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

FORM 10-K

(Mark One)
x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007 **Commission file number 000-23667**

HOPFED BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State of jurisdiction of incorporation or organization)**	**61-1322555** **(I.R.S. Employer Identification No.)**
4155 Lafayette Road, Hopkinsville, KY **(Address of principal executive offices)**	**42240** **(Zip Code)**

Registrant's telephone number, including area code: (270) 885-1171.

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share
(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (subsection 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (as defined in Rule 12b-2 of the Act).

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Small Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The registrant's voting stock is traded on the NASDAQ Stock Market. The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price ($16.08 per share) at which the stock was sold on June 29, 2007, was approximately $58,497,191. For purposes of this calculation, the term "affiliate" refers to all executive officers and directors of the registrant and all stockholders beneficially owning more than 10% of the registrant's Common Stock.

As of the close of business on March 24, 2008, 3,574,233 shares of the registrant's Common Stock were outstanding.

Documents Incorporated By Reference

Part II:

Annual Report to Stockholders for the year ended December 31, 2007.

Part III:

Portions of the definitive proxy statement for the 2008 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

In February 1998, HopFed Bancorp, Inc. (the “Company”) issued and sold 4,033,625 shares of common stock, par value $.01 per share (the “Common Stock”), in connection with the conversion of Hopkinsville Federal Savings Bank (the “Bank”) from a federal mutual savings bank to a federal stock savings bank and the issuance of the Bank’s capital stock to the Company. The conversion of the Bank, the acquisition of all of the outstanding capital stock of the Bank by the Company and the issuance and sale of the Common Stock are collectively referred to herein as the “Conversion.” In February 2001, the Bank changed its name to Hopkinsville Federal Bank. On May 14, 2002, the Bank changed its name to Heritage Bank.

HopFed Bancorp, Inc.

HopFed Bancorp, Inc. was incorporated under the laws of the State of Delaware in May 1997 at the direction of the Board of Directors of the Bank for the purpose of serving as a unitary savings and loan holding company of the Bank upon the acquisition of all of the capital stock issued by the Bank in the Conversion. The Company’s assets primarily consist of the outstanding capital stock of the Bank. The Company’s principal business is overseeing the business of the Bank. The Company has registered with the Office of Thrift Supervision (“OTS”) as a unitary thrift holding company. See “Regulation – Regulation of the Company.”

As a holding company, the Company has greater flexibility than the Bank to diversify its business activities through existing or newly formed subsidiaries or through acquisition or merger with other financial institutions, although the Company currently does not have any plans, agreements, arrangements or understandings with respect to any such acquisitions or mergers. The Company is classified as a unitary holding company and is subject to regulation by the OTS. The Company’s executive offices are located at 4155 Lafayette Road, Hopkinsville, Kentucky 42240, and its main telephone number is (270) 885-1171. The Company’s mailing address is P.O. Box 537, Hopkinsville, Kentucky 42241-0537.

Heritage Bank

The Bank is a federally chartered stock savings bank headquartered in Hopkinsville, Kentucky, with branch offices in Hopkinsville, Murray, Cadiz, Elkton, Fulton, Calvert City and Benton, Kentucky. The Bank has seven offices in the middle Tennessee communities of Clarksville, Erin, Pleasant View, Ashland City and Kingston Springs. The Bank was incorporated by the Commonwealth of Kentucky in 1879 under the name Hopkinsville Building and Loan Association. In 1940, the Bank converted to a federal mutual savings association and received federal insurance of its deposit accounts. In 1983, the Bank became a federal mutual savings bank. On May 14, 2002, the Bank changed its name from Hopkinsville Federal Bank to Heritage Bank. The primary market area of the Bank consists of the adjacent counties of Calloway, Christian, Todd, Trigg, Fulton, and Marshall located in southwestern Kentucky, Obion & Weakley counties located in northwestern Tennessee and Cheatham, Houston and Montgomery counties located in middle Tennessee.

The business of the Bank primarily consists of attracting deposits from the general public and investing such deposits in loans secured by single family residential real estate and investment securities, including U.S. Government and agency securities, municipal and corporate bonds, collateralized mortgages obligations (CMO’s), and mortgage-backed securities. The Bank also originates single-family residential/construction loans and multi-family and commercial real estate loans, as well as loans secured by deposits, other consumer loans and commercial loans. The Bank’s lending emphasis has changed from residential real estate to commercial and commercial real estate loans as illustrated by the table on page four of this report.

Growth Opportunities

In 2007, the Company experienced significant loan growth in Clarksville, Tennessee, one of the south’s fastest growing metropolitan areas. In 2007, the Company’s loan portfolio in Clarksville exceeded $52.7 million while deposits increased by more than $17 million. Loan growth in Clarksville centered on commercial real estate, residential construction and residential real estate development. Beginning in the fall of 2007, increases in interest rates and limitations on credit availability resulted in a slowdown in residential real estate sales. Residential real estate inventory levels of both new and used homes for sale have increased as compared to the same period last year. There appears to be no significant change in the supply and demand in the commercial real estate market.

In the rural markets of western Kentucky, higher prices for wheat, corn and soybeans helped offset the effects of a moderate drought. In 2007, most rural communities in the region have seen a modest appreciation of commercial real estate values and a minor reduction in the value of residential real estate. The price for productive farm land has increased more than other forms of real estate. In general, the region's corn and wheat farmers have increased production, providing economic growth for the region. The majority of loan growth in western Kentucky was in agri-business and commercial real estate.

In 2008, the Company anticipates slower, but positive, loan growth. In the last five years, the Company's operating area has not seen the explosive growth in real estate values experienced in other parts of the country. Likewise, home values have not experienced the significant declines recently found in other parts of the country. However, neither the Company nor the communities in which it does business are entirely immune to real estate and credit issues affecting the country. In 2007, the inventory of single family homes for sale has grown and the average marketing time for new homes has increased. The current market for both commercial real estate and agricultural land remains strong with no apparent increase in marketing time required to sell both new and previously owned properties.

The Company continues to focus significant resources on enhancing its ability to gather lower cost deposits. In an effort to increase its market share of non-interest bearing and transaction accounts, the Company has signed marketing agreements to place cash machines in retail service stations. These agreements provide for Heritage Bank signage inside and outside of each retail location as well as the cost free use of the cash machines for Heritage Bank customers. The monthly cost of this agreement is far less than the required capital expenditures and expenses for developing stand alone locations. On February 15, 2008, the Company's customer base has access to sixty-four Heritage Bank cash machines compared to six machines five years ago. We believe that the combination of improved customer convenience and name recognition will enhance our ability to grow demand deposit accounts.

The following chart outlines the Bank's market share in its six largest markets individually at June 30, 2004, June 30, 2005, June 30, 2006 and June 30, 2007 according to information provided by the FDIC market Share Report:

	At June 30			
	2004	**2005**	**2006**	**2007**
Calloway	11.8%	12.1%	11.8%	12.6%
Christian	17.8%	20.7%	19.6%	19.8%
Fulton	55.0%	53.4%	54.2%	54.8%
Marshall	8.9%	9.4%	11.3%	12.6%
Cheatham	21.4%(a)	21.9%(a)	16.0%(a)	14.0%
Montgomery (b)	—	—	—	0.5%

(a) Represents the market share reported by AmSouth Bank in Cheatham County, Tennessee. These deposits were purchased by Heritage Bank in June 2006.

(b) The Company opened its first retail banking office in December 2006.

The majority of the Bank's markets continue to provide growth opportunities for both loans and deposits, as customers become dissatisfied with national and regional banks that have entered the market via acquisitions as well as economic growth in the Bank's higher growth markets. The Bank's new internet banking web site with free bill pay, www.bankwithheritage.com, has been a huge success with approximately 8,300 customers participating.

While there is ample opportunity for the Company to grow in its current markets, the Company has continued to seek opportunities to expand into new markets by either branch acquisitions or the acquisition of community banks. These opportunities may present themselves as larger banks may decide to exit markets in Western Kentucky, Middle and West Tennessee. Management will continue to evaluate these opportunities when they become available and pursue those opportunities that fit into the business plan of the Company.

Available Information

The Company's filings with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto, are available on the Company's website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. Copies can be obtained free of charge in the "Investor Relations" section of the Company's website at www.bankwithheritage.com.

Stock Repurchases

On September 20, 2000, the Company announced that its Board of Directors had approved the repurchase of up to 200,000 shares of its common stock. The stock repurchase program was completed in February 2001. On March 26, 2001, the Company announced that its Board of Directors had approved the repurchase of an additional 300,000 shares. The Company replaced the March 2001 repurchase plan with a plan to repurchase an additional 125,000 shares of stock beginning on October 1, 2006 and ending September 31, 2008. The purchases are being made from time to time on the NASDAQ Global Market at prices prevailing on that market or in privately negotiated transactions at management's discretion, depending on market conditions, price of the Company's common stock, corporate cash requirements and other factors. As of March 17, 2008, 504,859 shares of common stock had been repurchased and may purchase an additional 29,050 shares under the current repurchase program. The Company purchased a total of 44,650 shares in 2007. See Part II, Item 5 (Market for Registrant's Common Equity, Related Stockholder Matters and Issuers of Purchases of Equity Securities) for additional information.

Lending Activities

General. The total gross loan portfolio totaled $580.9 million at December 31, 2007, representing 71.9% of total assets at that date. Substantially all loans are originated in the Bank's market area. At December 31, 2007, $222.9 million, or 38.4% of the loan portfolio, consisted of one-to-four family, residential mortgage loans. Other loans secured by real estate include non-residential real estate loans, which amounted to $ 183.2 million, or 31.5% of the loan portfolio at December 31, 2007, and multi-family residential loans, which were $ 24.5 million, or 4.2% of the loan portfolio at December 31, 2007. At December 31, 2007, construction loans were $ 50.2 million, or 8.7% of the loan portfolio, and total consumer and commercial loans totaled $ 100.0 million, or 17.2% of the loan portfolio.

Analysis of Loan Portfolio. Set forth below is selected data relating to the composition of the loan portfolio by type of loan at the dates indicated. At December 31, 2007, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below.

	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(Dollars in thousands)					
Type of Loan:										
Real estate loans:										
One-to-four family Residential	$222,888	38.4%	$225,914	45.2%	$211,564	52.7%	$207,252	57.6%	$191,015	56.6%
Multi-family residential	24,538	4.2%	12,018	2.4%	6,613	1.7%	6,520	1.8%	6,254	1.9%
Construction	50,230	8.7%	39,379	7.9%	16,592	4.1%	2,698	0.7%	3,544	1.1%
Non-residential (1)	183,168	31.5%	147,050	29.4%	102,676	25.6%	40,231	11.2%	39,615	11.7%
Total real estate loans	480,824	82.8%	424,361	84.9%	337,445	84.1%	256,701	71.3%	240,428	71.3%
Other loans:										
Secured by deposits	4,419	0.7%	3,855	0.8%	3,282	0.8%	3,121	0.9%	3,062	0.9%
Other consumer loans	21,331	3.7%	21,630	4.3%	23,642	5.9%	33,287	9.2%	43,147	12.8%
Commercial loans	74,276	12.8%	49,592	10.0%	36,945	9.2%	66,989	18.6%	50,679	15.0%
Total other loans	100,026	17.2%	75,077	15.1%	63,869	15.9%	103,397	28.7%	96,888	28.7%
	580,850	100.0%	499,438	100.0%	401,314	100.0%	360,098	100.0%	337,316	100.0%
Deferred loan cost, net	244		—		—		—		—	
Allowance for loan Losses	(4,842)		(4,470)		(4,004)		(3,273)		(2,576)	
Total	$576,252		$494,968		$397,310		$356,825		$334,740	

(1) Consists of loans secured by first liens on residential lots and loans secured by first mortgages on commercial real property and land.

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2007 regarding the dollar amount of loans maturing in the portfolio based on their contractual maturity dates. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

	Due during the year ending December 31,			Due after 3 through 5 years after December 31,	Due after 5 through 10 years after December 31,	Due after 10 through 15 years after December 31,	Due after 15 years after December 31,	
	2008	2009	2010	2008	2008	2008	2008	Total
	(In thousands)							
One-to-four family residential	$ 4,896	$ 3,352	$ 2,009	$ 5,189	$ 36,167	$ 54,776	$ 116,499	$222,888
Multi-family residential	698	1,855	3,122	274	605	6,417	11,567	24,538
Construction	28,103	4,010	798	13	590	934	15,782	50,230
Non-residential	19,674	16,027	11,992	9,092	29,996	30,705	65,682	183,168
Other	29,993	13,187	14,276	16,820	9,012	2,630	14,108	100,026
Total	$83,364	$38,431	$32,197	$ 31,388	$ 76,370	$ 95,462	$ 223,638	$580,850

The following table sets forth at December 31, 2007, the dollar amount of all loans due after December 31, 2008 which had predetermined interest rates and has floating or adjustable interest rates.

	Predetermined Rate	Floating or Adjustable Rate
	(In thousands)	
One-to-four family residential	$ 39,082	$ 178,910
Multi-family residential	2,751	21,089
Construction	1,800	20,327
Non-residential	48,949	114,545
Other	43,685	26,348
Total	$ 136,267	$ 361,219

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give the lender the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loan market rates are substantially lower than rates on existing mortgage loans.

Originations, Purchases and Sales of Loans. The Bank generally has authority to originate and purchase loans secured by real estate located throughout the United States. Consistent with its emphasis on being a community-oriented financial institution, the Bank conducts substantially all of its lending activities in its market area.

The following table sets forth certain information with respect to loan origination activity for the periods indicated.

	Year Ended December 31,		
	2007	2006	2005
		(In thousands)	
Loan originations:			
One-to-four family residential	$ 74,638	$ 44,560	$ 54,923
Multi-family residential	14,155	5,440	1,270
Construction	67,752	29,095	15,485
Non-residential	88,200	63,968	48,822
Other	70,220	52,169	49,827
Total loans originated	314,965	$195,232	170,327
Loans obtained through acquisition:			
One-to-four family residential	—	28,697	—
Multi-family residential	—	—	—
Construction	—	—	—
Non-residential	—	—	—
Other	—	5,422	—
Total loans purchased	—	34,119	—
Loan reductions:			
Transfer to other real estate owned	476	813	388
(Increase) decrease in loan origination fees, net of income	(244)	—	—
Change in allowance for loan losses	372	466	731
Loans sold	5,449	9,290	11,869
Loan principal payments	227,628	121,124	116,854
Net increase in loan portfolio	$ 81,284	$ 97,658	$ 40,485

Loan originations are derived from a number of sources, including existing customers, referrals by real estate agents, depositors and borrowers and advertising, as well as walk-in customers. Solicitation programs consist of advertisements in local media, in addition to occasional participation in various community organizations and events. Real estate loans are originated by the Bank's loan personnel. Loan applications are accepted at any of the Bank's branches.

Loan Underwriting Policies. Lending activities are subject to written, non-discriminatory underwriting standards and to loan origination procedures prescribed by the Board of Directors and its management. Detailed loan applications are obtained to determine the ability of borrowers to repay, and the more significant items on these applications are verified through the use of credit reports, financial statements and confirmations. Loan requests exceeding loan officer limits must be approved by the loan committee or Board of Directors. In addition, the full Board of Directors reviews all loans on a monthly basis.

Generally, upon receipt of a loan application from a prospective borrower, a credit report and verifications are ordered to confirm specific information relating to the loan applicant's employment, income and credit standing. If a proposed loan is to be secured by a mortgage on real estate, an appraisal of the real estate is undertaken by an appraiser approved by the Board of Directors and licensed or certified (as necessary) by the Commonwealth of Kentucky or the State of Tennessee.

In the case of one-to-four family residential mortgage loans, except when the Bank becomes aware of a particular risk of environmental contamination, the Bank generally does not obtain a formal environmental report on the real estate at the time a loan is made. A formal environmental report may be required in connection with nonresidential real estate loans.

It is the Bank's policy to record a lien on the real estate securing a loan and to obtain a title opinion from Kentucky or Tennessee counsel who provides that the property is free of prior encumbrances and other possible title defects. Borrowers must also obtain hazard insurance policies prior to closing and, when the property is in a flood hazard area, pay flood insurance policy premiums.

The majority of real estate loan applications are underwritten and closed in accordance with the Bank's own lending guidelines, which generally do not conform to secondary market guidelines. Although such loans may not be readily saleable in the secondary market, management believes that, if necessary, such loans may be sold to private investors.

The Bank offers a fixed rate loan program with maturities of 15, 20, and 30 years. These loans are underwritten and closed in accordance with secondary market standards. These loans are originated with the intent to sell on the secondary market. The Bank offers both servicing retained and servicing released products in an attempt to meet the needs of our customers. At December 31, 2007, the Bank's 1-4 family loan servicing portfolio was approximately $38.8 million dollars.

The Bank is permitted to lend up to 100% of the appraised value of the real property securing a mortgage loan. The Bank is required by federal regulations to obtain private mortgage insurance on that portion of the principal amount of any loan that is greater than 90% of the appraised value of the property. Under its lending policies, the Bank will originate a one-to-four family residential mortgage loan for owner-occupied property with a loan-to-value ratio of up to 100% with private mortgage insurance coverage of 30%. For residential properties that are not owner-occupied, the Bank generally does not lend more than 80% of the appraised value. For all residential mortgage loans, the Bank may increase its lending level on a case-by-case basis, provided that the excess amount is insured with private mortgage insurance. Exceptions to this policy must be approved by the loan committee or the Board of Directors. At December 31, 2007, the Bank held approximately $8.6 million of 1-4 family residential mortgages with a loan to value ratio exceeding 90% without private mortgage insurance. For these loans at December 31, 2007, approximately $87,000 was past due more than 30 days.

Under applicable law, with certain limited exceptions, loans and extensions of credit outstanding by a savings institution to a person at one time shall not exceed 15% of the institution's unimpaired capital and surplus. Loans and extensions of credit fully secured by readily marketable collateral may comprise an additional 10% of unimpaired capital and surplus. Applicable law additionally authorizes savings institutions to make loans to one borrower, for any purpose, in an amount not to exceed the lesser of $30.0 million or 30% of unimpaired capital and surplus, provided certain requirements are satisfied. Under these limits, the Bank's loans to one borrower were limited to $9.1 million at December 31, 2007. At that date, the Bank had no lending relationships in excess of the loans-to-one-borrower limit. At December 31, 2007, the Bank had the following loan relationships with balances exceeding $7 million, all of which were current and performing in accordance with their terms at December 31, 2007:

Type of Business	Collateral	Aggregate Balance
Agri-business	Comm. Real Estate (CRE), Receivables, Inventory,	$ 7.3 million
Municipal Industrial Board	CRE, Improved land, Private Corporate guarantee	$ 7.5 million
Retail and Single family home developer (SFH)	CRE, Single Family Homes (SFH) Improved & Unimproved R/E	$ 8.5 million
Builder of SFH	SFH and improved residential property	$ 8.6 million
Builder of SFH	SFH and improved residential property	$ 7.9 million
Retail Food	CRE, inventory, receivables	$ 7.1 million

Interest rates charged by the Bank on loans are affected principally by competitive factors, the demand for such loans and the supply of funds available for lending purposes. These factors are, in turn, affected by general economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and government budgetary matters.

One-to-four Family Residential Lending. The Bank historically has been and continues to be an originator of one-to-four family residential real estate loans in its market area. At December 31, 2007, one-to-four family residential mortgage loans totaled approximately $222.9 million, or 38.4% of the Bank's loan portfolio. The Bank originated approximately $1.8 million in loans that were sold or may be sold in the secondary market with servicing retained and $3.6 million in loans were sold in the secondary market with servicing released. At December 31, 2007, the Bank had approximately $518,000 in one-to-four family residential real estate loans past due more than ninety days.

The Bank originates residential mortgage loans with adjustable rates. As of December 31, 2007, 82.5% of one-to-four family mortgage loans in the Bank's loan portfolio carried adjustable rates or mature within one year. The Bank's one-to-four family loan portfolio consist of closed end first and second mortgages as well as opened ended home equity lines of credit. At December 31, 2007, approximately $190.7 million of the Bank's residential mortgage portfolio consisted of closed end first and second mortgage loans. Such loans are primarily for terms of 25 years, although the Bank does occasionally originate adjustable rate mortgages for 15, 20 and 30 year terms, in each case amortized on a monthly basis with principal and interest due each month. The interest rates on these mortgages are adjusted once per year, with a maximum adjustment of 1% per adjustment period and a maximum aggregate adjustment of 5% over the life of the loan. Prior to August 1, 1997, rate adjustments on the Bank's adjustable rate loans were indexed to a rate which adjusted annually based upon changes in an index based on the National Monthly Median Cost of Funds, plus a margin of 2.75%. Because the National Monthly Median Cost of Funds is a lagging index, which results in rates changing at a slower pace than rates generally in the marketplace, the Bank changed to a one-year Treasury bill constant maturity ("One Year CMT"), which the Bank believes reflects more current market information and thus allows the Bank to react more quickly to changes in the interest rate environment. In mid 2004, the Bank increased its margin on its adjustable rate loans to 3.00%. However, the vast majority of the current adjustable rate portfolio maintains a margin of 2.75% over the One Year CMT.

At December 31, 2007, the Bank has $32.2 million in home equity lines of credit outstanding and $33.8 million of additional credit available. Typically, these loans are for a term of fifteen years and have loan to value ratio of between 80% to 100%. The home equity portfolio is priced at a spread to prime, adjusted daily, depending on the customer's loan to value ratio at the time of origination. Many of the home equity lines of credit require monthly interest payments with all unpaid interest and principal due at maturity.

The retention of adjustable rate loans in the Bank's portfolio helps reduce, but does not eliminate, the Bank's exposure to increases in prevailing market interest rates. However, there are unquantifiable credit risks resulting from potential increases in costs to borrowers in the event of upward repricing of adjustable-rate loans. It is possible that during periods of rising interest rates, the risk of default on adjustable rate loans may increase due to increases in interest costs to borrowers. Further, although adjustable rate loans allow the Bank to increase the sensitivity of its interest-earning assets to changes in interest rates, the extent of this interest sensitivity is limited by the initial fixed-rate period before the first adjustment and the lifetime interest rate adjustment limitations. This risk is heightened by the Bank's practice of offering its adjustable rate mortgages with a 1% limitation on annual interest rate adjustments. Accordingly, there can be no assurance that yields on the Bank's adjustable rate loans will fully adjust to compensate for increases in the Bank's cost of funds. Finally, adjustable rate loans increase the Bank's exposure to decreases in prevailing market interest rates, although the 1% limitation on annual decreases in the loans' interest rate tends to offset this effect. In times of declining interest rates, borrowers often refinance into fixed rate loan products, limiting the Bank's ability to significantly increase its interest rate margin on adjustable rate loans in a declining interest rate market.

The Bank also originates, to a limited extent, fixed-rate loans for terms of 10 and 15 years. Such loans are secured by first mortgages on one-to-four family, owner-occupied residential real property located in the Bank's market area. Because of the Bank's policy to mitigate its exposure to interest rate risk through the use of adjustable rate rather than fixed rate products, the Bank does not emphasize fixed-rate mortgage loans. Fixed rate mortgage loans originated by the Bank are loans that often do not qualify for the secondary market due to numerous factors not related to credit quality. Typically, these products are not priced to be competitive with secondary market loans but to offer as an alternative if that option is not available. At December 31, 2007, 6.7% of the Bank's loan portfolio consisted of fixed-rate one-to-four family loans. To further reduce its interest rate risk associated with such loans, the Bank may rely upon FHLB advances with similar maturities to fund such loans. See "— Deposit Activity and Other Sources of Funds — Borrowing."

Neither the fixed rate nor the adjustable rate residential mortgage loans held in the Bank's portfolio are originated in conformity with secondary market guidelines issued by FHLMC or FNMA. As a result, such loans may not be readily saleable in the secondary market to institutional purchasers. However, such loans may still be sold to private investors whose investment strategies do not depend upon loans that satisfy FHLMC or FNMA criteria. Further, given its high liquidity, the Bank does not currently view loan sales as a necessary funding source.

Construction Lending. The Bank engages in construction lending involving loans to individuals for construction of one-to-four family residential housing, multi-family housing and non-residential real estate located within the Bank's market area, with such loans converting to permanent financing upon completion of construction. The Bank mitigates its risk with construction loans by imposing a maximum loan-to-value ratio of 100% with private mortgage insurance coverage of 30% for homes that will be owner-occupied and 80% for homes being built on a speculative basis.

The Bank also makes loans to qualified builders for the construction of one-to-four family residential housing located in established subdivisions in the Bank's market area. Because such homes are intended for resale, such loans are generally not converted to permanent financing at the Bank. All construction loans are secured by a first lien on the property under construction.

Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction/permanent loans may have adjustable or fixed interest rates and are underwritten in accordance with the same terms and requirements as the Bank's permanent mortgages. Such loans generally provide for disbursement in stages during a construction period of up to six months, during which period the borrower is required to make payments of interest only. The permanent loans are typically 30-year adjustable rate loans, with the same terms and conditions otherwise offered by the Bank. Monthly payments of principal and interest commence the month following the date the loan is converted to permanent financing. Borrowers must satisfy all credit requirements that would apply to the Bank's permanent mortgage loan financing prior to receiving construction financing for the subject property.

Construction financing generally is considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be confronted at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. The ability of a developer to sell developed lots or completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. The Bank has sought to minimize this risk by limiting construction lending to qualified borrowers in the Bank's market area, by requiring the involvement of qualified builders, and by limiting the aggregate amount of outstanding construction loans.

At December 31, 2007, the Bank's loan portfolio included \$50.2 million of loans secured by properties under construction, including construction/permanent loans structured to become permanent loans upon the completion of construction and interim construction loans structured to be repaid in full upon completion of construction and receipt of permanent financing. At December 31, 2007, approximately \$28.6 million of construction loans were for one-to-four family dwellings, \$11.2 million were for multi-family dwellings and \$10.4 million were for non-residential real estate. At December 31, 2007, there were no construction loans past due more than ninety days.

Multi-Family Residential and Non-Residential Real Estate Lending. The Bank's multi-family residential loan portfolio consists of fixed and adjustable rate loans secured by real estate. At December 31, 2007, the Bank had \$24.5 million of multi-family residential loans, which amounted to 4.2% of the Bank's loan portfolio at such date. The Bank's non-residential real estate portfolio generally consists of adjustable and fixed rate loans secured by first mortgages on commercial real estate, residential lots, and rental property. In each case, such property is located in the Bank's market area. At December 31, 2007, the Bank had approximately \$183.2 million of such loans, which comprised 31.5% of its loan portfolio. Multi-family residential real estate loans are underwritten with loan-to-value ratios up to 80% of the appraised value of the property. Non-residential real estate loans are underwritten with loan-to-value ratios up to 65% of the appraised value for raw land and 75% for land development loans.

Multi-family residential and non-residential real estate lending entails significant additional risks as compared with one-to-four family residential property lending. Multi-family residential and commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. The payment experience on such loans typically is dependent on the successful operation of the real estate project, retail establishment or business. These risks can be significantly impacted by supply and demand conditions in the market for the office, retail and residential space, and, as such, may be subject to a greater extent to adverse conditions in the economy generally. To minimize these risks, the Bank generally limits itself to its market area or to borrowers with which it has prior experience or who are otherwise known to the Bank. It has been the Bank's policy to obtain annual financial statements of the business of the borrower or the project for which multi-family residential real estate or commercial real estate loans are made. At December 31, 2007, there were no multi-family loans and no non-residential mortgage loans delinquent by 90 days or more.

Consumer Lending. The consumer loans currently in the Bank's loan portfolio consist of loans secured by savings deposits and other consumer loans. Savings deposit loans are usually made for up to 90% of the depositor's savings account balance. The interest rate is approximately 2.0% above the rate paid on such deposit account serving as collateral, and the account must be pledged as collateral to secure the loan. Interest generally is billed on a quarterly basis. At December 31, 2007, loans on deposit accounts totaled $ 4.4 million, or 0.7% of the Bank's loan portfolio. Other consumer loans include automobile loans, the amount and terms of which are determined by the loan committee, and home equity and home improvement loans, which are made for up to 100% of the value of the property. At December 31, 2007, other consumer loans totaled $21.3 million, or 3.7% of total loans.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and therefore are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At December 31, 2007, there was $50,000 in consumer loans delinquent 90 days or more.

Commercial Lending. The Bank originates commercial loans on a secured and, to a lesser extent, unsecured basis. At December 31, 2007, the Bank's commercial loans amounted to $ 74.3 million, or 12.8% of the Bank's loan portfolio. The Bank's commercial loans generally are secured by corporate assets. In addition, the Bank generally obtains guarantees from the principals of the borrower with respect to all commercial loans. At December 31, 2007, there was $25,000 in commercial loans delinquent 90 days or more.

Non-performing Loans and Other Problem Assets

The Bank's non-performing loans totaled 0.10% of total loans at December 31, 2007. Loans are placed on a non-accrual status when the loan is past due in excess of 90 days or the collection of principal and interest is doubtful. The Bank places a high priority on contacting customers by telephone as a primary method of determining the status of delinquent loans and the action necessary to resolve any payment problem. The Bank's management performs quality reviews of problem assets to determine the necessity of establishing additional loss reserves. The Bank's total non-performing assets to total asset ratio was 0.12% at December 31, 2007.

Real estate acquired by the Bank as a result of foreclosure is classified as real estate owned until such time as it is sold. The Bank generally tries to sell the property at a price no less than its net book value; however, it will consider slight discounts to the appraised value to expedite the return of the funds to an earning status. When such property is acquired, it is recorded at its fair value less estimated costs of sale. Any required write-down of the loan to its appraised fair market value upon foreclosure is charged against the allowance for loan losses. Subsequent to foreclosure, in accordance with accounting principles generally accepted in the United States of America, a valuation allowance is established if the carrying value of the property exceeds its fair value net of related selling expenses. At December 31, 2007, the Bank's other assets owned totaled $347,000. This amount represents management's best estimate on the fair value of these assets.

The following table sets forth information with respect to the Bank's non-performing loans at the dates indicated. No loans were recorded as restructured loans within the meaning of *SFAS No. 15* at the dates indicated.

	At December 31, 2007	2006	2005	2004	2003
	(Dollars in thousands)				
Accruing loans which are contractually past due 90 days or more:					
Residential real estate	$ 42	$ 93	$ —	$ —	$ —
Consumer	4	8	—	20	—
Total	46	101	—	20	—
Non-Accrual Loans:					
Residential real estate	476	599	614	272	836
Non residential real estate	—	—	244	131	—
Consumer	46	61	123	222	276
Commercial	25	102	15	8	32
Total non-performing Loans	$ 593	$ 863	$ 996	$ 653	$1,144
Percentage of total loans	0.10%	0.17%	0.25%	0.18%	0.34%

At December 31, 2007, the Bank had $593,000 in loans outstanding which were classified as non-accrual, 90 days past due or restructured but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and may result in disclosure as non-accrual, 91 days past due or restructured. At December 31, 2007, the Bank had $347,000 in other assets owned. Also, the Bank had impaired loans, as defined by SFAS 114 and 118, totaling approximately $2.1 million at December 31, 2007.

Federal regulations require savings institutions to classify their assets on the basis of quality on a regular basis. An asset meeting one of the classification definitions set forth below may be classified and still be a performing loan. An asset is classified as substandard if it is determined to be inadequately protected by the current retained earnings and paying capacity of the obligor or of the collateral pledged, if any. An asset is classified as doubtful if full collection is highly questionable or improbable. An asset is classified as loss if it is considered uncollectible, even if a partial recovery could be expected in the future. The regulations also provide for a special mention designation, described as assets which do not currently expose a savings institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Such assets designated as special mention may include non-performing loans consistent with the above definition. Assets classified as substandard or doubtful require a savings institution to establish general allowances for loan losses. If an asset or portion thereof is classified loss, a savings institution must either establish a specific allowance for loss in the amount of the portion of the asset-classified loss, or charge off such amount. Federal examiners may disagree with a savings institution's classifications. If a savings institution does not agree with an examiner's classification of an asset, it may appeal this determination to the OTS Regional Director. The Bank regularly reviews its assets to determine whether any assets require classification or re-classification. At December 31, 2007, the Bank had $2.1 million in assets classified as substandard and $87,000 in assets classified as doubtful. At December 31, 2007, the Bank has $1.9 million in commercial debt classified as substandard due to its current status as non-investment grade.

Allowance for Loan Losses. In originating loans, the Bank recognizes that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. It is management's policy to maintain an adequate allowance for loan losses based on, among other things, the Bank's and the industry's historical loan loss experience, evaluation of economic conditions, regular reviews of delinquencies and loan portfolio quality and evolving standards imposed by federal bank examiners and other regulatory agencies. The Bank increases its allowance for loan losses by charging provisions for loan losses against the Bank's income.

Management will continue to actively monitor the Bank's asset quality and allowance for loan losses. Management will charge off loans and properties acquired in settlement of loans against the allowances for loan losses on such loans and such properties when appropriate and will provide specific loss allowances when necessary. Although management believes it uses the best information available to make determinations with respect to the allowances for loan losses and believes such allowances are adequate, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

The Bank's methodology for establishing the allowance for loan losses takes into consideration probable losses that have been identified in connection with specific assets as well as losses that have not been identified but can be expected to occur. Management conducts regular reviews of the Bank's assets and evaluates the need to establish allowances on the basis of this review. Allowances are established by the Board of Directors on a quarterly basis based on an assessment of risk in the Bank's assets taking into consideration the composition and quality of the portfolio, delinquency trends, current charge-off and loss experience, loan concentrations, the state of the real estate market, regulatory reviews conducted in the regulatory examination process and economic conditions generally. Specific reserves will be provided for individual assets, or portions of assets, when ultimate collection is considered improbable by management based on the current payment status of the assets and the fair value of the security. At the date of foreclosure or other repossession, the Bank would transfer the property to real estate acquired in settlement of loans initially at the lower of cost or estimated fair value and subsequently at the lower of book value or fair value less estimated selling costs. Any portion of the outstanding loan balance in excess of fair value less estimated selling costs would be charged off against the allowance for loan losses. If, upon ultimate disposition of the property, net sales proceeds exceed the net carrying value of the property, a gain on sale of other real estate would be recorded.

The following table sets forth an analysis of the Bank's allowance for loan losses for the periods indicated.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of period	$4,470	4,004	3,273	2,576	1,455
Loans charged off:					
Commercial loans	(110)	(117)	(20)	(78)	(178)
Consumer loans and overdrafts	(625)	(628)	(517)	(505)	(401)
Residential real estate	(186)	(258)	(112)	(66)	(77)
Total charge-offs	(921)	(1,003)	(649)	(649)	(656)
Recoveries	317	261	130	146	27
Net loans charged off	(604)	(742)	(519)	(503)	(629)
Credit devaluation of purchased loans	—	185(a)	—	—	—
Provision for loan losses	976	1,023	1,250	1,200	1,750
Balance at end of period	$4,842	4,470	4,004	3,273	2,576
Ratio of net charge-offs to average loans outstanding during the period	0.11%	0.16%	0.14%	0.14%	0.20%

(a) A credit quality review conducted by management of loans purchased in June 2006 resulted in a estimate that approximately $185,000 of future credit losses would be incurred from this portfolio.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,							
	2007		2006		2005		2004	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)							
One-to-four family	1,910	38.4%	339	45.2%	397	52.7%	$ 525	57.6%
Construction	292	8.7%	295	7.9%	137	4.1%	52	0.7%
Multi-family residential	307	4.2%	22	2.4%	133	1.7%	160	1.8%
Non-residential	265	31.5%	1,044	29.4%	773	25.6%	655	11.2%
Secured by deposits	—	0.7%	—	0.8%	—	0.8%	—	0.9%
Other loans	2,068	16.5%	2,770	14.3%	2,564	15.1%	1,881	27.8%
Total allowance for loan losses	$4,842	100.0%	$4,470	100.0%	$4,004	100.0%	$3,273	100.0%

	At December 31, 2003	
	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)	
One-to-four family	$ 303	56.6%
Construction	49	1.1%
Multi-family residential	127	1.9%
Non-residential	616	11.7%
Secured by deposits	—	0.9%
Other consumer loans	1,481	27.8%
Total allowance for loan losses	$2,576	100.0%

Investment Activities

The Bank makes investments in order to maintain the levels of liquid assets required by regulatory authorities and manage cash flow, diversify its assets, obtain yield and to satisfy certain requirements for favorable tax treatment. The principal objective of the investment policy is to earn as high a rate of return as possible, but to consider also financial or credit risk, liquidity risk and interest rate risk. The investment activities of the Company and the Bank consist primarily of investments in U.S. Government agency securities, municipal and corporate bonds, CMO's, and mortgage-backed securities. Typical investments include federally sponsored agency mortgage pass-through and federally sponsored agency and mortgage-related securities. Investment and aggregate investment limitations and credit quality parameters of each class of investment are prescribed in the Bank's investment policy. The Company and the Bank perform analyses on mortgage-related securities prior to purchase and on an ongoing basis to determine the impact on earnings and market value under various interest rate and prepayment conditions. Securities purchases must be approved by the Bank's President. The Board of Directors reviews all securities transactions on a monthly basis.

At December 31, 2007, securities, including FHLB stock, with an amortized cost of $ 146.6 million and an approximate market value of $ 146.1 million were classified as available for sale. Management presently does not intend to sell such securities and, based on the current liquidity level and the access to borrowings through the FHLB of Cincinnati, management currently does not anticipate that the Company or the Bank will be placed in a position of having to sell securities with material unrealized losses.

At December 31, 2007, securities with an amortized cost of $14.1 million and an approximate market value of $14.1 million were classified as held to maturity. Securities designated as held to maturity are those assets which the Company or the Bank has both the ability and the intent to hold to maturity. Upon acquisition, securities are classified as to the Company's or the Bank's intent and a sale would only be affected due to deteriorating investment quality. The held to maturity investment portfolio is not used for speculative purposes and is carried at amortized cost. In the event securities are sold from this portfolio for other than credit quality reasons, all securities within the investment portfolio with matching characteristics may be reclassified as assets available for sale. Securities designated as "available for sale" are those assets which the Company or the Bank may not hold to maturity and thus are carried at market value with unrealized gains or losses, net of tax effect, recognized in stockholders' equity.

Mortgage-Backed and Related Securities. Mortgage-backed securities represent a participation interest in a pool of one-to-four family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators through intermediaries that pool and repackage the participation interest in the form of securities to investors such as the Bank. CMO's are a variation of mortgage-backed securities in which the mortgage pool is divided into specific classes, with different classes receiving different principal reduction streams based on numerous factors, including prepayments speeds. Such intermediaries may include quasi-governmental agencies such as FHLMC, FNMA and the Government National Mortgage Association ("GNMA") which guarantees the payment of principal and interest to investors. Of the $39.1 million mortgage-backed security portfolio and $12.8 million CMO portfolio at December 31, 2007, approximately $3.5 million were originated through GNMA, approximately $28.3 million were originated through FNMA, approximately $18.9 million were originated through FHLMC, and approximately $1.2 million are Whole Loan CMO's. Typically, the collateral in Whole Loan CMO's include jumbo mortgages that exceeded the limits provided by federal agencies and do not have a federal government or agency guarantee. The issuers of Whole Loan CMO's receive an AAA rating by credit rating agencies by providing an overabundance of collateral to secure these investments. In capital computations, Whole Loan CMO's are risk rated 20%, the same of FNMA and FHLMC. At December 31, 2007, the Company does not hold any whole loan CMO's secured by sub-prime or Alt A mortgages.

Mortgage-backed securities typically are issued with stated principal amounts and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have similar maturities. The underlying pool of mortgages can be composed of either fixed-rate or adjustable-rate mortgage loans. Mortgage-backed securities generally are referred to as mortgage participation certificates or pass-through certificates. As a result, the interest rate risk characteristics of the underlying pool of mortgages, i.e., fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security is equal to the life of the underlying mortgages.

The actual maturity of a mortgage-backed security varies, depending on when the mortgagors prepay or repay the underlying mortgages. Prepayments of the underlying mortgages may shorten the life of the investment, thereby adversely affecting its yield to maturity and the related market value of the mortgage-backed security.

The yield is based upon the interest income and the amortization of the premium or accretion of the discount related to the mortgage-backed security. Premiums and discounts on mortgage-backed securities are amortized or accreted over the estimated term of the securities using a level yield method. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect the actual prepayment.

The actual prepayments of the underlying mortgages depend on many factors, including the type of mortgage, the coupon rate, the age of the mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates. The difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates is an important determinant in the rate of prepayments. During periods of falling mortgage interest rates, prepayments generally increase, and, conversely, during periods of rising mortgage interest rates, prepayments generally decrease. If the coupon rate of the underlying mortgage significantly exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages. Prepayment experience is more difficult to estimate for adjustable-rate mortgage-backed securities.

The following table sets forth the carrying value of the investment securities at the dates indicated.

	At December 31, 2007	2006	2005
	(In thousands)		
FHLB stock, restricted	$ 3,836	$ 3,639	$ 3,211
U. S. government and agency Securities	71,991	114,225	99,025
Mortgage-backed securities	51,255	49,500	51,302
Municipal bonds	17,156	14,629	17,978
Corporate bonds	1,908	4,985	4,585
Other	—	—	—
Securities held to maturity:			
U.S. government and agency securities	13,541	17,318	17,292
Mortgage-backed securities	554	700	891
Total investment securities	$160,241	$204,996	$194,284

The following table sets forth information on the scheduled maturities, amortized cost, market values and average yields for U.S. Government agency securities, corporate bonds and municipal securities in the investment portfolio at December 31, 2007. At such date, all of the agency securities, with the exception of $2 million, were callable and/or due on or before December 31, 2008. At December 31, 2007, $11.5 of the callable agency securities are structure notes, where the interest rate paid on the bond increases significantly on a given date, making it more likely that the bond will be called at that date. At December 31, 2007, $9.2 million of municipal securities were callable and/or due between January 2008 and December 2017. The average yield for municipal securities are quoted as taxable equivalent. All corporate bonds were non callable.

	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years		Total Investment Portfolio		
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Market Value	Average Yield
	(Dollars in thousands)										
U.S. government and agency securities	$12,870	4.23%	$33,535	4.44%	$23,713	4.82%	$15,414	5.65%	$85,532	$85,539	4.74%
Corporate bonds	$ 970	4.90%	$ 938	5.50%	—	—	—	—	$ 1,908	$ 1,908	5.20%
Municipal bonds	$ 419	4.00%	$ 5,799	4.23%	$ 6,524	4.75%	$ 4,414	5.55%	$17,156	$17,156	4.77%

Deposit Activity and Other Sources of Funds

General. Deposits are the primary source of the Bank's funds for lending, investment activities and general operational purposes. In addition to deposits, the Bank derives funds from loan principal and interest repayments, maturities of investment securities and mortgage-backed securities and interest payments thereon. Although loan repayments are a relatively stable source of funds, deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds, or on a longer term basis for general corporate purposes. The Bank has access to borrow from the FHLB of Cincinnati, and the Bank will continue to have access to FHLB of Cincinnati advances. The Bank may rely upon retail deposits rather than borrowings as its primary source of funding for future asset growth.

Deposits. The Bank attracts deposits principally from within its market area by offering competitive rates on its deposit instruments, including money market accounts, passbook savings accounts, individual retirement accounts, and certificates of deposit which range in maturity from three months to five years. Deposit terms vary according to the minimum balance required and the length of time the funds must remain on deposit and the interest rate. Maturities, terms, service fees and withdrawal penalties for its deposit accounts are established by the Bank on a periodic basis. The Bank reviews its deposit mix and pricing on a weekly basis. In determining the characteristics of its deposit accounts, the Bank considers the rates offered by competing institutions, lending and liquidity requirements, growth goals and federal regulations.

The Company has, on a limited basis, utilized brokered deposits to augment its funding requirements for longer term deposit funding. At December 31, 2007, the Bank had $19.8 million in brokered deposits as compared to $24.9 million in brokered deposits at December 31, 2006. All brokered deposits are FDIC insured.

The Bank attempts to compete for deposits with other institutions in its market area by offering competitively priced deposit instruments that are tailored to the needs of its customers. Additionally, the Bank seeks to meet customers' needs by providing convenient customer service to the community. Substantially all of the Bank's depositors are Kentucky or Tennessee residents who reside in the Bank's market area.

Savings deposits in the Bank at December 31, 2007 were represented by the various types of savings programs described below.

Interest Rate*	Minimum Term	Category	Minimum Amount	Balance (In thousands)	Percentage of Total Deposits
— %	None	Non-interest bearing	$ 100	$ 52,226	8.7%
0.5%	None	NOW accounts	1,500	101,706	17.0%
1.0%	None	Savings & money market	10	63,560	10.6%
				217,492	36.3%
		Certificates of Deposit			
3.7%	3 months or less	Fixed-term, fixed rate	1,000	51,608	8.6%
3.9%	3 to 12 months	Fixed-term, fixed-rate	1,000	196,931	32.9%
4.0%	12 to 24-months	Fixed-term, fixed-rate	1,000	97,563	16.3%
4.1%	24 to 36-months	Fixed-term, fixed-rate	1,000	19,942	3.3%
4.3%	36 to 48-months	Fixed-term, fixed-rate	1,000	8,640	1.5%
4.4%	48 to 60-months	Fixed-term, fixed rate	1,000	6,577	1.1%
				381,261	63.7%
				$598,753	100.0%

The following table sets forth, for the periods indicated, the average balances and interest rates based on month-end balances for interest-bearing demand deposits and time deposits.

	Year Ended December 31,					
	2007		2006		2005	
	Interest-bearing demand deposits	Time deposits	Interest-bearing demand deposits	Time deposits	Interest-bearing demand deposits	Time deposits
	(Dollars in thousands)					
Average Balance	$ 169,915	$366,704	$ 173,019	$298,747	$ 174,919	$250,011
Average Rate	2.72%	4.82%	2.62%	4.18%	2.01%	3.36%

The following table sets forth the change in dollar amount of deposits in the various types of accounts offered by the Bank between the dates indicated.

	Balance at December 31, 2007	% of Deposits	Increase (Decrease) from December 31, 2006	Balance at December 31, 2006	% of Deposits	Increase (Decrease) from December 31, 2005
	(Dollars in thousands)					
Non-interest bearing	$ 52,226	8.7%	$ 1,076	$ 51,150	9.0%	$ 14,232
Demand and NOW Accounts	101,706	17.0%	5,748	95,958	16.9%	(991)
Savings & MMDA	63,560	10.6%	(6,736)	70,296	12.3%	(27,181)
Other time deposits	381,261	63.7%	29,232	352,029	61.8%	100,645
Total	598,753	100.0%	29,320	569,433	100.0%	86,705

	Balance at December 31, 2005	% of Deposits	Increase (Decrease) from December 31, 2004	Balance at December 31, 2004	% of Deposits
	(Dollars in thousands)				
Non-interest bearing	$ 36,918	7.6%	$ 4,704	$ 32,214	7.4%
Demand and NOW accounts	96,949	20.1%	9,874	87,075	20.0%
Savings & MMDA	97,477	20.2%	32,127	65,350	15.0%
Other time deposits	251,384	52.1%	(172)	251,556	57.6%
Total	482,728	100.0%	46,533	436,195	100.0%

The following table sets forth the time deposits in the Bank classified by rates at the dates indicated.

	At December 31,		
	2007	2006	2005
	(In thousands)		
1.00 - 2.00%	130	55	2,966
2.01 - 4.00%	30,092	89,828	168,391
4.01 - 6.00%	348,350	262,136	79,776
6.01 - 8.00%	2,689	10	251
Total	$381,261	$352,029	$251,384

The following table sets forth the amount and maturities of time deposits at December 31, 2007.

	Amount Due				
	Less Than One Year	1-2 Years	2-3 Years	After 3 Years	Total
	(In thousands)				
0.00 - 2.00%	$ 2	$ —	$ 36	$ 92	$ 130
2.01 - 4.00%	25,658	3,962	472	—	30,092
4.01 - 6.00%	220,190	93,601	19,434	15,125	348,350
6.01 - 8.00%	2,689	—	—	—	2,689
Total	$ 248,539	$97,563	$19,942	$ 15,217	$381,261

The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more by time remaining until maturity as of December 31, 2007.

Maturity Period	Certificates of Deposit (In millions)
Three months or less	$ 34.1
Over three through six months	18.8
Over six through 12 months	33.9
Over 12 months	56.8
Total	$ 143.6

Certificates of deposit at December 31, 2007 included approximately $143.6 million of deposits with balances of $100,000 or more, compared to $143.7 million and $76.6 million at December 31, 2006 and 2005, respectively. Such time deposits may be risky because their continued presence in the Bank is dependent partially upon the rates paid by the Bank rather than any customer relationship and, therefore, may be withdrawn upon maturity if another institution offers higher interest rates. The Bank may be required to resort to other funding sources such as borrowings or sales of its securities available for sale if the Bank believes that increasing its rates to maintain such deposits would adversely affect its operating results. At this time, the Bank does not believe that it will need to significantly increase its deposit rates to maintain such certificates of deposit and, therefore, does not anticipate resorting to alternative funding sources. See Note 6 of Notes to Consolidated Financial Statements.

The following table sets forth the deposit activities of the Bank for the periods indicated.

	Year Ended December 31,		
	2007	2006	2005
		(In thousands)	
Deposits	$318,910	$504,023	$434,321
Obtain through acquisition	—	65,485	—
Withdrawals	304,966	559,993	396,780
Net increase before interest credited	13,944	9,515	37,541
Interest credited	15,376	11,705	8,992
Net increase in deposits	$ 29,320	$ 21,220	$ 46,533

Borrowings. Savings deposits historically have been the primary source of funds for the Bank's lending, investments and general operating activities. The Bank is authorized, however, to use advances from the FHLB of Cincinnati to supplement its supply of lendable funds and to meet deposit withdrawal requirements. The FHLB of Cincinnati functions as a central reserve bank providing credit for savings institutions and certain other member financial institutions.

As a member of the FHLB System, the Bank is required to own stock in the FHLB of Cincinnati and is authorized to apply for advances. Advances are pursuant to several different programs, each of which has its own interest rate and range of maturities. The Bank has entered into a Cash Management Advance program with FHLB. See Note 7 of Notes to Consolidated Financial Statements. Advances from the FHLB of Cincinnati were $101.9 million at December 31, 2007 and are secured by a blanket security agreement in which the Bank has pledged its 1-4 family first mortgage loans and non-residential real estate loans held in the Bank's loan portfolio.

On September 25, 2003, the Company issued $10,310,000 in floating rate junior subordinated debentures with a thirty year maturity and callable at the Company's discretion quarterly after September 25, 2008. The subordinated debentures are priced at a variable rate equal to the three month libor (London Inter Bank Offering Rate) plus 3.10%. At December 31, 2007, the three-month libor rate was 4.70%. The securities are immediately callable in the event of a change in tax or accounting law that has a significant negative impact to issuing these securities.

Beginning in 2006, the Bank began offering repurchase agreements to business and municipal customers. The repurchase agreements are overnight borrowings secured by individual investments from the Bank's portfolio. The Bank has entered into a ten year and a seven year repurchase agreement with Merrill Lynch and Deutsche Bank, totaling $16 million. The Bank is utilizing individual securities to collateralize these agreements. At December 31, 2007, total repurchase agreements total approximately $37.2 million.

For regulatory purposes, subordinated debentures may be treated as Tier I capital. Federal regulations limit the use of subordinated debentures to 25% of total Tier I capital. Discussions among regulatory agencies are underway that may limit the current and future use of subordinated debentures as Tier I capital. The Company's decision to issue subordinated debentures was in part influenced by potential regulatory actions in the future. The Company anticipates above average growth to continue and anticipates a time in the future when capital ratios are lower and additional capital may be need.

In October of 2004, the Bank entered into an interest rate swap agreement with a regional bank. The agreement called for Heritage Bank to pay a fixed rate of 3.53% until September 25, 2008 on $10 million and receive payment equal to the three month libor. Heritage Bank then completed an inter-company transaction that transferred the swap to the Company, providing an effective hedge for its variable rate subordinated debentures. In January 2006, Heritage Bank settled the swap agreement and recorded a gain of approximately $272,000. This gain will be recognized on a straight line basis each quarter through the end of the original contract. As a result, the Company's interest expense will be reduced by approximately $25,000 per quarter through the end of September 2008.

Subsidiary Activities

As a federally chartered savings bank, the Bank is permitted to invest an amount equal to 2% of its assets in subsidiaries, with an additional investment of 1% of assets where such investment serves primarily community, inner-city and community development purposes. The Bank's lone subsidiary is Fall and Fall Insurance Agency ("Fall and Fall") of Fulton, Kentucky. Fall and Fall was acquired in the Fulton acquisition on September 5, 2002. The Bank's investment in the agency is approximately $553,000.

Competition

The Bank faces significant competition both in originating mortgage and other loans and in attracting deposits. The Bank competes for loans principally on the basis of interest rates, the types of loans it originates, the deposit products it offers and the quality of services it provides to borrowers. The Bank also competes by offering products which are tailored to the local community. Its competition in originating real estate loans comes primarily from other savings institutions, commercial banks and mortgage bankers making loans secured by real estate located in the Bank's market area. Commercial banks, credit unions and finance companies provide vigorous competition in consumer lending. Competition may increase as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

At June 30, 2007 the Bank had a 12.54% share of the deposit market in its combined markets. The Bank's most significant competition across its entire market area is Branch Bank & Trust of North Carolina with a combined deposit market share of 11.84%, U.S. Bank with a 9.29% deposit market share and Regions Bank of Alabama with a combined deposit market share of 9.11%. In addition, each market contains other community banks that provide competitive products and services within individual markets.

The Bank attracts its deposits through its eighteen offices primarily from the local community. Consequently, competition for deposits is principally from other savings institutions, commercial banks and brokers in the local community as well as from credit unions. The Bank competes for deposits and loans by offering what it believes to be a variety of deposit accounts at competitive rates, convenient business hours, a commitment to outstanding customer service and a well-trained staff. The Bank believes it has developed strong relationships with local realtors and the community in general.

The Bank is a community and retail-oriented financial institution. Management considers the Bank's branch network and reputation for financial strength and quality customer service as its major competitive advantage in attracting and retaining customers in its market area. A number of the Bank's competitors have been acquired by statewide/nationwide banking organizations. While the Bank is subject to competition from other financial institutions which may have greater financial and marketing resources, management believes the Bank benefits by its community orientation and its long-standing relationship with many of its customers.

Employees

As of December 31, 2007, the Company and the Bank had 218 full-time and 24 part-time employees, none of whom were represented by a collective bargaining agreement. Management considers the Bank's relationships with its employees to be good.

Regulation

In July 2002, the President of the United States signed the Sarbanes-Oxley Act of 2002 into law. The Sarbanes-Oxley Act provided for sweeping changes with respect to corporate governance, accounting policies and disclosure requirements for public companies, and also for their directors and officers. The Sarbanes-Oxley Act required the SEC to adopt new rules to implement the Act's requirements. These requirements include new financial reporting requirements and rules concerning the chief executive and chief financial officers to certify certain financial and other information included in the company's quarterly and annual reports. The rules also require these officers to certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the company's disclosure controls and procedures; and that they have included information in their quarterly and annual filings about their evaluation and whether there have been significant changes to the controls and procedures or other factors which would significantly impact these controls subsequent to their evaluation. The certifications by the Company's Chief Executive Officer and Chief Financial Officer of the financial statements and other information included in this Annual Report on Form 10-K have been filed as exhibits to this Form 10-K. See Item 9A ("Controls and Procedures") hereof for the Company's evaluation of disclosure controls and procedures.

Pursuant to Section 404 of the Sarbanes-Oxley Act, the Company will be required under rules adopted by the SEC to include in its annual reports a report by management on the Company's internal control over financial reporting and an accompanying auditor's report. For companies such as HopFed Bancorp that are not accelerated filers, compliance dates have been in flux. Effective February 20, 2007, the SEC established separate compliance dates for the obligation to provide management's report on internal control over financial reporting and the auditor's attestation reporting management's assessment. The Company is a non-accelerated filer and, as such, did not have to comply with the obligation to provide management's report on internal control over financial reporting until HopFed Bancorp files an annual report for the fiscal year ending on or after December 15, 2007. The Company does not have to comply with the obligation to provide the auditor's attestation report on internal control over financial reporting until HopFed Bancorp files an annual report for a fiscal year ending on or after December 15, 2008.

On February 1, 2008, the SEC proposed to amend its temporary rules to postpone for one-year the Section 404 requirement for smaller public companies, i.e., "non-accelerated filers," to furnish the auditor's attestation report on internal control over financial reporting. If the amendments are approved, the attestation requirement would not apply until a small public companies, such as HopFed Bancorp, file an annual report for a fiscal year ending on or after December 31, 2009. The postponement would give the SEC time to complete a cost-benefit study of the upcoming auditor attestation obligation for smaller public companies, which is currently required for physical years ending on or after December 15, 2008, barring the postponement.

The USA Patriot Act authorizes new regulatory powers to combat international terrorism. The provisions that affect financial institutions most directly provide the federal government with enhanced authority to identify, deter, and punish international money laundering and other crimes. Among other things, the USA Patriot Act prohibits financial institutions from doing business with foreign "shell" banks and requires increased due diligence for private banking transactions and correspondent accounts for foreign banks. In addition, financial institutions have to follow minimum verification of identity standards for all new accounts and are permitted to share information with law enforcement authorities under circumstances that were not previously permitted.

General. The Bank is chartered as a federal savings bank under the Home Owners' Loan Act, as amended (the "HOLA"), which is implemented by regulations adopted and administered by the OTS. As a federal savings bank, the Bank is subject to regulation, supervision and regular examination by the OTS. The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including the Bank and the Company. Federal banking laws and regulations control, among other things, the Bank's required reserves, investments, loans, mergers and consolidations, payment of dividends and other aspects of the Bank's operations. The deposits of the Bank are insured by the DIF administered by the FDIC to the maximum extent provided by law. In addition, the FDIC has certain regulatory and examination authority over OTS-regulated savings institutions and may recommend enforcement actions against savings institutions to the OTS. The supervision and regulation of the Bank is intended primarily for the protection of the deposit insurance fund and the Bank's depositors rather than for holders of the Company's stock or for the Company as the holder of the stock of the Bank.

As a savings and loan holding company, the Company is registered with the OTS and subject to OTS regulation and supervision under the HOLA. The Company also is required to file certain reports with, and otherwise comply with the rules and regulations of, the Commission under the federal securities laws.

The following discussion is intended to be a summary of certain statutes, rules and regulations affecting the Bank and the Company. A number of other statutes and regulations have an impact on their operations. The following summary of applicable statutes and regulations does not purport to be complete and is qualified in its entirety by reference to such statutes and regulations.

Regulatory Capital. The OTS' capital adequacy regulations require savings institutions such as the Bank to meet three minimum capital standards: a "core" capital requirement of 4% of adjusted total assets (or 3% if the institution is rated Composite 1 under the CAMELS examination rating system), a "tangible" capital requirement of 1.5% of adjusted total assets, and a "risk-based" capital requirement of 8% of total risk-based capital to total risk-weighted assets. In addition, the OTS has adopted regulations imposing certain restrictions on savings institutions that have a total risk-based capital ratio of less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to total assets of less than 4%. See Note 15 of Notes to Consolidated Financial Statements.

Prompt Corrective Regulatory Action. Under the OTS prompt corrective action regulations, the federal banking regulators are required to take prompt corrective action in respect of depository institutions that do not meet certain minimum capital requirements, including a leverage limit and a risk-based capital requirement. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees that would cause the institution to become undercapitalized. The federal banking regulators, including the OTS, have issued regulations that classify insured depository institutions by capital levels and provide that the applicable agency will take various prompt corrective actions to resolve the problems of any institution that fails to satisfy the capital standards.

Under the joint prompt corrective action regulations, a "well-capitalized" institution is one that is not subject to any regulatory order or directive to meet any specific capital level and that has or exceeds the following capital levels: a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6%, and a ratio of Tier 1 capital to total assets ("leverage ratio") of 5%. An "adequately capitalized" institution is one that does not qualify as "well capitalized" but meets or exceeds the following capital requirements: a total risk-based capital of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the institution has the highest composite examination rating. An institution not meeting these criteria is treated as "undercapitalized," "significantly undercapitalized," or "critically undercapitalized" depending on the extent to which its capital levels are below these standards. An institution that fails within any of the three "undercapitalized" categories will be subject to certain severe regulatory sanctions required by OTS regulations. As of December 31, 2007, the Bank was "well-capitalized" as defined by the regulations.

Qualified Thrift Lender Test. The HOLA and OTS regulations require all savings institutions to satisfy one of two Qualified Thrift Lender ("QTL") tests or to suffer a number of sanctions, including restrictions on activities. A savings institution must maintain its status as a QTL on a monthly basis in at least nine out of every 12 months. An initial failure to qualify as a QTL results in a number of sanctions, including the imposition of certain operating restrictions and a restriction on obtaining additional advances from its Federal Home Loan Bank. If a savings institution does not re-qualify under the QTL test within the three-year period after it fails the QTL test, it would be required to terminate any activity not permissible for a national bank and repay as promptly as possible any outstanding advances from its Federal Home Loan Bank. In addition, the holding company of such an institution, such as the Company, would similarly be required to register as a bank holding company with the Federal Reserve Board. The Bank qualified as a QTL institution at December 31, 2007.

Limitations on Capital Distributions. OTS regulations impose limitations upon capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger and other distributions charged against capital. Under the OTS capital distribution regulations, a savings institution that (i) qualifies for expedited treatment of applications by maintaining one of the two highest supervisory examination ratings, (ii) will be at least adequately capitalized after the proposed capital distribution and (iii) and is not otherwise restricted by applicable law in making capital distributions may, without prior approval by the OTS, make capital distributions during a calendar year equal to its net income for such year plus its retained net income for the preceding two years. Capital distributions in excess of such amount would require prior OTS approval.

Under OTS regulations, the Bank would not be permitted to pay dividends on its capital stock if its regulatory capital would thereby be reduced below the amount then required for the liquidation account established for the benefit of certain depositors of the Bank at the time of the Conversion. In addition, under the prompt corrective action regulations of the OTS, the Bank would be prohibited from paying dividends if the Bank were classified as "undercapitalized" under such rules. See "— Prompt Corrective Regulatory Action."

Future earnings of the Bank appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of dividends or other distributions to the Company without payment of taxes at the then current tax rate by the Bank on the amount of earnings removed from the reserves for such distributions.

Transactions with Affiliates and Insiders. Generally, transactions between a savings bank or its subsidiaries and its affiliates are required to be on terms as favorable to the savings bank as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the savings bank's capital. Affiliates of the Bank include the Company and any company that is under common control with the Bank. In addition, a savings bank may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. The OTS has the discretion to treat subsidiaries of savings banks as affiliates on a case-by-case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the OTS. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must generally be made on terms that are substantially the same as for loans to unaffiliated individuals.

Reserve Requirements. Pursuant to regulations of the Federal Reserve Board (the "FRB"), all FDIC-insured depository institutions must maintain average daily reserves at specified levels against their transaction accounts. The Bank met these reserve requirements at December 31, 2007.

Federal Home Loan Bank System. The Federal Home Loan Bank System consists of 12 district Federal Home Loan Banks subject to supervision and regulation by the Federal Housing Finance Board ("FHFB"). The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the FHLB, the Bank is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLB, whichever is greater. The Bank was in compliance with this requirement, with an $3.8 million investment in FHLB stock at December 31, 2007.

Regulation of the Company

The Company is a unitary savings and loan holding company subject to OTS regulation, supervision and examination. In addition, the OTS has enforcement authority over the Company and its non-savings institution subsidiaries and may restrict or prohibit activities that are determined to represent a serious risk to the safety, soundness or stability of the Bank or any other subsidiary savings institution.

Under the HOLA, a savings and loan holding company is required to obtain the prior approval of the OTS before acquiring another savings institution or savings and loan holding company. A savings and loan holding company may not (i) acquire, with certain exceptions, more than 5% of a non-subsidiary savings institution or a non-subsidiary savings and loan holding company; or (ii) acquire or retain control of a depository institution that is not insured by the FDIC. In addition, while the Bank generally may acquire a savings institution by merger in any state without restriction by state law, the Company could acquire control of an additional savings institution in a state other than Kentucky only if such acquisition is permitted under the laws of the target institution's home state or in a supervisory acquisition of a failing institution.

As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions. If the Company were to acquire control of another savings institution as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than the Bank or any other SAIF-insured savings institution) would become subject to such restrictions unless such other institutions each qualify as a QTL and were acquired in a supervisory acquisition.

If the Bank fails the QTL test, the Company must obtain the approval of the OTS prior to continuing after such failure, directly or through its other subsidiaries, any business activity other than those approved for multiple savings and loan holding companies or their subsidiaries. In addition, within one year of such failure the Company would be required to register as, and would become subject to, the restrictions applicable to the bank holding companies. The activities authorized for a bank holding company are more limited than are the activities authorized for a unitary or multiple savings and loan holding company.

Forward-Looking Statements

This Annual Report on Form 10-K, including all documents incorporated herein by reference, contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "seek," and "intend" and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Item 1A. RISK FACTORS

The Company could experience an increase in loan losses, which would reduce the Company's earnings.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. A downturn in the economy or the real estate market in our market areas or a rapid change in interest rates could have a negative effect on the collateral values and borrower's ability to repay. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. To the extent charge offs exceed our financial models, increased amounts charged to the provision for loan losses would reduce net income.

In 2007, a slowdown in the residential home market has resulted in higher rates of foreclosure, slower sales, and a decline in the value of many residential properties throughout the country. The markets in which HopFed Bancorp is located are not immune to these events. As a thrift, a significant portion of the Company's business includes both residential real estate loans, real estate developments and real estate construction loans. In particular, the Company's real estate construction portfolio has grown from $16.6 million at December 31, 2005 to $50.2 million at December 31, 2007. A prolonged period of slow sales and declining home prices may result in higher levels of charge offs and reduced earnings for the Company.

Rapidly changing interest rate environments could reduce our net interest margin, net interest income, fee income and net income.

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are the key drivers of the Company's net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in the maturities of the Company's assets and liabilities. Furthermore, substantially higher rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income. See "Quantitative and Qualitative Disclosures about Market Risk"

Liquidity needs could adversely affect the Company's results of operations and financial condition.

The Company relies on dividends from the Bank as a primary source of funds. The primary source of funds of the Bank are customer deposits and cash flows from investment instruments and loan repayments. While scheduled loan repayments are a relatively stable source, they are subject to the ability of the borrowers to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors, including changes in the economic conditions, adverse trends or events affecting the business environment, natural disasters and various other factors. Cash flows from the investment portfolio may be affected by changes in interest rates, resulting in excessive levels of cash flow during periods of declining interest rates and lower levels of cash flow during periods of rising interest rates. Deposit levels may be affected by a number of factors, including both the national market and local competitive interest rate environment, local and national economic conditions, natural disasters and other various events.

Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include the FHLB advances and federal funds lines of credit from correspondent banks. The Company may also pledge investments as collateral to borrow money from third parties. In certain cases, the Company may sell investment instruments for sizable losses to meet liquidity needs, hurting net income. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity needs.

The financial industry is very competitive.

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, regional and super-regional banking institutions, national banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, brokerage companies, and other non-bank businesses. Many of these competitors have substantially greater resources than HopFed Bancorp, Inc.

Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues and net income.

We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting, hiring, and training expenses, resulting in lower net income.

The Company is subject to extensive regulation that could limit or restrict its activities.

The Company operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various federal agencies, including the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. The Company's regulatory compliance is costly and certain types of activities, including the payment of dividends, mergers and acquisitions, investments, loans and interest rates charged and interest rates paid on deposits and locations of offices are subject to regulatory approval and may be limited by regulation. The Company is also subject to capitalization guidelines established by its regulators, which require it and the Bank to maintain adequate capital to support its and the Bank's growth.

The laws and regulations applicable to the banking industry could change at any time, and the Company cannot predict the effects of these changes on its business and profitability. The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and NASDAQ Global Market that are now and will be applicable to the Company, have increased the scope, complexity, and cost of corporate governance, reporting and disclosure practices. As a result, the Company has experienced, and may continue to experience, greater compliance cost.

Even though the Company's common stock is currently traded on The NASDAQ Global Market, the trading volume in the Company's common stock has been low and the sale of substantial amounts of its common stock in the public market could depress the price of the Company's common stock.

The trading volume of the Company's common stock on The NASDAQ Global Market has been relatively low when compared with larger companies listed on The NASDAQ Global Market or other stock exchanges. Thinly traded stocks, such as the Company's, can be more volatile than stocks trading in an active public market. Because of this, the Company stockholders may not be able to sell their shares at the volumes, prices, or times that they desire.

The Company cannot predict the effect, if any, that future sales of its common stock in the market, or availability of shares of its common stock for sale in the market, will have on the market prices of the Company's common stock. The Company, therefore, can give no assurance that sales of substantial amounts of its common stock in the market, or the potential for large amounts of sale in the market, would not cause the price of its common stock to decline or impair the Company's ability to raise capital through sales of its common stock.

The market price of the Company's common stock may fluctuate in the future, and these fluctuations may be unrelated to its performance. General market prices declines or overall market volatility in the future could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

The Company's ability to obtain additional capital may become difficult or cost prohibitive due to economic factors that may or may not be related to the Company's financial condition.

In 2007, the market values of the majority of financial institution have declined significantly. Many institutions, including the largest of national and international banks, are attempting to raise large sums of capital to offset credit losses. As a result, the cost of capital, both debt and equity, is significantly higher as compared to previous periods. For small, community based financial institutions, access to capital markets may be restricted or cost prohibitive for a significant period. This restriction may limit the Company's ability to grow both organically and through meaningful acquisitions. The increase in capital cost may result in lower earnings and limit the Company's ability to purchase additional treasury stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments from the Securities and Exchange Commission.

ITEM 2. PROPERTIES

The following table sets forth information regarding the Bank's offices at December 31, 2007.

	Year Opened	Owned or Leased	Book Value (1) (In thousands)	Approximate Square Footage of Office
Main Office:				
4155 Lafayette Road & 68-80 Bypass				
Hopkinsville, Kentucky	2006	Owned	$ 6,405	24,072
Branch Offices:				
Downtown Hopkinsville Office				
605 South Virginia Street				
Hopkinsville, Kentucky	1997	Owned	$ 158	756
Murray Branch Office				
210 N. 12th Street				
Murray, Kentucky	2003	Owned	$ 2,059	3,650
Cadiz Branch Office				
352 Main Street				
Cadiz, Kentucky	1998	Owned	$ 455	2,200
Elkton Branch Office				
536 W. Main Street				
Elkton, Kentucky	1976	Owned	$ 151	3,400
Benton Branch Office				
105 W. 5th Street				
Benton, Kentucky	2003	Owned	$ 678	4,800
Calvert City Office				
20 Oak Plaza Drive				
Calvert City, Kentucky	2003	Owned	$ 1,350	3,400
Carr Plaza Office				
607 N. Highland Drive				
Fulton, Kentucky	2002	Owned	$ 104	800

Lake Street Office 306 Lake Street Fulton, Kentucky	2002	Owned	$1,142	15,000
Fall & Fall Insurance Office 101 Main Street Fulton, Kentucky	2002	Owned	$ 0	3,200
Heritage Solutions Office 214 C College Street Dickson, Tennessee	2006	Leased	$ 15	3,300
Hopkinsville Boulevard Office 2700 Fort Campbell Boulevard Hopkinsville, Kentucky	1995	Owned	$1,581	17,625
Trenton Road Branch 3845 Trenton Road Clarksville, Tennessee	2006	Owned	$2,912	3,362
Clarksville Main Street Office 322 Main Street Clarksville, Tennessee	2007	Owned	$1,840	10,000
North Murray Office 1601 North 12th Street Murray, Kentucky	2007	Owned	$1,511	4,200
Madison Street Office 2185 Madison Street Clarksville, Tennessee	2007	Owned	$2,200	3,895
Ashland City Office 108 Cumberland St Ashland City, Tennessee	2006	Owned	$1,504	7,058
Pleasant View Office 2556 Hwy 49 East Pleasant View, Tennessee	2006	Owned	$ 803	2,433
Kingston Springs Office 104 West Kingston Springs Rd Kingston Springs, Tennessee	2006	Owned	$1,783	9,780
Erin Office 1102 West Main St Erin, Tennessee	2006	Owned	$ 609	2,390

(1) Represents the book value of land, building, furniture, fixtures and equipment owned

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company or the Bank is a party to various legal proceedings incident to its business. At December 31, 2007 there were no legal proceedings to which the Company or the Bank was a party, or to which any of their property was subject, which were expected by management to result in a material loss to the Company or the Bank. There are no pending regulatory proceedings to which the Company or the Bank is a party or to which any of their properties is subject which are currently expected to result in a material loss.

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

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Peck. Mr. Peck, 43, has served as President and Chief Executive Officer of the Company and the Bank since July 2000. Prior to that, he was President and Chief Executive Officer of United Commonwealth Bank and President of Firststar Bank-Calloway County.

Boyd M. Clark. Mr. Clark, 62, has served as Senior Vice President — Loan Administration of the Bank since 1995. Prior to his current position, Mr. Clark served as First Vice President of the Bank. He has been an employee of the Bank since 1973. Mr. Clark also serves as Vice President and Secretary of the Company. From May to July 2000, Mr. Clark served as Acting President of both the Company and the Bank.

Michael L. Woolfolk. Mr. Woolfolk, 54, has served as Executive Vice President and Chief Operations Officer of the Bank since August 2000. Prior to that, he was President of Firststar Bank–Marshall County, President and Chief Executive Officer of Bank of Marshall County and President of Mercantile Bank.

Billy C. Duvall. Mr. Duvall, 42, has served as Vice President, Chief Financial Officer and Treasurer of the Company and the Bank since June 1, 2001. Prior to that, he was an Auditor with Rayburn, Betts & Bates, P.C., independent public accountants and a Principal Examiner with the National Credit Union Administration.

Michael F. Stalls. Mr. Stalls, 56, has served as Vice President, Chief Credit Officer of the Bank since May 28, 2004. Prior to that, he was a Senior Lender at Regions Bank in Winchester, Tennessee for 18 years and Vice President of First Tennessee Bank in Knoxville, Tennessee.

All officers serve at the discretion of the boards of directors of the Company or the Bank. There are no known arrangements or understandings between any officer and any other person pursuant to which he or she was or is to be selected as an officer.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES.

A dividend of $0.12 per share was declared in each of the four quarters in 2007 and 2006. The high and low price range of the Company's common stock for 2007 and 2006 are set forth below:

	Year Ended December 31, 2006		Year Ended December 31, 2007	
	High	Low	High	Low
First Quarter	$ 17.00	$ 14.91	$ 16.44	$ 15.20
Second Quarter	$ 17.10	$ 15.16	$ 16.20	$ 15.45
Third Quarter	$ 16.80	$ 15.41	$ 16.35	$ 14.39
Fourth Quarter	$ 16.66	$ 15.90	$ 15.46	$ 14.01

At December 31, 2007, the Company estimates that is has approximately 2,600 shareholders, with approximately 1,250 reported in the name of the shareholder and the remainder recorded in street name.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price paid per share	Total Number of Shares Purchased as Part of Announced Plans or Programs	Maximum Number of Shares that May yet be Purchased Under the Plans or Programs
October 1, 2007 through October 31, 2007	5,000	$ 15.51	73,150	51,850
November 1, 2007 through November 30, 2007	5,000	$ 14.59	78,150	46,850
December 1, 2007 through December 31, 2007	—	—	78,150	46,850
Total	10,000	$ 15.05	78,150	

On August 25, 2006, the Company announced that its Board of Directors had approved the repurchase of an additional 125,000 of the Company's common stock, or approximately 3.5% of the total shares outstanding. The purchases are being made from time to time on the NASDAQ Global Stock Market at prices prevailing on that market or in privately negotiated transactions at management's discretion, depending on market conditions, price of the Company's common stock, corporate cash requirements and other factors. As of December 31, 2007, a total of 78,150 shares of common stock had been repurchased under the current program. The Company has repurchased a total of 487,059 shares of common stock as of December 31, 2007 under all current and prior repurchase programs.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Selected Financial Information and Other Data" in the Company's Annual Report to Stockholders for the year ended December 31, 2007 (Exhibit No. 13) is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report to Stockholders for the year ended December 31, 2007 (Exhibit No. 13) is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity Analysis" in the Company's Annual Report to Stockholders for the year ended December 31, 2007 (Exhibit No. 13) is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements together with the related notes and the report of Rayburn, Bates & Fitzgerald, P.C., independent registered public accounting firm, all as set forth in the Company's Annual Report to Stockholders for the year ended December 31, 2007 (Exhibit No. 13) are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to insure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decision making regarding required disclosure. The Company, under the supervision and participation of its management, including the Company's Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report pursuant to the Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that all material information required to be disclosed is this annual report has been accumulated and communicated to them in a manner appropriate to allow timely decisions regarding required disclosures. The Company continues to use outside sources to assist in the review, analysis, and implementation of its internal control process.

Management Report on Internal Control

The management of HopFed Bancorp, Inc. and its subsidiaries Heritage Bank, (collectively referred to the as Company) is responsible for the preparation, integrity and fair presentation of published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, as such, include amounts based on informed judgments and estimates made by management.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for financial presentations in conformity with GAAP. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and included those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, or that the degree of compliance with the policies and procedures include in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2007 based on the control criteria established in a report entitled *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that HopFed Bancorp's internal control over financial reporting is effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only managements report in this annual report.

Date: March 28, 2008

By: /s/ John E. Peck
John E. Peck
President and Chief Executive Officer

By: /s/ Billy C. Duvall
Billy C. Duvall
Vice President and Treasurer
(Principal Financial Officer)

ITEM 9B. OTHER INFORMATION

Not Applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors of the Company is omitted from this Report as the Company will file a definitive proxy statement (the "Proxy Statement") not later than 120 days after December 31, 2007, and the information included therein under "Proposal I — Election of Directors" is incorporated herein by reference. Information regarding the executive officers of the Company is included under separate caption in Part I of this Form 10-K

Information regarding Section 16(a) beneficial ownership reporting compliance is omitted from this Report as the Company will the Proxy Statement not later than 120 days after December 31, 2007, and the information included therein under "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

Information regarding audit committee financial expert compliance is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2007, and the information contained therein under "Committees of the Board of Directors" is incorporated herein by reference.

The Company has adopted a code of ethics that applies to all directors and employees, including without exception, the principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2007, and the information included therein under "Proposal I — Election of Directors" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2007, and the information included therein under "Voting Securities and Principal Holders Thereof" and "Proposal I – Election of Directors" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is omitted from this Report as the Company will file the Proxy Statement, not later than 120 days after December 31, 2007, and the information included therein under "Proposal I — Election of Directors" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is omitted from this report as the Company will file the Proxy Statement not later than 120 days after December 31, 2007, and the information included therein under "Independent Registered Public Accounting Firm" is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated financial statements of the Company included in the Annual Report to Stockholders for the year ended December 31, 2007, are incorporated herein by reference in Item 8 of this Report. The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this Report, except as expressly provided herein.

1. Report of Independent Registered Public Accounting Firm.
2. Consolidated Balance Sheets—December 31, 2007 and 2006.
3. Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005.
4. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2007, 2006 and 2005.
5. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2007, 2006 and 2005.
6. Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005.
7. Notes to Consolidated Financial Statements.

(b) The following exhibits either are filed as part of this Report or are incorporated herein by reference:

Exhibit No. 2. Plan of Conversion of Hopkinsville Federal Savings Bank. Incorporated herein by reference to Exhibit No. 2 to Registrant's Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 3.1. Certificate of Incorporation. Incorporated herein by reference to Exhibit No. 3.1 to Registrant's Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 3.2. Bylaws. Incorporated herein by reference to Exhibit No. 3.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

Exhibit No. 10.1. HopFed Bancorp, Inc. Management Recognition Plan. Incorporated herein by reference to Exhibit 99.1 to Registration Statement on Form S-8 (File No. 333-79391).

Exhibit No. 10.2. HopFed Bancorp, Inc. 1999 Stock Option Plan. Incorporated herein by reference to Exhibit 99.2 to Registration Statement on Form S-8 (File No. 333-79391).

Exhibit No. 10.3. Employment Agreement by and between Hopkinsville Federal Savings Bank and John E. Peck. Incorporated herein by reference to Exhibit No. 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.

Exhibit No. 10.4. Employment Agreement by and between HopFed Bancorp, Inc. and John E. Peck. Incorporated herein by reference to Exhibit No. 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.

Exhibit 10.5. HopFed Bancorp, Inc. 2000 Stock Option Plan. Incorporated herein by reference to Exhibit 10.10 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

Exhibit 10.6. Employment Agreement by and between HopFed Bancorp, Inc. and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated February 12, 2008.

Exhibit 10.7. Employment Agreement by and between Heritage Bank and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated February 12, 2008.

Exhibit 10.8. Employment Agreement by and between HopFed Bancorp, Inc. and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002.

Exhibit 10.9. Employment Agreement by and between Heritage Bank and Michael L. Woolfolk.. Incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002.

Exhibit 10.10. Fulton Division Acquisition Agreement dated as of March 1, 2002, by and between Old National Bank and Hopkinsville Federal Bank. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated March 1, 2002.

Exhibit 10.11 HopFed Bancorp, Inc. 2004 Long Term Incentive Plan. Incorporated herein by reference to Exhibit 99.3 to Registration Statement on Form S-8 (File No. 333-117956) dated August 5, 2004.

Exhibit 10.12. Employment Agreement by and between HopFed Bancorp, Inc. and Michael F. Stalls. Incorporated herein by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated February 12, 2008.

Exhibit 10.13 Employment Agreement by and between Heritage Bank and Michael F. Stalls. Incorporated herein by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated February 12, 2008.

Exhibit No. 13. Annual Report to Stockholders Except for those portions of the Annual Report to Stockholders for the year ended December 31, 2007, which are expressly incorporated herein by reference, such Annual Report is furnished for the information of the Commission and is not to be deemed "filed" as part of this Report.

Exhibit No. 14. Code of Ethics. Incorporated herein by reference to Exhibit 14 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Exhibit No. 21.1 Subsidiaries of the Registrant.

Exhibit No. 23.1. Consent of Rayburn, Bates & Fitzgerald, P.C.

Exhibit No. 31.1 Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a – 14(a) or 15d – 14(a).

Exhibit No. 31.2 Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a – 14(a) or 15d – 14(a).

Exhibit No 32.1. Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002.

Exhibit No 32.2. Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002.

(c) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

SIGNATURES

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

HOPFED BANCORP, INC.
(Registrant)

Date: March 28, 2008

By: /s/ John E. Peck
John E. Peck
President and Chief Executive Officer

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

DATE: SIGNATURE AND TITLE:

/s/ John E. Peck John E. Peck Director, President and Chief Executive Officer (Principal Executive Officer)	March 28, 2008
/s/ Billy C. Duvall Billy C. Duvall Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 28, 2008
/s/ WD Kelley WD Kelley Chairman of the Board	March 28, 2008
/s/ Boyd M. Clark Boyd M. Clark Director, Vice President and Secretary	March 28, 2008
/s/ Walton G. Ezell Walton G. Ezell Director	March 28, 2008
/s/ Gilbert E. Lee Gilbert E. Lee Vice Chairman	March 28, 2008

/s/ Harry J. Dempsey Harry J. Dempsey Director	March 28, 2008
/s/ Ted Kinsey Ted Kinsey Director	March 28, 2008
/s/ Thomas I. Miller Thomas I. Miller Director	March 28, 2008

Exhibit 13

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The following summary of selected financial information and other data does not purport to be complete and is qualified in its entirety by reference to the detailed information and Consolidated Financial Statements and accompanying Notes appearing elsewhere in this Report.

Financial Condition and Other Data

	At December 31,				
	2007	2006	2005	2004	2003
Total amount of:	(Dollars in thousands)				
Assets	$808,352	$770,888	$639,589	$579,731	$531,465
Loans receivable, net	576,252	494,968	397,310	356,825	334,740
Cash and due from banks	17,343	14,423	13,487	17,357	12,958
Interest-bearing deposits in Federal Home Loan Bank (FHLB)	931	4,190	424	42	35
Federal funds sold	3,755	3,270	2,250	850	2,185
Federal Home Loan Bank stock	3,836	3,639	3,211	3,015	2,917
Securities available for sale	142,310	183,339	172,890	155,151	140,597
Securities held to maturity:					
U.S. Government agency securities	13,541	17,318	17,292	21,546	13,339
Mortgage-backed Securities	554	700	891	1,222	1,769
Deposits	598,753	569,433	482,728	436,195	417,488
FHLB advances	101,882	113,621	93,172	81,319	54,353
Subordinated debentures	10,310	10,310	10,310	10,310	10,310
Total stockholders' equity	55,803	52,270	49,842	49,373	47,238
Number of:					
Real estate loans outstanding	6,211	5,316	5,076	4,805	4,048
Deposit accounts	76,823	67,252	51,635	48,071	43,069
Offices open	18	15	9	9	9

Operating Data

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Interest and dividend income	$ 49,033	$ 40,668	$ 29,666	$ 26,381	$ 24,743
Interest expense	28,891	23,288	15,474	12,537	12,379
Net interest income before provision for loan losses	20,142	17,380	14,192	13,844	12,364
Provision for loan losses	976	1,023	1,250	1,200	1,750
Net interest income	19,166	16,357	12,942	12,644	10,614
Non-interest income	7,231	5,765	4,532	3,038	3,499
Non-interest expense	20,553	16,514	11,600	10,008	9,044
Income before income taxes	5,844	5,608	5,874	5,674	5,069
Provision for income taxes	1,728	1,700	1,744	1,683	1,574
Net income	$ 4,116	$ 3,908	$ 4,130	$ 3,991	$ 3,495

Selected Quarterly Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(Dollars in thousands)		
Year Ended December 31, 2007:				
Interest and dividend income	$11,780	$12,283	$12,391	$12,579
Net interest income after provision for losses on loans	4,684	4,967	4,792	4,723
Noninterest income	1,741	1,766	1,877	1,847
Noninterest expense	4,988	5,153	5,234	5,178
Net income	1,022	1,108	1,025	961
Year Ended December 31, 2006:				
Interest and dividend income	$ 8,779	$ 9,382	$10,975	$11,532
Net interest income after provision for losses on loans	3,870	3,814	4,348	4,325
Noninterest income	1,047	1,261	1,703	1,754
Noninterest expense	3,169	3,887	4,621	4,837
Net income	1,201	849	1,012	846

Key Operating Ratios

	At or for the Year Ended December 31,		
	2007	2006	2005
Performance Ratios			
Return on average assets (net income divided by average total assets)	0.53%	0.56%	0.69%
Return on average equity (net income divided by average total equity)	7.84%	7.65%	8.33%
Interest rate spread (combined weighted average interest rate earned less combined weighted average interest rate cost)	2.65%	2.45%	2.39%
Ratio of average interest-earning assets to average interest-bearing liabilities	106.14%	107.14%	108.03%
Ratio of non-interest expense to average total assets	2.63%	2.35%	1.93%
Ratio of net interest income after provision for loan losses to non-interest expense	95.82%	100.51%	111.57%
Efficiency ratio (non-interest expense divided by sum of net interest income plus non-interest income)	73.66%	70.66%	61.95%
Asset Quality Ratios			
Non-performing assets to total assets at end of period	0.12%	0.16%	0.19%
Non-performing loans to total loans at end of period	0.10%	0.17%	0.25%
Allowance for loan losses to total loans at end of period	0.83%	0.90%	1.00%
Allowance for loan losses to non-performing loans at end of period	816.53%	517.96%	402.01%
Provision for loan losses to total loans receivable, net	0.17%	0.20%	0.31%
Net charge-offs to average loans outstanding	0.11%	0.16%	0.14%
Capital Ratios			
Total equity to total assets at end of period	6.90%	6.78%	7.79%
Average total equity to average assets	6.73%	7.26%	8.27%

Regulatory Capital

	December 31, 2007 (Dollars in thousands)	
	Bank	Company
Tangible capital	$55,698	$58,727
Less: Tangible capital requirement	11,979	12,014
Excess	43,719	46,713
Core capital	$55,698	$58,727
Less: Core capital requirement	31,943	32,039
Excess	23,755	26,688
Total risk-based capital	$60,540	$63,569
Less: Risk-based capital requirement	46,249	46,315
Excess	14,291	17,254

General

This discussion relates to the financial condition and results of operations of the Company, which became the holding company for the Bank in February 1998. The principal business of the Bank consists of accepting deposits from the general public and investing these funds primarily in loans and in investment securities and mortgage-backed securities. The Bank's loan portfolio consists primarily of loans secured by residential real estate located in its market area.

For the year ended December 31, 2007, the Company recorded net income of $4.1 million, a return on average assets of 0.53% and a return on average equity of 7.84%. For the year ended December 31, 2006, the Company recorded net income of $3.9 million, a return on average assets of 0.56% and a return on average equity of 7.65%. For the year ended December 31, 2005 the Company recorded net income of $4.1 million, a return on average assets of 0.69% and a return on average equity of 8.33%.

The Company's net income is dependent primarily on its net interest income, which is the difference between interest income earned on its loan, investment securities and mortgage-backed securities portfolios and interest paid on interest-bearing liabilities. Net interest income is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (interest rate spread) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. To a lesser extent, the level of non-interest expenses such as compensation, employee benefits, data processing expenses, local deposit and federal income taxes also affect the Company's net income.

The operations of the Company and the entire thrift industry are significantly affected by prevailing economic conditions, competition and the monetary, fiscal and regulatory policies of governmental agencies. Lending activities are influenced by the demand for and supply of housing, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities and the levels of personal income and savings in the Company's market area.

Aggregate Contractual Obligations

	Maturity by Period				
December 31, 2007 (In thousands)	**Less than 1 year**	**Greater than 1 year to 3 years**	**Greater than 3 years to 5 years**	**Greater than 5 years**	**Total**
Deposits	$466,031	117,505	15,217	—	598,753
FHLB borrowings	32,000	19,000	10,000	40,882	101,882
Repurchase agreements	21,199	—	—	16,000	37,199
Subordinated debentures	—	—	—	10,310	10,310
Lease commitments	106	160	62	—	328
Purchase obligations	2,222	4,370	2,042	—	8,634
Total	$521,558	141,035	27,321	67,192	757,106

Deposits represent non-interest bearing, money market, savings, NOW, certificates of deposit and all other deposits held by the Company. Amounts that have an indeterminate maturity period are included in the less than one-year category above.

FHLB borrowings represent the amounts that are due to FHLB of Cincinnati. All amounts have fixed maturity dates. The Company has two callable FHLB advances, totaling $17 million. Both putable advances may be called each quarter on or after June 30, 2008.

Subordinated debentures represent the amount borrowed in a private pool trust preferred issuance on September 25, 2003. The debentures are priced at the three-month London Interbank Offering Rate (LIBOR) plus 3.10%, currently 8.34%. The debentures re-price and pay interest quarterly and have a thirty-year final maturity. The debentures may be called at the issuer's discretion on a quarterly basis after five years.

Lease commitments represent the total minimum lease payments under non-cancelable operating leases.

The most significant operating contract is for the Company's data processing services, which re-prices monthly based on the number of accounts and other operational factors. Estimates have been made to include reasonable growth projections. In December 2007, the Company renewed the operating contract with the current data processing provider for a period not to exceed five years. The Company anticipates only a minor increase in fixed and variable cost rates with this contract.

Off Balance Sheet Arrangements

	Maturity by Period				
December 31, 2007 (In thousands)	**Less than 1 year**	**Greater than 1 year to 3 years**	**Greater than 3 years to 5 years**	**Greater than 5 years**	**Total**
Commercial lines of credit	$ 6,375	3,296	985	259	10,915
Commitments to extend credit	17,114	17,574	489	16,165	51,342
Standby letters of credit	4,451	30	69	9	4,559
Home equity lines of credit	660	616	1,393	31,086	33,755
Total	$28,600	21,516	2,936	47,519	100,571

Standby letters of credit represent commitments by the Company to repay a third party beneficiary when a customer fails to repay a loan or debt instrument. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with stand by letters of credit because funding for these obligations could be required immediately. Unused lines of credit represent commercial and residential equity lines of credit with maturities ranging from one to fifteen years.

Accounting for Derivative Instruments and Hedging Activities

In October of 2004, Heritage Bank entered into a receive fixed pay variable swap transaction in the amount of $10 million with Compass Bank of Birmingham in which Heritage Bank would pay Compass a fixed rate of 3.53% quarterly for four years while Compass would pay Heritage Bank a rate equal to the three month Libor. Heritage Bank has signed an inter-company transfer with the Company that allowed the Company to convert its variable rate subordinated debenture issuance to a fixed rate. The critical terms of the interest rate swap matched the term of the corresponding variable rate subordinated debt issuance. In January 2006, Heritage Bank terminated the swap transaction at a net gain of approximately $270,000. Heritage Bank will recognize this gain over the original maturity of the swap, September 2008. As a result of the amortization of the gain on the swap, the Company recognized a decrease in the net interest expense on borrowed funds of $98,240 for the twelve month periods ended December 31, 2006 and December 31, 2007, respectively. The Company will amortize the remaining gain of $73,600 in 2008.

Quantitative and Qualitative Disclosure about Market Risk

Quantitative Aspects of Market Risk. The principal market risk affecting the Company is risk associated with interest rate volatility (interest rate risk). The Company maintains a trading account for investment securities that may be used to periodically hedge short-term interest rate risk. The Company did not have any activity in its trading account for the years ended December 31, 2007, 2006 and 2005, respectively. The Company is not subject to foreign currency exchange rate risk or commodity price risk. Substantially all of the Company's interest rate risk is derived from the Bank's lending and deposit taking activities. This risk could result in reduced net income, loss in fair values of assets and/or increases in fair values of liabilities due to upward changes in interest rates.

Qualitative Aspects of Market Risk The Company's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between assets and liabilities maturities and interest rates. The principal element in achieving this objective is to increase the interest-rate sensitivity of the Company's interest-earning assets by retaining for its portfolio loans with interest rates subject to periodic adjustment to market conditions. The Company relies on retail deposits as its primary source of funds. However, management is utilizing brokered deposits, wholesale repurchase agreements and FHLB borrowings as sources of liquidity. As part of its interest rate risk management strategy, the Bank promotes demand accounts, overnight repurchase agreements and certificates of deposit with primarily terms of up to five years.

Asset / Liability Management

Key components of a successful asset/liability strategy are the monitoring and managing of interest rate sensitivity of both the interest-earning asset and interest-bearing liability portfolios. The Company has employed various strategies intended to minimize the adverse affect of interest rate risk on future operations by providing a better match between the interest rate sensitivity between its assets and liabilities. In particular, the Company's strategies are intended to stabilize net interest income for the long-term by protecting its interest rate spread against increases in interest rates. Such strategies include the origination of adjustable-rate mortgage loans secured by one-to-four family residential real estate, and, to a lesser extent, multi-family real estate loans and the origination of other loans with interest rates that are more sensitive to adjustment based upon market conditions than long-term, fixed-rate residential mortgage loans. For the year ended December 31, 2007, approximately $183.8 million of the $222.9 million of one-to-four family residential loans originated by the Company (comprising 82.5% of such loans) had adjustable rates or will mature within one year.

The U.S. government agency securities generally are purchased for a term of fifteen years or less. Securities may or may not have call options. A security with call options improves the yield on the security but also has little or no positive price convexity. Non-callable securities or securities with one time calls offer a lower yield but more positive price convexity and an improved predictability of cash flow. Generally, securities with the greater call options (continuous and quarterly) are purchased only during times of extremely low interest rates. The reasons for purchasing these securities generally focus on the fact that a non callable or one time call is of little value if rates are exceptionally low.

At December 31, 2007, $12.9 million in securities were due within one year, approximately $33.5 million were due in one to five years, approximately $23.7 million were due in five to ten years and approximately $15.4 million were due after ten years. However, at December 31, 2007, $47.3 million of these securities had a call provision, which authorizes the issuing agency to prepay the securities at face value at certain pre-established dates. If, prior to their maturity dates, market interest rates decline below the rates paid on the securities, the issuing agency may elect to exercise its right to prepay the securities. At December 31, 2007, $45.4 million of these securities are callable but do not mature prior to December 31, 2008. The weighted average life of the agency bond portfolio is approximately 4.3 years and the modified duration of the agency bond portfolio is approximately 3.3 years.

The municipal bond portfolio largely consists of local school district bonds with the guarantee of the state of Kentucky or out of state bonds insured by private companies. At December 31, 2007 the Company has $17.2 million in municipal bonds. These bonds were purchased to provide long-term income stability and higher tax equivalent yields to a small portion of the investment portfolio. At December 31, 2007, approximately $10.2 million of the Company's municipal bond portfolio is callable with call dates ranging from January 2008 to June 2017. The call dates are staggered to eliminate the excessive cash flows within any one-year period. At December 31, 2007, $400,000 were due in less than one year, $5.8 million were due within one to five years, $6.5 million were due in five to ten years and approximately $4.4 million were due after ten years. At December 31, 2007, approximately $2.2 million of municipal bonds had a call date of less than one year; approximately $3.0 million had a call date from one to five years and approximately $5.0 million in more than five years. At December 31, 2007, the average life of the municipal bond portfolio is approximately 6.4 years and the modified duration of the municipal bond portfolio is approximately 5.1 years.

At December 31, 2007, the Company held $1.9 million ($2 million par value) in corporate bonds. All corporate bonds purchased by the Company were investment grade when purchased. The Company's portfolio of corporate bonds includes two Ford Motor Acceptance Corporation (FMAC) bonds maturing in $1 million increments in October 2008 and October 2009. During 2005, the national credit rating agencies downgraded Ford, the parent company of FMAC resulting in the loss of investment grade status. The downgrades are the result of the long-term business prospects and current and future health and pension liabilities of Ford. The Company conducts a financial analysis similar to that of a loan customer for each corporate purchase. This analysis includes reviewing quarterly and periodic SEC filings for both the parent company and Ford Motor Credit. The Company has determined that Ford maintains both an acceptable level and sources of liquidity to meet short-term obligations. The Company's analysis indicates that Ford has adequate levels and sources of liquidity to meet current and near-term obligations, including the funding of bond interest and principal payments.

Mortgage-backed securities entitle the Company to receive a pro rata portion of the cash flow from an identified pool of mortgages. Although mortgage-backed securities generally offer lesser yields than the loans for which they are exchanged, mortgage-backed securities present lower credit risk by virtue of the guarantees that back them, are more liquid than individual mortgage loans, and may be used to collateralize borrowings or other obligations of the Company. Further, mortgage-backed securities provide a monthly stream of both interest and principal, thereby providing the Company with a cash flow to reinvest at current market rates and limit the Company's interest rate risk.

At December 31, 2007, the Company held approximately $36.1 million in fixed rate mortgage backed securities with an average life of approximately 5.7 years and a modified duration of approximately 4.4 years. The Company held approximately $2.9 million in adjustable rate mortgage backed securities with an average life of approximately 6.4 years and a modified duration of approximately 4.7 years.

At December 31, 2007, the Company held approximately $12.8 million in Collateral Mortgage Obligations (CMO). A CMO is a form of mortgage-backed security that has a structured payment stream based on various factors and does not necessarily remit monthly principal on a pro-rata basis. At December 31, 2007, the Company's CMO portfolio had an average life of approximately 2.2 years and a modified duration of approximately 2.0 years. For more information regarding investment securities, see Note 2 of Notes to Consolidated Financial Statements. The Company owns no mortgage backed securities or Collateral Mortgage Obligations consisting of subprime or second mortgage loans.

Interest Rate Sensitivity Analysis

The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely impact the Company's earnings to the extent that the interest rates on interest earning assets and interest bearing liabilities do not change at the same speed, to the same extent or on the same basis. As part of its effort to manage interest rate risk, the Bank monitors its net portfolio value (NPV), a methodology adopted by the OTS to assist the Bank in assessing interest rate risk.

Generally, NPV is the discounted present value of the difference between incoming cash flows on interest-earning assets and other assets and outgoing cash flows on interest-bearing liabilities and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the NPV, which would result from a theoretical 200 basis point (1 basis point equals .01%) change in market rates. Both a 300 basis point increase in market interest rates and a 100 basis point decrease in market interest rates are considered.

The following table presents the Bank's NPV at December 31, 2007, as calculated by the OTS, based on information provided to the OTS by the Bank.

	Net Portfolio Value			NPV as % of PV of Assets	
Change In Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
	(Dollars in thousands)				
+300 bp	$55,127	$(17,056)	(24)%	6.99%	(179)bp
+200 bp	62,478	(9,705)	(13)%	7.80%	(98)bp
+100 bp	67,983	(4,200)	(6)%	8.37%	(41)bp
0 bp	72,183	—	—	8.78%	—
-100 bp	74,877	2,694	4%	9.01%	23bp
-200 bp	76,047	3,864	5%	9.05%	48bp

Interest Rate Risk Measures: 200 Basis Point (bp) Rate Shock

Pre-Shock NPV Ratio: NPV as % of Present Value of Assets	8.78%
Exposure Measure: Post-Shock NPV Ratio	7.80%
Sensitivity Measure: Change in NPV Ratio	98bp

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. The computations do not contemplate any actions the Bank could undertake in response to changes in interest rates. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific period if it will mature or re-price within that period.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or re-pricing within a specific time period and the amount of interest-bearing liabilities maturing or re-pricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities, and is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. At December 31, 2007, the Company had a negative one-year or less interest rate sensitivity gap of 22.13% of total interest-earning assets. Generally, during a period of rising interest rates, a negative gap position would be expected to adversely affect net interest income while a positive gap position would be expected to result in an increase in net interest income. Conversely during a period of falling interest rates, a negative gap would be expected to result in an increase in net interest income and a positive gap would be expected to adversely affect net interest income. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2007, which are expected to mature or re-price in each of the time periods shown.

	One Year or Less	Over One Through Five Years	Over Five Through Ten Years	Over Ten Through Fifteen Years	Over Fifteen Years	Total
			(Dollars in thousands)			
Interest-earning assets:						
Loans:						
One-to-four family	$ 123,062	$ 60,256	$ 27,627	$ 7,574	$ 2,579	$221,098
Multi-family residential	5,798	12,851	5,582	—	—	24,231
Construction	37,954	7,150	4,389	—	444	49,937
Non-residential	58,104	86,548	24,415	6,825	7,011	182,903
Secured by deposits	3,312	1,082	25	—	—	4,419
Other loans	40,734	36,548	6,418	1,073	8,891	93,664
Time deposits and interest-bearing deposits in FHLB	931	—	—	—	—	931
Federal funds sold	3,755	—	—	—	—	3,755
Securities	28,043	43,439	23,098	10,027	3,825	108,432
Mortgage-backed securities	11,604	28,356	6,871	4,430	548	51,809
Total	313,297	276,230	98,425	29,929	23.298	741,179
Interest-bearing liabilities:						
Deposits	413,805	132,722	—	—	—	546,527
Borrowed funds	63,509	29,000	56,882	—	—	149,391
Total	477,314	161,722	56,882	—	—	695,918
Interest sensitivity gap	$(164,017)	$114,508	$ 41,543	$ 29,929	$ 23,298	$ 45,261
Cumulative interest sensitivity Gap	$(164,017)	$ (49,509)	$ (7,966)	$ 21,963	$ 45,261	$ 45,261
Ratio of interest-earning assets to Interest-bearing liabilities	65.64%	170.81%	173.03%	—	—	106.50%
Ratio of cumulative gap to total interest-earning assets	(22.13)%	(6.68)%	(1.07)%	2.96%	6.11%	6.11%

The preceding table was prepared based upon the assumption that loans will not be repaid before their respective contractual maturities, except for adjustable rate loans, which are classified, based upon their next re-pricing date. Further, it is assumed that fixed maturity deposits are not withdrawn prior to maturity and other deposits are withdrawn or re-priced within one year. Mortgage-backed securities are classified based on their lifetime prepayment speeds. Management of the Company does not believe that these assumptions will be materially different from the Company’s actual experience. However, the actual interest rate sensitivity of the Company’s assets and liabilities could vary significantly from the information set forth in the table due to market and other factors. The retention of adjustable-rate mortgage loans in the Company’s portfolio helps reduce the Company’s exposure to changes in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to borrowers as a result of re-pricing adjustable-rate mortgage loans. It is possible that during periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest costs to the borrowers.

Average Balance, Interest and Average Yields and Rates

The following tables set forth certain information relating to the Company’s average interest-earning assets and average interest-bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods and at the date indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily balances has caused any material difference in the information presented.

The tables also present information for the periods and at the date indicated with respect to the difference between the average yield earned on interest-earning assets and average rate paid on interest-bearing liabilities, or "interest rate spread," which savings institutions have traditionally used as an indicator of profitability. Another indicator of an institution's net interest income is its "net yield on interest-earning assets," which is its net interest income divided by the average balance of interest-earning assets. Net interest income is affected by the interest rate spread and by the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

	At December 31, 2007	
	Balance	Weighted Average Yield/Cost
	(Dollars in thousands)	
Interest-earning assets:		
Loans receivable, net	$576,252	7.60%
Non taxable securities available for sale	17,156	5.45%*
Taxable securities available for sale	125,154	4.70%
Federal Home Loan Bank stock	3,836	7.00%
Securities held to maturity	14,095	4.61%
Time deposits and other interest- bearing cash deposits	4,686	3.64%
Total interest-earning assets	741,179	6.93%
Non-interest-earning assets	67,173	
Total assets	$808,352	
Interest-bearing liabilities:		
Deposits	$546,527	4.28%
FHLB borrowings	101,882	4.62%
Repurchase agreements	37,199	4.18%
Subordinated debentures	10,310	7.22%
Total interest-bearing liabilities	695,918	4.36%
Non-interest-bearing liabilities	56,631	
Total liabilities	752,549	
Common stock	41	
Additional paid-in capital	26,077	
Retained earnings	36,065	
Treasury stock	(6,112)	
Accumulated other comprehensive loss	(268)	
Total liabilities and equity	$808,352	
Interest rate spread		2.57%
Ratio of interest-earning assets to interest-bearing liabilities		106.5%

* Tax equivalent yield at the Company's 34% tax bracket and a 4.30% cost of funds rate.

	Year Ended December 31,								
	2007			2006			2005		
	(Dollars in Thousands)								
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:									
Loans receivable, net	$532,761	41,031	7.70%	$451,239	31,861	7.06%	$369,093	22,006	5.96%
Taxable securities AFS	138,392	6,512	4.71%	157,182	7,150	4.55%	142,942	5,891	4.12%
Non taxable securities AFS	15,159	727	4.80%	15,654	751	4.80%	19,414	975	5.02%
Securities held to maturity	17,549	771	4.39%	18,385	785	4.27%	21,449	977	4.55%
Time deposits and other interest-bearing cash deposits	10.152	519	5.11%	6,463	346	5.35%	3,456	119	3.44%
Total interest-earning assets	$714,013	49,560	6.94%	$648,923	40,893	6.30%	$556,354	29,968	5.39%
Non-interest-earning assets	66,379			54,610			43,464		
Total assets	780,392			703,533			599,818		
Interest-bearing liabilities:									
Deposits	$536,619	22,279	4.15%	$471,766	16,905	3.58%	$424,930	11,909	2.80%
Borrowings	136,103	6,612	4.86%	133,891	6,383	4.77%	90,056	3,565	3.96%
Total interest-bearing liabilities	672,722	28,891	4.29%	605,657	23,288	3.85%	514,986	15,474	3.00%
Non-interest-bearing liabilities	55,139			46,796			35,224		
Total liabilities	727,861			652,453			550,210		
Common stock	41			41			40		
Additional paid-in capital	25,996			25,969			25,941		
Retained earnings	33,917			33,087			30,335		
Unearned restricted shares	—			—			(181)		
Treasury stock	(5,788)			(4,959)			(4,857)		
Accumulated other comprehensive loss	(1,635)			(3,058)			(1,670)		
Total liabilities and Stockholders' equity	780,392			703,533			599,818		
Net interest income		20,669			17,605			14,494	
Interest rate spread			2.65%*			2.45%*			2.39%*
Net interest margin			2.89%*			2.71%*			2.61%*
Ratio of average interest-earning assets to average interest-bearing liabilities			106.14%			107.14%			108.03%

Using a 34% tax rate.

* The tax equivalent adjustment was $527, $225 and $302 for 2007, 2006 and 2005 respectively

Rate Volume Analysis

The following table sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (i) changes in volume (changes in volume from year to year multiplied by the average rate for the prior year) and (ii) change in rate (changes in the average rate from year to year multiplied by the prior year's volume).

	Year Ended December 31,					
	2007 vs. 2006			2006 vs. 2005		
	Increase (Decrease) due to			Increase (Decrease) due to		
	Rate	Volume	Total Increase (Decrease)	Rate	Volume	Total Increase (Decrease)
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable	$2,817	6,353	9,170	$4,055	5,800	9,855
Securities available for sale, taxable	246	(884)	(638)	611	648	1,259
Securities available for sale, non taxable	(2)	(22)	(24)	(43)	(181)	(224)
Securities held to maturity	23	(37)	(14)	(61)	(131)	(192)
Other interest-earning assets	(15)	188	173	66	161	227
Total interest-earning assets	3,069	5,598	8,667	4,628	6,297	10,925
Interest-bearing liabilities:						
Deposits	2,681	2,693	5,374	3,318	1,678	4,996
Borrowings	118	111	229	775	2,043	2,818
Total interest-bearing liabilities	2,799	2,804	5,603	4,093	3,721	7,814
Increase in net interest income	$ 270	2,794	3,064	$ 535	2,576	3,111

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on appropriate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involved the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative; in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors included the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrower's sensitivity to economic conditions throughout the southeast and particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of the loan portfolio, its methodology accordingly may change. In addition, it may report materially different amounts for the provision for loan losses in the statement of operations if management's assessment of the above factors changes in future periods. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the accompanying notes presented elsewhere herein. Although management believes the levels of the allowance for loan losses as of both December 31, 2007 and 2006 were adequate to absorb inherent losses in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time. The Company also considers it policy on non-accrual loans as a critical accounting policy. Loans are placed on non-accrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 91 days or more. Any accrued interest on these loans is reserved for as part of management's evaluation of the allowance for loan loss account.

Comparison of Financial Condition at December 31, 2007 and December 31, 2006

The Company's total assets increased by $37.5 million, from $770.9 million at December 31, 2006 to $808.4 million at December 31, 2007. Federal funds sold increased from $3.3 million at December 31, 2006 to $3.8 million at December 31, 2007. Securities held to maturity decreased $3.9 million due to two agency bonds being called. The available for sale portfolio declined $41.0 million.

The Company's net loan portfolio increased by $81.3 million during the year ended December 31, 2007. Net loans totaled $495.0 and $576.3 at December 31, 2006 and December 31, 2007, respectively. The increase in the loan activity during the year ended December 31, 2007 was due to increased economic activity in many of the Company's markets as well as the Company's recent expansion into middle Tennessee. For the year ended December 31, 2007, the Company's tax equivalent average yield on loans was 7.70%, compared with 7.06% for the year ended December 31, 2006.

At December 31, 2007, the Company's investments classified as held to maturity were carried at an amortized cost and an estimated fair market value of $14.1 million, and its securities classified as available for sale had an estimated fair market value of $142.3 million and an amortized cost of $142.8 million. At December 31, 2007, the Company's investment in Federal Home Loan Bank stock was carried at an amortized cost of $3.8 million. See Note 2 of Notes to Consolidated Financial Statements.

The allowance for loan losses totaled $4.8 million at December 31, 2007, an increase of approximately $370,000 from the allowance for loan losses of $4.5 million at December 31, 2006. The ratio of the allowance for loan losses to loans was 0.83% and 0.90% at December 31, 2007 and 2006, respectively. Also, at December 31, 2007, the Company's non-accrual loans were approximately $547,000 or 0.09% of total loans, compared to $762,000, or 0.15% of total loans, at December 31, 2006. The Company's ratio of allowance for loan losses to non-performing loans at December 31, 2007 and 2006 was 816.53% and 517.96%, respectively.

Comparison of Operating Results for the Years Ended December 31, 2007 and 2006

Net Income. The Company's net income for the years ended December 31, 2007 was $4.1 million compared to $3.9 million at December 31, 2006.

Net Interest Income. Net interest income for the year ended December 31, 2007 was $20.1 million, compared to $17.4 million for the year ended December 31, 2006. The increase in net interest income for the year ended December 31, 2007 was the result of the Company's ability to utilize excess cash flow from its investment portfolio to fund loan growth. For the year ended December 31, 2007, the Company's tax equivalent average yield on total interest-earning assets was 6.94% compared to 6.30% for the year ended December 31, 2006, and its average cost of interest-bearing liabilities was 4.29%, compared to 3.85% for the year ended December 31, 2006. As a result, the Company's tax equivalent interest rate spread for the year ended December 31, 2007 was 2.65%, compared to 2.45% for the year ended December 31, 2006 and its tax equivalent net interest margin was 2.89% for the year ended December 31, 2007, compared to 2.71% for the year ended December 31, 2006.

Interest Income. Interest income increased $8.3 million to $49.0 million from $40.7 million, or by 20.4% during the year ended December 31, 2007 compared to 2006. The increase was attributable to an increase in the volume of loans outstanding. The average balance on securities held to maturity decreased approximately $900,000, from $18.4 million at December 31, 2006 to $17.5 million at December 31, 2007. The average balance on taxable securities available for sale declined $18.8 million, from $157.2 million at December 31, 2006 to $138.4 million at December 31, 2007. The average balance of non-taxable securities available for sale decreased approximately $500,000, from $15.7 million at December 31, 2006 to $15.2 million at December 31, 2007. Average time deposits and other interest-bearing cash deposits increased $3.7 million, from $6.5 million at December 31, 2006 to $10.2 million at December 31, 2007. Overall, average total interest-earning assets increased $65.1 million from December 31, 2006 to December 31, 2007.

Interest Expense. Interest expense increased to $28.9 million for the year ended December 31, 2007 compared to $23.3 million for 2006. The increase in interest expense was attributable to an increase in the average balances of both interest bearing deposits and repurchase borrowings as well as an increase in short-term interest rates. The average cost of average interest-bearing deposits increased from 3.58% for the year ended December 31, 2006 to 4.15% for the year ended December 31, 2007.

Over the same period, the average balance of interest bearing deposits increased from $471.8 million for the year ended December 31, 2006 to $536.6 million at December 31, 2007. The average balance of FHLB borrowings declined from $111.0 million for the year ended December 31, 2006 to $95.7 million for the year ended December 31, 2007. The average cost of FHLB borrowings increased from 4.52% for the year ended December 31, 2006 to 4.63% for the year ended December 31, 2007. The average balance of repurchase agreements increased from $12.6 million for the year ended December 31, 2006 to $30.1 million for the year ended December 31, 2007. This increase was largely the result of a $10 million wholesale repurchased agreement executed during 2007. The average cost of repurchased agreements declined from 5.00% for the year ended December 31, 2006 to 4.68% for the year ended December 31, 2007.

Provision for Loan Losses. The Company determined that an additional $976,000 and $1.0 million in provision for loan losses was required for the years ended December 31, 2007 and December 31, 2006, respectively.

Non-Interest Income. Non-interest income increased by $1.4 million for the year ended December 31, 2007 to $7.2 million, compared to $5.8 million for the year ended December 31, 2006. The increase in non-interest income is the result of higher income realized on deposit accounts. In 2007, the Company’s fee income from its financial services division increased by $400,000, to $1.1 million. The increase was the result of both additional staffing and improved production.

Non-Interest Expense. Total non-interest expense for the year ended December 31, 2007 was $20.6 million, compared to $16.5 million in 2006. The increase was the result of the Company’s expansion of retail offices in 2006 and 2007. In the last eighteen months, the Company’s retail banking network has increased from nine to eighteen offices. In the last twenty-four months ending February 2008, the number of automated teller machines has increased from eleven to sixty-four.

Income Taxes. The effective tax rate for the year ended December 31, 2007 was 29.6% compared with an effective tax rate of 30.3% for the year ended December 31, 2006. The lower effective tax rate is the result of higher balances of tax exempt loans and securities.

Comparison of Operating Results for the Years Ended December 31, 2006 and 2005

Net Income. The Company’s net income for the year ended December 31, 2006 was $3.9 million compared to $4.1 million for the year ended December 31, 2005.

Net Interest Income. Net interest income for the year ended December 31, 2006 was $17.4 million, compared to $14.2 million for the year ended December 31, 2005. The increase in net interest income for the year ended December 31, 2006 was the result of loan and investment portfolio growth and an increase in short-term interest rates. For the year ended December 31, 2006, the Company’s tax equivalent average yield on total interest-earning assets was 6.30% compared to 5.39% for the year ended December 31, 2005, and its average cost of interest-bearing liabilities was 3.85%, compared to 3.00% for the year ended December 31, 2005. As a result, the Company’s tax equivalent interest rate spread for the year ended December 31, 2006 was 2.45%, compared to 2.39% for the year ended December 31, 2005 and its tax equivalent net interest margin was 2.71% for the year ended December 31, 2006, compared to 2.61% for the year ended December 31, 2005.

Interest Income. Interest income increased $11.0 million from $29.7 million to $40.7 million, or by 37.1% during the year ended December 31, 2006 compared to 2005. The increase was attributable to an increase in loan and investment volume as well as an increase in short-term interest rates on such interest earning assets. The average balance on securities held to maturity declined approximately $3.0 million, from $21.4 million at December 31, 2005 to $18.4 million at December 31, 2006. The average balance on taxable securities available for sale increased $14.3 million, from $142.9 million at December 31, 2005 to $157.2 million at December 31, 2006. The average balance of non-taxable securities available for sale decreased approximately $3.7 million, from $19.4 million at December 31, 2005 to $15.7 million at December 31, 2006. Average time deposits and other interest-bearing cash deposits increased approximately $3.0 million, from $3.5 million at December 31, 2005 to $6.5 million at December 31, 2006. Overall, average total interest-earning assets increased approximately $92.6 million from December 31, 2005 to December 31, 2006.

Interest Expense. Interest expense increased to $23.3 million for the year ended December 31, 2006 compared to $15.5 million for 2005. The increase in interest expense was attributable to an increase in the average balances of both deposit and Federal Home Loan Bank (FHLB) borrowings as well as an increase in short-term interest rates. The average cost of average interest-bearing liabilities increased from 3.00% for the year ended December 31, 2005 to 3.85% for the year ended December 31, 2006. Over the same period, the average balance of interest bearing deposits increased from $424.9 million for the year ended December 31, 2005 to $471.8 million at December 31, 2006. The average balance of FHLB borrowings increased from $79.7 million for the year ended December 31, 2005 to $111.0 million for the year ended December 31, 2006. The average cost of FHLB borrowings increased from 3.62% for the year ended December 31, 2005 to 4.52% for the year ended December 31, 2006. The Company's cost of repurchase agreements was 5.00% for the year ended December 31, 2006. The Company did not offer repurchase agreements prior to 2006.

Provision for Loan Losses. The Company determined that an additional $1.0 million in provision for loan losses was required for the year ended December 31, 2006. For the year ended December 31, 2005, the Company determined that a provision for loan losses of $1.25 million was required.

Non-Interest Income. Non-interest income increased by $1.3 million for the year ended December 31, 2006 to $5.8 million, compared to $4.5 million for the year ended December 31, 2005. The increase in non-interest income is the result of higher income realized on checking accounts and a larger volume of loan applications. Gains on the sale of loans and securities decreased from $518,000 for the year ended December 31, 2005 to $192,000 for the year ended December 31, 2006. The decrease in gains on the sale of securities is the result of the sale of the Bank's data processing provider, Intrieve, Inc. in 2005.

Non-Interest Expense. Total non-interest expense for the year ended December 31, 2006 was $16.5 million, compared to $11.6 million in 2005. The increase was the result of several factors, including the June 2006 acquisition of four retail offices in Middle Tennessee, the addition of a new office in Hopkinsville, Kentucky, the addition of one retail office in Clarksville, Tennessee and the planned addition of two additional offices in Clarksville.

Income Taxes. The effective tax rate for the year ended December 31, 2006 was 30.3%, compared to 29.7% for 2005. The increase in the Company's effective tax rate is the result of a reduced balance in municipal bonds.

Liquidity and Capital Resources

The Company's primary business is that of the Bank. Management believes dividends that may be paid from the Bank to the Company will provide sufficient funds for the Company's current and anticipated needs; however, no assurance can be given that the Company will not have a need for additional funds in the future. The Bank is subject to certain regulatory limitations with respect to the payment of dividends to the Company.

Capital Resources. At December 31, 2007, the Bank exceeded all regulatory minimum capital requirements. For a detailed discussion of the OTS' regulatory capital requirements, and for a tabular presentation of the Bank's compliance with such requirements, see Note 15 of Notes to Consolidated Financial Statements.

Liquidity. Liquidity management is both a daily and long-term function of business management. If the Bank requires funds beyond its ability to generate them internally, the Bank believes that it could borrow funds from the FHLB. At December 31, 2007, the Bank had outstanding advances of $101.9 million from the FHLB and $34.9 million of letters of credit issued by the FHLB to secure municipal deposits. The Bank can immediately borrow an additional $32.2 million from the FHLB. See Note 7 of Notes to Consolidated Financial Statements.

Subordinated Debentures Issuance. On September 25, 2003, the Company issued $10,310,000 of subordinated debentures in a private placement offering. The securities have a thirty-year maturity and are callable at the issuer's discretion on a quarterly basis beginning five years after issuance. The securities are priced at a variable rate equal to the three-month Libor plus 3.10%. Interest is paid and the rate of interest may change on a quarterly basis. The Company's subsidiary, a federal chartered thrift supervised by the Office of Thrift Supervision (OTS) may recognize the proceeds of trust preferred securities as capital. OTS regulations provide that 25% of Tier I capital may consist of trust preferred proceeds. See Note 10 of Notes to Consolidated Financial Statements.

The Bank's primary sources of funds consist of deposits, repayment of loans and mortgage-backed securities, maturities of investments and interest-bearing deposits, and funds provided from operations. While scheduled repayments of loans and mortgage-backed securities and maturities of investment securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses its liquidity resources principally to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, to maintain liquidity, and to meet operating expenses.

Management believes that loan repayments and other sources of funds will be adequate to meet the Bank's liquidity needs for the immediate future. A portion of the Bank's liquidity consists of cash and cash equivalents. At December 31, 2007, cash and cash equivalents totaled $22.0 million. The level of these assets depends upon the Bank's operating, investing and financing activities during any given period.

Cash flows from operating activities for the years ended December 31, 2007, 2006 and 2005 were $7.3 million, $5.3 million, and $5.1 million, respectively.

Cash flows from investing activities were a net use of funds of $38.3 million, $60.1 million and $63.8 million in 2007, 2006 and 2005, respectively. A principal source of cash in this area has been purchases of securities available for sale of $44.6 million offset by proceeds from sales, calls and maturities of securities of $88.2 million during 2007. Maturities, calls and cash flow from securities classified as held to maturity exceeded purchases by $3.9 million. At the same time, the investment of cash in loans was $82.7 million in 2007, $65.2 million in 2006 and $42.6 in 2005. Purchases of securities available for sale exceeded maturities and sales by $9.7 million in 2006 and $21.6 million in 2005. Cash flows from securities available for sale that were sold, matured or called exceeded purchase by $43.4 million in 2007. There were no purchases of securities classified as held to maturity in 2007, 2006 and 2005.

At December 31, 2007, the Bank had $51.3 million in outstanding commitments to originate loans and unused lines of credit of $44.7 million. The Bank anticipates that it will have sufficient funds available to meet its current loan origination and lines of credit commitments. Certificates of deposit, which are scheduled to mature in one year or less totaled $248.5 million at December 31, 2007. Based on historical experience, management believes that a significant portion of such deposits will remain with the Bank.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein 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 and due to inflation. The impact of inflation is reflected in the increased cost of the Bank's operations.

Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, changes in interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

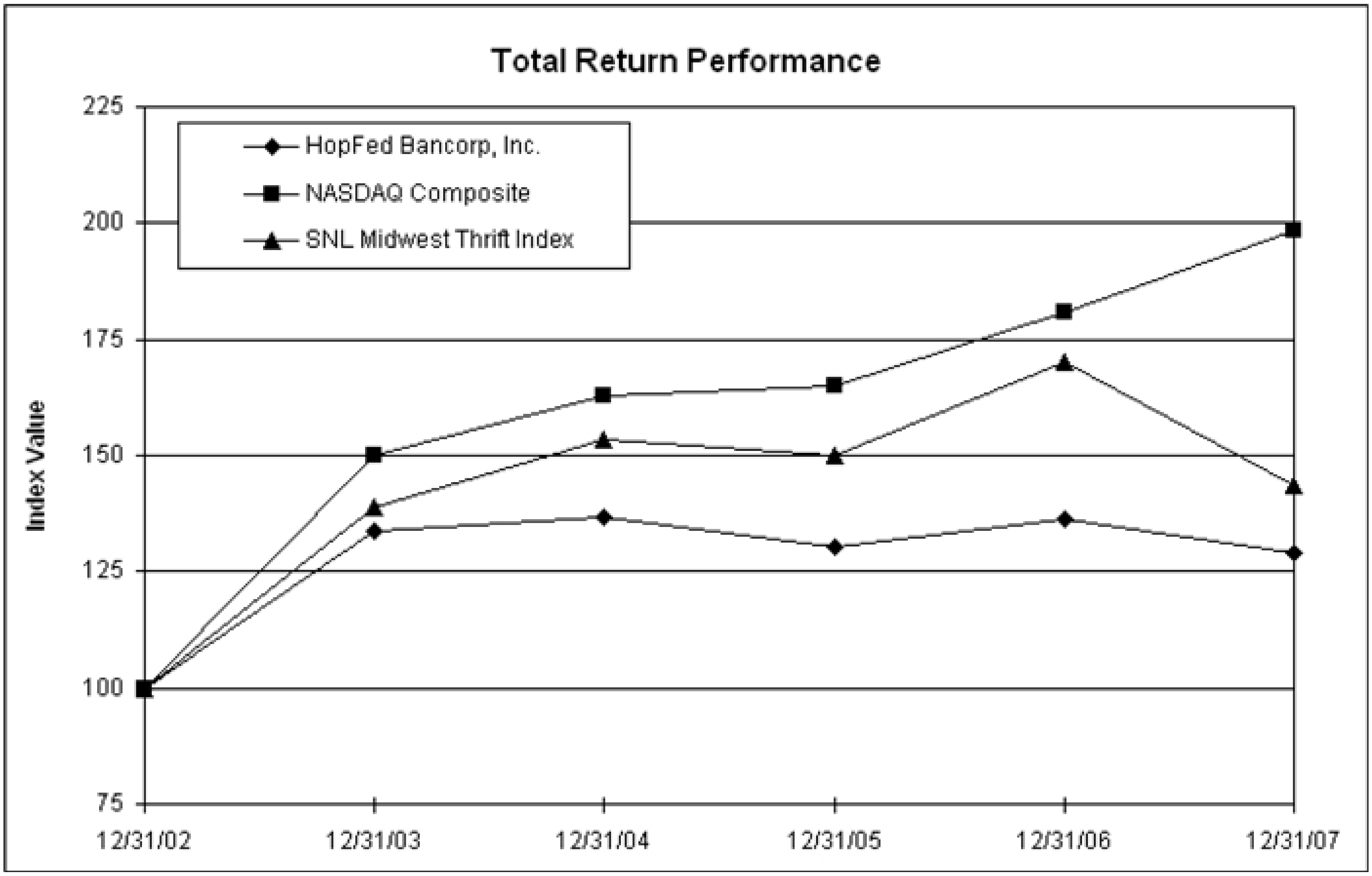
Forward-Looking Statements

Management's discussion and analysis includes certain forward-looking statements addressing, among other things, the Bank's prospects for earnings, asset growth and net interest margin. Forward-looking statements are accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," and similar phrases. Management's expectations for the Bank's future involve a number of assumptions and estimates. Factors that could cause actual results to differ from the expectations expressed herein include: substantial changes in interest rates, and changes in the general economy; changes in the Bank's strategies for credit-risk management, interest-rate risk management and investment activities. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized.

Stock Performance Comparison

The following graph, which was prepared by SNL Financial LC ("SNL"), shows the cumulative total return on the Common Stock of the Company since December 31, 2002, compared with the (1) the NASDAQ Composite Index, comprised of all U.S. Companies quoted on NASDAQ, (2) the SNL Midwest Thrift Index, comprised of publicly traded thrifts and thrift holding companies operating in the Midwestern United States. Cumulative total return on the Common Stock or the index equals the total increase in value since December 31, 2002 assuming reinvestment of all dividends paid into the Common Stock or the index, respectively. The graph was prepared assuming that $100 was invested on December 31, 2002 in the Common Stock, and the securities included in the indices.

HopFed Bancorp, Inc.



	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
HopFed Bancorp, Inc.	100.00	133.78	136.56	130.35	136.38	128.83
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Midwest Thrift Index	100.00	138.93	153.42	149.92	170.16	143.72

Consolidated Financial Statements

**HopFed Bancorp, Inc.
and Subsidiaries**

December 31, 2007, 2006 and 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of HopFed Bancorp, Inc.
Hopkinsville, Kentucky

We have audited the accompanying consolidated balance sheets of HopFed Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As of and for the years ended December 31, 2007, 2006, and 2005, the Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial position of HopFed Bancorp, Inc. and subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

/s/ RAYBURN, BATES & FITZGERALD, P.C.
Brentwood, Tennessee
March 28, 2008

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Assets		
Cash and due from banks (notes 6 and 11)	$ 17,343	14,423
Interest-earning deposits in Federal Home Loan Bank	931	4,190
Federal funds sold	3,755	3,270
Cash and cash equivalents	22,029	21,883
Federal Home Loan Bank stock, at cost (note 2)	3,836	3,639
Securities available for sale (notes 2 and 8)	142,310	183,339
Securities held to maturity, market value of $14,109 for 2007 and $17,690 for 2006, respectively (note 2)	14,095	18,018
Loans receivable, net of allowance for loan losses of $4,842 for 2007 and $4,470 for 2006, respectively (note 3)	576,252	494,968
Accrued interest receivable	5,235	4,809
Real estate and other assets owned	347	342
Bank owned life insurance	7,723	7,421
Premises and equipment, net (note 4)	27,260	25,200
Deferred tax assets (note 13)	823	1,712
Intangible asset (note 5)	2,665	3,626
Goodwill (note 5)	4,989	4,989
Other assets	788	942
Total assets	$808,352	770,888
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits: (note 6)		
Non-interest-bearing accounts	$ 52,226	51,150
Interest-bearing accounts:		
NOW accounts	101,706	95,958
Savings and money market accounts	63,560	70,296
Other time deposits	381,261	352,029
Total deposits	$598,753	569,433
Advances from Federal Home Loan Bank (note 7)	101,882	113,621
Repurchase agreements (note 8)	37,199	21,236
Subordinated debentures (note 10)	10,310	10,310
Advances from borrowers for taxes and insurance	316	287
Dividends payable	438	439
Accrued expenses and other liabilities (note 12)	3,651	3,292
Total liabilities	752,549	718,618

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets, Continued
December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Stockholders' equity (notes 12, 15 and 16):		
Preferred stock, par value $.01 per share; authorized - 500,000 shares; none issued or outstanding at December 31, 2007 and 2006	$ —	—
Common stock, par value $.01 per share; authorized 7,500,000 shares; 4,079,092 issued and 3,592,033 outstanding at December 31, 2007 and 4,070,315 issued and 3,627,906 outstanding at December 31, 2006	41	41
Additional paid-in capital	26,077	25,918
Retained earnings-substantially restricted	36,065	33,678
Treasury stock (at cost, 487,059 shares at December 31, 2007 and 442,409 shares at December 31, 2006)	(6,112)	(5,406)
Accumulated other comprehensive loss, net of taxes	(268)	(1,961)
Total stockholders' equity	55,803	52,270
Total liabilities and stockholders' equity	$808,352	770,888

Commitments and contingencies (notes 9, 11, and 14)

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income

For the Years ended December 31, 2007, 2006 and 2005
(Dollars in Thousands

	2007	2006	2005
Interest and dividend income:			
Loans receivable	$40,720	31,861	22,006
Securities available for sale	6,512	7,150	5,891
Securities held to maturity	771	785	977
Nontaxable securities available for sale	511	526	673
Interest-earning deposits	519	346	119
Total interest and dividend income	49,033	40,668	29,666
Interest expense:			
Deposits (note 6)	22,279	16,905	11,909
Advances from Federal Home Loan Bank	4,428	5,021	2,885
Repurchase agreements	1,411	628	—
Subordinated debentures	773	734	680
Total interest expense	28,891	23,288	15,474
Net interest income	20,142	17,380	14,192
Provision for loan losses (note 3)	976	1,023	1,250
Net interest income after provision for loan losses	19,166	16,357	12,942
Non-interest income:			
Service charges	4,105	3,322	2,462
Merchant card income	494	319	120
Gain on sale of loans	98	141	138
Gain on sale of Intrieve, Inc. stock	—	18	345
Realized gain from sale of securities available for sale	6	33	35
Income from bank owned life insurance	302	263	260
Financial services commission	1,140	732	498
Other operating income	1,086	937	674
Total non-interest income	7,231	5,765	4,532

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income, Continued

For the Years ended December 31, 2007, 2006 and 2005
(Dollars in Thousands, Except Share and Per Share Amounts)

	2007	2006	2005
Non-interest expenses:			
Salaries and benefits (note 12)	10,619	8,280	5,906
Occupancy expense (note 4)	2,672	1,726	1,038
Data processing expense	1,850	1,556	1,115
State deposit tax	504	465	437
Intangible amortization (note 5)	961	670	378
Professional services	1,412	1,496	855
Advertising expense	1,005	761	620
Postage and communications expense	550	432	333
Supplies expense	374	350	255
Other operating expenses	606	778	663
Total non-interest expense	20,553	16,514	11,600
Income before income tax expense	$ 5,844	5,608	5,874
Income tax expense (note 13)	$ 1,728	1,700	1,744
Net income	$ 4,116	3,908	4,130
Earnings per share (note 17):			
Basic	$ 1.15	1.08	1.13
Fully diluted	$ 1.14	1.07	1.13
Weighted average shares outstanding - basic	3,588,163	3,634,138	3,644,178
Weighted average shares outstanding - diluted	3,607,870	3,659,666	3,669,918

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the Years ended December 31, 2007, 2006 and 2005
(Dollars in Thousands)

	2007	2006	2005
Net income			
Other comprehensive income, net of tax (note 21):	$4,116	3,908	4,130
Unrealized gain (loss) on investment securities available for sale, net of tax	1,762	790	(2,087)
Gain (loss) on derivatives, net of tax	(65)	(74)	142
Reclassification adjustment for gains included in net income	(4)	(22)	(23)
Comprehensive income	$5,809	4,602	2,162

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the Years ended December 31, 2007, 2006 and 2005
(Dollars in Thousands, Except Per Share and Share Amounts)

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted Stock	Total Equity
Balance January 1, 2005	3,639,283	$ 40	25,863	29,145	(4,857)	(687)	(131)	49,373
Net Income	—	—	—	4,130	—	—	—	4,130
Restricted stock awards	9,795	—	156	—	—	—	(156)	—
Net change in unrealized gains (losses) on securities available for sale, net of taxes of $1,103	—	—	—	—	—	(2,110)	—	(2,110)
Net change in unrealized gain (losses) on derivatives, net of taxes of $89	—	—	—	—	—	142	—	142
Dividends ($0.48 per share)	—	—	—	(1,750)	—	—	—	(1,750)
Compensation expense, restricted stock awards	—	—	—	—	—	—	57	57
Balance December 31, 2005	3,649,078	40	26,019	31,525	(4,857)	(2,655)	(230)	49,842
Change in accounting presentation	—	—	(230)	—	—	—	230	—
Net Income	—	—	—	3,908	—	—	—	3,908
Restricted stock awards	12,328	1	—	—	—	—	—	1
Net change in unrealized gains (losses) on securities available for sale, net of taxes of $396	—	—	—	—	—	768	—	768
Income recognized on derivative contract termination, net of income taxes of $61	—	—	—	—	—	(74)	—	(74)
Dividends ($0.48 per share)	—	—	—	(1,755)	—	—	—	(1,755)
Purchase of treasury stock	(33,500)	—	—	—	(549)	—	—	(549)
Compensation expense, options	—	—	29	—	—	—	—	29
Compensation expense, restricted stock awards	—	—	100	—	—	—	—	100
Balance December 31, 2006	3,627,906	41	25,918	33,678	(5,406)	(1,961)	—	52,270
Net Income	—	—	—	4,116	—	—	—	4,116
Restricted stock awards	9,082	—	—	—	—	—	—	—
Forfeit of restricted stock award	(305)	—	—	—	—	—	—	—
Net change in unrealized gains (losses) on securities available for sale, net of taxes of $906	—	—	—	—	—	1,758	—	1,758
Purchase of treasury stock	(44,650)	—	—	—	(706)	—	—	(706)
Income recognized on derivative contract termination, net of income taxes of $33	—	—	—	—	—	(65)	—	(65)
Dividends ($0.48 per share)	—	—	—	(1,729)	—	—	—	(1,729)
Compensation expense, options	—	—	22	—	—	—	—	22
Compensation expense, restricted stock awards	—	—	137	—	—	—	—	137
Balance December 31, 2007	3,592,033	41	26,077	36,065	(6,112)	(268)	—	55,803

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years ended December 31, 2007, 2006 and 2005
(Dollars in Thousands)

	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 4,116	3,908	4,130
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	976	1,023	1,250
Depreciation	1,284	720	436
Amortization of intangible assets	961	670	378
Amortization of investment premiums and discounts, net	98	426	495
Provision (benefit) for deferred income taxes	(8)	(93)	(250)
Stock dividends on Federal Home Loan Bank stock	—	(198)	(155)
Compensation expense, restricted stock grants and options	159	129	57
Increase in cash surrender value of bank owned life insurance	(302)	(263)	(260)
Gain on sale of securities available for sale	(6)	(33)	(35)
Gain on sale of Intrieve, Inc. stock	—	(18)	(345)
Gain on sales of loans	(98)	(141)	(138)
Gain on settlement of derivative	(98)	(135)	—
Proceeds from sales of loans	5,547	9,431	12,007
Originations of loans sold	(5,449)	(9,290)	(11,869)
(Increase) decrease in:			
Accrued interest receivable	(426)	(973)	(644)
Other assets	154	(248)	(955)
Increase in accrued expenses and other liabilities	359	344	1,008
Net cash provided by operating activities	7,267	5,259	5,110
Cash flows from investing activities:			
Proceeds from calls and maturities of securities held to maturity	3,945	192	4,804
Proceeds from sale of Intrieve Inc. stock	—	18	360
Proceeds from sales, calls and maturities of securities available for sale	88,218	41,595	27,078
Proceeds from settlement of derivative	—	270	—
Purchase of securities available for sale	(44,639)	(51,300)	(48,694)
Net increase in loans	(82,740)	(65,232)	(42,631)
Purchase of Federal Home Loan Bank stock	(197)	(230)	(41)
Proceeds from sale of foreclosed asset	471	700	758
Proceeds from sales of premises and equipment	—	98	15
Purchase of premises and equipment	(3,317)	(8,669)	(5,477)
Net cash received in acquisition	—	22,421	—
Net cash used in investing activities	(38,259)	(60,137)	(63,828)

See accompanying notes to consolidated financial statements.

HopFed Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows, Continued

For the Years ended December 31, 2007, 2006 and 2005
(Dollars in Thousands)

	2007	2006	2005
Cash flows from financing activities:			
Net increase in demand deposits, savings, money market, NOW accounts and time deposits	$ 29,320	21,220	46,533
(Decrease) increase in advance payments by borrowers for taxes and insurance	29	(8)	(6)
Advances from Federal Home Loan Bank	82,000	184,250	117,400
Repayment of advances from Federal Home Loan Bank	(93,739)	(163,801)	(105,547)
Increase in repurchase agreements	15,963	21,236	—
Purchase of treasury stock	(706)	(549)	—
Dividends paid	(1,729)	(1,748)	(1,750)
Net cash provided by financing activities	31,138	60,600	56,630
Increase (decrease) in cash and cash equivalents	146	5,722	(2,088)
Cash and cash equivalents, beginning of period	21,883	16,161	18,249
Cash and cash equivalents, end of period	22,029	21,883	16,161
Supplemental disclosures of Cash Flow Information:			
Interest paid	13,225	11,393	15,283
Income taxes paid	1,542	2,175	2,015
Supplemental disclosures of non-cash investing and financing activities:			
Foreclosures and in substance foreclosures of loans during year	476	813	388
Net unrealized gains on investment securities classified as available for sale	2,664	1,164	(3,200)
Increase (decrease) in deferred tax asset related to change in unrealized losses on investments	(906)	(396)	1,103
Dividends declared and payable	431	439	438
Issue of unearned restricted stock	137	100	156
Fair value of assets acquired	—	61,409	—
Fair value of liabilities assumed	—	65,629	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies:

Nature of Operations and Customer Concentration

HopFed Bancorp, Inc. (the Corporation) is a bank holding company incorporated in the state of Delaware. The Company's principal business activities are conducted through it's wholly-owned subsidiary, Heritage Bank (the Bank), which is a federally chartered savings bank engaged in the business of accepting deposits and providing mortgage, consumer, construction and commercial loans to the general public through its retail banking offices. The Bank's business activities are primarily limited to western Kentucky and middle and western Tennessee. The Bank is subject to competition from other financial institutions. Deposits at the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to comprehensive regulation, examination and supervision by the Office of Thrift Supervision (OTS) and the FDIC.

A substantial portion of the Bank's loans are secured by real estate in the western Kentucky and middle and west Tennessee markets. In addition, foreclosed real estate is located in this same market. Accordingly, the ultimate ability to collect on a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate is susceptible to changes in local market conditions.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation, the Bank and its wholly-owned subsidiary Fall & Fall Insurance (collectively the Company) for all periods. Significant inter-company balances and transactions have been eliminated in consolidation.

Accounting

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices in the banking industry.

(1) Summary of Significant Accounting Policies: (Continued)

Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and revenues and expenses for the year. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, amounts due on demand from banks, interest-earning deposits in the Federal Home Loan Bank and federal funds sold with maturities of three months or less.

Securities

The Company reports debt, readily-marketable equity, mortgage-backed and mortgage related securities in one of the following categories: (i) "held to maturity" (management has a positive intent and ability to hold to maturity) which are to be reported at cost, adjusted for premiums and discounts that are recognized in interest income; (ii) "trading" (held for current resale) which are to be reported at fair value, with unrealized gains and losses included in earnings; and (iii) "available for sale" (all other debt, equity, mortgage-backed and mortgage related securities) which are to be reported at fair value, with unrealized gains and losses reported net of tax as a separate component of stockholders' equity. At the time of new security purchases, a determination is made as to the appropriate classification. Realized and unrealized gains and losses on trading securities are included in net income. Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in stockholders' equity, net of any tax effect. Cost of securities sold is recognized using the specific identification method.

Interest income on securities is recognized as earned. The Company purchases many agency bonds at either a premium or discount to its par value. Premiums and discounts on agency bonds are amortized using the net interest method. For callable bonds purchased at a premium, the premium is amortized to the first call date. If the bond is not called on that date, the premium is fully amortized and the Company recognizes an increase in the net yield of the investment. For agency bonds purchased at a discount, the discount is accreted to the final maturity date. For callable bonds purchased at discount and called before maturity, the Company recognizes a gain on the sale of securities. The Company amortizes premiums and accretes discounts on mortgage back securities and collateralized mortgage obligations based on the average prepayment speeds in the three previous months.

Other Securities

Other securities, such as Federal Home Loan Bank stock are recognized at cost.

(1) Summary of Significant Accounting Policies: (Continued)

Loans Receivable

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and deferred loan cost. The Statement of Financial Accounting Standards (SFAS 91), *Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, requires the recognition of loan origination fee income over the life of the loan and the recognition of certain direct loan origination costs over the life of the loan. At December 31, 2007, the Company's deferred loan origination cost, net of unearned income, was approximately $244,000.

Uncollectible interest on loans that are contractually past due is charged off, or an allowance is established based on management's periodic evaluation. The Company charges off loans after, in management's opinion, the collection of all or a large portion of the principal or interest is not collectable. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received while the loan is classified as non-accrual, when the loan is over ninety days past due. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower in accordance with the contractual terms of interest and principal.

The Bank provides an allowance for loan losses and includes in operating expenses a provision for loan losses determined by management. Management's periodic evaluation of the adequacy of the allowance is based on the Bank'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, and current economic conditions. Management's estimate of the adequacy of the allowance for loan loss can be classified as either a reserve for currently classified loans or estimates of future losses in the current loan portfolio.

Loans are considered to be impaired when, in management's judgment, principal or interest is not collectible according to the contractual terms of the loan agreement. When conducting loan evaluations, management considers various factors such as historical loan performance, the financial condition of the borrower and adequacy of collateral to determine if a loan is impaired. Impaired loans may be classified as either substandard or doubtful and reserved for based on individual loans risk for loss. Loans not considered impaired may be classified as either special mention or watch and may be reserved for. Typically, unimpaired classified loans exhibit some form of weakness in either industry trends, collateral, or cash flow that result in a default risk greater than that of the Company's typical loan. All classified amounts include all unpaid interest and fees as well as the principal balance outstanding.

(1) Summary of Significant Accounting Policies: (Continued)

Loans Receivable (Continued)

The measurement of impaired loans generally is based on the present value of future cash flows discounted at the historical effective interest rate, except that collateral-dependent loans generally are measured for impairment based on the fair value of the collateral. When the measured amount of an impaired loan is less than the recorded investment in the loan, the impairment is recorded as a charge to income and a valuation allowance, which is included as a component of the allowance for loan losses.

Management considers both the Bank's recent charge off history as well as industry trends when making an estimate as to the amount to reserve for losses in the current loan portfolio that are not individually classified. Industry trends are an especially important consideration as the Company's loan portfolio mix is changing. Portions of the loan portfolio, including commercial loans and non-residential real estate, have seen sizable increases in the last three years. Management believes that the limited time frame that these loans have been outstanding is not adequate for the development of a reasonable loss history. Management believes it has established the allowance in accordance with accounting principles generally accepted in the United States of America and has taken into account the views of its regulators and the current economic environment.

Fixed Rate Mortgage Originations

The Bank originates fixed rate first mortgage loans for customers in its local markets and sells these loans on the secondary market. The Company also operates a mortgage company that originates mortgage loans in the name of assorted investors. Originations may or may not result in the Bank retaining loan servicing rights. For the year ended December 31, 2007, the Bank maintained a servicing portfolio of one to four family real estate loans of approximately $38.8 million. For the years ended December 31, 2007, 2006, and 2005, the Bank has reviewed the value of the servicing asset as well as the operational cost associated with servicing the portfolio. After this review, the Bank has determined that the values of its servicing rights are not material to the Company's consolidated financial statements.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are carried at the lower of cost or fair value less selling expenses. Costs of improving the assets are capitalized, whereas costs relating to holding the property are expensed. Management conducts periodic valuations and any adjustments to value are recognized in the current period's operations.

Brokered Deposits

The Company may chose to attract deposits from several sources, including using outside brokers to assist in obtaining time deposits using national distribution channels. Brokered deposits offer the Company an alternative to Federal Home Loan Bank advances.

(1) Summary of Significant Accounting Policies: (Continued)

Repurchase Agreements

The Company sells investments from its portfolio to business and municipal customers with a written agreement to repurchase those investments on the next business day. The repurchase product gives business customers the opportunity to earn income on liquid cash reserves. These funds are overnight borrowings of the Company secured by Company assets and are not FDIC insured. The Company has also entered into two long-term repurchase agreements with third parties. The repurchase agreements have a ten year maturity and are callable quarterly.

Revenue Recognition

Mortgage loans held for sale are generally delivered to secondary market investors under firm sales commitments entered into prior to the closing of the individual loan. Loan sales and related gains or losses are recognized at settlement. Loan fees earned for the servicing of secondary market loans are recognized as earned.

Interest income on loans receivable is reported on the interest method. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due more than 90 days. Interest continues to accrue on loans over 90 days past due if they are well secured and in the process of collection.

Income Taxes

Income taxes are accounted for through the use of the asset and liability method. Under the asset and liability method, deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates would be recognized in income in the period that includes the enactment date. The Company files its federal income tax return on a consolidated basis with its subsidiaries. All taxes are accrued on a separate entity basis.

Operating Segments

The Company's continuing operations include one primary segment, retail banking. The retail banking segment involves the origination of commercial, residential and consumer loans as well as the collections of deposits in fifteen branch offices.

Premises and Equipment

Land, land improvements, buildings, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and land improvements are depreciated generally by the straight-line method, and furniture and equipment are depreciated under various methods over the estimated useful lives of the assets. The Company capitalizes interest expense on construction in process at a rate equal to the Company's cost of funds. The estimated useful lives used to compute depreciation are as follows:

Land improvements	5-15 years
Buildings	40 years
Furniture and equipment	5-15 years

(1) Summary of Significant Accounting Policies: (Continued)

Goodwill

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill is no longer amortized, but instead tested for impairment at least annually.

Intangible Assets

The intangible assets for insurance contracts and core deposits related to the Fulton acquisition of September 2002 are amortized using the straight-line method over the estimated period of benefit of seven years. The core deposit intangible asset related to the middle Tennessee acquisition of June 2006 is amortized using the sum of the year's digits method over an estimated period of nine years. The Company periodically evaluates the recoverability of the intangible assets and takes into account events or circumstances that warrant a revised estimate of the useful lives or indicates that impairment exists.

Bank Owned Life Insurance

Bank Owned Life Insurance policies (BOLI) are recorded at the cash surrender value or the amount to be realized upon current redemption.

Advertising

The Company expenses the production cost of advertising as incurred.

Financial Instruments

The Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and commercial letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Derivative Instruments:

In 2004, the Company entered into a swap transaction in the amount of $10 million with a financial institution. The critical terms of the interest rate swap match the term of the corresponding variable rate subordinated debt issuance. All components of the derivative instrument's gain or loss are included in the assessment of hedge effectiveness.

Under guidelines of *SFAS 133, Accounting for Derivative Instruments and Hedging Activities*, as amended, all derivative instruments are required to be carried at fair value on the consolidated balance sheet. SFAS 133 provides special hedge accounting provisions, which permit the change in fair value of the hedge item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in the fair value of the derivative.

A derivative instrument designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges under SFAS 133. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Using these guidelines, The Company has documented the use of the above-mentioned swap as a cash flow hedge prior to its sale in January 2006.

(1) Summary of Significant Accounting Policies: (Continued)

Derivative Instruments: (Continued)

Cash value hedges are accounted for by recording the fair value of the derivative instrument and the fair value related to the risk being hedged of the hedged asset or liability on the consolidated balance sheet with corresponding offsets recorded in the consolidated balance sheet. The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as a freestanding asset or liability. Actual cash receipts or payments and related amounts accrued during the period on derivatives included in a fair value hedge relationship are recorded as adjustments to the income or expense recorded on the hedged asset or liability.

Under both the fair value and cash flow hedge methods, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the income statement. At the hedge's inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instrument has been highly effective in offsetting changes in the fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been, or will not continue to be highly effective as a hedge, hedged accounting is discontinued. SFAS 133 basis adjustments recorded on hedged assets and liabilities are amortized over the remaining life of the hedged item beginning no later than when hedge accounting ceases. There were no fair value hedging gains or losses, as a result of hedge ineffectiveness, recognized for the years ended December 31, 2007 and 2006. The Company recognized $26,000 in interest expense for the years ended December 31, 2005 related to the interest rate swap.

In January 2006, the Bank settled the interest rate swap at a net gain of approximately $270,000. The Company is recognizing this gain as a reduction of interest expense in equal installments on a quarterly basis beginning with the three month period ending March 31, 2006 through the three month period ending September 30, 2008. For the years ended December 31, 2006 and December 31, 2007, borrowing cost related to subordinated debentures was reduced by $98,240 as a result of the settled interest rate swap.

The Bank, in the normal course of business, originates fixed rate mortgages that are sold to the Federal Home Loan Mortgage Corporation (Freddie Mac). Upon tentative underwriting approval by Freddie Mac, the Bank issues a thirty-day commitment to originate a fixed rate first mortgage under specific terms and conditions that the Bank intends to sell to Freddie Mac. As part of its activities to mitigate interest rate risk in the mortgage lending function, the Bank may commit to guarantee delivery of specific loan amounts, at specific yields, at specific dates to Freddie Mac with or without identifying specific closed loans. The Bank's failure to deliver loans under the terms and conditions of the commitment may result in a future liability to the Bank. SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, provides guidance on the types of loan commitments that are derivatives under SFAS 133 (and therefore required to be accounted for as derivatives) under the scope of SFAS 133. Generally, only commitments to originate mortgage loans that will be held for sale by the issuer of the loan are derivatives under the scope of SFAS 133. See Note 14 for additional information.

(1) Summary of Significant Accounting Policies: (Continued)

Fair Values of Financial Instruments

SFAS 107, *Disclosures about Fair Value of Financial Instruments,* requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Fair value estimates are made at a point in time, based on relevant market information and information about the financial instrument. Accordingly, such estimates involve uncertainties and matters of judgment and therefore cannot be determined with precision. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following are the more significant methods and assumptions used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate those assets' fair values, because they mature within 90 days or less and do not present credit risk concerns.

Available-for-sale and held-to-maturity securities

Fair values for investment securities available-for-sale and held-to-maturity are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans receivable

The fair values for loans receivable are estimated using discounted cash flow analysis which considers future re-pricing dates and estimated repayment dates, and further using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Accrued interest receivable

Fair value is estimated to approximate the carrying amount because such amounts are expected to be received within 90 days or less and any credit concerns have been previously considered in the carrying value.

Repurchase agreements

Overnight repurchase agreements have a fair value at book, given that they mature overnight. Longer maturity repurchase agreements are assigned a fair value of book given the limited nature of a secondary market.

Bank owned life insurance

The fair value of bank owned life insurance is the cash value of the policy.

(1) Summary of Significant Accounting Policies: (Continued)

Fair Value of Financial Instruments (Continued)

Deposits

The fair values disclosed for deposits with no stated maturity such as demand deposits, interest-bearing checking accounts and savings accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit and other fixed maturity time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such type accounts to a schedule of aggregated contractual maturities on such time deposits.

Advances from the Federal Home Loan Bank

The fair value of these advances is estimated by discounting the future cash flows of these advances using the current rates at which similar advances could be obtained.

FHLB stock

The fair value of FHLB stock is recognized at cost.

Subordinated debentures

The fair value of subordinated debentures is cost. The subordinated debentures re-price quarterly at a rate equal to three month libor plus 3.10%.

Off-Balance-Sheet Instruments

Off-balance-sheet lending commitments approximate their fair values due to the short period of time before the commitment expires.

Earnings Per Share

Earnings per share (EPS) consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (CSE). CSE consists of dilutive stock options granted through the Company's stock option plan. Restricted stock awards represent future compensation expense and are dilutive. Common stock equivalents which are considered anti-dilutive are not included for the purposes of this calculation.

Stock Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* (*as* amended). SFAS No. 123R established accounting requirements for share-based compensation to employees and carries forward prior guidance on share-based awards to non-employees. SFAS No. 123R eliminates the ability to account for share-based compensation transactions, as the Company did, using the intrinsic value method as prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and generally requires that such transactions be accounted for using a fair-value-based method and recognized as an expense in the accompanying consolidated statements of income.

(1) Summary of Significant Accounting Policies: (Continued)

Stock Compensation: (Continued)

The Company adopted SFAS No. 123R using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. The consolidated condensed financial statement dated March 31, 2006 was the first to reflect the impact of adopting SFAS No. 123R. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R.

For the twelve-month periods ended December 31, 2007 and December 31, 2006, the implementation of SFAS No. 123R had the following affect on the Company's consolidated financial statements:

	2007	2006
Income before income tax expense	$(21,800)	$(29,000)
Net income	$(21,800)	$(29,000)
Basic earnings per share	$ (0.01)	$ (0.01)
Fully diluted earnings per share	$ (0.01)	$ (0.01)

At December 31, 2007, the Company has 5,000 unvested stock options vesting in May 2008. All other options are fully vested. As a result of adopting SFAS No. 123R, the Company will incur additional after tax expense related to the vesting of stock options of approximately $6,000 in 2008.

The Company utilized the Black-Scholes valuation model to determine the fair value of stock options on the date of grant. The model derives the fair value of stock options based on certain assumptions related to the expected stock prices volatility, expected option life, risk-free rate of return and the dividend yield of the stock. The expected live of options granted are estimated based on historical employee exercise behavior. The risk free rate of return coincides with the expected life of the options and is based on the ten year Treasury note rate at the time the options are issued. The historical volatility levels of the Company's common stock are used to estimate the expected stock price volatility. The set dividend yield is used to estimate the expected dividend yield of the stock.

The value of vested options outstanding at December 31, 2007 is $1.6 million for options issued under the 1999 Plan and $144,800 for options vested under the 2000 Plan. The fair value of options vested in 2007 is $21,800. Shares issued for option exercises are expected to come from authorized but unissued shares.

(1) Summary of Significant Accounting Policies: (Continued)

Stock Compensation: (Continued)

At December 31, 2007, the Company has stock options totaling 246,723 that are eligible to be awarded under the 1999 Stock Option Plan. Additional stock option information at December 31, 2007 includes:

	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value
Outstanding, December 31, 2007	273,752	$ 15.22	2.35 years	$ 333,900
Exercisable, December 31, 2007	268,752	$ 15.18	2.27 years	$ 333,900

The following is a reconciliation of reported and pro forma net income and earnings per share had compensation cost for the plan been determined based on the fair value of SFAS 123, *Accounting for Stock-Based Compensation*, as amended for the year ended:

	December 31, 2005 (Dollars in thousands)
Net income as reported	$ 4,130
Total stock-based employee compensation expense determined under fair value based method for all awards granted, net of related tax effects	(38)
Pro forma net income	$ 4,092

	December 31, 2005
Earnings per share:	
Basic - as reported	$ 1.13
Basic - pro forma	$ 1.12
Diluted - as reported	$ 1.13
Diluted - pro forma	$ 1.12

(Table Amounts in Thousands)

(1) Summary of Significant Accounting Policies: (Continued)

Stock Compensation: (Continued)

The Company's Compensation Committee granted 9,082 shares of restricted stock in 2007, 12,328 shares of restricted stock in 2006 and 9,795 shares of restricted stock in 2005. The Company had 305 shares of restricted stock granted in 2006 that were forfeited in 2007. These shares vest over a four-year period but vesting may be accelerated as a result of factors outlined in the award agreement. The Company incurred compensation expense related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of $137,000 in 2007, $100,000 in 2006, and $57,000 in 2005. The table below outlines the Company's future compensation expense related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan for the years indicated:

Year Ending	Approximate Future Compensation Expense
December 31, 2008	$ 140
December 31, 2009	$ 102
December 31, 2010	$ 59
December 31, 2011	$ 18

The Compensation Committee may make additional awards of restricted stock, thereby increasing the future expense related to this plan. The early vesting of restricted stock awards due to factors outlined in the award agreement may accelerate future compensation expenses related to the plan. However, the total amount of future compensation expense would not change as a result of an accelerated vesting of shares. At December 31, 2007, the Company has 160,213 restricted shares available from the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan that may be awarded.

(1) Summary of Significant Accounting Policies: (Continued)

Effect of New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments (SFAS 155)*. SFAS 155 amends FASB Statement No. 133 and FASB Statement No. 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from the host) if the holder elects to account for the whole instrument on a fair value basis. The Company was required to adopt the provisions of SFAS 155, as applicable, beginning in 2007. The adoption of SFAS 155 did not have a material impact on the Company's consolidated financial position and results of operations.

In March of 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment to FASB Statement No. 140 (FASB 156)*. SFAS 156 permits, but does not require, an entity to account for one or more classes of servicing rights at fair value, which the changes in fair value recorded on the Company's consolidated statement of income. The Company has a mortgage servicing portfolio of approximately $41.2 million. The Company has chosen not to recognize servicing rights as an asset on its financial statements and thus has chosen not to implement SFAS 156.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48)*. Fin 48 requires companies to recognize in their financial statements the impact of a tax position, taken or expected to be taken, if that position is more likely than not of being sustained on audited based on the technical merits of the position. The Company files consolidated federal and multi-state income tax returns. With few exceptions, we are not subject to federal income tax examinations for taxable periods prior to 2003, or state examinations prior to 2002. The provisions of FIN 48 were effective for the Company as of January 1, 2007 and did not have a material impact on the Company's financial statements.

(1) Summary of Significant Accounting Policies: (Continued)

Effect of New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements (SFAS 157)*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and Enhances disclosures about fair value measurements. SFAS 157 defines fair value as the exchange price that would be received for or asset or paid to transfer a liability in the most economical market on the measurement date. SFAS is effective for the Company's financial statements issued for the year beginning January 1, 2008. Management has not yet evaluated the impact of the adoption of SFAS 157 on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option Statement for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115 (SFAS 159)*. SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an individual basis. Future changes in the fair value of these financial instruments would be recognized on the current period's statement of income while establishing additional disclosure requirements for these financial statements. The stated objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in the reported earnings caused by measuring related assets and liabilities differently without having to apply complex accounting provisions. FASB No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption was permitted as of the beginning of the previous fiscal year provided that the entity made the choice in the first 120 days of that physical year and also elects to apply the provisions of FASB No. 157. The Company has chosen not to utilize the option of early adoption of FASB No. 159. The Company does not anticipate that the adoption of this statement will have a material effect on its consolidated financial statements.

In November 2007, the Securities and Exchange Commission *issued Staff Accounting Bulletin No. 109, (SAB 109)*. SAB 109 modifies how to apply generally accepted accounting principles to loan commitments that are accounted for at fair value through earnings. Prior to SAB 109, when companies measured the fair value of a derivative loan commitment, the expected net future cash flows related to the associated servicing of the loan was excluded. Under SAB 109, the expected net future cash flows related to the associated servicing of the loans sold will be included in the measurement of all written loan commitments that are accounted for at fair value of earnings. SAB 109 is effective for the Company January 1, 2008. The Company does not anticipate that the adoption of SAB 109 to have a material impact on its consolidated financial statements.

(1) Summary of Significant Accounting Policies: (Continued)

Effect of New Accounting Pronouncements (Continued)

In March 2007, the FASB Emerging Issues Task Force reached a consensus on Issue No. 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral *Assignment Split-Dollar Life Insurance Arrangements*. This issue provides guidance to help companies determine whether a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement should be recorded in accordance with either *SFAS No. 106-Employees's Account for Postretirement Benefits Other Than Pensions* (if, in substance, a post retirement benefit plan exist) or *Accounting Principles Board Opinion 12* (if the arrangement is, in substance, an individual deferred compensation contract). EITF 06-10 also provides guidance on how a company should recognize and measure the asset in a collateral assignment split-dollar life insurance contract. EITF 06-10 was effective for the Company dated January 1, 2008. The Company does not anticipate that the adoption of this EITF to have a material impact on its consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued *SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements – An Amendment of ARB No. 51* SFAS No. 160 requires noncontrolling interest to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements included net income and comprehensive income to be displayed for both the controlling and non-controlling interest and a separate schedule that shows the effects of any transactions with the non-controlling interest on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement should be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. The Company does not anticipate the adoption of SFAS No. 160 to have a material impact on its consolidated financial statements.

In December 2007, the Securities and Exchange Commission issued *SFAS 141R Business Combinations* SFAS 141R clarified the definitions of both a business combination and a business. All business combinations will be accounted for under the purchase method. This standard defines the acquisition date as the only relevant date for recognition and measurement of the fair value of consideration paid. SFAS 141R requires the acquirer to expense all acquisition related cost. SFAS 141R defines the measurement period as the time after the acquisition date during which the acquirer may make adjustments to the provisional amounts recognized at the acquisition date. This period cannot exceed one year, and any subsequent adjustments to the provisional amounts are done so retrospectively and require a restatement of prior period data. The provisions of this statement are effective for business combinations during fiscal years beginning after December 31, 2008. The Company has not determined the impact of SFAS 141R on its consolidated financial statements.

(Table Amounts in Thousands)

(2) Securities:

Securities, which consist of debt and equity investments, have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities available for sale and their estimated fair values follow:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Restricted:				
FHLB stock	$ 3,836	—	—	3,836
Unrestricted:				
U.S. government and agency securities:				
Agency debt securities	$ 71,442	656	(107)	71,991
Corporate bonds	2,037	—	(129)	1,908
Municipal bonds	17,379	25	(248)	17,156
Mortgage-backed securities:				
GNMA	1,341	—	(32)	1,309
FNMA	25,018	62	(414)	24,666
FHLMC	12,736	2	(222)	12,516
CMOs	12,834	47	(117)	12,764
	142,787	792	(1,269)	142,310

(Table Amounts in Thousands)

(2) Securities: (Continued)

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Restricted:				
FHLB stock	$ 3,639	—	—	3,639
Unrestricted:				
U.S. government and agency securities:				
Agency debt securities	$115,519	73	(1,367)	114,225
Corporate bonds	5,090	—	(105)	4,985
Municipal bonds	15,002	24	(397)	14,629
Mortgage-backed securities:				
GNMA	1,623	—	(53)	1,570
FNMA	25,181	51	(841)	24,391
FHLMC	9,998	—	(354)	9,644
CMOs	14,068	36	(209)	13,895
	186,481	184	(3,326)	183,339

The scheduled maturities of debt securities available for sale at December 31, 2007 and 2006 were as follows:

2007	Amortized Cost	Estimated Fair Value
Due within one year	$ 11,424	$ 11,384
Due in one to five years	37,084	37,100
Due in five to ten years	25,991	26,237
Due in more than ten years	16,359	16,334
	90,858	91,055
Mortgage-backed securities	51,929	51,255
Total unrestricted securities available for sale	$142,787	$142,310

(Table Amounts in Thousands)

(2) Securities: (Continued)

2006	Amortized Cost	Estimated Fair Value
Due within one year	$ 38,998	$ 38,855
Due in one to five years	41,556	40,741
Due in five to ten years	41,248	40,586
Due after ten years	13,809	13,657
	135,611	133,839
Mortgage-backed securities	50,870	49,500
Total unrestricted securities available for sale	$186,481	$183,339

FHLB stock is an equity interest in the Federal Home Loan Bank. FHLB stock does not have a readily determinable fair value because ownership is restricted and a market is lacking. FHLB stock is classified as a restricted investment security, carried at cost and evaluated for impairment. The Bank had an equity interest in Intrieve, Incorporated, and the Bank's data processing service center. Intrieve, Inc. was purchased by Harland Financial Services in April 2005. As a result, the Company recognized a gain of approximately $345,000 in 2005 and $18,000 in 2006.

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of December 31, 2007 are as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Held to maturity						
U.S. government and agency securities:						
Agency debt securities	$ —	—	4,360	(10)	4,360	(10)
Available for sale						
U.S. government and agency securities:						
Agency debt securities	$ 4,988	(2)	18,825	(105)	23,813	(107)
Corporate bonds	—	—	1,908	(129)	1,908	(129)
Municipal bonds	2,134	(17)	12,378	(231)	14,512	(248)
Mortgage-backed securities:						
GNMA	—	—	1,309	(32)	1,309	(32)
FNMA	4,351	(19)	17,418	(395)	21,769	(414)
FHLMC	2,341	(12)	8,104	(210)	10,445	(222)
CMOs	1,659	(5)	7,321	(112)	8,980	(117)
Total available for sale	$15,473	(55)	67,263	(1,214)	82,736	(1,269)

(2) Securities: (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluations. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007, the Company has 121 securities with unrealized losses. With the exception of the Company's corporate bond portfolio, Management believes these unrealized losses relate to changes in interest rates and not credit quality. Management also believes the Company has the ability to hold these securities until maturity, or for the foreseeable future and therefore no declines are deemed to be other than temporary.

The Company's corporate bond portfolio consists of $2 million of Ford Motor Acceptance Corporation bonds (FMAC) with $1 million maturities in October 2008 and October 2009. The unrealized loss associated with these bonds is the result of a decline in the credit ratings of Ford, the parent company of FMAC, both of which are no longer investment grade. The Company reviews the statements of condition, operations, and cash flows of Ford and FMAC on a consolidated basis each quarter to ascertain that the company and its subsidiary have an adequate level of liquidity to meet both current and near-term obligations. At this time, management believes that both Ford and FMAC have adequate levels of liquidity to meet its obligations through the period that meets or exceeds the maturity of the Company's bonds held in its portfolio. Management will continue to monitor quarterly financial statements and Securities Exchange Commission (SEC) filings in an effort to monitor the ability of Ford and FMAC to meet their near-term liquidity needs.

As part of its normal course of business, the Bank holds significant balances of municipal and other deposits that require the Bank to pledge investment instruments as collateral. At December 31, 2007, the Bank pledged investments with a market value of approximately $66.6 million to various municipal entities as required by law. In addition, the Bank has provided $34.9 million of letters of credit issued by the Federal Home Loan Bank of Cincinnati to collateralize municipal deposits. The collateral for these letters of credit is the Bank's one to four family loan portfolio.

During 2007, the Company sold investments securities classified as available-for-sale for proceeds of $1.5 million resulting in gross gains of $6,000. During 2006, the Company sold investment securities classified as available-for-sale for proceeds of $15.1 million resulting in gross gains of $90,000 and gross losses of $57,000. The Company sold investment securities classified as available-for-sale for proceeds of $10.6 million resulting in gross gains of $73,000 and gross losses of $38,000 during 2005. During 2006 and 2005, the Company sold restricted investment securities for proceeds of $18,000 and $360,000 resulting in gross gains of $18,000 and $345,000 in 2006 and 2005, respectively

(Table Amounts in Thousands)

(2) Securities: (Continued)

The carrying amount of securities held to maturity and their estimated fair values follow:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to maturity securities				
U.S. government and agency securities:				
Agency debt securities	$ 13,541	17	(10)	13,548
Mortgage-backed securities:				
GNMA	490	7	—	497
FNMA	64	—	—	64
	554	7	—	561
	$ 14,095	24	(10)	14,109

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to maturity securities				
U.S. government and agency securities:				
Agency debt securities	$ 17,318	—	(337)	16,981
Mortgage-backed securities:				
GNMA	630	8	—	638
FNMA	70	1	—	71
	700	9	—	709
	$ 18,018	9	(337)	17,690

(Table Amounts in Thousands)

(2) Securities: (Continued)

The scheduled maturities of debt securities held to maturity at December 31, 2007 were as follows:

	Amortized Cost	Estimated Fair Value
2007		
Due within one year	$ 2,875	$ 2,867
Due in one to five years	3,172	3,184
Due in five to ten years	4,000	4,003
Due after ten years	3,494	3,494
	13,541	13,548
Mortgage-backed securities	554	561
Total unrestricted securities held to maturity	$ 14,095	$14,109

(3) Loans Receivable, Net:

The Company originates most fixed rate loans for immediate sale to the Federal Home Loan Mortgage Corporation (FHLMC) or other investors. Generally, the sale of such loans is arranged shortly after the loan application is tentatively approved through commitments.

The components of loans receivable in the consolidated balance sheets as of December 31, 2007 and December 31, 2006 were as follows:

	2007	2006
Real estate loans:		
One-to-four family first mortgages	$183,901	$190,839
Second mortgages (closed end)	6,771	5,986
Home equity lines of credit	32,216	29,089
Multi-family	24,538	12,018
Construction	50,230	39,379
Commercial real estate	183,168	147,050
Total real estate loans	480,824	424,361
Loans secured by deposits	4,419	3,855
Other consumer loans	21,331	21,630
Commercial loans	74,276	49,592
	580,850	499,438
Deferred loan cost, net of income	244	—
Less: allowance for loan losses	4,842	4,470
Total loans, net	$576,252	$494,968

(Table Amounts in Thousands)

(3) Loans Receivable, Net (Continued)

Loans serviced for the benefit of others totaled approximately $44.4 million, $45.6 million and $47.3 million at December 31, 2007, 2006 and 2005, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow amounts, disbursing payments to investors and foreclosure processing.

Qualified one-to-four family first mortgage loans and non-residential real estate loans are pledged to the Federal Home Loan Bank of Cincinnati as discussed in note 7.

Impaired loans and related valuation allowance amounts at December 31, 2007 and 2006 were as follows:

	2007	2006
Recorded investment	$2,073	1,650
Valuation allowance	$ 488	361

The average recorded investment in impaired loans for the years ended December 31, 2007, 2006 and 2005 was $1,916,000, $1,914,000, and $2,273,000, respectively. Interest income recognized on impaired loans was not significant during the years ended December 31, 2007, 2006 and 2005.

An analysis of the change in the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005 follows:

	2007	2006	2005
Balance at beginning of year	$4,470	$ 4,004	$3,273
Loans charged off	(921)	(1,003)	(649)
Recoveries	317	261	130
Credit devaluation of purchased loans	—	185	—
Provision for loan losses	976	1,023	1,250
Balance at end of year	$4,842	$ 4,470	$4,004

Non-accrual loans totaled $547,000 and $762,000 at December 31, 2007 and 2006, respectively. Real estate and other assets owned totaled $347,000 and $342,000 at December 31, 2007 and 2006, respectively. Interest income foregone on such loans was not significant during 2007, 2006 and 2005. The Company is not committed to lend additional funds to borrowers whose loans have been placed on a non-accrual basis.

There were $46,000 in loans three months or more past due and still accruing interest as of December 31, 2007. There were $101,000 in loans three months or more past due and still accruing interest as of December 31, 2006.

(Table Amounts in Thousands)

(3) Loans Receivable, Net: (Continued)

The Company originates loans to officers and directors and their affiliates at terms substantially identical to those available to other borrowers. Loans to officers and directors at December 31, 2007 and 2006 were approximately $11,382,000 and $8,655,000, respectively. At December 31, 2007, funds committed that were undisbursed to officers and directors approximated $4.2 million.

The following summarizes activity of loans to officers and directors and their affiliates for the years ended December 31, 2007 and 2006:

	2007	2006
Balance at beginning of period	$ 8,655	$10,179
New loans	7,197	1,195
Principal repayments	(4,470)	(2,719)
Balance at end of period	$11,382	$ 8,655

(4) Premises and Equipment:

Components of premises and equipment included in the consolidated balance sheets as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Land	$ 5,370	$ 5,370
Land improvements	468	130
Buildings	19,844	15,192
Construction in process	—	3,213
Furniture and equipment	5,398	3,989
	31,080	27,894
Less accumulated depreciation	3,820	2,694
	$27,260	$25,200

Depreciation expense was approximately $1,284,000, $720,000, and $436,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

For the years ended December 31, 2007 and December 31, 2006, the Company capitalized interest expenses related to construction in process of approximately $27,000 and $115,000, respectively.

(Table Amounts in Thousands)

(5) Goodwill and Intangible Assets:

Goodwill is tested for impairment on an annual basis and as events or circumstances change that would more likely than not reduce fair value below its carrying amount. In 2007 and 2006, the Company determined that its goodwill and intangibles were not impaired.

The amount of other intangible assets and the changes in the carrying amounts of other intangible assets for the years ended December 31, 2007, 2006 and 2005:

	Core Deposits Intangible	Insurance Contracts Intangible	Total
Balance, December 2004	$ 1,669	86	1,755
Amortization	(360)	(18)	(378)
Balance, December 31, 2005	1,309	68	1,377
Acquisition of Tennessee offices	2,919	—	2,919
Amortization	(652)	(18)	(670)
Balance, December 31, 2006	3,576	50	3,626
Amortization	(911)	(50)	(961)
Balance, December 31, 2007	$ 2,665	—	2,665

The estimated amortization expense for intangible assets for the subsequent years is as follows:

	Core Deposits Intangible
2008	$ 847
2009	651
2010	357
2011	292
2012	227
Thereafter	291
	$ 2,665

(Table Amounts in Thousands)

(6) Deposits:

At December 31, 2007, the scheduled maturities of other time deposits were as follows:

2008	$248,539
2009	97,563
2010	19,942
2011	8,640
2012	6,577
	$381,261

The amount of other time deposits with a minimum denomination of $100,000 was approximately $143.6 million and $143.7 million at December 31, 2007 and 2006, respectively. At December 31, 2007, directors, members of senior management and their affiliates had deposits in the Bank of approximately $2,142,000.

Interest expense on deposits for the years ended December 31, 2007, December 31, 2006 and December 31, 2005 is summarized as follows:

	2007	2006	2005
Demand and NOW accounts	$ 3,216	2,692	1,865
Money market accounts	514	411	491
Savings	887	1,278	1,140
Other time deposits	17,662	12,524	8,413
	$22,279	16,905	11,909

The Bank maintains clearing arrangements for its demand, NOW and money market accounts with Compass Bank. The Bank is required to maintain certain cash reserves in its account to cover average daily clearings. At December 31, 2007, average daily clearings were approximately $5.0 million.

At December 31, 2007, the Company had approximately $595,000 of deposit accounts in overdraft status and thus has been reclassified to loans on the accompanying consolidated balance sheet. The Company had approximately $620,000 of deposit accounts in overdraft status at December 31, 2006. At December 31, 2007 and December 31, 2006, the Company had deposits classified as brokered deposits totaling $19.8 million and $24.9 million, respectively. The Company had no brokered deposits at December 31, 2005.

(Table Amounts in Thousands, Except Percentages)

(7) Advances from Federal Home Loan Bank:

Federal Home Loan Bank (FHLB) advances are summarized as follows:

	December 31,			
	2007		2006	
Types of Advances	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Fixed-rate	$ 91,882	4.58%	$ 89,821	4.62%
Variable-rate	$ 10,000	3.88%	$ 23,800	5.38%
Total	$101,882	4.51%	$113,621	4.78%

Scheduled maturities of FHLB advances as of December 31, 2007 are as follows:

Years Ended December 31,	**Fixed Rate**	**Fixed Rate Avg Cost**	**Variable Rate**	**Variable Rate Avg Cost**
2008	32,000	5.17%	—	—
2009	10,000	3.83%	—	—
2010	9,000	4.26%	—	—
2011	10,000	5.26%	—	—
2012	—	n/a	—	—
Thereafter	30,882	4.11%	10,000	3.88%
Total	91,882	4.58%	10,000	3.88%

The Bank has an approved line of credit of $30.0 million at December 31, 2007 which is secured by a blanket agreement to maintain residential first mortgage loans and non-residential real estate loans with a principal value of 125% of the outstanding advances and has a variable interest rate. The Company can immediately borrow the full amount of this line of credit at December 31, 2007. All borrowings with the FHLB are secured under a blanket agreement using the Bank’s portfolio of 1-4 family home loans and non-residential real estate loans as collateral. At December 31, 2007, the Bank could borrow a total of $32.2 million from the FHLB of Cincinnati.

(Table Amounts in Thousands, Except Percentages)

(8) Repurchase Agreements

In 2006, the Bank enhanced its cash management product line to include an automated sweep of excess funds from checking accounts to repurchase accounts, allowing interest to be paid on excess funds remaining in checking accounts of business and municipal customers. Repurchase balances are overnight borrowings from customers and are not FDIC insured. In addition, the Company has entered into two long term repurchase agreements with third parties.

At December 31, 2007, the Company provided investment securities with a market value of $36.1 million and a book value of $35.9 million as collateral for repurchase agreements.

At December 31, 2007 and December 31, 2006, the respective cost and maturities of the Company's repurchase agreements are as follows:

December 31, 2007

Third Party	Balance	Average Cost	Maturity	Comments
Merrill Lynch	$ 6,000	4.36%	9/18/2016	Quarterly callable
Deutsch Bank	10,000	4.28%	9/05/2014	Quarterly callable beginning 9/05/2008
Various customers	21,199	4.79%		Overnight
Total	$37,199	4.54%		

December 31, 2006

Third Party	Balance	Average Cost	Maturity	Comments
Merrill Lynch	$ 6,000	4.36%	9/18/2016	Quarterly callable
Various customers	15,236	5.10%		Overnight
Total	$21,236	5.00%		

(Table Amounts in Thousands)

(9) Financial Instruments:

The Company 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

	December 31,	
	2007	2006
Commitments to extend credit	$51,342	$41,993
Standby letters of credit	4,559	4,459
Unused commercial lines of credit	10,915	8,990
Unused home equity lines of credit	33,755	31,200

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 of the counter-party. Collateral held varies but may include property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The fair value of standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counter parties drawing on such financial instruments and the present creditworthiness of such counter parties. Such commitments have been made on terms which are competitive in the markets in which the Company operates, thus, the fair value of standby letters of credit equals the carrying value for the purposes of this disclosure. The maximum potential amount of future payments that the Company could be required to make under the guarantees totaled $4,559,000 at December 31, 2007.

(Table Amounts in Thousands)

(9) Financial Instruments: (Continued)

The estimated fair values of financial instruments were as follows at December 31, 2007:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 17,343	17,343
Interest-earning deposits in Federal Home Loan Bank	931	931
Federal funds sold	3,755	3,755
Securities available for sale	142,310	142,310
Federal Home Loan Bank stock	3,836	3,836
Securities held to maturity	14,095	14,109
Loans receivable	576,252	600,772
Accrued interest receivable	5,235	5,235
Bank owned life insurance	7,723	7,723
Financial liabilities:		
Deposits	598,753	602,243
Advances from borrowers for taxes and insurance	316	316
Advances from Federal Home Loan Bank	101,882	105,007
Repurchase agreements	37,199	39,254
Subordinated debentures	10,310	10,310
Off-balance-sheet liabilities:		
Commitments to extend credit	—	—
Commercial letters of credit	—	—

(Table Amounts in Thousands)

(9) Financial Instruments: (Continued)

The estimated fair values of financial instruments were as follows at December 31, 2006:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 14,423	14,423
Interest-earning deposits in Federal Home Loan Bank	4,190	4,190
Federal funds sold	3,270	3,270
Securities available for sale	183,339	183,339
Federal Home Loan Bank stock	3,639	3,639
Securities held to maturity	18,018	17,690
Loans receivable	494,968	485,611
Accrued interest receivable	4,809	4,809
Bank owned life insurance	7,421	7,421
Financial liabilities:		
Deposits	569,433	570,247
Advances from borrowers for taxes and insurance	287	287
Advances from Federal Home Loan Bank	113,621	111,108
Repurchase agreements	21,236	21,236
Subordinated debentures	10,310	10,310
Off-balance-sheet liabilities:		
Commitments to extend credit	—	—
Commercial letters of credit	—	—

(10) Subordinated Debentures:

On September 25, 2003, the Company formed HopFed Capital Trust I (the Trust). The Trust is a statutory trust formed under the laws of the state of Delaware. In September 2003, the Trust issued variable rate capital securities with an aggregate liquidation amount of $10,000,000 ($1,000 per preferred security) to a third-party investor. The Company then issued floating rate junior subordinated debentures aggregating $10,310,000 to the Trust. The junior subordinated debentures are the sole assets of the Trust. The junior subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis. The variable interest rate is the three-month LIBOR plus 3.10% adjusted quarterly (8.34% for the quarter ending December 31, 2007). These junior subordinated debentures mature in 2033, at which time the capital securities must be redeemed. The junior subordinated debentures and capital securities can be redeemed contemporaneously, in whole or in part, beginning October 8, 2008 at a redemption price of $1,000 per capital security.

(10) Subordinated Debentures: (Continued)

The Company has provided a full-irrevocable and unconditional guarantee on a subordinated basis of the obligations of the Trust under the capital securities in the event of the occurrence of an event of default, as defined in such guarantee. Debt issuance cost and underwriting fees of $190,000 were capitalized related to the offering and are being amortized to the first call date of the junior subordinated debentures.

(11) Concentrations of Credit Risk:

Most of the Bank's business activity is with customers located within the western part of the Commonwealth of Kentucky and middle and western Tennessee. One-to-four family residential and non residential real estate collateralize the majority of the loans. The Bank requires collateral for the majority of loans.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The contractual amounts of credit-related financial instruments such as commitments to extend credit and commercial letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

Cash and cash equivalents with financial institutions exceeded the insurance coverage as of December 31, 2007 and 2006. The excess balance of such items as of December 31, 2007 and 2006 was $8.8 million and $11.7 million, respectively.

(12) Employee Benefit Plans:

Stock Option Plan

On February 24, 1999, the Board of Directors of the Company adopted the HopFed Bancorp, Inc. 1999 Stock Option Plan (Option Plan), which was subsequently approved at the 1999 Annual Meeting of Stockholders. Under the Option Plan, the Option Committee has discretionary authority to grant stock options and stock appreciation rights to such employees, directors and advisory directors, as the committee shall designate. The Option Plan reserved 403,360 shares of common stock for issuance upon the exercise of options or stock appreciation rights.

The Company will receive the exercise price for shares of common stock issued to Option Plan participants upon the exercise of their option, and will receive no monetary consideration upon the exercise of stock appreciation rights. The Board of Directors granted options to purchase 403,360 shares of common stock under the Option Plan at an exercise price of $20.75 per share, which was the fair market value on the date of the grant. As a result of the special dividend of $4.00 per share paid in December, 1999, and in accordance with plan provisions, the number of options and the exercise price has been adjusted to 480,475 and $17.42 respectively.

(12) Employee Benefit Plans: (Continued)

Stock Option Plan (Continued)

On May 31, 2000, the Board of Directors of the Company adopted the HopFed Bancorp, Inc. 2000 Stock Option Plan (the “2000 Option Plan”). Under the 2000 Option Plan, the option committee has discretionary authority to grant stock options to such employees as the committee shall designate. The 2000 Option Plan reserves 40,000 shares of common stock for issuance upon the exercise of options. The Company will receive the exercise price for shares of common stock issued to 2000 Option Plan participants upon the exercise of their option. The Board of Directors has granted options to purchase 40,000 shares of common stock under the 2000 Option Plan at an exercise price of $10.00 per share, which was the fair market value on the date of the grant.

The following summary represents the activity under the stock option plans:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, December 2005	273,752	$ 15.22
Granted	—	
Exercised	—	
Forfeited	—	
Options outstanding, December 2006	273,752	$ 15.22
Granted	—	
Exercised	—	
Forfeited	—	
Options outstanding, December 2007	273,752	$ 15.22

Stock options vest and become exercisable annually over a four-year period from the date of the grant.

The following is a summary of stock options outstanding at December 31, 2007:

Exercise Price	Weighted Average Remaining Life (Years)	Outstanding Options	Options Expercisable
$ 17.42	1.2	153,752	153,752
12.33	3.6	60,000	60,000
17.34	6.4	20,000	15,000
10.00	2.4	40,000	40,000
$ 15.22	2.3	273,752	268,752

(12) Employee Benefits Plan: (Continued)

HopFed Bancorp, Inc. 2004 Long Term Incentive Plan

On February 18, 2004, the Board of Directors of the Company adopted the HopFed Bancorp, Inc 2004 Long Term Incentive Plan (the Plan), which was subsequently approved at the 2004 Annual Meeting of Stockholders. Under the Plan, the Compensation Committee has discretionary authority to grant up to 200,000 shares in the form of restricted stock grants, options, and stock appreciation rights to such employees, directors and advisory directors as the committee shall designate. The grants vest in equal installments over a four-year period. Grants may vest immediately upon specific events, including a change of control of the Company, death or disability of award recipient, and termination of employment of the recipient by the Company without cause.

Awards are recognized as an expense to the Company in accordance with the vesting schedule. Awards in which the vesting is accelerated must be recognized as an expense immediately. Awards are valued at the closing stock price on the day the award is granted. In 2007, The Compensation Committee granted a total of 9,082 shares with a market value of $140,000. In 2006, the Compensation Committee granted a total of 12,328 shares with a market value of $192,000. A total of 305 restricted shares granted in 2006 were forfeited in 2007. In 2005, the Compensation Committee granted a total of 9,795 shares with a market value of $156,000. The Company recognized $137,000, $100,000, and $57,000 in compensation expense in 2007, 2006 and 2005, respectively.

401(K) Plan

During 2002, the Company initiated a 401(k) retirement program. The 401(k) plan is available to all employees who meet minimum eligibility requirements. Participants may generally contribute up to 15% of earnings, and in addition, management will match employee contributions up to 4%. In addition, the Company has chosen to provide all eligible employees an additional 4% of compensation without regards to the amount of the employee contribution. Expense related to Company contributions amounted to $427,000, $334,000, and $270,000 in 2007, 2006 and 2005, respectively.

Deferred Compensation Plan

During the third quarter of 2002, the Company purchased assets and assumed the liabilities relating to a nonqualified deferred compensation plan for certain employees of the Fulton division. The Company owns single premium life insurance policies on the life of each participant and is the beneficiary of the policy value. When a participant retires, the benefits accrued for each participant will be distributed to the participant in equal installments for 15 years. The expense recognized by the Company for 2007, 2006, and 2005 amounted to $19,000, $21,000 and $27,000, respectively. The Deferred Compensation Plan also provides the participant with life insurance coverage, which is a percentage of the net death proceeds for the policy, if any, applicable to the participant.

(Table Amounts in Thousands, Except Percentages)

(13) Income Taxes:

The provision for income taxes for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Current			
Federal	$1,571	$1,733	1,990
State	165	60	4
	1,736	1,793	1,994
Deferred			
Federal	(8)	(69)	(250)
State	—	(24)	—
	(8)	(93)	(250)
	$1,728	$1,700	1,744

Total income tax expense for the years ended December 31, 2007, 2006 and 2005 differed from the amounts computed by applying the federal income tax rate of 34 percent to income before income taxes as follows:

	2007	2006	2005
Expected federal income tax expense at statutory tax rate	$1,987	1,906	1,997
Effect of non-taxable interest income	(309)	(198)	(254)
Effect of non-taxable bank owned life insurance income	(103)	(89)	(88)
State taxes on income, net of federal benefit	109	23	—
Non deductible expenses	44	58	89
Total federal income tax expense	$1,728	1,700	1,744
Effective rate	29.57%	30.30%	29.70%

The components of deferred taxes as of December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Deferred tax assets:		
Allowance for loan loss	1,646	1,482
Accrued expenses	162	188
Unrealized depreciation on securities available for sale	137	1,018
Total deferred assets	1,945	2,688
Deferred tax liabilities:		
FHLB stock dividends	(740)	(740)
Depreciation and amortization	(286)	(236)
Loans	(96)	—
Total deferred liabilities	(1,122)	(976)
Net deferred tax asset	$ 823	1,712

(13) Income Taxes: (Continued)

The Small Business Protection Act of 1996, among other things, repealed the tax bad debt reserve method for thrifts effective for taxable years beginning after December 31, 1995. Thrifts such as the Bank may now only use the same tax bad debt reserve method that is allowed for commercial banks. A thrift with assets greater than $500 million can no longer use the reserve method and may only deduct loan losses as they actually arise (i.e., the specific charge-off method).

The portion of a thrift's tax bad debt reserve that is not recaptured (generally pre-1988 bad debt reserves) under the 1996 law is only subject to recapture at a later date under certain circumstances. These include stock repurchase redemptions by the thrift or if the thrift converts to a type of institution (such as a credit union) that is not considered a bank for tax purposes. However, no further recapture would be required if the thrift converted to a commercial bank charter or was acquired by a bank. The Bank does not anticipate engaging in any transactions at this time that would require the recapture of its remaining tax bad debt reserves. Therefore, retained earnings at December 31, 2007 and 2006 includes approximately $4,027,000 which represents such bad debt deductions for which no deferred income taxes have been provided.

(14) Commitments and Contingencies:

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements.

The Bank had open loan commitments at December 31, 2007 and 2006 of approximately $51,342,000 and $41,993,000, respectively. At December 31, 2007, the Bank had no fixed rate loan commitments. Beginning October 2007, the Bank converted all fixed rate loan commitments to outside investors to Best Efforts. For accepting a lower commitment fee, the Bank has transferred the risk of the loan not closing to the investor. At December 31, 2006, the Bank has committed to sell fixed rate loans totaling $215,000 at a rate of 6.25%. In the event that the Bank was unable to fulfill its commitment to sell these loans, the Bank's liability to its investor was not material to the consolidated financial statements of the Company. Unused lines of credit were approximately $44.7 million and $40.2 million at December 31, 2007 and 2006, respectively.

The Company and the Bank have agreed to enter into employment agreements with certain officers, which provide certain benefits in the event of their termination following a change in control of the Company or the Bank. The employment agreements provide for an initial term of three years. On each anniversary of the commencement date of the employment agreements, the term of each agreement may be extended for an additional year at the discretion of the Board. In the event of a change in control of the Company or the Bank, as defined in the agreement, the officers shall be paid an amount equal to two times the officer's base salary as defined in the employment agreement.

(14) Commitments and Contingencies: (Continued)

The Company and the Bank have entered into commitments to rent facilities and lease operating equipment that are non-cancelable. At December 31, 2007, future minimal lease and rental commitments were as follows:

Years Ending December 31, 2007	
2008	$106,000
2009	98,000
2010	62,000
2011	58,000
2012	4,000
	$328,000

The Company incurred rental expenses of approximately $28,000, $77,000 and $131,000 for the years ended December 31, 2005, 2006 and 2007, respectively. In 2007, the Company completed all outstanding construction projects.

In the normal course of business, the Bank and Company have entered into operating contracts necessary to conduct the Company's daily business. The most significant operating contract is for the Bank's data processing services. The monthly cost associated with this contract is variable based on the number of accounts and usage but averages approximately $165,000 per month. In December 2005, the Company renewed this contract for five years. The contract expires in 2011. In addition, the Bank is a defendant in legal proceedings arising in connection with its business. It is the best judgment of management that neither the financial position nor results of operations of the Bank will be materially affected by the final outcome of these legal proceedings.

The Company is self-insured for medical benefits provide to employees. The Company has obtained stop-loss insurance to limit total medical claims in any one year to $50,000 per covered individual unit and $1 million for all medical claims. The Company has established a liability for outstanding claims and incurred, but unreported claims. While management uses what is believes are pertinent factors in estimating the liability, it is subject to change due to claim experience, type of claims, and rising medical cost.

(15) Regulatory Matters:

The Company is a unitary thrift holding company and, as such, is subject to regulation, examination and supervision by the Office of Thrift Supervision (OTS).

The Bank is also subject to various regulatory requirements administered by the OTS. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's 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 Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to adjusted total assets (as defined), and of total capital (as defined) and Tier 1 to risk weighted assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total, tangible and core capital ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

(Table Amounts in Thousands, Except Percentages)

(15) Regulatory Matters (Continued)

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 are presented below:

	Company Actual		Bank Actual		Required for Capital Adequacy Purposes		Required to be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007								
Tangible capital to adjusted total assets	$58,727	7.3%	$55,698	7.0%	$ 11,979	1.50%	N/A	N/A
Core capital to adjusted total assets	$58,727	7.3%	$55,698	7.0%	$ 31,943	4.00%	$ 39,931	5.00%
Total capital to risk weighted assets	$63,569	11.0%	$60,540	10.5%	$ 46,249	8.00%	$ 57,811	10.00%
Tier 1 capital to risk weighted assets	$58,727	10.1%	$55,698	9.6%	N/A	N/A	$ 34,687	6.00%
As of December 31, 2006								
Tangible capital to adjusted total assets	$55,924	7.3%	$52,903	7.0%	$ 11,423	1.50%	N/A	N/A
Core capital to adjusted total assets	$55,924	7.3%	$52,903	7.0%	$ 30,460	4.00%	$ 38,078	5.00%
Total capital to risk weighted assets	$60,393	11.8%	$57,373	11.3%	$ 40,790	8.00%	$ 50,988	10.00%
Tier 1 capital to risk weighted assets	$55,924	11.0%	$52,903	10.4%	N/A	N/A	$ 30,593	6.00%

(16) Stockholders' Equity:

The Company's sources of income and funds for dividends to its stockholders are earnings on its investments and dividends from the Bank. The Bank's primary regulator, the OTS, has regulations that impose certain restrictions on payment of dividends to the Company. Current regulations of the OTS allow the Bank (based upon its current capital level and supervisory status assigned by the OTS) to pay a dividend of up to 100% of net income to date during the calendar year plus the retained income for the preceding two years.

The Bank must provide the OTS with 30 days prior notice to the payment of the dividend. Any capital distribution in excess of this amount would require supervisory approval. Capital distributions are further restricted should the Bank's capital level fall below the fully phased-in capital requirements of the OTS. In no case will the Bank be allowed to make capital distributions reducing equity below the required balance of the liquidation account. For the years ended December 31, 2007, December 31, 2006 and December 31, 2005, the Bank paid a $3,000,000 per year dividend to the Corporation. For the year ended December 31, 2007, the Bank could have paid the Corporation an additional dividend of approximately $5.1 million without OTS supervisory approval.

OTS regulations also place restrictions after the conversion on the Company with respect to repurchases of its common stock. With prior notice to the OTS, the Company is allowed to repurchase its outstanding shares. In August 2006, the Company announced that is has replaced a previously announced stock buyback plan with a new plan to purchase up to 125,000 shares of common stock over the next two years. Under the current plan, the Company has purchased 78,150 shares of common stock at an average price of $16.06 per share. As of December 31, 2007, a total of 487,059 shares had been repurchased from all active and inactive stock repurchase plans at an average price of $12.55 per share.

(17) Earnings Per Share:

Earnings per share of common stock are based on the weighted average number of basic shares and dilutive shares outstanding during the year. The following is a reconciliation of weighted average common shares for the basic and dilutive earnings per share computations:

	Years Ended December 31,		
	2007	2006	2005
Basic earnings per share:			
Weighted average common shares	3,588,163	3,634,138	3,644,178
Diluted earnings per share:			
Weighted average common shares	3,588,163	3,634,138	3,644,178
Diluted effect of stock options	19,707	25,528	25,740
Weighted average common and incremental shares	3,607,870	3,659,666	3,669,918

(Table Amounts in Thousands)

(18) Condensed Parent Company Only Financial Statements:

The following condensed balance sheets as of December 31, 2007 and 2006 and condensed statements of income and cash flows for the years ended December 31, 2007, 2006 and 2005 of the parent company only should be read in conjunction with the consolidated financial statements and the notes thereto.

Condensed Balance Sheets:

	2007	2006
Assets:		
Cash and due from banks	$ 37	52
Receivable from subsidiary	6	6
Federal funds sold	1,900	2,340
Investment in subsidiary	42,148	38,558
Prepaid expenses and other assets	1,795	1,384
Total assets	$45,886	42,340
Liabilities and stockholders' equity		
Liabilities		
Dividends payable	$ 447	445
Interest payable	213	202
Subordinated debentures	10,310	10,310
Total liabilities	10,970	10,957
Stockholders' Equity:		
Common stock	41	41
Additional paid-in capital	21,806	21,647
Retained earnings	19,449	17,062
Treasury stock	(6,112)	(5,406)
Accumulated other comprehensive loss	(268)	(1,961)
Total Stockholders' equity	34,916	31,383
Total liabilities and stockholders' equity	$45,886	42,340

(Table Amounts in Thousands)

(18) Condensed Parent Company Only Financial Statements: (Continued)

Condensed Statements of Income:

	2007	2006	2005
Interest and dividend income			
Dividend income	$3,000	3,000	3,000
Time deposits	86	77	39
Total interest and dividend income	3,086	3,077	3,039
Interest expense	775	734	700
Non-interest expenses	443	360	240
Total expenses	1,218	1,094	940
Income before income taxes and equity in undistributed earnings of subsidiary	1,868	1,983	2,099
Income tax benefits	(416)	(365)	(340)
Income before equity in undistributed earnings of subsidiary	2,284	2,348	2,439
Equity in undistributed earnings of subsidiary	1,832	1,560	1,691
Net income	$4,116	3,908	4,130

(Table Amounts in Thousands)

(18) Condensed Parent Company Only Financial Statements: (Continued)

Condensed Statement of Cash Flows:

	2007	2006	2005
Cash flows from operating activities			
Net income	$ 4,116	3,908	4,130
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Equity in undistributed earnings of subsidiary	(1,832)	(1,560)	(1,691)
Amortization of restricted stock	137	100	57
Stock option expense	22	29	—
Increase (decrease) in:			
Current income taxes payable	(369)	(364)	(350)
Accrued expenses	(94)	(29)	44
Net cash provided by operating activities	1,980	2,084	2,190
Cash flows for investing activities:			
Proceeds from settlement of derivative	—	270	—
(Advance for) payment on receivable from subsidiary	—	(1)	999
Net (increase) decrease in federal funds sold	440	(90)	(1,400)
Net cash provided by (used in) investing activities	440	179	(401)
Cash flows from financing activities:			
Purchase of treasury stock	(706)	(549)	—
Dividends paid	(1,729)	(1,748)	(1,750)
Net cash used in financing activities	(2,435)	(2,297)	(1,750)
Net increase (decrease) in cash	(15)	(34)	39
Cash and due from banks at beginning of year	52	86	47
Cash and due from banks at end of year	$ 37	52	86

(Table Amounts in Thousands)

(19) Investments in Affiliated Companies: (Unaudited)

Investments in affiliated companies accounted for under the equity method consist of 100% of the common stock of HopFed Capital Trust I (the Trust), a wholly owned statutory business trust. The Trust was formed on September 25, 2003. Summary financial information for the Trust follows:

Summary Balance Sheets

	At Dec. 31, 2007	At Dec. 31, 2006
Asset – investment in subordinated debentures issued by HopFed Bancorp, Inc.	$ 10,310	$ 10,310
Liabilities	$ —	$ —
Stockholders' equity		
Trust preferred securities	10,000	10,000
Common stock (100% owned by HopFed Bancorp, Inc.)	310	310
Total stockholder's equity	10,310	10,310
Total liabilities and stockholder's equity	$ 10,310	10,310

Summary Statements of Income

	Years Ended Dec. 31, 2007	2006
Income – interest income from subordinated debentures issued by HopFed Bancorp, Inc.	$ 898	$ 858
Net income	$ 898	$ 858

Summary Statements of Stockholders' Equity

	Trust Preferred Securities	Common Stock	Retained Earnings	Total Stockholder's Equity
Beginning balances, December 31, 2006	$ 10,000	$ 310	$ —	$ 10,310
Retained earnings:				
Net income	—	—	898	898
Dividends:				
Trust preferred securities	—	—	(871)	(871)
Common dividends paid to HopFed Bancorp, Inc.	—	—	(27)	(27)
Total retained earnings	—	—	—	—
Ending balances, December 31, 2007	$ 10,000	$ 310	$ —	$ 10,310

(Table Amounts in Thousands, Except Per Share & Share Amounts)

(20) Quarterly Results of Operations: (Unaudited)

Summarized unaudited quarterly operating results for the years ended December 31, 2007 and December 31, 2006 are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
December 31, 2007:				
Interest and dividend income	$ 11,780	12,283	12,391	12,579
Interest expense	6,856	7,078	7,375	7,582
Net interest income	4,924	5,205	5,016	4,997
Provision for loan losses	240	238	224	274
Net interest income after provision for loan losses	4,684	4,967	4,792	4,723
Noninterest income	1,741	1,766	1,877	1,847
Noninterest expense	4,988	5,153	5,234	5,178
Income before income taxes	1,437	1,580	1,435	1,392
Income taxes	415	472	410	431
Net income	$ 1,022	1,108	1,025	961
Basic earnings per share	$ 0.28	0.31	0.29	0.27
Diluted earnings per share	$ 0.28	0.31	0.28	0.27
Weighted average shares outstanding:				
Basic	3,629,520	3,587,986	3,584,053	3,571,547
Diluted	3,654,726	3,612,575	3,607,093	3,594,587

(Table Amounts in Thousands, Except Per Share & Share Amounts)

(20) Quarterly Results of Operations: (Unaudited) (Continued)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
December 31, 2006:				
Interest and dividend income	$ 8,779	9,382	10,975	11,532
Interest expense	4,696	5,364	6,315	6,913
Net interest income	4,083	4,018	4,660	4,619
Provision for loan losses	213	204	312	294
Net interest income after provision for loan losses	3,870	3,814	4,348	4,325
Noninterest income	1,047	1,261	1,703	1,754
Noninterest expense	3,169	3,887	4,621	4,837
Income before income taxes	1,748	1,188	1,430	1,242
Income taxes	547	339	418	396
Net income	$ 1,201	849	1,012	846
Basic earnings per share	$ 0.33	0.23	0.28	0.23
Diluted earnings per share	$ 0.33	0.23	0.28	0.23
Weighted average shares outstanding:				
Basic	3,649,078	3,650,279	3,637,288	3,621,572
Diluted	3,674,320	3,675,735	3,662,883	3,647,419

(21) Comprehensive Income:

SFAS 130, *Reporting Comprehensive Income*, established standards for reporting comprehensive income. Comprehensive income includes net income and other comprehensive net income which is defined as non-owner related transactions in equity. The following table sets forth the amounts of other comprehensive income included in stockholders' equity along with the related tax effect for the years ended December 31, 2007, 2006 and 2005:

(Table Amounts in Thousands)

(21) Comprehensive Income: (Continued)

	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
December 31, 2007:			
Unrealized holding losses for the period	$ 2,670	(908)	1,762
Reclassification adjustments for gains included in net income	$ (6)	2	(4)
Realized gain on settlement of derivative	$ (98)	33	(65)
	$ 2,566	(873)	1,693

	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
December 31, 2006:			
Unrealized holding losses for the period	$ 1,197	(407)	790
Reclassification adjustments for gains included in net income	$ (33)	11	(22)
Realized gain on settlement of derivative	$ (135)	61	(74)
	$ 1,029	(335)	694

	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
December 31, 2005:			
Unrealized holding losses for the period	$(2,947)	1,002	(1,945)
Reclassification adjustments for gains included in net income	$ (35)	12	(23)
	$(2,982)	1,014	(1,968)

(22) Business Combination:

The Company's wholly-owned subsidiary, Heritage Bank, completed the acquisition of four offices of AmSouth Bank located in Cheatham and Houston counties in Tennessee (Middle Tennessee Division) on June 29, 2006. This acquisition enhances the Company's position in the northern portion of the Nashville, Tennessee Metropolitan Statistical Area. The consolidated statement of income includes the results of operations for the Middle Tennessee Division beginning on June 29, 2006.

In accordance with SFAS No. 141, A*ccounting for Business Combinations* (SFAS 141) and SFAS No. 142*, Goodwill and Intangible Assets* (SFAS 142), HopFed Bancorp Inc, recorded at fair value the following assets and liabilities of four AmSouth Bank offices assumed as of June 29, 2006:

Assets	(Dollars in thousands) (Unaudited)
Cash and cash equivalents	$ 22,421
Loans:	
Home equity line of credit	16,984
Closed end home equity	12,081
Commercial loans	3,831
Personal loans	1,618
Total loans, gross	34,514
Allowance for loan loss	(185)
Loan market yield differential	(210)
Core deposit intangible	2,919
Goodwill	1,301
Premises and equipment	4,730
Accrued interest receivable	139
Total assets	65,629
Liabilities	
Deposits:	
Non-interest bearing deposits	13,780
Now accounts	7,455
Savings and MMDA account	18,638
Time and other deposits	25,612
Total deposits	65,485
Accrued interest payable	123
Other liabilities	21
Total liabilities	65,629

(Table Amounts in Thousands, Except Per Share Amounts)

(22) Business Combination: (Continued)

The Bank paid a deposit premium for the four offices of $6,541,000, including intangibles of $4,220,000, which are deductible for tax purposes. The amount allocated to the core deposit intangible was determined by a valuation conducted by an independent third party and is being amortized over the estimated useful life of nine years using the sum of the year's digit method.

An independent third party has completed a valuation analysis of the estimated fair market value of the acquired loan portfolio. This analysis was based on the portfolio balances, yields, and market rates on June 29, 2006. As a result, the Bank will accrete approximately $210,000 in loan yield differential over the estimated average life of the individual portions of the purchased loan portfolios on an accelerated basis.

Management has completed an analysis of the credit quality of the purchased loan portfolio. As a result of this analysis, management has reduced the market value of the purchased loan portfolio by $185,000 for estimated loan losses not specifically identified by current classification.

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2006. The pro forma includes adjustment for interest income on loans, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits assumed, and related income tax affects. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been affected on the assumed dates

	2006
Net interest income after provision for loan loss expense	$19,601
Net income	4,188
Basic earnings per share	1.16
Diluted earnings per share	1.15

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

	Percentage Owned	Jurisdiction of Incorporation
Heritage Bank	100%	United States
HopFed Capital Trust I	100%	Delaware

SUBSIDIARIES OF HERITAGE BANK

	Percentage Owned	Jurisdiction of Incorporation
Fall & Fall Insurance, Inc.	100%	Kentucky

EX-23.1 4 dex231.htm CONSENT OF RAYBURN, BATES & FITZGERALD

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in registration statements No. 333-117956 and 333-79391 on Forms S-8 of HopFed Bancorp, Inc. and subsidiaries of our report dated March 28, 2008, relating to the consolidated balance sheets of HopFed Bancorp, Inc., and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, which report appears in the December 31, 2007 Annual Report on Form 10-K of HopFed Bancorp, Inc

/s/ Rayburn, Bates & Fitzgerald, P.C.

Brentwood, Tennessee
Date: March 28, 2008

EXHIBIT 31.1

CERTIFICATION

I, John E. Peck, certify that:

(1) I have reviewed this annual report on Form 10-K of HopFed Bancorp, Inc.;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrants internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2008

/s/ John. E. Peck

John E. Peck, Chief Executive Officer

EX-31.2 6 dex312.htm CERTIFICATION

Exhibit 31.2

CERTIFICATION

I, Billy C. Duvall, certify that:

(1) I have reviewed this annual report on Form 10-K of HopFed Bancorp, Inc.;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrants internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2008

/s/ Billy C. Duvall

Billy C. Duvall, Chief Financial Officer

EX-32.1 7 dex321.htm CERTIFICATION

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of HopFed Bancorp, Inc. (the "Company") on Form 10-K for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Peck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and the result of operations of the Company.

Date: March 28, 2008

/s/ John E. Peck

John E. Peck, Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to HopFed Bancorp, Inc. and will be retained by HopFed Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The information furnished herein shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

EX-32.2 8 dex322.htm CERTIFICATION

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of HopFed Bancorp, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Billy C. Duvall, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and the result of operations of the Company.

Date: March 28, 2008

/s/ Billy C. Duvall
Billy C. Duvall, Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to HopFed Bancorp, Inc. and will be retained by HopFed Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The information furnished herein shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.