

Home Financial Bancorp

Accountants' Report and Consolidated Financial Statements

June 30, 2010 and 2009

Home Financial Bancorp

June 30, 2010 and 2009

Contents

Independent Accountants' Report.....	1
---	----------

Consolidated Financial Statements

Balance Sheets.....	2
Statements of Income	3
Statements of Stockholders' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Accountants' Report

Audit Committee, Board of Directors and Stockholders
Home Financial Bancorp
Spencer, Indiana

We have audited the accompanying consolidated balance sheets of Home Financial Bancorp as of June 30, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Home Financial Bancorp as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD_{LLP}

Indianapolis, Indiana
August 31, 2010

Home Financial Bancorp
Consolidated Balance Sheets
June 30, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Cash	\$ 877,395	\$ 754,304
Short-term interest-bearing deposits	3,803,899	4,515,541
Total cash and cash equivalents	4,681,294	5,269,845
Interest-bearing deposits	1,063,669	1,000,000
Investment securities - available for sale	3,703,859	1,391,394
Loans, net of allowance for loan losses of \$676,528 and \$612,506	57,106,182	56,816,797
Real estate acquired for development	287,119	307,863
Premises and equipment	1,942,220	1,957,013
Federal Home Loan Bank of Indianapolis stock	1,187,700	1,187,700
Interest receivable	375,333	370,097
Other assets	1,884,509	1,550,395
Total assets	<u>\$ 72,231,885</u>	<u>\$ 69,851,104</u>

Liabilities

Deposits		
Noninterest-bearing deposits	\$ 4,403,574	\$ 3,913,255
Interest-bearing deposits	42,814,901	39,352,402
Total deposits	47,218,475	43,265,657
Borrowings	16,500,000	18,500,000
Other liabilities	512,634	390,611
Total liabilities	<u>64,231,109</u>	<u>62,156,268</u>

Commitments and Contingencies

Stockholders' Equity

Preferred stock, without par value		
Authorized and unissued - 2,000,000 shares	—	—
Common stock, without par value		
Authorized - 5,000,000 shares		
Issued and outstanding - 2010 - 1,350,605 shares and 2009 - 1,352,926 shares	3,064,874	3,070,676
Additional paid-in capital	142,458	108,442
Retained earnings	4,765,485	4,498,593
Accumulated other comprehensive income	27,959	17,125
Total stockholders' equity	<u>8,000,776</u>	<u>7,694,836</u>
Total liabilities and stockholders' equity	<u>\$ 72,231,885</u>	<u>\$ 69,851,104</u>

Home Financial Bancorp

Consolidated Statements of Income

Years Ended June 30, 2010 and 2009

	2010	2009
Interest Income		
Loans	\$ 4,217,685	\$ 4,422,163
Deposits with financial institutions	44,721	79,484
Investment securities	141,429	58,032
Federal Home Loan Bank stock	<u>26,855</u>	<u>39,312</u>
Total interest and dividend income	<u>4,430,690</u>	<u>4,598,991</u>
Interest Expense		
Deposits	727,909	1,051,259
Federal Home Loan Bank advances	<u>742,017</u>	<u>865,371</u>
Total interest expense	<u>1,469,926</u>	<u>1,916,630</u>
Net Interest Income	2,960,764	2,682,361
Provision for loan losses	<u>381,000</u>	<u>375,000</u>
Net Interest Income After Provision for Loan Losses	<u>2,579,764</u>	<u>2,307,361</u>
Other Income		
Service charges on deposit accounts	489,390	498,861
Gain on sale of real estate acquired for development	11,147	36,894
Net gain on sale of available-for-sale securities	72,440	—
ATM service fees	142,380	127,581
Other income	<u>138,380</u>	<u>105,878</u>
Total other income	<u>853,737</u>	<u>769,214</u>
Other Expenses		
Salaries and employee benefits	1,205,464	1,146,332
Net occupancy expenses	122,878	128,518
Equipment expenses	34,685	36,629
Computer processing fees	382,948	420,765
ATM transaction fees	131,205	130,174
Printing and office supplies	50,148	48,223
Legal and professional fees	93,898	122,905
Director and committee fees	67,400	74,150
Advertising expense	75,805	86,131
Repossessed property expense	194,066	330,320
Equity in losses of partnership	62,886	82,707
Other expenses	<u>362,858</u>	<u>400,487</u>
Total other expenses	<u>2,784,241</u>	<u>3,007,341</u>
Income Before Income Tax	649,260	69,234
Income tax expense (benefit)	<u>218,810</u>	<u>(80,130)</u>
Net Income	<u>\$ 430,450</u>	<u>\$ 149,364</u>
Net Income Per Share		
Basic	\$.33	\$.11
Diluted	.33	.11

Home Financial Bancorp
Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2010 and 2009

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, July 1, 2008	1,356,726	\$ 3,080,176	\$ 85,219	\$ 4,516,135	\$ 337	\$ 7,681,867
Comprehensive income						
Net income				149,364		149,364
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					16,788	<u>16,788</u>
Comprehensive income						<u>166,152</u>
Cash dividends (\$.12 per share)				(162,617)		(162,617)
Recognition Retention Plan and Trust (RRP) shares earned			23,223			23,223
Purchase of stock	<u>(3,800)</u>	<u>(9,500)</u>		<u>(4,289)</u>		<u>(13,789)</u>
Balances, June 30, 2009	1,352,926	3,070,676	108,442	4,498,593	17,125	7,694,836
Comprehensive income						
Net income				430,450		430,450
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					10,834	<u>10,834</u>
Comprehensive income						<u>441,284</u>
Cash dividends (\$.12 per share)				(162,227)		(162,227)
Recognition Retention Plan and Trust (RRP) shares earned			34,016			34,016
Purchase of stock	<u>(2,321)</u>	<u>(5,802)</u>		<u>(1,331)</u>		<u>(7,133)</u>
Balances, June 30, 2010	<u>1,350,605</u>	<u>\$ 3,064,874</u>	<u>\$ 142,458</u>	<u>\$ 4,765,485</u>	<u>\$ 27,959</u>	<u>\$ 8,000,776</u>

Home Financial Bancorp

Consolidated Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Net income	\$ 430,450	\$ 149,364
Items not requiring (providing) cash		
Provision for loan losses	381,000	375,000
Investment securities amortization, net	6,880	2,690
RRP shares earned	34,016	23,223
Depreciation	85,713	85,577
Deferred income taxes	120,407	(32,931)
Gain on sale of real estate acquired for development	(11,147)	(36,894)
Foreclosed asset losses	35,258	124,011
Investment securities gains	(72,440)	—
Losses from partnership	62,886	82,707
Net change in interest receivable	(5,236)	22,369
Other adjustments	<u>(239,929)</u>	<u>(126,265)</u>
Net cash provided by operating activities	<u>827,858</u>	<u>668,851</u>
Investing Activities		
Net change in interest-bearing deposits	(63,669)	(600,000)
Purchase of securities available for sale	(4,190,204)	(496,575)
Proceeds from sales of securities available for sale	1,903,408	—
Proceeds from maturities and paydowns of securities available for sale	57,828	146,929
Net changes in loans	(1,184,460)	1,844,509
Proceeds from sale of foreclosed assets	316,259	510,242
Purchase of premises and equipment	(70,920)	(29,326)
Purchase of real estate acquired for development and development cost	(566)	(11,334)
Proceeds from sale of real estate acquired for development	<u>32,457</u>	<u>13,600</u>
Net cash provided by (used in) investing activities	<u>(3,199,867)</u>	<u>1,378,045</u>
Financing Activities		
Net change in		
Noninterest-bearing deposits	490,319	64,171
Interest-bearing deposits	3,462,499	1,037,961
Proceeds from other borrowings	3,500,000	3,000,000
Repayment of other borrowings	(5,500,000)	(5,500,000)
Purchase of stock	(7,133)	(13,789)
Dividends paid	<u>(162,227)</u>	<u>(162,616)</u>
Net cash provided by (used in) financing activities	<u>1,783,458</u>	<u>(1,574,273)</u>
Net Change in Cash and Cash Equivalents	(588,551)	472,623
Cash and Cash Equivalents, Beginning of Year	<u>5,269,845</u>	<u>4,797,222</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,681,294</u>	<u>\$ 5,269,845</u>
Additional Cash Flows and Supplementary Information		
Interest paid	\$ 1,477,579	\$ 1,930,375
Income tax paid	248,765	54,481
Transfers from loans to foreclosed assets	514,075	722,889

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Home Financial Bancorp (Company) and its wholly owned subsidiaries, Owen Community Bank, s.b. (Bank) and OCB Insurance Agency, Inc. (OCB Insurance) and the Bank's wholly owned subsidiary, BSF, Inc. (BSF), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the thrift industry. The more significant of the policies are described below.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company is a savings and loan holding company whose principal activity is the ownership and management of the Bank. The Bank operates under a federal thrift charter, known as a federal stock savings bank, and provides full banking services. As a federally chartered thrift, the Bank is subject to regulation by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

The Bank generates mortgage and consumer loans and receives deposits from customers located primarily in Owen, Putnam and surrounding counties. The Bank's loans are generally secured by specific items of collateral including real property and consumer assets.

BSF engages in purchasing and developing large tracts of real estate. After land is purchased, BSF subdivides the real estate into lots, makes improvements such as streets, and sells individual lots, usually on contract for deed. OCB Insurance provides auto and hazard insurance primarily to customers of the Bank.

Consolidation - The consolidated financial statements include the accounts of the Company, Bank, BSF and OCB Insurance after elimination of all material intercompany transactions.

Cash Equivalents - The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Investment Securities - Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive income, net of tax.

When the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Loans are carried at the principal amount outstanding. A loan is impaired when, based on current information or events, it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Loans whose payments have insignificant delays not exceeding 90 days outstanding are not considered impaired. The Company considers its investment in one-to-four family residential loans and consumer loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Interest income is accrued on the principal balances of loans. The accrual of interest on impaired and nonaccrual loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectible. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans over the contractual lives of the loans. When a loan is paid off or sold, any unamortized loan origination fee balance is credited to income.

Allowance for loan losses is maintained to absorb loan losses based on management's continuing review and evaluation of the loan portfolio and its judgment as to the impact of economic conditions on the portfolio. The evaluation by management includes consideration of past loss experience, changes in the composition of the portfolio, the current condition and amount of loans outstanding, and the probability of collecting all amounts due. Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loan, if collateral dependent. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that as of June 30, 2010, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the area within which the Company operates would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss reserves.

Real estate acquired for development is carried at the lower of cost or fair value. Costs relating to development and improvements of property are allocated to individual lots and capitalized, whereas costs relating to holding the property are expensed. Gains and losses on sales of lots are determined on the specific-identification method.

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the accelerated and straight-line methods based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula.

Pension plan costs are based on actuarial computations and charged to current operations. The funding policy is to pay at least the minimum amounts required by ERISA.

Income tax - The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Earnings per share have been computed based upon the weighted-average common shares and potential common shares outstanding during the period. RRP shares have been excluded from the computation of average common shares and potential common shares outstanding.

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Current Economic Conditions - The current protracted economic decline continues to present financial institutions with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Company.

At June 30, 2010, the Company held \$6,199,000 in commercial real estate loans. Due to national, state and local economic conditions, values for commercial and development real estate have declined significantly, and the market for these properties is depressed.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated balance sheets could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Subsequent events have been evaluated through August 31, 2010, which is the date the consolidated financial statements were available to be issued.

Note 2: Restriction on Cash and Due From Banks

The financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transactions are fully guaranteed by the FDIC for the entire amount in the account.

At June 30, 2010, the Company's cash accounts exceeded federally insured limits by approximately \$271,000. Additionally, the Company had approximately \$2,967,000 at the Federal Home Loan Bank, a government-sponsored entity, which is not insured by the FDIC.

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 3: Investment Securities

	2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
Federal agencies	\$ 1,000	\$ 11	\$ —	\$ 1,011
Corporate bonds	120	—	—	120
Municipal bonds	2,537	49	(14)	2,572
Marketable equity securities	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
Total investment securities	<u>\$ 3,658</u>	<u>\$ 60</u>	<u>\$ (14)</u>	<u>\$ 3,704</u>

	2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
Federal agencies	\$ 506	\$ 5	\$ —	\$ 511
Mortgage-backed securities	359	21	—	380
Corporate bonds	497	2	—	499
Marketable equity securities	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
Total investment securities	<u>\$ 1,363</u>	<u>\$ 28</u>	<u>\$ —</u>	<u>\$ 1,391</u>

Maturities of available-for-sale investments at June 30, 2010:

	Amortized Cost	Approximate Fair Value
Within one year	\$ —	\$ —
One to five years	305	307
Five to ten years	1,967	1,982
After ten years	1,385	1,414
Marketable equity securities not due on a single maturity date	<u>1</u>	<u>1</u>
	<u>\$ 3,658</u>	<u>\$ 3,704</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Securities with a carrying value of \$0 and \$380,000 were pledged at June 30, 2010 and 2009 to secure FHLB advances.

Proceeds from sales of securities available for sale during 2010 and 2009 were \$1,903,000 and \$0, respectively. Gains realized from sales of securities during 2010 and 2009 totaled \$72,000 and \$0, respectively. There were no losses from sales of securities realized during 2010 and 2009. Net gains on security transactions for 2010 and 2009 resulted in a tax expense of \$29,000 and \$0.

At June 30, 2010, certain investments in municipal bond securities are reported in the 2010 financial statements at an amount less than their historical cost. At June 30, 2009, no investments were in a loss position. Total fair value of these investments at June 30, 2010 was \$779,000, which is approximately 21.0 percent of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates.

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2010.

Description of Securities	Less Than 12 Months		2010 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds	\$ <u>779</u>	\$ <u>(14)</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>779</u>	\$ <u>(14)</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 4: Loans and Allowance

	2010	2009
Real estate mortgage loans		
Residential	\$ 41,821	\$ 41,027
Mobile home and land	7,296	6,258
Nonresidential	6,199	6,354
Mobile home loans	2,738	3,236
Commercial and industrial	186	201
Consumer loans	<u>280</u>	<u>396</u>
	<u>58,520</u>	<u>57,472</u>
Undisbursed portion of loans	(700)	—
Deferred loan fees	(37)	(42)
Allowance for loan losses	<u>(677)</u>	<u>(613)</u>
	<u>(1,414)</u>	<u>(655)</u>
Total loans	<u>\$ 57,106</u>	<u>\$ 56,817</u>

	2010	2009
Allowance for loan losses		
Balances, July 1	\$ 613	\$ 592
Provision for loan losses	381	375
Recoveries	9	6
Loans charged off	<u>(326)</u>	<u>(360)</u>
Balances, June 30	<u>\$ 677</u>	<u>\$ 613</u>

Information on impaired loans is summarized below:

	2010	2009
Impaired loans with an allowance	\$ 1,050	\$ 1,047
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	<u>326</u>	<u>—</u>
Total impaired loans	<u>\$ 1,376</u>	<u>\$ 1,047</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

	<u>2010</u>	<u>2009</u>
Average balance of impaired loans	\$ 1,289	\$ 974
Interest income recognized on impaired loans	34	37
Cash-basis interest included above	5	37
Allowance for impaired loans (included in the Company's allowance for loan losses)	\$ 186	\$ 157

At June 30, 2010 and 2009, there were no accruing loans delinquent 90 days or more. Nonaccruing loans at June 30, 2010 and 2009 were \$2,363,000 and \$2,635,000, respectively.

Note 5: Premises and Equipment

	<u>2010</u>	<u>2009</u>
Land	\$ 376	\$ 348
Buildings	2,629	2,629
Equipment	<u>1,149</u>	<u>1,106</u>
Total cost	4,154	4,083
Accumulated depreciation	<u>(2,212)</u>	<u>(2,126)</u>
Net	<u>\$ 1,942</u>	<u>\$ 1,957</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 6: Investment in Limited Partnership

An investment in a limited partnership of \$181,000 and \$245,000 at June 30, 2010 and 2009 included in other assets represents a 99 percent equity in Cunot Apartments (Cunot), a limited partnership organized to build, own and operate a 24-unit apartment complex for senior living. In addition to recording its equity in the losses of Cunot, the Company has recorded the benefit of low income housing tax credits of \$107,000 for the year ended June 30, 2009. No credits were recorded for the year ended June 30, 2010. Condensed unaudited financial statements for Cunot at June 30, 2010 and 2009 and for the two years then ended are as follows:

	2010	2009
Condensed balance sheets		
Assets		
Cash	\$ 110	\$ 99
Land and property	1,084	1,117
Other assets	3	3
Total assets	\$ 1,197	\$ 1,219
Liabilities		
Notes payable	\$ 610	\$ 610
Other liabilities	405	361
Total liabilities	1,015	971
Partners' equity	182	248
Total liabilities and partners' equity	\$ 1,197	\$ 1,219
	2010	2009
Condensed statements of operations		
Total revenue	\$ 63	\$ 73
Total expenses	(130)	(165)
Net loss	\$ (67)	\$ (92)

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 7: Deposits

	2010	2009
Noninterest-bearing demand	\$ 4,403	\$ 3,913
Interest-bearing demand	2,862	2,413
Money market deposits	4,078	3,629
Savings	8,575	8,553
Certificates of \$100,000 or more	13,022	9,585
Other certificates	14,278	15,173
Total deposits	\$ 47,218	\$ 43,266

Certificates maturing in years ending June 30:

2011	\$ 15,847
2012	6,772
2013	3,552
2014	625
2015	504
	\$ 27,300

Brokered deposits totaled approximately \$7,044,000 and \$1,100,000 at June 30, 2010 and 2009, respectively.

Note 8: Borrowings

The Federal Home Loan Bank (FHLB) advances totaled \$16,500,000 and \$18,500,000 at June 30, 2010 and 2009, respectively.

At June 30, 2010, the FHLB advances are secured by mortgage loans totaling \$27,978,000. Advances, at interest rates from 0.47 to 5.56 percent, are subject to restrictions or penalties in the event of prepayment. Advances totaling \$3,000,000 may, at certain dates, be converted to adjustable rate advances by the FHLB. If converted, the advances may be prepaid without penalty.

FHLB advance maturities in years ending June 30:

2011	\$ 5,500
2012	3,500
2013	3,000
2014	2,000
2015	500
Thereafter	2,000
	\$ 16,500

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 9: Income Tax

	2010	2009
Income tax expense (benefit)		
Currently payable		
Federal	\$ 53	\$ (62)
State	46	15
Deferred		
Federal	120	(25)
State	<u>—</u>	<u>(8)</u>
Total income tax expense (benefit)	<u>\$ 219</u>	<u>\$ (80)</u>
	2010	2009
Reconciliation of federal statutory to actual tax expense (benefit)		
Federal statutory income tax at 34%	\$ 221	\$ 24
Effect of state income taxes	31	4
Business tax credits	—	(107)
Tax-exempt interest	(29)	(1)
Other	<u>(4)</u>	<u>—</u>
Actual tax expense (benefit)	<u>\$ 219</u>	<u>\$ (80)</u>
Effective tax rate	<u>33.7%</u>	<u>(66.3)%</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	2010	2009
Assets		
Allowance for loan losses	\$ 314	\$ 297
Pension and employee benefit	13	11
Loan fees	16	18
Other real estate owned	23	21
Low income housing credit carry over	79	199
Unrealized capital loss carryforward	50	50
Total assets	495	596
Liabilities		
Depreciation	(97)	(92)
State income tax	(11)	(11)
FHLB stock	(50)	(50)
Prepaid expenses	(41)	(39)
Partnership	(57)	(45)
Other	(16)	(9)
Total liabilities	(272)	(246)
Valuation Allowance		
Beginning balance	(50)	(50)
Increase during the period	—	—
Ending balance	(50)	(50)
Net deferred tax asset	\$ 173	\$ 300

Management believes the low income housing credits will be utilized during the carry forward limitation period.

Retained earnings at June 30, 2010, include approximately \$700,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of June 30, 1988 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses including redemption of bank stock or excess dividends, or loss of "bank status" would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred federal income tax liability on the above amount was approximately \$240,000 at June 30, 2010.

Uncertain Tax Positions - The Company has adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, concerning the accounting and disclosures for uncertain tax positions, previously deferred by ASC 740-10-65. As part of the implementation of this standard, management evaluated its current tax positions and determined the adoption of this standard had no material impact on the consolidated financial statements of the Company. The Company's tax years still subject to examination by authorities are years subsequent to 2007.

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 10: Other Comprehensive Income

	Before-Tax Amount	2010 Tax Expense	Net-of-Tax Amount
Unrealized gains on securities			
Unrealized holding gains arising during the year	\$ 90	\$ (36)	\$ 54
Less: reclassification adjustment for gains realized in net income	72	(29)	43
Other comprehensive income	\$ 18	\$ (7)	\$ 11
	Before-Tax Amount	2009 Tax Expense	Net-of-Tax Amount
Unrealized gains on securities			
Unrealized holding gains arising during the year	\$ 28	\$ (11)	\$ 17
Less: reclassification adjustment for gains realized in net income	—	—	—
Other comprehensive income	\$ 28	\$ (11)	\$ 17

Note 11: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of June 30 were as follows:

	2010	2009
Commitments to extend credit	\$ 2,021	\$ 1,799
Unused lines of credit	266	219

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate or other assets of the borrower.

The Company has entered into agreements with two officers, which provide for salary continuation for a three-year period under certain circumstances, primarily related to change of control of the Company or Bank, as defined. Under the terms of the agreements, these payments could occur if, following a change of control, such officers are terminated other than for cause or unreasonable changes are made in their employment relationships. These agreements extend automatically for one year on each anniversary date unless certain conditions are met.

The Company and Bank are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Company or Bank.

Note 12: Stockholders' Equity

The Company's Board of Directors has approved the repurchase of up to 15 percent of the Company's outstanding shares of common stock. Such purchases will be made subject to market conditions in open market or block transactions.

Note 13: Dividends and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding retained net profits for the current calendar year to date plus those for the previous two calendar years. At June 30, 2010, total stockholder's equity of the Bank was \$7,729,000 of which \$7,330,000 was restricted from dividend distribution to the Company. Although well capitalized, under current regulations in effect, the Bank is required to apply to the Office of Thrift Supervision to pay dividends to the Company.

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 14: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies and is assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations. At June 30, 2010 and 2009, the Bank was categorized as well capitalized and met all subject capital adequacy requirements. There are no conditions or events since June 30, 2010 that management believes has changed the Bank's classification.

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		2010 Required for Adequate Capital		Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	\$ 7,615	18.0%	\$ 3,389	8.0%	\$ 4,236	10.0%
Tier I capital (to risk-weighted assets)	7,085	16.7%	1,694	4.0%	2,542	6.0%
Core capital (to adjusted total assets)	7,085	9.9%	2,857	4.0%	3,572	5.0%
Core capital (to adjusted tangible assets)	7,085	9.9%	1,429	2.0%	N/A	N/A
Tangible capital (to adjusted total assets)	7,085	9.9%	1,071	1.5%	N/A	N/A

	Actual		2009 Required for Adequate Capital		Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	\$ 7,223	17.6%	\$ 3,275	8.0%	\$ 4,093	10.0%
Tier I capital (to risk-weighted assets)	6,711	16.4%	1,637	4.0%	2,456	6.0%
Core capital (to adjusted total assets)	6,711	9.7%	2,767	4.0%	3,459	5.0%
Core capital (to adjusted tangible assets)	6,711	9.7%	1,384	2.0%	—	—
Tangible capital (to adjusted total assets)	6,711	9.7%	1,038	1.5%	—	—

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 15: Employee Benefit Plans

The Bank is a participant in a pension fund known as the Pentegra Group. This plan is a multi-employer plan; separate actuarial valuations are not made with respect to each participating employer. On July 1, 2006, the Company elected to freeze the defined-benefit plan to stop accruing benefits to plan participants beyond what was already earned to that date and to prevent new participants from entering the plan. The plan required contributions in the amount of \$20,000 and \$19,000 for the years ended June 30, 2010 and 2009. The plan provides pension benefits for substantially all of the Bank's employees.

The Company has a Retirement Savings Section 401(k) plan in which substantially all employees may participate. The Company matches participant contributions at the rate of 50 percent of the first 6 percent of base salary contributed by participants. The Company contributes an additional 2 percent of participant base salary regardless of participant contributions. The Company's expense for the plan was \$35,000 for each of the years ended June 30, 2010 and 2009.

The Company has an ESOP covering substantially all employees of the Bank. At June 30, 2010, all 161,896 ESOP shares have been allocated. As of June 30, 2010, no unearned shares remained. The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. The trustee expense for the ESOP was \$14,000 for each of the years ended June 30, 2010 and 2009.

The Company has a Recognition and Retention Plan and Trust (RRP). The RRP may acquire up to 130,948 shares of the Company's common stock for awards to management. Shares awarded to management under the RRP vest at a rate of 20 percent at the end of each full 12 months of service with the Bank after the date of grant. As of June 30, 2010, 111,898 shares of common stock have been awarded to management. Expense under the RRP was \$34,000 and \$23,000 for the years ended June 30, 2010 and 2009.

The Company has entered into employee agreements with certain officers that provide for the continuation of salary and certain benefits for a specified period of time.

Note 16: Related Party Transactions

The Bank has entered into transactions with certain directors and officers. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans, as defined, to such related parties were as follows:

Balances, July 1, 2009	\$	394
New loans, including renewals		167
Payments, etc. including renewals		<u>(175)</u>
Balances, June 30, 2010	\$	<u>386</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Deposits from related parties held by the Bank at June 30, 2010 and 2009 totaled \$829,000 and \$1,219,000.

Note 17: Stock Option Plan

The Company has reserved 202,370 shares of Company stock for the granting of options to certain directors, officers and other key employees of the Company and the Bank. As of June 30, 2010, there were no stock options outstanding.

Note 18: Earnings Per Share

Earnings per share were computed as follows:

	Net Income	2010 Weighted- Average Shares	Per- Share Amount
Basic Earnings Per Share			
Income available to common stockholders	\$ 430	1,313,788	\$.33
Effect of Dilutive Stock Options	<u>—</u>	<u>114</u>	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	<u>\$ 430</u>	<u>1,313,902</u>	<u>\$.33</u>
	Net Income	2009 Weighted- Average Shares	Per- Share Amount
Basic Earnings Per Share			
Income available to common stockholders	\$ 149	1,311,314	\$.11
Effect of Dilutive Stock Options	<u>—</u>	<u>756</u>	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	<u>\$ 149</u>	<u>1,312,070</u>	<u>\$.11</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	2010	2009
Assets		
Cash and cash equivalents	\$ 123	\$ 220
Securities available for sale	121	1
Premises and equipment	435	454
Investment in subsidiaries	7,742	7,318
Other assets	52	186
Total assets	\$ 8,473	\$ 8,179
Liabilities		
	\$ 472	\$ 484
Stockholders' Equity		
	8,001	7,695
Total liabilities and stockholders' equity	\$ 8,473	\$ 8,179

Condensed Statements of Income

	2010	2009
Income		
Dividends from Bank	\$ 100	\$ 256
Interest and other income	61	52
Total income	161	308
Expenses		
Salaries and employee benefits	20	20
Legal and professional fees	33	49
Other expenses	88	93
Total expenses	141	162
Income before income tax benefit and equity in undistributed income of Bank	20	146
Income tax benefit	(31)	(44)
Income before equity in undistributed income of Bank	51	190
Equity in undistributed income (loss) of Bank	379	(41)
Net Income	\$ 430	\$ 149

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Condensed Statements of Cash Flows

	2010	2009
Operating Activities		
Net income	\$ 430	\$ 149
Items not requiring (providing) cash	<u>(238)</u>	<u>76</u>
Net cash provided by operating activities	<u>192</u>	<u>225</u>
Investing Activity - purchases of securities available for sale	<u>(120)</u>	<u>—</u>
Financing Activities		
Dividends paid	(162)	(163)
Purchase of stock	<u>(7)</u>	<u>(14)</u>
Net cash used in financing activities	<u>(169)</u>	<u>(177)</u>
Net Change in Cash and Cash Equivalents	(97)	48
Cash and Cash Equivalents at Beginning of Year	<u>220</u>	<u>172</u>
Cash and Cash Equivalents at End of Year	\$ <u><u>123</u></u>	\$ <u><u>220</u></u>

Note 20: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are not available, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include federal securities, municipal securities, corporate bonds and mortgage-backed securities. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010 and 2009:

	2010			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Available-for-sale securities				
Federal agencies	\$ 1,011	\$ —	\$ 1,011	\$ —
Corporate bonds	120	—	120	—
Municipal bonds	2,572	—	2,572	—
Marketable equity securities	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>
	<u>\$ 3,704</u>	<u>\$ 1</u>	<u>\$ 3,703</u>	<u>\$ —</u>

	2009			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Available-for-sale securities				
Federal agencies	\$ 511	\$ —	\$ 511	\$ —
Mortgage-backed securities	380	—	380	—
Corporate bonds	499	—	499	—
Marketable equity securities	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>
	<u>\$ 1,391</u>	<u>\$ 1</u>	<u>\$ 1,390</u>	<u>\$ —</u>

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2010 and 2009
(Table Dollar Amounts in Thousands, Except Share Data)

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value if deemed necessary by management.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010 and 2009:

		2010		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ <u>304</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>304</u>

		2009		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ <u>890</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>890</u>