

2007 Annual Report



Corporate Profile

Home Financial Bancorp was organized in 1996 and is the holding company for Owen Community Bank, s.b., a federally chartered, FDIC insured thrift institution originally organized in 1911. Headquartered in Spencer, Indiana, the Bank was organized under the name Owen County Savings and Loan Association and is the oldest continuously operating financial institution headquartered in Owen County, Indiana.

Operating from its main office in Spencer and its branch office in Cloverdale, the Bank's principal business consists of attracting deposits from consumers and businesses in its market area and originating consumer, residential, multi-family and commercial real estate loans, as well as other non-residential loans.

The Bank is predominantly a portfolio lender that historically has concentrated its lending activities on the origination of loans secured by first mortgage liens for the purchase, construction or refinancing of one-to-four family residential property. Deposits are attracted, principally from within Owen and Putnam Counties, through the offering of a broad selection of deposit instruments including fixed-rate certificates of deposit, NOW and other transaction accounts, and savings accounts.

Owen Community Bank will continue its commitment to meeting the financial service needs of the communities it serves in a friendly, professional manner, while improving shareholder value. We will foster the growth and development of our communities, as well as our employees. We strive to earn a superior return while maintaining an uncompromising commitment to the principles of honesty and integrity. These commitments to our shareholders, customers and employees will enable the Company to maintain a level of profitability necessary to remain independent for the benefit of the communities we serve.

Home Financial Bancorp's common stock is traded on the OTC Bulletin Board under the symbol "HWEN".

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Additional Information Available Upon Request*

- Independent Accountant's Report
- Audited Financial Statements

* Also available at www.owencom.com

Forward-Looking Statements

This Annual Report to Shareholders contains statements regarding the intent, belief, outlook, estimate or expectations of the Company, the directors or its officers primarily with respect to future events and the Company's future financial performance. Readers of this Annual Report are cautioned that any such forward-looking statements are not guarantees of future events or performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. Factors that could cause such differences include changes in interest rates; loss of deposits and loan demand to other savings and financial institutions; substantial changes in financial markets; changes in real estate values and the real estate market; regulatory changes; or unanticipated results in pending legal proceedings.

From the Chairman

“May you live in interesting times...” Is this a blessing or a curse?

This has certainly been an interesting year for OCB, as well as the whole banking industry. The mortgage market has been roiled by the high number of bankruptcies and an attitude of the public to not pay their bills. At this point in time it is very clear that we are in the beginning of a national crises dealing with the various loan instruments that have been sold, involving money that should never have been lent.

The root of current credit industry problems can be traced to easy money supplied by Wall Street firms through mortgage brokers aided by Fannie Mae and Freddie Mac relationships. Mortgage loan rates were set at levels that have had a profound effect on interest rate spread and the prolonged period of easy access to credit has increased the volume of potential loan loss across the mortgage industry.

Banks and thrifts are struggling in the current operating environment. Net interest margin continues to contract – due in part to the impact of loan delinquencies, a flat-to-inverted yield curve, and extremely competitive loan pricing. Your Bank has been diligently facing this situation for over two years. In due course, we have taken our lumps on bad loans as required and tightened loan requirements as conditions called for. To a certain degree we have sacrificed growth by tightening underwriting standards in response to concerns over future asset quality and unattractive spreads.

I personally feel that much of the problem can be attributed to a lack of ethics on the part of borrowers – made more obvious with easy money and credit card debt. The media tends to blame sub-prime lending but the truth is that the problems go far beyond sub-prime to include the better “prime” customers. Fact is, some borrowers have found themselves unable to make payments because of unfortunate personal circumstances or a change in income, but rather than tough it out and make payments, they choose to put the onus on the lender and walk away from their own responsibilities.

As many of you know, I was away from the Bank for over ninety days this past year due to health issues. While I was gone the Bank ran beautifully under the guidance of Kurt Rosenberger, Mike Monnett and the rest of the Board. I am happy to be back and feel that I have pretty well overcome my heart problems. I am still resting and getting back to normal.

In closing I want to thank all of you for your support of this Bank during a trying (and interesting) time.



Frank R. Stewart
Chairman of the Board

From the President

It was a mixed year with many positives, but frankly, I will not remember 2007 fondly. We made significant strides toward improved asset quality, but it was costly. We added excellent new directors, but also suffered illness and loss within our leadership. Most importantly, through hard work and dedication, Home Financial Bancorp remains strong, focused and well prepared for a dynamic future.

Continued high expenses for bad loans and inflated funding costs led to disappointing earnings for the year. In order to protect assets and recover investments, we were forced to foreclose on a lot of residential properties in 2007. We never want to foreclose on a mortgage. It is costly to both the Bank and to our borrowers. Whenever possible, we try to work out an arrangement that will allow borrowers to retain their home. But when they are unable or unwilling to honor agreed repayment terms, our only option is to seek repayment through liquidation of collateral. Loan charge-offs totaled \$199,000 and repossession costs were \$302,000 for the year.

Important progress was made in reducing problem assets during the year. Loans delinquent 90 days or more decreased \$714,000 or 41% and repossessed assets fell \$148,000 or 20%, compared to twelve months earlier. Problem asset levels are still too high, but I believe we have implemented changes that will result in long-term asset quality improvement. Evidence to this point is the fact that no loan originated during the past two years was in non-performing status at June 30, 2007.

Even though we have not changed our focus from residential mortgage lending, we have changed our procedures greatly; both in how we make loans and handle collections. Our underwriting standards are higher and the difference is reflected in better average credit scores and lower loan-to-value percentages. We have also successfully expanded our focus to include selling secondary market loans.

Administrative and software changes were implemented to make collections more effective. Monitoring, tracking and reporting capabilities are much better now, and we are set up to communicate directly with delinquent borrowers earlier in the collection process. In 2007, we also got more aggressive with recovery efforts for assets we were forced to repossess; liquidating 33 foreclosed properties during the year.

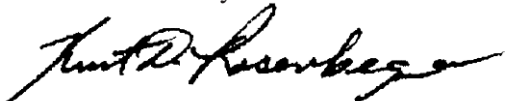
Delaying recovery efforts was not a viable option. Mounting loan defaults throughout the mortgage industry are dumping more houses onto the market and eroding home prices, especially at the low end. Consequently, credit recovery risk will likely continue, and may worsen. In preparation for this operating environment, allowances for loan losses increased 13% and totaled \$565,000, or .92% of total loans at fiscal year-end. Rather than merely making enough provisions for loan losses to replace reserves depleted by charge-offs, we added to reserves for future problems.

Fortunately, we do not have non-traditional mortgages – such as “piggyback” mortgages, low-doc and no-doc loans, interest only loans and loans with optional payment terms that allow negative amortization. All of these risky loan types have grown quickly in popularity over the last several years – especially in areas that experienced record home-price growth in recent years. Our loan originations have been, and will continue to be, dominated by conventional fixed rate residential mortgage products.

Higher funding costs also hurt earnings in 2007. Interest expense increased by \$420,000 or 20% due to an upward shift in the average rate paid on deposits and borrowed money. Despite higher interest costs and intensely competitive loan pricings, our net interest margin remains healthy at 3.8%, and compares well to our national peer group’s 3.0% average.

I sincerely appreciate the efforts of our staff during a difficult year. We made vital progress in many areas. On-line banking was introduced, loan quality improved, problem assets declined, fee revenue increased, cost-control measures were applied, and a number of service-oriented technology improvements were implemented.

I do not take for granted the patience and support of our shareholders as we work to restore profitability to a more acceptable level – thank you! Finally, I want to express my deepest appreciation to the Board of Directors for its firm guidance during a period of significant change. With the welcome addition of two directors, we also confronted the temporary absence of both our Chairman and Vice Chairman due to illnesses, and the loss of our extraordinary friend, John T. Gillaspay. He contributed a lifetime of service and leadership to this community, including 20 years of distinction as a director of Home Financial Bancorp and Owen Community Bank. We continue to grieve the loss of his wise and steady counsel.



Kurt D. Rosenberger
President and Chief Executive Officer

Selected Financial Data

At or For the Year Ended June 30

(\$ in thousands, except per share data)

	2007	2006	2005	2004	2003
OPERATIONS DATA					
Net interest income	\$ 2,732	\$ 2,994	\$ 3,215	\$ 3,044	\$ 3,078
Provision for losses on loans	260	421	250	240	230
Total other income	580	533	375	63	132
Total other expense	2,841	2,825	2,773	2,563	2,483
Income before provision for income taxes	211	281	567	304	497
Provision for income taxes	36	22	115	(57)	152
Net income	\$ 175	\$ 259	\$ 452	\$ 361	\$ 345
FINANCIAL CONDITION DATA					
Total Assets	\$74,900	\$76,400	\$69,653	\$63,426	\$61,671
Loans receivable, net	61,037	62,619	55,732	50,721	48,500
Cash and cash equivalents	4,901	4,332	4,693	3,635	4,612
Securities available for sale	1,887	2,050	2,595	2,438	2,869
Deposits	45,518	44,543	44,655	38,896	38,539
Borrowed funds	21,500	24,000	17,000	17,000	16,000
Stockholders' equity	7,480	7,429	7,329	7,126	6,721
Non-performing assets	1,608	2,470	2,138	1,626	1,128
Net loan chargeoffs	195	311	256	160	258
Allowance for loan losses	565	500	390	396	316
SELECTED FINANCIAL RATIOS					
Tangible equity to total assets	9.99%	9.72%	10.52%	11.24%	10.90%
Total risk-based capital	15.73	14.53	14.87	14.95	14.24
Net interest margin	3.89	4.36	5.22	5.40	5.09
Interest rate spread	3.57	4.04	5.00	5.18	4.87
Return on average assets	0.23	0.35	0.66	0.59	0.53
Return on average equity	2.36	3.50	6.26	5.21	5.26
Non-performing assets to total assets	2.15	3.23	3.07	2.56	1.83
PER COMMON SHARE DATA					
Basic earnings	\$ 0.13	\$ 0.20	\$ 0.35	\$ 0.28	\$ 0.27
Fully diluted earnings	0.13	0.20	0.34	0.27	0.27
Tangible book value	5.50	5.48	5.40	5.25	4.96
Market value	4.90	5.45	6.75	6.29	5.15
Cash dividend declared	0.12	0.12	0.12	0.12	0.12

Shareholder Information

Annual Meeting

The annual meeting of shareholders will be held at 3:00 p.m., Eastern Daylight Time, on October 9, 2007, at the Holding Company's office at 279 East Morgan Street, Spencer, Indiana.

Notice of the meeting and a proxy statement are included with this mailing to shareholders of record at the close of business on August 21, 2007.

Investor Relations

This Annual Report to Shareholders includes selected consolidated financial data and other information for the fiscal year ended June 30, 2007.

Shareholders, analysts and others interested in additional information may contact:

Kurt D. Rosenberger
President and Chief Executive Officer
P.O. Box 187
Spencer, IN 47460
(812) 829-2095

Stock Listing

Home Financial Bancorp's common stock is publicly traded on the OTC Bulletin Board under the symbol "HWEN".

Directors

Frank R. Stewart, Chairman
Robert W. Raper, Vice Chairman
John A. Gillaspay
Charles H. Hardesty
Gary M. Monnett
Stephen Parrish
Kurt D. Rosenberger
Tad Wilson

Stock Transfer Agent and Registrar

Shareholders requiring a change of name, address or ownership of stock, as well as information about shareholder records, lost or stolen certificates, dividend checks, and dividend direct deposit should contact:

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

Independent Auditor

BKD, LLP
201 North Illinois Street
Indianapolis, IN 46204

Counsel

Barnes & Thornburg LLP
11 South Meridian Street
Indianapolis, IN 46204

Hickam & Lorenz
202 South Main Street
Cloverdale, IN 46120

Officers

Kurt D. Rosenberger – President, CEO
Gary M. Monnett – Exec. Vice President, CFO
Lori Porter – Vice President
Tammy Randolph – Vice President
Rodger Samuels – Vice President
Lisa Wilson – Vice President
Christie Leach – Assistant Vice President
Mel McHaley – Assistant Vice President
Judy Terrell – Assistant Vice President
Tina Smallwood – Assistant Branch Manager