



## ***2008 Annual Report***

**279 E. Morgan Street  
Spencer, Indiana 47460  
[www.owencom.com](http://www.owencom.com)**

## Corporate Profile

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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. Our 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".

### Contents

- Chairman's Letter to Shareholders
- President's Letter to Shareholders
- Selected Financial Data
- Shareholder Information

### Additional Information Available Upon Request\*

- Independent Accountant's Report
- Audited Financial Statements

\* Also available at [www.owencom.com](http://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

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At the time of Princess Diana's death, Queen Elizabeth II commented that the year turned out to be "annus horribilis." I think that the fiscal year 2008, could also be considered by the same name.

In response to widespread distress in the housing market, legislation has passed to support the long-term viability of financially weak Fannie Mae and Freddie Mac. This new reform legislation, called The Housing and Economic Recovery Act of 2008, also tries to solve abuses in the mortgage lending industry. Add to this the unprecedented bailout of Bear Stearns, rising inflation, slowing economy and a presidential election year - we have a future full of uncertainty.

Closer to home, delinquent borrowers and a soft real estate market continue to cause us problems. However, OCB, your bank, had the foresight to anticipate events and took measures to work with troubled customers. Those customers who had losses of income and really wished to keep their homes were helped as much as possible. Others that simply felt they could stay in their home, not communicate with the bank and not pay were not accommodated, although we tried. Bottom line is that many had an incorrect sense of priorities and needed to realize that just because the media led them to believe they could acquire the house for free, it was not going to happen at this bank.

The quality of applications has improved, our capital is high and there is a light at the end of the tunnel. It is good to look at fiscal 2008 in the rear view mirror and look forward to 2009. We are in much better shape than many banks to deal with the uncertainties ahead.

Thanks for your support during another trying year.



Frank R. Stewart  
*Chairman of the Board*

## From the President

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Results achieved in 2008 for Home Financial Bancorp and its subsidiary, Owen Community Bank, s.b., represent progress in the right direction. Our performance is not yet at the level we want, but the rebound in earnings is gratifying. Despite an extremely harsh operating environment, we also saw improvement in areas key to the Company's long-term success.

Home Financial Bancorp ended the year in a very strong capital position. Capital ratios far exceeded regulatory requirements; with tangible equity to total assets nearly 11% and risk-based capital at 17%. This solid financial footing provides the strength required to face tumultuous times with confidence.

Non-interest income continued its growth trend in 2008; improving 33% compared to 2007. An internal efficiency analysis and profit enhancement actions boosted non-interest income and lowered various expenses. New product and service delivery structures helped diversify and increase fee income. Though modest in amount, secondary market mortgage loan sales generated 2008 income. As a newly approved FHS lender, we anticipate increased opportunity for fee income from loan sales.

Some headway has been made controlling non-interest expenses. As a result, total other expense fluctuated very little year-to-year since 2005. Going forward, further action will be taken to control costs and improve operating efficiencies. However, the biggest obstacle to meaningful expense

reduction continues to be non-performing assets. Costs related to these problem assets ranged from \$400,000 to \$500,000 over each of the last five years. Until asset quality issues are more fully resolved, Company performance will fall short of potential.

Non-performing asset levels at year end remain too high despite actions taken to improve the situation. Progress is agonizingly slow and unsteady. Higher quality loan production over the past several years is expected to reduce future credit problems. To deal with poor performing loans still in the portfolio, we have an effective monitoring and management structure in place.

Future loan performance will be driven by economic conditions, public policy and personal events. Unlike some large banks in the news with loan problems tied to steep payment adjustments or fraud issues, our delinquencies tend to be caused by adverse life events, such as job loss, divorce, and medical hardships.

Unfortunately, there are also defaults due to borrower negligence. Adverse life events will continue to cause disruption for the most financially vulnerable and personally irresponsible borrowers. In the past year, we drastically expanded efforts to work with conscientious borrowers to help them retain their homes during tough times. Nobody wins when foreclosure is the last resort.

Loans originated by brokers without concern for a borrower's ability to pay undeniably contributed to the on-going mortgage industry meltdown. Simply stated, they didn't care about people. A community bank can't survive operating that way. Banking is a "people business." Or more accurately, *community banks* are in the "people business."

Policymakers and powerbrokers seem to view community banks as expendable or "too small to bail." Despite constituting 96% of all banks in the United States, community banks are treated as minor league, or even the little leagues of banking. Community banks don't have the political protection, size, stature, fame, salaries or big league heavy hitters of Wall Street banks.

But, you know, community banks, like little league ball parks are where families gather and grow together. It's where people strive to nurture something good for their future, and future generations. They care about each other and how the future unfolds for one another. They dream together, plan together, work together, and succeed together. They also feel the pain of losses suffered by others. And in hard times, they help each other. In the big leagues, loyalties are fleeting, scandals rampant, integrity negotiable, behavior irresponsible and failures...simply stunning.

I am optimistic in these highly uncertain times. Optimistic, because we have a solid financial foundation, a stable non-interest income growth trend, a diminishing pace of expense inflation, and effective procedures to monitor, manage and most importantly, to avoid new credit problems. I am guarded in my optimism because many factors that influence our performance are outside local control. Now that mega-banks are sick, it is hard to predict what medicine will be shoved down the throat of community banks.

Regardless of the political, economic and regulatory environment ahead, I am gratified to have a tremendous team of seasoned employees to meet our future challenges together. I would like to thank all of our Directors for their service to our Company. Thanks also to our employees, customers and shareholders, who have made this year possible for Home Financial Bancorp and *Our Community Bank*.



Kurt D. Rosenberger  
*President and Chief Executive Officer*

## Selected Financial Data

At or For the Year Ended June 30

<i>(\$ in thousands, except per share data)</i>	<b>2008</b>	2007	2006	2005	2004
<b>OPERATIONS DATA</b>					
Net interest income . . . . .	<b>\$ 2,708</b>	\$ 2,732	\$ 2,994	\$ 3,215	\$ 3,044
Provision for losses on loans . . . . .	<b>240</b>	260	421	250	240
Total other income . . . . .	<b>773</b>	580	533	375	63
Total other expense . . . . .	<b>2,831</b>	2,841	2,825	2,773	2,563
Income before provision for income taxes . . . . .	<b>410</b>	211	281	567	304
Provision for income taxes . . . . .	<b>54</b>	36	22	115	(57)
Net income . . . . .	<b>\$ 356</b>	\$ 175	\$ 259	\$ 452	\$ 361
<b>FINANCIAL CONDITION DATA</b>					
Total Assets . . . . .	<b>\$ 71,152</b>	\$74,900	\$76,400	\$69,653	\$63,426
Loans receivable, net . . . . .	<b>59,637</b>	61,037	62,619	55,732	50,721
Cash and cash equivalents . . . . .	<b>4,797</b>	4,901	4,332	4,693	3,635
Securities available for sale . . . . .	<b>1,017</b>	1,887	2,050	2,595	2,438
Deposits . . . . .	<b>42,164</b>	45,518	44,543	44,655	38,896
Borrowed funds . . . . .	<b>21,000</b>	21,500	24,000	17,000	17,000
Stockholders' equity . . . . .	<b>7,682</b>	7,480	7,429	7,329	7,126
Non-performing assets . . . . .	<b>2,674</b>	1,608	2,470	2,138	1,626
Net loan chargeoffs . . . . .	<b>213</b>	195	311	256	160
Allowance for loan losses . . . . .	<b>592</b>	565	500	390	396
<b>SELECTED FINANCIAL RATIOS</b>					
Tangible equity to total assets . . . . .	<b>10.80%</b>	9.99%	9.72%	10.52%	11.24%
Total risk-based capital . . . . .	<b>16.98</b>	15.73	14.53	14.87	14.95
Net interest margin . . . . .	<b>4.02</b>	3.89	4.36	5.22	5.40
Interest rate spread . . . . .	<b>3.60</b>	3.57	4.04	5.00	5.18
Return on average assets . . . . .	<b>0.49</b>	0.23	0.35	0.66	0.59
Return on average equity . . . . .	<b>4.68</b>	2.36	3.50	6.26	5.21
Non-performing assets to total assets . . . . .	<b>3.76</b>	2.15	3.23	3.07	2.56
<b>PER COMMON SHARE DATA</b>					
Basic earnings . . . . .	<b>\$ 0.27</b>	\$ 0.13	\$ 0.20	\$ 0.35	\$ 0.28
Fully diluted earnings . . . . .	<b>0.27</b>	0.13	0.20	0.34	0.27
Tangible book value . . . . .	<b>5.66</b>	5.50	5.48	5.40	5.25
Market value . . . . .	<b>3.50</b>	4.90	5.45	6.75	6.29
Cash dividend declared . . . . .	<b>0.12</b>	0.12	0.12	0.12	0.12

## Shareholder Information

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### Annual Meeting

The annual meeting of shareholders will be held at 3:00 p.m., Eastern Daylight Time, on October 14, 2008, 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 19, 2008.

### Investor Relations

This Annual Report to Shareholders includes selected consolidated financial data and other information for the fiscal year ended June 30, 2008.

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  
10 South Main Street  
Spencer, IN 47460

### Officers

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