximately $1.8 million at December 31, 2010, and had interest rates that ranged from 4.50% to 18.00%.

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

Standby letters of credit are conditional commitments issued by the Association to guarantee the performance of a customer to a third party and generally expire within one year. Those guarantees are primarily issued to municipalities to ensure the completion of public improvements in residential subdivisions by contractors that are customers of the Association. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Association holds savings accounts as collateral supporting these commitments for which collateral is deemed necessary. At December 31, 2010 and 2009, such collateral amounted to $342,000 and $330,000, respectively. The current amount of the liability as of December 31, 2010 and 2009 for guarantees under standby letters of credit issued is not material.

At December 31, 2009, we had a $1.0 million commitment to purchase a U.S. Government agency bond which settled in January 2010.

Note 14 - Regulatory Capital Requirements

The Association is required to maintain a cash reserve balance in vault cash or with the Federal Reserve Bank. The total of this reserve balance was approximately $622,000 and $543,000 at December 31, 2010 and 2009, respectively.

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

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios (set forth in the table below) of tangible, core, and risk-based capital as defined in the regulations. Management believes, as of December 31, 2010, that the Association met all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the regulators categorized the Association as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Association must maintain minimum core, Tier 1 risk-based and total risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Association's category.

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2010:						
Tangible	**$16,302**	**10.49** %	**$≥2,331**	**≥1.5** %	**N/A**	**N/A**
Core (leverage)	**16,302**	**10.49**	**≥6,216**	**≥4.0**	**$≥7,770**	**≥ 5.0** %
Tier 1 risk-based	**16,302**	**13.52**	**≥4,822**	**≥4.0**	**≥7,233**	**≥ 6.0**
Total risk-based	**17,345**	**14.39**	**≥9,644**	**≥8.0**	**≥12,055**	**≥10.0**
As of December 31, 2009:						
Tangible	$15,650	10.01 %	$≥2,344	≥1.5 %	N/A	N/A
Core (leverage)	15,650	10.01	≥6,251	≥4.0	$≥7,813	≥ 5.0 %
Tier 1 risk-based	15,650	13.12	≥4,770	≥4.0	≥7,155	≥ 6.0
Total risk-based	16,875	14.15	≥9,540	≥8.0	≥11,924	≥10.0

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of December 31, 2010 and 2009 and have not been

Note 15 - Fair Value of Financial Instruments (Continued)

re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the FASB issued Statement No. 157 (ASC 820), *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 effective for its fiscal year beginning January 1, 2009.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

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

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

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2009 are as follows:

Description	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Forward sales contract	$ 6	$ -	$ 6	$ -

Note 15 - Fair Value of Financial Instruments (Continued)

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

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

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

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2009 are as follows:

Description	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired loans	$ 1,695	$ -	$ -	$ 1,695

Fair value of impaired loans is generally determined based upon independent third party appraisals of the properties or other indications of value based on recent comparable sales of similar properties, or discounted cash flows based upon expected proceeds. These assets are included in Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of loan balances less their valuation allowances as determined under ASC 310-10. At December 31, 2010, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2.7 million, net of a valuation allowance of $1.0 million. For the year ended December 31, 2010, $375,000 was added to the provision for loan losses for impaired loans. At December 31, 2009, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1.7 million, net of a valuation allowance of $633,000.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2010 and 2009:

Note 15 - Fair Value of Financial Instruments (Continued)

Cash and Cash Equivalents

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

Securities

Fair values of available for sale and held to maturity securities are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix pricing from a third party pricing vendor to determine fair value pricing. Matrix prices, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans Held for Sale

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

Loans Receivable

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

Impaired Loans

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

Restricted Investments in Bank Stock

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

Accrued Interest Receivable and Payable

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

Mortgage Servicing Rights

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

Deposits

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

Note 15 - Fair Value of Financial Instruments (Continued)

Federal Home Loan Bank Advances

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

Off-Balance Sheet Financial Instruments

Fair values of commitments to extend credit and letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms, and present credit worthiness of the counterparties. At December 31, 2010 and 2009, the fair value of these instruments was not material.

The estimated fair values of the Company's financial instruments at December 31, 2010 and 2009 were as follows:

	December 31,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	**$ 4,423**	**$ 4,423**	$ 8,112	$ 8,112
Securities held to maturity	**359**	**379**	1,290	1,323
Loans held for sale	**1,961**	**1,961**	1,175	1,175
Loans receivable, net	**138,678**	**144,100**	136,793	141,703
Restricted investments in bank stock	**729**	**729**	491	491
Accrued interest receivable	**577**	**577**	613	613
Mortgage servicing rights	**550**	**791**	397	646
Financial liabilities:				
Non-interest bearing demand accounts	**20,363**	**20,363**	19,770	19,770
NOW accounts	**9,382**	**9,382**	7,395	7,395
Money market accounts	**10,876**	**10,876**	10,526	10,526
Savings accounts	**18,613**	**18,613**	15,868	15,868
Certificates of deposit	**69,869**	**70,331**	78,189	78,790
Federal Home Loan Bank advances	**4,900**	**4,900**	3,000	3,000
Accrued interest payable	**21**	**21**	33	33
Off-balance sheet financial instruments:				
Commitments to extend credit	**-**	**-**	-	-
Letters of credit	**-**	**-**	-	-

Note 16 – Market, Holder and Dividend Information

The Company's common stock is listed on the OTC Bulletin Board under the trading symbol "HTWC.OB". The following table sets forth the high and low bid prices of the common stock and cash dividends paid for the 2010 and 2009 fiscal years, as reported on the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	For the Year Ended December 31, 2010			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
High	$5.50	$5.30	$5.98	$6.49
Low	4.50	5.05	5.05	$5.00
Cash dividends declared	0.02	0.02	0.02	0.02

	For the Year Ended December 31, 2009			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
High	$5.40	$5.45	$5.50	$4.80
Low	5.00	5.00	3.06	$3.75
Cash dividends declared	0.02	0.02	0.02	n/a

As of December 31, 2010, there were approximately 291 holders of record of the Company's common stock, excluding the number of persons or entities holding stock in street name through various brokerage firms.

STOCKHOLDER INFORMATION

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

Annual Meeting of Stockholders
The annual meeting of Hometown Bancorp, Inc. will be held May 11, 2010 at 4:00pm at the Company's office, 12 Main Street, Walden, NY 12586.

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

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

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

Independent Accounting Firm
ParenteBeard LLC
115 Solar Street, Suite 100
Syracuse, NY 13204

Market Information for Common Stock
The common stock of Hometown Bancorp, Inc. trades on the Over-the-Counter market under the symbol "HTWC.OB." At December 31, 2010, there were approximately 291 stockholders of record, not including the number of persons or entities holding stock in nominee or street names through various brokers and banks.

DIRECTORS AND OFFICERS
Hometown Bancorp, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

Hometown Bancorp, Inc.

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