INCB 10-K 12/31/2007

Section 1: 10-K (10K FOR REPORTING PERIOD 12212007)

SECURITIES & 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

or

Transition report pursuant to Section 13 or 15(d) or the Securities Exchange Act of 1934

For the transition period from ___________ to ___________

Commission file number: 0-18847

HOME FEDERAL BANCORP
(Exact name of registrant as specified in its charter)

Indiana	**35-1807839**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

501 Washington Street, Columbus,	**Indiana 47201**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number including area code: **(812) 522-1592**

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

Title of each class:	Name of each exchange on which registered:
Common Stock	**The NASDAQ Stock Market LLC**

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

None

Indicate by check mark if 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 (l) 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 (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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]   Accelerated filer **[X]**   Non-accelerated filer [ ]   Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES [ ]   NO **[X]**

The aggregate market value of the issuer's voting stock held by non-affiliates, as of June 30, 2007, was $89.5 million.

The number of shares of the registrant's Common Stock, no par value, outstanding as of March 7, 2008, was 3,358,079 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2007, are incorporated into Part II. Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 22, 2008, are incorporated into Part I and Part III.

HOME FEDERAL BANCORP

FORM 10-K

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K ("Form 10-K") contains statements, which constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Form 10-K and include statements regarding the intent, belief, outlook, estimate or expectations of the Company (as defined below), its directors or its officers primarily with respect to future events and the future financial performance of the Company. Readers of this Form 10-K are cautioned that any such forward looking statements are not guarantees of future events or performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. The accompanying information contained in this Form 10-K identifies important factors that could cause such differences. These factors include changes in interest rates, loss of deposits and loan demand to other financial institutions, substantial changes in financial markets, changes in real estate values and the real estate market, regulatory changes, changes in the financial condition of the issuers of the Company's investments and borrowers, changes in the economic condition of the Company's market area, increases in compensation and employee expenses or unanticipated results in pending legal proceedings.

PART I

Item 1. Business

General

Home Federal Bancorp (the "Company" or "HFB") is an Indiana corporation organized as a bank holding company authorized to engage in activities permissible for a financial holding company. The principal asset of the Company consists of 100% of the issued and outstanding capital stock of Indiana Bank and Trust Company (the "Bank").

Indiana Bank and Trust Company began operations in Seymour, Indiana under the name New Building and Loan Association in 1908. The Bank received its federal charter and changed its name to Home Federal Savings and Loan Association in 1950. On November 9, 1983, Home Federal Savings and Loan Association became a federal savings bank and its name was changed to Home Federal Savings Bank. On January 14, 1988, Home Federal Savings Bank converted to stock form and on March 1, 1993, Home Federal Savings Bank reorganized by converting each outstanding share of its common stock into one share of common stock of the Company, thereby causing the Company to be the holding company of Home Federal Savings Bank. On December 31, 2001 the Bank, a member of the Federal Reserve System, completed a charter conversion to an Indiana commercial bank. On September 24, 2002, the Company announced a change in its fiscal year end from June 30 to December 31. On October 22, 2002, Home Federal Savings Bank changed its name to HomeFederal Bank.

On March 1, 2008, HomeFederal Bank changed its name to Indiana Bank and Trust Company. The Bank currently provides services through its main office at 501 Washington Street in Columbus, Indiana, nineteen full service branches located in south central Indiana and the STAR network of automated teller machines at fourteen locations in Seymour, Columbus, North Vernon, Salem, Madison, Batesville, Edinburgh, Greensburg, Greenwood and Indianapolis. As a result, the Bank serves primarily Bartholomew, Jackson, Jefferson, Jennings, Scott, Ripley, Decatur, Marion, Johnson and Washington Counties in Indiana. The Bank also participates in the nationwide electronic funds transfer networks known as Plus System, Inc. and Cirrus System.

Online banking and telephone banking are also available to the Bank customers. Online Banking services, including Online Bill Payment, are accessed through the Company's website, www.myindianabank.com. In addition to online banking services, the Company also makes available, free of charge at the website, the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is electronically filed with the SEC. The information on the Company's website is not incorporated into this Form 10-K.

Management analyzes the operation of Home Federal Bancorp assuming one operating segment, community banking services. The Bank directly, and through its subsidiaries indirectly, offers a wide range of consumer and commercial community banking services. These services include: (i) residential and commercial real estate loans; (ii) checking accounts; (iii) regular and term savings accounts and savings certificates; (iv) full-service securities brokerage services; (v) consumer loans; (vi) debit cards; (vii) business credit cards; (viii) annuity and life insurance products; (ix) Individual Retirement Accounts and Keogh plans; (x) commercial loans; (xi) trust services: and (xii) commercial demand deposit accounts.

The Bank's primary source of revenue is interest from lending activities. Its principal lending activity is the origination of commercial real estate loans secured by mortgages on the underlying property and commercial loans through the cultivation of profitable business relationships. These loans constituted 53.3% of the Bank's loans at December 31, 2007. The Bank also originates one-to-four family residential loans, the majority of which are sold servicing released. At December 31, 2007, one-to-four family residential loans were 16.6% of the Bank's lending portfolio. In addition, the Bank makes secured and unsecured consumer related loans including consumer auto, second mortgage, home equity, mobile home, and savings account loans. At December 31, 2007, approximately 17.4% of its loans were consumer-related loans. The Bank also makes construction loans, which constituted 12.4% of the Bank's loans at December 31, 2007.

Loan Portfolio Data

The following two tables set forth the composition of the Bank's loan portfolio by loan type and security type as of the dates indicated. The third table represents a reconciliation of gross loans receivable after consideration of unearned income and the allowance for loan losses.

	Dec 31, 2007		Dec 31, 2006		Dec 31, 2005		Dec 31, 2004		Dec 31, 2003	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
TYPE OF LOAN					(Dollars in Thousands)					
First mortgage loans:										
One-to-four family residential loans	$124,088	16.6%	$150,639	22.0%	$162,212	26.3%	$172,479	27.1%	$ 178,276	27.9%
Commercial and multi family	192,104	25.6%	183,288	26.9%	177,748	28.9%	180,165	28.2%	171,361	26.8%
Loans on property under construction	92,982	12.4%	58,013	8.5%	44,321	7.2%	61,907	9.7%	72,172	11.3%
Loans on unimproved acreage	2,342	0.3%	1,496	0.2%	1,615	0.3%	2,730	0.4%	3,201	0.5%
Second mortgage, home equity	103,560	13.8%	102,713	15.1%	87,893	14.3%	80,346	12.6%	80,044	12.6%
Commercial loans	207,590	27.7%	151,781	22.2%	105,825	17.2%	105,494	16.5%	99,099	15.5%
Consumer loans	4,011	0.5%	3,949	0.6%	3,988	0.6%	4,159	0.7%	4,235	0.7%
Auto loans	20,609	2.7%	26,356	3.9%	27,335	4.4%	24,921	3.9%	23,244	3.6%
Mobile home loans	1,258	0.2%	1,806	0.3%	2,537	0.4%	3,289	0.5%	4,365	0.7%
Savings accounts loans	1,467	0.2%	2,372	0.3%	2,266	0.4%	2,340	0.4%	2,736	0.4%
Gross loans receivable	$750,011	100.0%	$682,413	100.0%	$615,740	100.0%	$637,830	100.%	$ 638,733	100.0%
Type of Security										
Residential:										
One-to-four family	$245,015	32.7%	$267,623	39.2%	$265,322	43.1%	$267,998	42.0%	$ 273,203	42.8%
Multi-dwelling units	19,597	2.6%	18,621	2.7%	19,612	3.2%	27,018	4.2%	22,034	3.4%
Commercial real estate	248,122	33.1%	208,409	30.6%	187,240	30.4%	199,881	31.4%	206,616	32.4%
Commercial	207,590	27.7%	151,781	22.2%	105,825	17.2%	105,494	16.5%	99,099	15.5%
Mobile home	1,258	0.2%	1,806	0.3%	2,537	0.4%	3,289	0.5%	4,365	0.7%
Savings account	1,467	0.2%	2,372	0.3%	2,266	0.4%	2,340	0.4%	2,736	0.4%
Auto	20,609	2.7%	26,356	3.9%	27,335	4.4%	24,921	3.9%	23,244	3.6%
Other consumer	4,011	0.5%	3,949	0.6%	3,988	0.6%	4,159	0.7%	4,235	0.7%
Land acquisition	2,342	0.3%	1,496	0.2%	1,615	0.3%	2,730	0.4%	3,201	0.5%
Gross loans receivable	$750,011	100.0%	$682,413	100.0%	$615,740	100.0%	$637,830	100.%	$ 638,733	100.0%
Loans Receivable-Net										
Gross loans receivable	$750,011	101.0%	$682,413	101.0%	$615,740	101.1%	$637,830	101.3%	$ 638,733	101.3%
Deduct:										
Unearned income	(165)	0.0%	(153)	0.0%	(299)	0.0%	(476)	-0.1%	(555)	-0.1%
Allowance for loan losses	(6,972)	-1.0%	(6,598)	-1.0%	(6,753)	-1.1%	(7,864)	-1.2%	(7,506)	-1.2%
Net loans receivable	$742,874	100.0%	$675,662	100.0%	$608,688	100.0%	$629,490	100.0%	$ 630,672	100.0%

The following tables summarize the contractual maturities for the Bank's loan portfolio (including participations) for the fiscal periods indicated and the interest rate sensitivity of loans due after one year:

	Balance Outstanding At Dec 31, 2007	Maturities in Fiscal 2008	2009	2010	2011 To 2012	2013 to 2017	2018 to 2022	2022 and thereafter
Real estate	$ 318,534	$ 10,629	$ 8,548	$ 7,991	$ 29,702	$ 129,240	$ 27,110	$ 105,314
Construction loans	92,982	38,057	14,261	8,052	4,275	962	15,555	11,820
Commercial loans	207,590	110,969	23,142	20,041	23,048	28,576	1,745	69
Other loans	130,905	9,649	5,676	6,899	16,231	40,377	16,262	35,811
Total	$ 750,011	$ 169,304	$ 51,627	$ 42,983	$ 73,256	$ 199,155	$ 60,672	$ 153,014

Interest Rate Sensitivity:

	Due After December 31, 2008	
	Fixed Rate	Variable Rate And Balloon
	(Dollars in Thousands)	
Real estate	$ 27,249	$ 280,656
Construction loans	2,814	52,111
Commercial loans	39,040	57,581
Other Loans	86,348	34,908
Total	$ 155,451	$ 425,256

Residential Mortgage Loans

The Bank is authorized to make one-to-four family residential loans without any limitation as to interest rate amount (within State usury laws) or number of interest rate adjustments. Pursuant to federal regulations, if the interest rate is adjustable, the interest rate must be correlated with changes in a readily verifiable index. The Bank also makes residential and commercial mortgage loans secured by mid-size multi-family dwelling units and apartment complexes. The residential mortgage loans included in the Bank's portfolio are primarily conventional loans. As of December 31, 2007 $142.5 million, or 19.0%, of the Bank's total loan portfolio consisted of residential first mortgage loans, $124.1 million, or 16.6%, of which were secured by one-to-four family homes.

Many of the residential mortgage loans currently offered by the Bank have adjustable rates. These loans generally have interest rates that adjust (up or down) annually, with maximum rates that vary depending upon when the loans are written and contractual floors and ceilings. The adjustment for the majority of these loans is currently based upon the weekly average of the one-year Treasury constant maturity rate.

The rates offered on the Bank's adjustable-rate and fixed-rate residential mortgage loans are competitive with the rates offered by other financial institutions in its south central and central Indiana market area.

Although the Bank's residential mortgage loans are written for amortization terms up to 30 years, due to prepayments and refinancing, its residential mortgage loans in the past have generally remained outstanding for a substantially shorter period of time than the maturity terms of the loan contracts.

All of the residential mortgages the Bank currently originates include "due on sale" clauses, which give the Bank the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. The Bank utilizes the due on sale clause as a means of protecting the funds loaned by insuring payoff on sale of the property collateralizing the loan.

Under applicable banking policies, the Bank must establish loan-to-value ratios consistent with supervisory loan-to-value limits. The supervisory limits are 65% for raw land loans, 75% for land development loans, 80% for construction loans consisting of commercial, multi-family and other non-residential construction, and 85% for improved property. Multi-family construction includes condominiums and cooperatives. A loan-to-value limit has been established at 100% total loan-to-value for permanent mortgage or home equity loans on owner-occupied one-to-four family residential property. However, for any such loan with a loan-to-value ratio that equals or exceeds 90% at origination, an institution should require appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral. The Board of Directors of the Bank approved a set of loan-to-value ratios consistent with these supervisory limits.

It may be appropriate in individual cases to originate loans with loan-to-value ratios in excess of the FDIC limits based on the support provided by other credit factors. The aggregate amount of all loans in excess of these limits should not exceed 100% of total capital. Moreover, loans for all commercial, agricultural, multi-family or other non-one-to-four family residential properties in excess of the FDIC limits should not exceed 30% of total capital. As of December 31, 2007, the Bank was in compliance with the above limits.

Commercial Mortgage Loans

At December 31, 2007, 35.9% of the Bank's total loan portfolio consisted of mortgage loans secured by commercial real estate. Commercial construction loans were 10.1% of the total loan portfolio. These properties consisted primarily of condominiums, apartment buildings, office buildings, warehouses, motels, shopping centers, nursing homes, manufacturing plants, and churches located in central or south central Indiana. The commercial mortgage loans are generally adjustable-rate loans, written for terms not exceeding 20 years, and require an 85% loan-to-value ratio. Commitments for these loans in excess of $5.0 million must be approved in advance by the Bank’s Board of Directors. The largest such loan as of December 31, 2007 had a balance of $3.4 million. At that date, all of the Bank's commercial real estate loans consisted of loans secured by real estate located in Indiana.

Generally, commercial mortgage loans involve greater risk to the Bank than residential loans. Commercial mortgage loans typically involve large loan balances to single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the related project and thus may be subject to adverse conditions in the real estate market or in the general economy.

Construction Loans

The Bank offers conventional short-term construction loans. At December 31, 2007, 12.4% of the Bank's total loan portfolio consisted of construction loans. Normally, a 95% or less loan-to-value ratio is required from owner-occupants of residential property, an 80% loan-to-value ratio is required from persons building residential property for sale or investment purposes, and an 80% loan-to-value ratio is required for commercial property. Construction loans are also made to builders and developers for the construction of residential or commercial properties on a to-be-occupied or speculative basis. Construction normally must be completed in six to nine months for residential loans. The largest such loan on December 31, 2007 was $9.3 million.

Consumer Loans

Consumer-related loans, consisting of second mortgage and home equity loans, mobile home loans, automobile loans, loans secured by savings accounts and other consumer loans were $130.9 million on December 31, 2007 or approximately 17.4% of the Bank's total loan portfolio.

Second mortgage loans are made for terms of 1 - 20 years, and are fixed-rate, fixed term or variable- rate line of credit loans. The Bank's minimum for such loans is $5,000. The Bank will loan up to 100% of the appraised value based on the product and borrower qualifications of the property, less the existing mortgage amount(s). As of December 31, 2007, the Bank had $61.9 million of second mortgage loans, which equaled 8.2% of its total loan portfolio. The Bank markets home equity credit lines, which are adjustable-rate loans. As of December 31, 2007, the Bank had $41.7 million drawn on its home equity credit lines, or 5.6% of its total loan portfolio, with $44.5 million of additional credit available to its borrowers under existing home equity credit lines.

Automobile loans are generally made for terms of up to six years. The vehicles are required to be for personal or family use only. As of December 31, 2007, $20.6 million, or 2.7%, of the Bank's total loan portfolio consisted of automobile loans.

As of December 31, 2007, $1.3 million, or 0.2%, of the Bank's total loan portfolio consisted of mobile home loans. Generally, these loans are made for terms of one year for each $1,000 of the sales price, with a maximum term of 15 years. On new mobile home loans, the Bank permits a loan-to-value ratio of up to 125% of the manufacturer's invoice price plus sales tax or up to 90% of the actual sales price, whichever is lower. Also, the Bank makes loans for previously occupied mobile homes up to a 90% loan-to-value ratio based upon the actual sales price or value as appraised, whichever is lower.

Loans secured by savings account deposits may be made up to 95% of the pledged savings collateral at a rate 2% above the rate of the pledged savings account or a rate equal to the Bank's highest seven-year certificate of deposit rate, whichever is higher. The loan rate will be adjusted as the rate for the pledged savings account changes. As of December 31, 2007, $1.5 million, or 0.2%, of the Bank's total loan portfolio consisted of savings account loans.

Although consumer-related loans generally involve a higher level of risk than one-to-four family residential mortgage loans, their relatively higher yields, lower average balance, and shorter terms to maturity are helpful in the Bank's asset/liability management.

Commercial Loans

Collateral for the Bank's commercial loans includes manufacturing equipment, real estate, inventory, accounts receivable, and securities. Terms of these loans are normally for up to ten years and have adjustable rates tied to the reported prime rate and treasury indexes. Generally, commercial loans are considered to involve a higher degree of risk than residential real estate loans. However, commercial loans generally carry a higher yield and are made for a shorter term than real estate loans. As of December 31, 2007, $207.6 million, or 27.7%, of the Bank's total loan portfolio consisted of commercial loans.

Origination, Purchase and Sale of Loans

The Bank originates residential loans in conformity with standard underwriting criteria of the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Bank (“FHLB”), to assure maximum eligibility for possible resale in the secondary market. Although the Bank currently has authority to lend anywhere in the United States, it has confined its loan origination activities primarily to the central and south central Indiana area. The Bank's loan originations are generated primarily from referrals from real estate brokers, builders, developers and existing customers, newspaper, radio and periodical advertising, the internet and walk-in customers. The Bank's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the property that will secure the loan.

The Bank studies the employment, credit history, and information on the historical and projected income and expenses of its individual mortgagors to assess their ability to repay its mortgage loans. Additionally, the Bank utilizes Freddie Mac's Loan Prospector and Fannie Mae’s Desktop Underwriter as origination, processing, and underwriting tools. It uses independent appraisers to appraise the property securing its loans. It requires title insurance evidencing the Bank's valid lien on its mortgaged real estate and a mortgage survey or survey coverage on all first mortgage loans and on other loans when appropriate. The Bank requires fire and extended coverage insurance in amounts at least equal to the value of the insurable improvements or the principal amount of the loan, whichever is lower. It may also require flood insurance to protect the property securing its interest. When private mortgage insurance is required, borrowers must make monthly payments to an escrow account from which the Bank makes disbursements for taxes and insurance. Otherwise, such escrow arrangements are optional.

The procedure for approval of loans on property under construction is the same as for residential mortgage loans, except that the appraisal obtained evaluates the building plans, construction specifications and estimates of construction costs, in conjunction with the land value. The Bank also evaluates the feasibility of the construction project and the experience and track record of the builder or developer.

Consumer loans are underwritten on the basis of the borrower's credit history and an analysis of the borrower's income and expenses, ability to repay the loan and the value of the collateral, if any.

In order to generate loan fee income and recycle funds for additional lending activities, the Bank seeks to sell loans in the secondary market. Loan sales can enable the Bank to recognize significant fee income and to reduce interest rate risk while meeting local market demand. The Bank sold $111.9 million of fixed-rate loans in the fiscal year ended December 31, 2007. The Bank's current lending policy is to sell residential mortgage loans exceeding 10-year

maturities. In addition, when in the opinion of management cash flow demands and asset/liability concerns warrant, the Bank will consider keeping fixed-rate loans with up to 15-year maturities. Typically the Bank retains adjustable-rate loans that are non salable, non owner occupied, or in construction in its portfolio. The Bank may sell participating interests in commercial real estate loans in order to share the risk with other lenders. Mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. Loans are sold with the servicing released on conforming loans, Veteran's Administration ("VA"), Federal Housing Administration ("FHA") and Indiana Housing Finance Authority ("IHFA") loans.

Management believes that purchases of loans and loan participations may be desirable and evaluates potential purchases as opportunities arise. Such purchases can enable the Bank to take advantage of favorable lending markets in other parts of the state, diversify its portfolio and limit origination expenses. Any participation it acquires in commercial real estate loans requires a review of financial information on the borrower, a review of the appraisal on the property by a local designated appraiser, an inspection of the property by a senior loan officer, and a financial analysis of the loan. The seller generally performs servicing of loans purchased. At December 31, 2007, others serviced approximately 3.1%, or $23.1 million, of the Bank's gross loan portfolio.

The following table shows loan activity for the Bank during the periods indicated:

	Dec 31, 2007	**Dec 31, 2006**	**Dec 31, 2005**
		(Dollars in Thousands)	
Gross loans receivable at beginning of period	$ 682,413	$ 615,740	$ 637,830
Loans Originated:			
Mortgage loans and contracts:			
Construction loans:			
Residential	29,812	43,298	29,598
Commercial	76,255	33,143	39,416
Permanent loans:			
Residential	46,189	50,990	50,028
Commercial	34,162	29,598	29,194
Refinancing	33,718	34,762	44,672
Other	2,045	1,197	2,062
Total	221,181	192,988	194,970
Commercial	154,877	127,004	81,800
Consumer	17,384	24,344	27,713
Total loans originated	394,442	344,336	304,483
Loans purchased:			
Residential	-	-	-
Other	18,515	11,268	1,720
Total loans originated and purchased	412,957	355,604	306,203
Real estate loans sold	111,948	96,389	97,079
Loan repayments and other deductions	233,411	192,542	231,214
Total loans sold, loan repayments and other deductions	345,359	288,931	328,293
Net loan activity	67,598	66,673	(22,090)
Gross loans receivable at end of period	750,011	682,413	615,740
Unearned Income and Allowance for Loan Losses	(7,137)	(6,751)	(7,052)
Net loans receivable at end of period	**$ 742,874**	**$ 675,662**	**$ 608,688**

A commercial bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the commercial bank exceeds 15% of its capital (plus up to an additional 10% of capital in the case of loans fully collateralized by readily marketable collateral). The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2007, under the 15% of capital limitation was $12.9 million. At that date, the highest outstanding balance of loans by the Bank to one borrower and related entities was approximately $12.6 million, an amount within such loans-to-one borrower limitations.

Origination and Other Fees

The Bank realizes income from loan related fees for originating loans, collecting late charges and fees for other miscellaneous loan services. The Bank charges origination fees that range from 0% to 1.0% of the loan amount. The Bank also charges processing fees of $150 to $225, underwriting fees from $0 to $150 and a $125 fee for any loan closed by the Bank personnel. In addition, the Bank makes discount points available to customers for the purpose of obtaining a discounted interest rate. The points vary from loan to loan and are quoted on an individual basis. In accordance with Financial Accounting Standards Board Statement No. 91, *Accounting for Non Refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, the Bank amortizes costs and fees associated with originating a loan over the life of the loan as an adjustment to the yield earned on the loan. Late charges are assessed fifteen days after payment is due.

Non-performing Assets

The Bank assesses late charges on mortgage loans if a payment is not received by the 15th day following its due date. Any borrower whose payment was not received by this time is mailed a past due notice. At the same time the notice is mailed, the delinquent account is downloaded to a PC- based collection system and assigned to a specific loan service representative. The loan service representative will attempt to make contact with the customer via a phone call to resolve any problem that might exist. If contact by phone is not possible, mail, in the form of preapproved form letters, will be used commencing on the 25th day following a specific due date. Between the 30th and 45th day following any due date, or at the time a second payment has become due, if no contact has been made with the customer, a personal visit will be conducted by a Loan Service Department employee to interview the customer and inspect the property to determine the borrower's ability to repay the loan. Prompt follow up is a goal of the Loan Service Department with any and all delinquencies.

When an advanced stage of delinquency appears (generally around the 60th day of delinquency) and if repayment cannot be expected within a reasonable amount of time, the Bank will make a determination of how to proceed to protect the interests of both the customer and the Bank. It may be necessary for the borrower to attempt to sell the property at the Bank's request. If a resolution cannot be arranged, the Bank will consider avenues necessary to obtain title to the property which includes foreclosure and/or accepting a deed-in-lieu of foreclosure, whichever may be most appropriate. However, the Bank attempts to avoid taking title to the property if at all possible.

The Bank has acquired certain real estate in lieu of foreclosure by acquiring title to the real estate and then reselling it. The Bank performs an updated title check of the property and, if needed, an appraisal on the property before accepting such deeds.

On December 31, 2007, the Bank held $311,000 of real estate and other repossessed collateral acquired as a result of foreclosure, voluntary deed, or other means. Such assets are classified as "real estate owned" until sold. When property is so acquired, it is recorded at the lower of cost or fair market value less estimated cost to sell at the date of acquisition, and any subsequent write down resulting from this is charged to losses on real estate owned. Interest accrual ceases on the date of acquisition. All costs incurred from the acquisition date in maintaining the property are expensed.

Consumer loan borrowers who fail to make payments are contacted promptly by the Loan Service Department in an effort to cure any delinquency. A notice of delinquency is sent 10 days after any specific due date when no payment has been received. The delinquent account is downloaded to a PC-based collection system and assigned to a specific loan service representative. The loan service representative will then attempt to contact the borrower via a phone call.

Continued follow-up in the form of phone calls, letters, and personal visits (when necessary) will be conducted to resolve delinquency. If a consumer loan delinquency continues and advances to the 60-90 days past due status, a determination will be made by the Bank on how to proceed. When a consumer loan reaches 90 days past due, the Bank determines the loan-to-value ratio by performing an inspection of the collateral (if any). The Bank may initiate action to obtain the collateral (if any), or collect the debt through available legal remedies. Collateral obtained as a result of loan default is retained by the Bank as an asset until sold or otherwise disposed.

The table below sets forth the amounts and categories of the Bank's non-performing assets (non-accrual loans, loans past due 90 days or more, real estate owned and other repossessed assets) for the last five years. It is the policy of the Bank that all earned but uncollected interest on conventional loans be reviewed monthly to determine if any portion thereof should be classified as uncollectible, for any portion that is due but uncollected for a period in

excess of 90 days. The determination is based upon factors such as the loan amount outstanding as a percentage of the appraised value of the property and the delinquency record of the borrower.

	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003
Non-performing Assets:					
Loans:					
Non-accrual	$ 10,516	$ 2,852	$ 3,070	$ 9,535	$ 2,499
Past due 90 days or more and still accruing	64	459	456	168	1,130
Restructured loans	874	440	809	3,141	258
Total non-performing loans	11,454	3,751	4,335	12,844	3,887
Real estate owned, net (1)	286	416	266	2,009	1,729
Other repossessed assets, net	25	20	5	10	10
Total non-performing assets (2)	$ 11,765	$ 4,187	$ 4,606	$ 14,863	$ 5,626
Total non-performing assets to total assets	1.29%	0.46%	0.54%	1.71%	0.66%
Non-performing loans with uncollected interest	$ 10,986	$ 2,935	$ 3,070	$ 9,535	$ 2,521

(1) Refers to real estate acquired by the Bank through foreclosure or voluntary deed foreclosure, net of reserve.

(2) At December 31, 2007, 20.0% of the Bank's non-performing assets consisted of residential mortgage loans, 4.0% consisted of home equities/second mortgages, 17.1% consisted of commercial real estate loans, 47.7% consisted of commercial loans, 1.2% consisted of consumer-related loans, 7.4% consisted of restructured loans, 1.6% consisted of residential real estate owned, 0.8% consisted of commercial real estate owned and 0.2% consisted of other repossessed assets.

For the year ended December 31, 2007, the income that would have been recorded under original terms on the above non-accrual and restructured loans was $958,000 compared to actual income recorded of 252,000. At December 31, 2007, the Bank had approximately $6.8 million in loans that were 30-89 days past due. Total non-performing assets increased $7.6 million to $11.8 million at December 31, 2007. The increase was primarily the result of two commercial loan relationships totaling $6.1 million which were transferred to non-accrual status during 2007. One commercial relationship is a manufacturing company in southern Indiana totaling approximately $3.1 million which is secured by real estate, inventory and equipment. The other commercial relationship is a residential land development loan on the south side of Indianapolis totaling $3.0 million which is secured by partially developed land. In addition, non-accrual residential mortgage and second and home equity loans increased $647,000 and $266,000, respectively.

Securities

The Bank's investment portfolio consists primarily of mortgage-backed securities, collateralized mortgage obligations, overnight funds with the FHLB of Indianapolis, U.S. Treasury obligations, U.S. Government agency obligations, corporate debt and municipal bonds. At December 31, 2007, December 31, 2006 and December 31, 2005, the Bank had approximately $84.3 million, $125.0 million and $148.3 million in investments, respectively.

The Bank's investment portfolio is managed by its officers in accordance with an investment policy approved by the Board of Directors. The Board reviews all transactions and activities in the investment portfolio on a quarterly basis. The Bank does not purchase corporate debt securities which are not rated in one of the top four investment grade categories by one of several generally recognized independent rating agencies. The Bank's investment strategy has enabled it to (i) shorten the average term to maturity of its assets, (ii) improve the yield on its investments, (iii) meet federal liquidity requirements and (iv) maintain liquidity at a level that assures the availability of adequate funds.

Effective March 31, 2002, the Bank transferred the management of approximately $90 million in securities to its wholly-owned subsidiary, Home Investments, Inc. Home Investments, Inc., a Nevada corporation, holds, services, manages, and invests that portion of the Bank's investment portfolio as may be transferred from time to time by the Bank to Home Investments, Inc. Home Investments, Inc's investment policy mirrors that of the Bank. At December 31, 2007, of the $84.3 million in consolidated investments owned by the Bank, $55.6 million was held by Home Investments, Inc.

During the third quarter of 2006, the Company sold $65.5 million of investment securities resulting in a pre-tax loss of $2.0 million.

Source Of Funds

General

Deposits have traditionally been the primary source of funds of the Bank for use in lending and investment activities. In addition to deposits, the Bank derives funds from loan amortization, prepayments, borrowings from the FHLB of Indianapolis and income on earning assets. While loan amortization and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, money market conditions and levels of competition. Borrowings may be used to compensate for reductions in deposits or deposit inflows at less than projected levels and may be used on a longer-term basis to support expanded activities. See "--Borrowings."

Deposits

Consumer and commercial deposits are attracted principally from within the Bank's primary market area through the offering of a broad selection of deposit instruments including checking accounts, fixed-rate certificates of deposit, NOW accounts, individual retirement accounts, savings accounts and commercial demand deposit accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds remain on deposit and the interest rate. To attract funds, the Bank may pay higher rates on larger balances within the same maturity class.

Under regulations adopted by the FDIC, well-capitalized insured depository institutions (those with a ratio of total capital to risk-weighted assets of not less than 10%, with a ratio of core capital to risk-weighted assets of not less than 6%, with a ratio of core capital to total assets of not less than 5% and which have not been notified that they are in troubled condition) may accept brokered deposits without limitations. Undercapitalized institutions (those that fail to meet minimum regulatory capital requirements) are prohibited from accepting brokered deposits. Adequately capitalized institutions (those that are neither well-capitalized nor undercapitalized) are prohibited from accepting brokered deposits unless they first obtain a waiver from the FDIC. Under these standards, the Bank would be deemed a well-capitalized institution. At December 31, 2007 the Bank had $9.2 million in brokered deposits.

An undercapitalized institution may not solicit deposits by offering rates of interest that are significantly higher than the prevailing rates of interest on insured deposits (i) in such institution's normal market areas or (ii) in the market area in which such deposits would otherwise be accepted.

The Bank on a periodic basis establishes interest rates paid, maturity terms, service fees and withdrawal penalties. Determination of rates and terms are predicated on funds acquisition and liquidity requirements, rates paid by competitors, growth goals, federal regulations, and market area of solicitation.

The following table sets forth, by nominal interest rate categories, the composition of deposits of the Bank at the dates indicated:

	Dec 31, 2007		Dec 31, 2006		Dec 31, 2005	
			(Dollars in Thousands)			
Non-interest bearing and below	$	174,152	$	186,952	$	234,362
2.00% - 2.99%		63,019		10,935		128,498
3.00% - 3.99%		146,480		144,823		168,931
4.00% - 4.99%		164,649		229,021		90,050
5.00% - 5.99%		158,705		154,217		33,787
Over 6.00%		546		1,211		1,711
Total	**$**	**707,551**	**$**	**727,159**	**$**	**657,339**

The following table sets forth the change in dollar amount of deposits in the various accounts offered by the Bank for the periods indicated.

DEPOSIT ACTIVITY
(Dollars in Thousands)

	Balance at Dec 31, 2007	% of Deposits	Increase (Decrease)	Balance at Dec 31, 2006	% of Deposits	Increase (Decrease)	Balance at Dec 31, 2005	% of Deposits	Increase (Decrease)
Withdrawable:									
Non-interest bearing	$ 69,728	9.9%	$ (3,076)	$ 72,804	10.0%	$ 8,535	$ 64,269	9.8%	$ 4,119
Statement savings	37,513	5.3%	(4,197)	41,710	5.7%	(4,304)	46,014	7.0%	(3,821)
Money market savings	185,803	26.3%	20,198	165,605	22.8%	3,255	162,350	24.8%	29,987
Checking	103,624	14.6%	(25,401)	129,025	17.8%	46,034	82,991	12.7%	(5,256)
Total Withdrawable	396,668	56.1%	(12,476)	409,144	56.3%	53,520	355,624	54.3%	25,029
Certificates:									
Less than one year	199,324	28.2%	71,436	127,888	17.6%	60,047	67,841	10.3%	12,654
12 to 23 months	15,016	2.1%	(19,693)	34,709	4.7%	(2,487)	37,196	5.7%	(9,361)
24 to 35 months	46,934	6.6%	(25,915)	72,849	10.0%	(20,131)	92,980	14.2%	307
36 to 59 months	7,510	1.1%	(2,574)	10,084	1.4%	(3,969)	14,053	2.1%	(9,570)
60 to 120 months	42,099	5.9%	(30,386)	72,485	10.0%	(15,135)	87,620	13.4%	(3.926)
Total certificate accounts	310,883	43.9%	(7,132)	318,015	43.7%	18,325	299,690	45.7%	(9,896)
Total deposits	$ 707,551	100.0%	$ (19,608)	$ 727,159	100.0%	$ 71,845	$ 655,314	100.0%	$ 15,133

The following table represents, by various interest rate categories, the amount of deposits maturing during each of the three years following December 31, 2007, and the percentage of such maturities to total deposits. Matured certificates which have not been renewed as of December 31, 2007 have been allocated based upon certain rollover assumptions.

DEPOSIT MATURITIES
(Dollars in Thousands)

	1.99 % or less	2.00 % or 2.99 %	3.00 % or 3.99 %	4.00 % or 4.99 %	5.00 % or 5.99 %	Over 6.00 %	Total	Percent of Total
Certificate accounts maturing in the year ending:								
December 31, 2008	$ 186	$ 1,249	$ 43,381	$ 83,612	$ 134,002	$ 411	$ 262,841	$ 84.5%
December 31, 2009	-	-	5,185	19,068	3,745	135	28,133	9.1%
December 31, 2010	-	72	2,884	3,391	446	-	6,793	2.2%
Thereafter	-	-	845	10,147	2,124	-	13,116	4.2%
Total	$ 186	$ 1,321	$ 52,295	$ 116,218	$ 140,317	$ 546	$ 310,883	$ 100.0%

Included in the deposit totals in the above table are savings certificates of deposit with balances exceeding $100,000. The majority of these deposits are from regular customers of the Bank, excluding $9.2 million, which were from brokered deposits. The following table provides a maturity breakdown at December 31, 2007, of certificates of deposits with balances greater than $100,000, by various interest rate categories.

ACCOUNTS GREATER THAN $100,000
(Dollars in Thousands)

	1.99 % or less	2.00 % or 2.99 %	3.00 % or 3.99 %	4.00 % or 4.99 %	5.00 % or 5.99 %	Over 6.00 %	Total	Percent of Total
Certificate accounts maturing in the year ending:								
December 31, 2008	$ 114	$ 104	$ 9,177	$ 21,580	$ 40,080	$ 358	$ 71,413	$ 83.3%
December 31, 2009	-	-	514	7,372	2,949	135	10,970	12.8%
December 31, 2010	-	-	189	472	206	-	867	1.0%
Thereafter	-	-	-	1,777	702	-	2,479	2.9%
Total	$ 114	$ 104	$ 9,880	$ 31,201	$ 43,937	$ 493	$ 85,729	$ 100.0%

Borrowings

The Bank relies upon advances (borrowings) from the FHLB of Indianapolis to supplement its supply of lendable funds, meet deposit withdrawal requirements and to extend the term of its liabilities. This facility has historically been the Bank's major source of borrowings. Advances from the FHLB of Indianapolis are typically secured by the Bank's stock in the FHLB of Indianapolis and a portion of the Bank's mortgage loans.

Each FHLB credit program has its own interest rate, which may be fixed or variable, and a range of maturities. Subject to the express limits in FIRREA, the FHLB of Indianapolis may prescribe the acceptable uses to which these advances may be put, as well as limitations on the size of the advances and repayment provisions. At December 31, 2007, the Bank had advances totaling $99.3 million outstanding from the FHLB of Indianapolis.

On September 15, 2006, the Company entered into several agreements providing for the private placement of $15,000,000 of Capital Securities due September 15, 2036 (the "Capital Securities"). The Capital Securities were issued by the Company's Delaware trust subsidiary, Home Federal Statutory Trust I (the "Trust"), to Bear, Sterns & Co., Inc. (the "Purchaser"). The Company bought $464,000 in Common Securities (the "Common Securities") from the Trust. The proceeds of the sale of Capital Securities and Common Securities were used by the Trust to purchase $15,464,000 in principal amount of Junior Subordinated Debt Securities (the "Debentures") from the Company pursuant to an Indenture (the "Indenture") between the Company and LaSalle Bank National Association, as trustee (the "Trustee").

The Common Securities and Capital Securities will mature in 30 years, will require quarterly distributions and will bear a floating variable rate equal to the prevailing three-month LIBOR rate plus 1.65% per annum. Interest on the Capital Securities and Common Securities is payable quarterly in arrears each December 15, March 15, June 15 and September 15. The Company may redeem the Capital Securities and the Common Securities, in whole or in part, without penalty, on or after September 15, 2011, or earlier upon the occurrence of certain events described below with the payment of a premium upon redemption.

The Debentures bear interest at the same rate and on the same dates as interest is payable on the Capital Securities and the Common Securities. The Company has the option, as long as it is not in default under the Indenture, at any time and from time to time, to defer the payment of interest on the Debentures for up to twenty consecutive quarterly interest payment periods. During any such deferral period, or while an event of default exists under the Indenture, the Company may not declare or pay dividends or distributions on, redeem, purchase, or make a liquidation payment with respect to, any of its capital stock, or make payments of principal, interest or premium on, or repay or repurchase, any other debt securities that rank equal or junior to the Debentures, subject to certain limited exceptions.

The Debentures mature 30 years after their date of issuance, and can be redeemed in whole or in part by the Company, without penalty, at any time after September 15, 2011. The Company may also redeem the Debentures upon the occurrence of a "capital treatment event," an "investment company event" or a "tax event" as defined in the

Indenture, but if such redemption occurs prior to September 15, 2011, a premium will be payable to Debenture holders upon the redemption. The payment of principal and interest on the Debentures is subordinate and subject to the right of payment of all "Senior Indebtedness" of the Company as described in the Indenture.

The Company has a revolving note with LaSalle Bank N.A with an available balance of $17.5 million. The balance was zero at December 31, 2007. The note accrues interest at a variable rate based on the ninety-day LIBOR index, on the date of the draw, plus 140 basis points. Interest payments are due ninety days after the date of any principal draws made on the loan and every ninety days thereafter. The assets of the Company collateralized the note. Under terms of the agreement, the Company was bound by certain restrictive debt covenants relating to earnings, net worth and various financial ratios.

The following table sets forth the maximum amount of each category of short-term borrowings (borrowings with remaining maturities of one year or less) outstanding at any month-end during the periods shown and the average aggregate balances of short-term borrowings for such periods.

(Dollars in Thousands)	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006	Year Ended Dec 31, 2005
Official check overnight remittance	$ 232	$ 478	$ 172
FHLB advances	$ 31,850	$ 53,400	$ 57,053
LaSalle short term borrowings	$ 985	$ -	$ -
Average amount of total short-term borrowings outstanding	$ 23,668	$ 36,812	$ 50,695

The following table sets forth the amount of short-term FHLB advances outstanding at period end during the period shown and the weighted average rate of such FHLB advances.

(Dollars in Thousands)	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
FHLB advances:			
Amount	$ 31,850	$ 9,250	$ 32,403
Weighted average rate	4.9%	5.0%	5.5%

Subsidiaries and Other Operations

The Bank organized a subsidiary under Nevada law, Home Investments, Inc., ("HII"). Effective March 31, 2002, the Bank transferred the management of approximately $90 million in securities to HII. Home Investments, Inc. holds, services, manages, and invests that portion of the Bank's investment portfolio as may be transferred from time to time by the Bank to HII. Home Investments Inc.'s, investment policy mirrors that of the Bank. At December 31, 2007, of the $84.3 million in consolidated investments owned by the Bank, $55.6 million was held by Home Investments, Inc.

The Company owns another corporation organized under Indiana law, HomeFed Financial Corp, ("HFF"). At December 31, 2007, the Company's aggregate investment in HFF was $836,000. HFF has a 14% interest in Consortium Partners, a Louisiana partnership, which owns 50% of the outstanding shares of the Family Financial Holdings, Inc. of New Orleans, Louisiana ("Family Financial"). The remaining 50% of the outstanding shares of Family Financial is owned proportionately by the partners of Consortium Partners. Family Financial administers debt protection programs for the customers of the partners' parent-thrifts and banks, and reinsures some of the risk involved in such programs with other entities, including Family Financial Reinsurance Company, LTD, a nexus – domiciled reinsurer formed by Family Financial. HFF receives (1) dividends paid on Family Financial shares owned directly by it, (2) a pro rata allocation of dividends received on shares held by Consortium Partners, which are divided among the partners based on the actuarially determined value of Family Financial's various debt protection policies generated by customers of these partners, and (3) commissions on sales of debt protection policies made to customers. For the year ended December 31, 2007, the Company had income of $117,000, on a consolidated basis, from commissions and dividends paid on Family Financial activities.

The Bank is also engaged in full-service securities brokerage services activities through an arrangement with Raymond James Financial Services. For the year ended December 31, 2007, the Bank received $1,870,000 in commissions from its Raymond James financial activities.

Employees

As of December 31, 2007, the Company employed 257 persons on a full-time basis and 20 persons on a part-time or temporary basis. None of the Company's employees are represented by a collective bargaining group. Management considers its employee relations to be excellent.

Competition

The Bank operates in south central Indiana and makes almost all of its loans to, and accepts almost all of its deposits from, residents of Bartholomew, Jackson, Jefferson, Jennings, Johnson, Scott, Ripley, Washington, Decatur and Marion counties in Indiana.

The Bank is subject to competition from various financial institutions, including state and national banks, state and federal thrift associations, credit unions and other companies or firms, including brokerage houses, that provide similar services in the areas of the Bank's home and branch offices. Also, in Seymour, Columbus, North Vernon, Batesville, and the Greenwood area, the Bank must compete with banks and savings institutions in Indianapolis. To a lesser extent, the Bank competes with financial and other institutions in the market areas surrounding Cincinnati, Ohio and Louisville, Kentucky. The Bank also competes with money market funds that currently are not subject to reserve requirements, and with insurance companies with respect to its Individual Retirement and annuity accounts.

Under current law, bank holding companies may acquire thrifts. Thrifts may also acquire banks under federal law. Affiliations between banks and thrifts based in Indiana have increased the competition faced by the Bank and the Company. See "Branching and Acquisitions."

The Gramm-Leach-Bliley Act allows insurers and other financial service companies to acquire banks; removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations. These provisions in the Act may increase the level of competition the Bank faces from securities firms and insurance companies.

The primary factors influencing competition for deposits are interest rates, service and convenience of office locations. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels, and other factors that are not readily predictable.

REGULATION

Both the Company and the Bank operate in highly regulated environments and are subject to supervision, examination and regulation by several governmental regulatory agencies, including the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC"), and the Indiana Department of Financial Institutions (the "DFI"). The laws and regulations established by these agencies are generally intended to protect depositors, not shareholders. Changes in applicable laws, regulations, governmental policies, income tax laws and accounting principles may have a material effect on the Company's business and prospects. The following summary is qualified by reference to the statutory and regulatory provisions discussed.

Home Federal Bancorp

The Bank Holding Company Act. Because the Company owns all of the outstanding capital stock of the Bank, it is registered as a bank holding company under the federal Bank Holding Company Act of 1956 and is subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and any additional information that the Federal Reserve may require.

Investments, Control, and Activities. With some limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before acquiring another bank holding company or acquiring more than 5% of the voting shares of a bank (unless it already owns or controls the majority of such shares).

Bank holding companies are prohibited, with certain limited exceptions, from engaging in activities other than those of banking or of managing or controlling banks. They are also prohibited from acquiring or retaining direct or indirect ownership or control of voting shares or assets of any company which is not a bank or bank holding company, other than subsidiary companies furnishing services to or performing services for their subsidiaries, and other

subsidiaries engaged in activities which the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be incidental to these operations. The Bank Holding Company Act does not place territorial restrictions on such nonbank activities.

The Gramm-Leach Bliley Act of 1999 allows a bank holding company to qualify as a “financial holding company” and, as a result, be permitted to engage in a broader range of activities that are “financial in nature” and in activities that are determined to be incidental or complementary to activities that are financial in nature. The Gramm-Leach-Bliley Act amends the Bank Holding Company Act of 1956 to include a list of activities that are financial in nature, and the list includes activities such as underwriting, dealing in and making a market in securities, insurance underwriting and agency activities and merchant banking. The Federal Reserve is authorized to determine other activities that are financial in nature or incidental or complementary to such activities. The Gramm-Leach-Bliley Act also authorizes banks to engage through financial subsidiaries in certain of the activities permitted for financial holding companies.

In order for a bank holding company to engage in the broader range of activities that are permitted by the Gramm-Leach-Bliley Act (1) all of its depository institutions must be well capitalized and well managed and (2) it must file a declaration with the Federal Reserve that it elects to be a “financial holding company.” In addition, to commence any new activity permitted by the Gramm-Leach-Bliley Act, each insured depository institution of the financial holding company must have received at least a “satisfactory” rating in its most recent examination under the Community Reinvestment Act. The Company has elected to be a financial holding company.

Dividends. The Federal Reserve’s policy is that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which could only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Source of Strength. In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Company might not otherwise do so.

Indiana Bank and Trust Company

General Regulatory Supervision. The Bank as an Indiana commercial bank and a member of the Federal Reserve System is subject to examination by the DFI and the Federal Reserve. The DFI and the Federal Reserve regulate or monitor virtually all areas of the Bank’s operations. The Bank must undergo regular on-site examinations by the Federal Reserve and DFI and must submit periodic reports to the Federal Reserve and the DFI.

Lending Limits. Under Indiana law, the Bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. Additional amounts may be lent, not in excess of 10% of unimpaired capital and surplus, if such loans or extensions of credit are fully secured by readily marketable collateral, including certain debt and equity securities but not including real estate. At December 31, 2007, the Bank did not have any loans or extensions of credit to a single or related group of borrowers in excess of its lending limits.

Deposit Insurance. Deposits in the Bank are insured by the FDIC up to a maximum amount, which is generally $100,000 per depositor subject to aggregation rules, provided that this amount may increase beginning April 1, 2010, and will be adjusted every five years thereafter, based on an inflation adjustment process established in recent legislation. See "Recent Legislative Developments." The Bank is subject to deposit insurance assessments by the FDIC pursuant to its regulations establishing a risk-related deposit insurance assessment system, based upon the institution’s capital levels and risk profile. The Bank is also subject to assessment for the Financing Corporation (FICO) to service the interest on its bond obligations. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. The Bank paid deposit insurance assessments of $84,000 during the year ended December 31, 2007. Future increases in deposit insurance premiums or changes in risk classification would increase the Bank’s deposit related costs.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Transactions with Affiliates and Insiders. The Bank is subject to limitations on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. Compliance is also required with certain provisions designed to avoid the acquisition of low quality assets. The Bank is also prohibited from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Extensions of credit by the Bank to its executive officers, directors, certain principal shareholders, and their related interests must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and not involve more than the normal risk of repayment or present other unfavorable features.

Dividends. Under Indiana law, the Bank is prohibited from paying dividends in an amount greater than its undivided profits, or if the payment of dividends would impair the Bank's capital. Moreover, the Bank is required to obtain the approval of the DFI and the Federal Reserve for the payment of any dividend if the aggregate amount of all dividends paid by the Bank during any calendar year, including the proposed dividend, would exceed the sum of the Bank's retained net income for the year to date combined with its retained net income for the previous two years. For this purpose, "retained net income" means the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period.

Federal law generally prohibits the Bank from paying a dividend to its holding company if the depository institution would thereafter be undercapitalized. The FDIC may prevent an insured bank from paying dividends if the bank is in default of payment of any assessment due to the FDIC. In addition, payment of dividends by a bank may be prevented by the applicable federal regulatory authority if such payment is determined, by reason of the financial condition of such bank, to be an unsafe and unsound banking practice.

Branching and Acquisitions. Branching by the Bank requires the approval of the Federal Reserve and the DFI. Under current law, Indiana chartered banks may establish branches throughout the state and in other states, subject to certain limitations. Congress authorized interstate branching, with certain limitations, beginning in 1997. Indiana law authorizes an Indiana bank to establish one or more branches in states other than Indiana through interstate merger transactions and to establish one or more interstate branches through de novo branching or the acquisition of a branch. There are some states where the establishment of de novo branches by out-of-state financial institutions is prohibited.

Capital Regulations. The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories of 0%, 20%, 50%, or 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

The capital guidelines divide a bank holding company's or bank's capital into two tiers. The first tier ("Tier I") includes common equity, certain non-cumulative perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (except mortgage servicing rights and purchased credit card relationships, subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Banks and bank holding companies are required to maintain a total risk-based capital ratio of 8%, of which 4% must be Tier I capital. The federal banking regulators may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

Also required by the regulations is the maintenance of a leverage ratio designed to supplement the risk-based capital guidelines. This ratio is computed by dividing Tier I capital, net of all intangibles, by the quarterly average of total assets. The minimum leverage ratio is 3% for the most highly rated institutions, and 1% to 2% higher for institutions not meeting those standards. Pursuant to the regulations, banks must maintain capital levels commensurate with the level of risk, including the volume and severity of problem loans, to which they are exposed.

The following is a summary of the Company's and the Bank's regulatory capital and capital requirements at December 31, 2007.

	Actual		For Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2007						
Total risk-based capital (to risk-weighted assets)						
Indiana Bank and Trust Company	$ 86,130	10.65%	$ 64,673	8.0%	$ 80,842	10.0%
Home Federal Bancorp Consolidated	$ 88,289	10.91%	$ 64,759	8.0%	$ 80,949	10.0%
Tier 1 risk-based capital (to risk-weighted assets)						
Indiana Bank and Trust Company	$ 79,158	9.79%	$ 32,337	4.0%	$ 48,505	6.0%
Home Federal Bancorp Consolidated	$ 81,317	10.05%	$ 32,380	4.0%	$ 48,569	6.0%
Tier 1 leverage capital (to average assets)						
Indiana Bank and Trust Company	$ 79,158	8.95%	$ 35,375	4.0%	$ 44,219	5.0%
Home Federal Bancorp Consolidated	$ 81,317	9.18%	$ 35,423	4.0%	$ 44,279	5.0%

Prompt Corrective Regulatory Action. Federal law provides the federal banking regulators with broad powers to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and, ultimately, appointing a receiver for the institution. At December 31, 2007, the Bank was categorized as "well capitalized," meaning that the Bank's total risk-based capital ratio exceeded 10%, the Bank's Tier I risk-based capital ratio exceeded 6%, the Bank's leverage ratio exceeded 5%, and the Bank was not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

Other Regulations. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act, and Regulation E issued by the Federal Reserve to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

State Bank Activities. Under federal law, as implemented by regulations adopted by the FDIC, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and could continue to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. Impermissible investments and activities must be divested or discontinued within certain time frames set by the FDIC. It is not expected that these restrictions will have a material impact on the operations of the Bank.

Enforcement Powers. Federal regulatory agencies may assess civil and criminal penalties against depository institutions and certain "institution-affiliated parties," including management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs. In addition, regulators may commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, regulators may issue cease-and-desist orders to, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the regulator to be appropriate.

Recent Legislative Developments. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reportings. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act establishes: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws.

The Securities and Exchange Commission has adopted final rules implementing Section 404 of the Sarbanes-Oxley Act of 2002. In each Form 10-K, it files, the Company is required to include a report of management on the Company's internal control over financial reporting. The internal control report must include a statement of management's responsibility for establishing and maintaining adequate control over financial reporting of the Company, identify the framework used by management to evaluate the effectiveness of the Company's internal control over financial reporting, provide management's assessment of the effectiveness of the Company's internal control over financial reporting and state that the Company's independent accounting firm has issued an attestation report on management's assessment of the Company's internal control over financial reporting. Significant efforts were required to comply with Section 404 in 2005 and the Company anticipates additional efforts will be required in future years. The costs of such compliance are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Shareholder Annual Report included as Exhibit 13 to this Form 10-K. In addition, the Securities and Exchange Commission in 2006 adopted significant changes to its proxy statement disclosure rules relating to executive compensation. Among other things, several tables, more detailed narrative disclosures, and a new compensation discussion and analysis section are required in proxy statements. These changes have required and will require a significant commitment of managerial resources and will result in increased costs to the Company which would adversely affect results of operations, or cause fluctuations in results of operations, in the future.

On February 8, 2006, President Bush signed into law the Federal Deposit Insurance Reform Act of 2005. This statute reforms the deposit insurance system by:

- merging the Bank Insurance Fund and the Savings Association Insurance Fund into a new Deposit Insurance Fund ("DIF") no later than July 1, 2006;

- keeping the insurance coverage limit for individual accounts and municipal accounts at $100,000 but providing an inflation adjustment process which permits an adjustment effective January 1, 2011 and every five years thereafter based on the Personal Consumption Expenditures Index (with 2005 as the base year of comparison), unless the FDIC concludes such adjustment would be inappropriate for reasons relating to risks to the DIF;

- increasing insurance coverage limits for retirement accounts to $250,000, subject to the same inflation adjustment process described above;

- prohibiting undercapitalized members from accepting employee benefit plan deposits;

- providing for the payment of credits based on a member's share of the assessment base as of December 31, 1996 and equal to an aggregate of $4.7 billion for all members, which credits can offset FDIC assessments subject to certain limits;

- providing for the declaration of dividends to members (based on a member's share of the assessment base on December 31, 1996, and premiums paid after that date) equal to 50% of the amount in the DIF in excess of a reserve ratio of 1.35% and 100% of such amount in excess of a reserve ratio of 1.5%, subject to the FDIC's right to suspend or limit dividends based on risks to the DIF; and

- eliminating the mandatory assessment (up to 23 basis points) if the DIF falls below 1.25% of insured deposits and retaining assessments based on risk, needs of the DIF, and the effect on the members' capital and earnings. The FDIC is authorized to set a reserve ratio of between 1.15% and 1.5% and will have five years to restore the DIF if the ratio falls below 1.15%. The designated reserve ratio for the DIF is 1.25% for 2008.

Insured depository institutions that were in existence on December 31, 1996 and paid assessments prior to that date (or their successors) are entitled to a one-time credit against future assessments based on their past contributions to the BIF or SAIF. In 2006, the Bank received a one-time credit of $712,000 against future assessments.

Also on November 2, 2006, the FDIC adopted final regulations that establish a new risk-based premium system. Under the new system, the FDIC will evaluate each institution's risk based on three primary sources of information: supervisory ratings for all insured institutions, financial ratios for most institutions, and long-term debt issuer ratings for large institutions that have such ratings. An institution's assessments will be based on the insured institution's ranking in one of four risk categories. Effective January 1, 2007, well-capitalized institutions with the CAMELS ratings of 1 or 2 are grouped in Risk Category I and will be assessed for deposit insurance at an annual rate of between five and seven cents for every $100 of domestic deposits. Institutions in Risk Categories II, III and IV will be assessed at annual rates of 10, 28 and 43 cents, respectively. An increase in assessments could have a material adverse effect on the Company's earnings.

FDIC-insured institutions remain subject to the requirement to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the SAIF. These assessments will continue until the FICO bonds mature in 2017. For the quarter ended December 31, 2007, the FICO assessment rate was equal to 1.14 cents for each $100 in domestic deposits maintained at an institution.

Effect of Governmental Monetary Policies. The Bank's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Federal Home Loan Bank System

The Bank is a member of the FHLB of Indianapolis, which is one of twelve regional FHLBs. Each FHLB serves as a reserve or central bank for its members within its assigned region. The FHLB is funded primarily from funds deposited by banks and savings associations and proceeds derived from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. All FHLB advances must be fully secured by sufficient collateral as determined by the FHLB. The Federal Housing Finance Board ("FHFB"), an independent agency, controls the FHLB System, including the FHLB of Indianapolis.

As a member of the FHLB, the Bank is required to purchase and maintain stock in the FHLB of Indianapolis in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts, or similar obligations at the beginning of each year. At December 31, 2007, the Bank's investment in stock of the FHLB of Indianapolis was $8.3 million. The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate-related collateral to 30% of a member's capital and limiting total advances to a member. Interest rates charged for advances vary depending upon maturity, the cost of funds to the FHLB of Indianapolis and the purpose of the borrowing.

The FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. For the year ended December 31, 2007, dividends paid by the FHLB of Indianapolis to the Bank totaled approximately $386,000, for an annualized rate of 4.6%.

Limitations on Rates Paid for Deposits

Regulations promulgated by the FDIC place limitations on the ability of insured depository institutions to accept, renew or roll over deposits by offering rates of interest which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in the institution's normal market area. Under these regulations, "well-capitalized" depository institutions may accept, renew or roll such

deposits over without restriction, "adequately capitalized" depository institutions may accept, renew or roll such deposits over with a waiver from the FDIC (subject to certain restrictions on payments of rates) and "undercapitalized" depository institutions may not accept, renew or roll such deposits over. The regulations contemplate that the definitions of "well-capitalized," "adequately-capitalized" and "undercapitalized" will be the same as the definition adopted by the agencies to implement the corrective action provisions of federal law. Management does not believe that these regulations will have a materially adverse effect on the Bank's current operations.

Federal Reserve System

Under regulations of the Federal Reserve, the Bank is required to maintain reserves against its transaction accounts (primarily checking accounts) and non-personal money market deposit accounts. The effect of these reserve requirements is to increase the Bank's cost of funds. The Bank is in compliance with its reserve requirements.

Federal Securities Law

The shares of Common Stock of the Company are registered with the Securities and Exchange Commission, (the “SEC”) under the Securities Exchange Act of 1934 (the "1934 Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the 1934 Act and the rules of the SEC thereunder. If the Company has fewer than 300 shareholders, it may deregister its shares under the 1934 Act and cease to be subject to the foregoing requirements.

Shares of Common Stock held by persons who are affiliates of the Company may not be resold without registration unless sold in accordance with the resale restrictions of Rule 144 under the Securities Act of 1933 (the "1933 Act"). If the Company meets the current public information requirements under Rule 144, each affiliate of the Company who complies with the other conditions of Rule 144 (including a six-month holding period for restricted securities and conditions that require the affiliate's sale to be aggregated with those of certain other persons) will be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of the Company or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks.

Community Reinvestment Act Matters

Federal law requires that ratings of depository institutions under the Community Reinvestment Act of 1977 ("CRA") be disclosed. The disclosure includes both a four-unit descriptive rating -- using terms such as satisfactory and unsatisfactory -- and a written evaluation of each institution's performance. Each FHLB is required to establish standards of community investment or service that its members must maintain for continued access to long-term advances from the FHLBs. The standards take into account a member's performance under the CRA and its record of lending to first-time homebuyers. The FHLBs have established an "Affordable Housing Program" to subsidize the interest rate of advances to member associations engaged in lending for long-term, low- and moderate-income, owner-occupied and affordable rental housing at subsidized rates. The Bank is participating in this program. The examiners have determined that the Bank has a satisfactory record of meeting community credit needs.

Taxation

Federal Taxation

The Company and its subsidiaries file a consolidated federal income tax return. The consolidated federal income tax return has the effect of eliminating intercompany distributions, including dividends, in the computation of consolidated taxable income. Income of the Company generally would not be taken into account in determining the bad debt deduction allowed to the Bank, regardless of whether a consolidated tax return is filed. However, certain "functionally related" losses of the Company would be required to be taken into account in determining the permitted bad debt deduction which, depending upon the particular circumstances, could reduce the bad debt deduction.

The Bank is required to compute its allocable deduction using the experience method. Reserves taken after 1987 using the percentage of taxable income method generally must be included in future taxable income over a six-year period, although a two-year delay may be permitted for institutions meeting a residential mortgage loan origination test. The Bank began recapturing approximately $2.3 million over a six-year period beginning in fiscal 1999, and has now included all of those reserves in its income. In addition, the pre-1988 reserve, in which no deferred taxes have been recorded, will not have to be recaptured into income unless (i) the Bank no longer qualifies as a bank under the Code, or (ii) excess dividends are paid out by the Bank.

Depending on the composition of its items of income and expense, a bank may be subject to the alternative minimum tax. A bank must pay an alternative minimum tax equal to the amount (if any) by which 20% of alternative minimum taxable income ("AMTI"), as reduced by an exemption varying with AMTI, exceeds the regular tax due. AMTI equals regular taxable income increased or decreased by certain tax preferences and adjustments, including depreciation deductions in excess of that allowable for alternative minimum tax purposes, tax-exempt interest on most private activity bonds issued after August 7, 1986 (reduced by any related interest expense disallowed for regular tax purposes), the amount of the bad debt reserve deduction claimed in excess of the deduction based on the experience method and 75% of the excess of adjusted current earnings over AMTI (before this adjustment and before any alternative tax net operating loss). AMTI may be reduced only up to 90% by net operating loss carryovers, but alternative minimum tax paid that is attributable to most preferences (although not to post-August 7, 1986 tax-exempt interest) can be credited against regular tax due in later years.

State Taxation

The Bank is subject to Indiana's Financial Institutions Tax ("FIT"), which is imposed at a flat rate of 8.5% on "adjusted gross income." "Adjusted gross income," for purposes of FIT, begins with taxable income as defined by Section 63 of the Internal Revenue Code, and thus, incorporates federal tax law to the extent that it affects the computation of taxable income. Federal taxable income is then adjusted by several Indiana modifications. The Company's Indiana effective tax rate was reduced in 2006 due to the impact of the sale of available for sale securities resulting in a decrease to the state apportionment factor for Indiana. Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes.

The Bank's state income tax returns were audited in 2003 and all issues relating to the audit have been resolved.

Item 1A. Risk Factors

In analyzing whether to make or continue an investment in the Company, investors should consider, among other factors, the following:

Federal and State Government Regulations. The banking industry is heavily regulated. These regulations are intended to protect depositors, not shareholders. As discussed in this Form 10-K, the Company and its subsidiaries are subject to regulation and supervision by the FDIC, the Board of Governors of the Federal Reserve System, the Indiana Department of Financial Institutions, and the SEC. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. In particular, the monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past, and are expected to continue to do so in the future. Among the instruments of monetary policy used by the Federal Reserve Board to implement its objectives are changes in the discount rate charged on bank borrowings and changes in the reserve requirements on bank deposits. It is not possible to predict what changes, if any, will be made to the monetary polices of the Federal Reserve Board or to existing federal and state legislation or the effect that such changes may have on the future business and earnings prospects of the Company.

Legislation. Because of concerns relating to the competitiveness and the safety and soundness of the industry, Congress continues to consider a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. Among such bills are proposals to combine banks and thrifts under a unified charter and to combine regulatory agencies. Management cannot predict whether or in what form any of these proposals will be adopted or the extent to which the business of the Company and its subsidiaries may be affected thereby.

Credit Risk. One of the greatest risks facing lenders is credit risk -- that is, the risk of losing principal and interest due to a borrower's failure to perform according to the terms of a loan agreement. During 2007, the banking industry experienced increasing trends in problem assets and credit losses which resulted from weakening national economic trends and a decline in housing values. The Company's home equity and home equity line of credit portfolios have experienced some increase in delinquency and foreclosures have occurred; driven primarily by mortgage foreclosures on loans serviced by non-company owned first mortgages. The potential for foreclosures instituted by outside servicers represents additional potential credit risk. While management attempts to provide an allowance for loan losses at a level adequate to cover probable incurred losses based on loan portfolio growth, past loss experience, general economic conditions, information about specific borrower situations, and other factors, future adjustments to reserves may become necessary, and net income could be significantly affected, if circumstances differ substantially from assumptions used with respect to such factors.

Exposure to Local Economic Conditions. Company's primary market area for deposits and loans encompasses counties in central and southern Indiana, where all of its offices are located. Most of the Company's business activities are within this area. The Company has experienced growth of the commercial and commercial real estate portfolios, primarily in the Indianapolis market. This area of the Company's market has experienced more difficulties in the residential and development areas than the rest of our market area. These concentrations expose the Company to risks resulting from changes in the local economies. Additionally, pressure has intensified on consumer budgets due to sharp increases in fuel prices and property taxes in the Company's market areas. An economic slowdown in these areas could have the following consequences, any of which could hurt our business:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for the products and services of the Bank may decline; and
- Collateral for loans made by the Bank, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans of the Bank.

Interest Rate Risk. The Company's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk is the risk that the earnings and capital will be adversely affected by changes in interest rates. While the Company attempts to adjust its asset/liability mix in order to limit the magnitude of interest rate risk, interest rate risk management is not an exact science. Rather, it involves estimates as to how changes in the general level of interest rates will impact the yields earned on assets and the rates paid on liabilities. Moreover, rate changes can vary depending upon the level of rates and competitive factors. From time to time, maturities of assets and liabilities are not balanced, and a rapid increase or decrease in interest rates could have an adverse effect on net interest margins and results of operations of the Company. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as U.S. Government and corporate securities and other investment vehicles, including mutual funds, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

Competition. The Company faces strong competition from other banks, savings institutions and other financial institutions that have branch offices or otherwise operate in the Company's market area, as well as many other companies now offering a range of financial services. Many of these competitors have substantially greater financial resources and larger branch systems than the Company. In addition, many of the Bank's competitors have higher legal lending limits than does the Bank. Particularly intense competition exists for sources of funds including savings and retail time deposits and for loans, deposits and other services that the Bank offers. As a result of the repeal of the Glass Steagall Act, which separated the commercial and investment banking industries, all banking organizations face increasing competition.

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties.

At December 31, 2007, the Bank conducted its business from its main office at 501 Washington Street, Columbus, Indiana and 19 other full-service branches and a commercial loan office in Indianapolis. The Bank owns two buildings that it uses for certain administrative operations located at 211 North Chestnut Street, Seymour and 3801 Tupelo Drive, Columbus. The headquarters of its securities operations, conducted through one of its subsidiaries, are located at 501 Washington Street, Columbus, Indiana. Information concerning these properties, as of December 31, 2007, is presented in the following table:

Description and Address	Owned or Leased		Net Book Value of Property, Furniture and Fixtures	Approximate Square Footage	Lease Expiration
Principal Office					
501 Washington Street	Owned	$	3,633,738	21,600	N/A
Administrative Operations Offices:					
211 North Chestnut, Seymour	Owned	$	569,201	5,130	N/A
3801 Tupelo Drive, Columbus	Owned	$	3,156,937	16,920	N/A
Branch Offices:					
Columbus Branches:					
1020 Washington Street	Owned	$	355,838	800	N/A
3805 25th Street	Leased	$	71,772	5,800	09/2022
2751 Brentwood Drive	Leased	$	35,883	3,200	09/2022
4330 West Jonathon Moore Pike	Owned	$	453,265	2,600	N/A
1901 Taylor Road	Leased	$	30,510	400	03/2012
Hope Branch					
8475 North State Road 9, Suite 4	Leased	$	74,647	1,500	03/2012
Austin Branch					
67 West Main Street	Owned	$	37,500	3,600	N/A
Brownstown Branch					
101 North Main Street	Leased	$	7,372	2,400	Month to Month
North Vernon Branches					
111 North State Street	Owned	$	213,806	1,900	N/A
1540 North State Street	Leased	$	9,169	1,600	Month to Month
Osgood Branch					
820 South Buckeye Street	Owned	$	95,507	1,280	N/A
Salem Branch					
1208 South Jackson	Owned	$	543,945	1,860	N/A
Seymour Branches					
222 W. Second Street	Leased	$	299,576	9,200	09/2022
1117 East Tipton Street	Leased	$	51,116	6,800	09/2022
Batesville Branch					
114 State Rd 46 East	Owned	$	457,909	2,175	N/A
Madison Branch					
201 Clifty Drive	Owned	$	356,076	2,550	N/A
Greensburg Branch					
1801 Greensburg Crossing	Owned	$	651,843	1,907	N/A
Indianapolis Branches					
8740 South Emerson Avenue	Owned	$	1,960,054	5,000	N/A
1510 West Southport Road	Owned	$	1,879,904	3,100	N/A
Indianapolis Commercial Loan Office					
10 West Market Street, Suite 1600	Leased	$	182,721	5,632	10/2011
Property Purchased for New Branch					
1420 North State Street, North Vernon	Owned	$	470,428	N/A	N/A

The Bank owns its computer and data processing equipment that is used for accounting, financial forecasting, and general ledger work. The Bank also has contracted for the data processing and reporting services of Open Solutions, Inc. headquartered in Glastonbury, Connecticut. The contract with Open Solutions, Inc. expires in October 2009.

Item 3. Legal Proceedings.

The Company and the Bank are involved from time to time as plaintiff or defendant in various legal actions arising in the normal course of business. While the ultimate outcome of these proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these proceedings should not have a material effect on the Company's consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of the Company's shareholders during the quarter ended December 31, 2007.

Item 4.5. Executive Officers of Home Federal Bancorp.

Presented below is certain information regarding the executive officers of HFB who are not also directors.

	Position with HFB
Mark T. Gorski	Executive Vice President, Treasurer, and Chief Financial Officer and Secretary
Charles R. Farber	Executive Vice President and Indianapolis Market President

Mark T. Gorski (age 43) has been employed by the Bank as Executive Vice President, Treasurer and Chief Financial Officer since July 1, 2005. From January 2001 to June 2002 he served as the Chief Financial Officer of Fifth Third Bank, Indianapolis. From June 2002 to June 2003 he served as Internal Reporting and Budgeting Manager of Fifth Third Bank, Cincinnati. From June 2003 to June 2005, he served as Director of Private Client Services of Fifth Third Bank, Indianapolis.

Charles R. Farber (age 58) has been employed by the Bank since March 2002 as its Executive Vice President and Indianapolis Market President. He served as Law Firm Administrator for the Indianapolis, Indiana law firm Locke Reynolds LLP from 2000 to 2002. Prior thereto, he served for 28 years at Peoples Bank and Trust Company in Indianapolis, Indiana, with his final position at Peoples Bank and Trust being Executive Vice President.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

The Company's common stock ("Common Stock") is quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), National Global Market, under the symbol "HOMF." For certain information related to the stock prices and dividends paid by the Company, see "Quarterly Results of Operations" on page 9 of Home Federal Bancorp's Shareholder Annual Report for the year ended December 31, 2007 (the "Shareholder Annual Report"). As of December 31, 2007, there were 376 shareholders of record of the Company's Common Stock.

It is currently the policy of HFB's Board of Directors to continue to pay quarterly dividends, but any future dividends are subject to the Board's discretion based on its consideration of HFB's operating results, financial condition, capital, income tax considerations, regulatory restrictions and other factors.

Since HFB has no independent operations or other subsidiaries to generate income, its ability to accumulate earnings for the payment of cash dividends to its shareholders is directly dependent upon the ability of the Bank to pay dividends to the Company. For a discussion of the regulatory limitations on the Bank's ability to pay dividends see Item 1, "Business-Regulation – Indiana Bank and Trust Company - Dividends", and on the Company's ability to pay dividends, see Item 1, "Business-Regulation – Home Federal Bancorp - Dividends".

Income of the Bank appropriated to bad debt reserves and deducted for federal income tax purposes is not available for payment of cash dividends or other distributions to HFB without the payment of federal income taxes by the Bank on the amount of such income deemed removed from the reserves at the then-current income tax rate. At

December 31, 2007, none of the Bank's retained income represented bad debt deductions for which no federal income tax provision had been made. See "Taxation--Federal Taxation" in Item 1 hereof.

The Company sold no equity securities during the period covered by this report that were not registered under the Securities Act of 1933.

The following table provides information on the Company's repurchases of shares of its common stock during the quarter ended December 31, 2007.

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs (1)	(d) Maximum number of shares that may yet be purchased under the plans or programs (1)
October 2007	0	$ 00.00	0	95,226
November 2007	53,030	$ 26.19	53,030	42,196
December 2007	41,906	$ 25.40	41,906	290
Fourth Quarter	**94,936**	$ 25.84	**94,936**	**290**

(1) On April 24, 2007, the Company announced a stock repurchase program to repurchase on the open market up to 5% of the Company's outstanding shares of common stock or 175,628 such shares. Such purchases will be made in block or open market transactions, subject to market conditions. The program was closed on December 26, 2007 with 290 shares remaining that were not repurchased.

On January 22, 2008, the Company announced a stock repurchase program to repurchase on the open market up to 5% of the Company's outstanding shares of common stock or 168,498 such shares. Such purchases will be made in block or open market transactions, subject to market conditions. The program has no expiration date.

The disclosures regarding equity compensation plans required by Reg. § 229.201(d) is set forth in Item 12 hereof.

Item 6. Selected Financial Data.

The information required by this item is incorporated by reference to the material under the heading "Summary of Selected Consolidated Financial Data" on page 8 of the Shareholder Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by this item is incorporated by reference to pages 10 to 23 of the Shareholder Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is incorporated by reference to page 17 of the Shareholder Annual Report.

Item 8. Financial Statements and Supplementary Data.

The Company's Consolidated Financial Statements and Notes thereto contained on pages 26 to 49 of the Shareholder Annual Report are incorporated herein by reference. The Company's Quarterly Results of Operations contained on page 9 of the Shareholder Annual Report are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There are no such changes and disagreements during the applicable period.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. As of December 31, 2007, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2007, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and are designed to ensure that information required to be disclosed in these reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure**.**

Annual Report on Internal Control Over Financial Reporting. Management's Report on Internal Controls is included on page 23 of the Shareholder's Annual Report and is incorporated herein by reference.

Attestation Report of Registered Public Accounting Firm. The Attestation Report of the Company's independent registered public accounting firm is included on page 24 of the Shareholder's Annual Report and is incorporated herein by reference.

Changes in Internal Controls. Our Chief Executive Officer and Chief Financial Officer have concluded that, during the Company's fiscal quarter ended December 31, 2007, there have been no changes in the Company's internal control over financial reporting identified in connection with the Company's evaluation of controls that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting**.**

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item with respect to directors is incorporated by reference to page 4 to 6 of the Company's Proxy Statement for its annual shareholder meeting to be held in April 2008 (the "2008 Proxy Statement"). Information concerning the Company's executive officers who are not also directors is included in Item 4.5 in Part I of this report.

The information required by this item with respect to the compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting" of the 2008 Proxy Statement.

The information concerning director nominating procedures is incorporated by reference to page 6 of the 2008 proxy statement.

The information required by this item with respect to members of the Company's Audit Committee and whether any such members qualify as an Audit Committee Financial Expert is incorporated by reference to pages 5 and 25 - 26 of the 2008 Proxy Statement.

The Company has adopted an Ethics Policy that applies to all officers, employees, and directors of the Company and its subsidiaries.

Item 11. Executive Compensation.

The information required by this item with respect to executive compensation is incorporated by reference to page 7 through page 24 of the 2008 Proxy Statement, and to the sections entitled "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the 2008 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Other information required by this item is incorporated by reference to pages 3 to 5 of the 2008 Proxy Statement.

Equity Compensation Plan Information

The following table provides the information about the Company's common stock that may be issued upon the exercise of options and rights under all existing equity compensation plans as of December 31, 2007.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights as of December 31, 2007 (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans as of December 31, 2007 (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	405,952(1)	$ 23.11(1)	230,662(1)
Equity compensation plans not approved by security holders	---	---	---
Total	405,952	$ 23.11	230,662

(1) Includes the following plans: the Company's 1993 stock option plan, 1995 stock option plan, 1997 stock option plan and 2001 stock option plan, and individual awards of options to directors.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is incorporated by reference to the section entitled "Transactions with Related Persons" in the 2008 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the section titled "Accountant's Fees" in the 2008 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) List the following documents filed as a part of the report:

Financial Statements	Page in 2007 Shareholder Annual Report
Report of Deloitte & Touche LLP Independent Registered Public Accounting Firm	25
Consolidated Balance Sheets as of December 31, 2007 and December 31, 2006	26
Consolidated Statements of Income for the years ended December 31, 2007, December 31, 2006 and December 31, 2005.	27
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2007, December 31, 2006 and December 31, 2005.	28
Consolidated Statements of Cash Flows for the years ended December 31, 2007, December 31, 2006 and December 31, 2005.	29
Notes to Consolidated Financial Statements	30

(b) The exhibits filed herewith or incorporated by reference herein are set forth on the Exhibit Index on page 38.

(c) All schedules are omitted as the required information either is not applicable or is included in the Consolidated Financial Statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on behalf of the undersigned, thereto duly authorized, this 14th day of March 2008.

DATE: March 14, 2008

HOME FEDERAL BANCORP
By: /S/ John K. Keach, Jr.
John K. Keach, Jr., President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on this 14th day of March 2008.

/s/ Mark T. Gorski
Mark T Gorski, Executive
Vice President, Treasurer
Chief Financial Officer and Secretary
(Principal Financial Officer)

/s/ John K. Keach, Jr.
John K. Keach, Jr.,
Chairman of the Board,
President and Chief
Executive Officer
(Principal Executive Officer)

/s/ Melissa A. McGill
Melissa A. McGill,
Sr. Vice President and Controller
(Principal Accounting Officer)

/s/ John K. Keach, Jr.
John K. Keach, Jr., Director

/s/ Harvard W. Nolting, Jr.
Harvard W. Nolting, Jr., Director

/s/ John T. Beatty
John T. Beatty, Director

/s/ David W. Laitinen
David W. Laitinen, Director

/s/ Harold Force
Harold Force, Director

/s/ John M. Miller
John M. Miller, Director

/s/ William J. Blaser
William J. Blaser, Director

EXHIBIT INDEX

Reference to Regulation S-K Exhibit Number	Document	Sequential Page Number
3(a)	Articles of Incorporation (incorporated by reference from Exhibit B to Registrant's Registration Statement on Form S-4 (Registration No. 33-55234))	
3(b)	Code of By-Laws (incorporated by reference from Exhibit 3.1 to Registrant's Form 8-K filed November 27, 2007)	
4(a)	Articles of Incorporation (incorporated by reference from Exhibit B to Registrant's Registration Statement on Form S-4 (Registration No.33-55234))	
4(b)	Code of By-Laws (incorporated by reference from Exhibit 3.1 to Registrant's Form 8-K dated November 27, 2007	
10(a)	1995 Stock Option Plan (incorporated by reference from Exhibit A to Registrant's Proxy Statement for its 1995 annual shareholder meeting); amendment thereto is (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K dated March 28, 2005)	
10(b)	1999 Stock option plan incorporated by reference to Exhibit J to the registrant's proxy statement for its 1999 Annual shareholder's meeting; amendment thereto is incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated March 28, 2005	
10(c)	2001 Stock Option Plan (incorporated by reference from Exhibit B to the Registrant's Proxy Statement for its 2001 annual shareholder meeting); amendment thereto is incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K dated March 28, 2005	
10(d)	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Registrant's form 8-K dated March 28, 2005)	
10(e)	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10(aw) to Registrant's Form 10-K for the fiscal year ended December 31, 2005).	
10(f)	Form of Home Federal Bancorp Indianapolis Market Growth Plan (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K dated November 28, 2006)	
10(g)	Form of Award Agreement under Home Federal Bancorp Indianapolis Market Growth Plan (incorporated by reference from Exhibit 10.2 to Registrant's Form 8-K dated November 28, 2006)	
10(h)	Home Federal Bancorp Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed May 31, 2005)	
10(i)	Form of Home Federal Bancorp Long-Term Incentive Plan Award Agreement (incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed May 31, 2005)	
10(j)	Excess Benefit Plan Agreement between the Bank and John K. Keach, Jr. dated April 1, 2001 (incorporated by reference to Exhibit 10 (f) of Registrant's Form 10-K for the year ended June 30, 2001); First Amendment thereto effective January 1, 2005, is incorporated by reference to Exhibit 10.4 to Registrant's Form 8-K filed July 27, 2007	
10(k)	Supplemental Executive Retirement Plan with John K. Keach, Jr. dated April 1, 2001 (incorporated by reference from Exhibit 10(n) to Registrant's Form 10-K for the year ended June 30, 2002); First Amendment thereto effective January 1, 2005, is incorporated by reference to Exhibit 10.5 to Registrant's Form 8-K filed July 24, 2007	

10(l) Supplemental Executive Retirement Agreement with Mark T. Gorski effective July 1,2005 (incorporated by reference to Exhibit 10.4 to Registrant's Form 8-K dated November 22, 2005); first amendment thereto dated November 3, 2005 (incorporated by reference to Exhibit 10(j) of Registrant's Form 10-K for the fiscal year ended December 31, 2005); second amendment thereto effective July 1, 2005, is incorporated by reference to Exhibit 10.6 to Registrant's Form 8-K filed July 27, 2007

10(m) Amended and Restated Supplemental Executive Retirement Income Agreement for Charles R. Farber effective January 1, 2005 (incorporated by reference to Exhibit 10.8 to Registrant's Form 8-K filed July 27, 2007)

10(n) Second Amended and Restated Supplemental Executive Retirement Agreement between the Bank and S. Elaine Pollert effective January 1, 2005 (incorporated by reference to Exhibit 10.10 to Registrant's Form 8-K filed July 27, 2007)

10(o) Director Deferred Fee Agreement between the Bank and John Beatty (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K dated November 22, 2005); First Amendment thereto effective January 1, 2006 is incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed July 24, 2007

10(p) Director Deferred Fee Agreement between the Bank and Harold Force (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K dated November 22, 2005); First Amendment thereto effective January 1, 2006, is incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed July 24, 2007

10(q) Director Deferred Fee Agreement between the Bank and David W. Laitinen (incorporated by reference to Exhibit 10.3 of Registrant's 8-K dated November 22, 2005); First Amendment thereto is incorporated by reference to Exhibit 10.3 to Registrant's Form 8-K filed July 24, 2007

10(r) Director Deferred Compensation Agreement with William Nolting (incorporated by reference from Exhibit 10(ag) to Registrant's Form 10-K for the fiscal year ended June 30, 1992);); first and second amendments thereto (incorporated by reference from Exhibit 10(ag) to Registrant's Form 10-K for the year ended June 30, 1998)

10(s) Change in Control Agreement with Mark T. Gorski (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed January 23, 2008)

10(t) Change in Control Agreement with Charles R. Farber (incorporated by reference from Exhibit l0.2 to Registrant's Form 8-K filed January 23, 2008)

10(u) Agreement, General Release, and Confidentiality Statement dated February 16, 2007, between the Bank and S. Elaine Pollert (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed February 16, 2007)

10(v) Agreement for Purchase and Sale of Servicing dated November 30, 2006, between the Bank and EverBank (incorporated by reference from Exhibit 10.1 to Registrant's Form 8-K dated November 30, 2006)

10(w) Placement Agreement, dated September 13, 2006, among Home Federal Bancorp, the HomeFederal Statutory Trust I, and Cohen & Company (incorporated by reference to Exhibit 1.1 of Registrant's Form 8-K dated September 15, 2006)

10(x) Indenture dated as of September 15, 2006, between Home Federal Bancorp and LaSalle Bank National Association as Trustee (incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K dated September 15, 2006)

10(y) Amended and Restated Declaration of Trust of HomeFederal Statutory Trust I, dated as of September 15, 2006 ((incorporated by reference to Exhibit 4.2 of Registrant's Form 8-K dated September 15, 2006)

10(z)	Guarantee Agreement of Home Federal Bancorp dated as of September 15, 2006 (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K dated September 15, 2006)
13	Home Federal Bancorp Annual Report December 31, 2005
14	Code of Ethics (incorporated by reference to Exhibit 14 of Registrant's Form10-K for the fiscal year ended December 31, 2003)
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 of the Registrant's Transition Report on Form 10-K for the six months ended December 31, 2002)
23.1	Independent Registered Public Accounting Firm Consent
31.1	Certification of John K. Keach, Jr. required by 12 C.F.R. § 240.13a-14(a)
31.2	Certification of Mark T. Gorski required by 12 C.F.R. § 240.13a-14(a)
32	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Section 2: EX-13 (ANNUAL REPORT 2007)

Annual Report 2007

100 Years Old.

Brand New.

Home Federal
BANCORP

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Board of Directors & Officers of Home Federal Bancorp & Officers of Indiana Bank and Trust Company	50

State of Indiana. Jackson County. ss:

Be it rememberd that on this 15" day of September
1908 personally appeard before me. a Notary Public
in and for said County. and State. the above
named incorporators of the "New Building and Loan
Association" of Seymour, Indiana. to wit
Henry F. Bruning. Louis F. Greeman. Frank H.
Gates. A. G. Osterman. Philip J. Rettig. Frank F.
Brethauer. Henry Wening. Martin Hadapp.
Henry C. Johnson. Lyman Faulkconer. William

One hundred years ago in Seymour, Indiana, a small group of investors formed a bank focused solely on the needs of the local community. That bank grew to become what we are today.

One of the most rewarding aspects of my job comes just once a year - the opportunity to prepare this letter to you. Each year I look forward to detailing our bank's achievements, telling you about new products, programs and technology, and candidly assessing our prospects for the year ahead. This year, for two reasons, the assignment is doubly enjoyable and perhaps doubly challenging.

A century of service.

First, HomeFederal Bank has now completed a century of service to our customers – a significant milestone for any business, and one of which we are particularly proud. No organization can survive, much less prosper, for 100 years without dedicated leadership and significant employee commitment; we know that HomeFederal's success has come only through the hard work of generations of superior employees. I'm honored to have this opportunity to thank today's talented co-workers, as well as many of those who came before us, for their professionalism and for their many contributions toward making this anniversary celebration such a proud moment for everyone associated with our bank.

Second, we now begin our second century by building on the record of achievements with a new perspective for the future and a new name for our organization. Reflecting both the traditions and opportunities inherent in our native state, our institution will now be known as Indiana Bank and Trust Company.

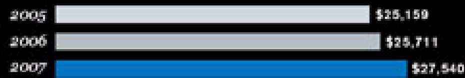
2007 at a Glance

NET INTEREST MARGIN

PORTFOLIO LOANS, NET *(in Thousands)*

DILUTED EARNINGS PER COMMON SHARE

NET INTEREST INCOME *(in Thousands)*



- Net Interest Margin for 2007 was up 4.9% over 2006.
- Portfolio Loans, Net as of December 31, 2007 were $743 million, with significant growth in commercial and commercial mortgage loans.
- Diluted Earnings per Common Share increased $.02 per share to $1.72.
- Net Interest Income increased in 2007 to $27,540, or 7.1%.

The advent of a name.

Changing the name of a long-established enterprise is not something to be taken lightly or executed casually. We fully appreciate the brand value of the HomeFederal name and the reputation it has earned over the years, one satisfied customer and one successful transaction at a time. And yet there are numerous financial organizations with identical names throughout the country. We are, and intend to continue being, an Indiana bank. Our intent is to be a better bank, not a different bank.

We trace our roots to the city of Seymour, in the rolling hills of southern Indiana. To understand the entrepreneurial spirit that created HomeFederal, one need only look at the State Seal of Indiana, which depicts a sturdy pioneer felling a tree in those same southern Indiana hills. To his right, a bison jumps into the wilderness; to his rear, the sun rises over the forested hills, announcing another day of opportunity to build and succeed in this bountiful region.

After a century of operation, our bank's mission is still well depicted by that hard-working Hoosier on the State Seal – to help our customers build and prosper, supporting their efforts to build in harmony with the local environment and economy, and with an eye to the future.

HomeFederal's recent financial performance and the ongoing economic development of the state of Indiana mutually portray the success of today's Hoosiers in achieving those goals.

Implementing our long-term strategic plan.

During 2007, we continued the successful implementation of long-range strategic initiatives specifically tailored to the ever-evolving financial needs of our service area. In our traditional area of expertise, retail banking, we originated over $100 million in mortgage loans. As part of our contemporary strategy in this field, we have worked diligently to stream-line our mortgage operations and develop

new relationships in the secondary market to ensure competitive pricing to homeowners throughout our market area. Something else I am proud to note is the consistency in our philosophy of promoting responsible home ownership; through the years, we have steadfastly maintained our conservative approach to mortgage lending. HomeFederal has never engaged in subprime lending and has thus avoided the risks and subsequent losses encountered by other institutions that participated in such activities.

Our recent growth in commercial lending has also been rewarding. In contrast to the experiences of many of our peer institutions, our commercial lending growth has occurred within our market area. During 2007 our commercial loan portfolio grew by $97 million, to outstanding balances of $477 million. We are particularly proud of the achievements of our commercial team, many of them longstanding Indiana banking professionals who bring years of experience and goodwill to their positions with us.

Of course, we – like our predecessors – appreciate the many achievements of the highly capable employees in each of our departments and branches. HomeFederal's 2007 results clearly depict our success in matching the right people to the right professional challenges, and we are eager to support them with the tools to do an even better job this year and in the future.

As we apply the talents of our people to developing additional growth in each of our business areas, we are also maintaining a disciplined approach to the fundamentals of our business. We strive continually to develop new products that fit the unique needs of customers throughout our market area and to find new ways to generate fee income through existing products. Last year, for example, we began development of a new, comprehensive array of commercial deposit products which we expect will make significant contributions to our balance sheet in the future. At the same time, we also maintain a steady watch over our expenses and work to increase efficiency in all of our operations.

The Indiana economy.

Last year, over 22,000 new jobs were committed to Indiana in such traditional areas of economic strength as manufacturing and in such rapidly-developing fields as life sciences and information technology. Indiana also reported the lowest unemployment rate in the Midwest throughout the second half of the year. And, by posting the lowest business cost index in the Midwest and the fourth lowest in the nation, our state maintains its longstanding reputation as a good place for entrepreneurs to create new businesses, expand old ones, and flourish in a stable regional economy. Impressive announcements are also being made in our market area – with two large-cap companies, Honda and Cummins, projecting growth of approximately 3,000 additional jobs. Their commitment to our region underscores the viability of our existing market.

Indiana Bank and Trust Company.

Just as our institution has profited through its association with the people of Indiana for the past century, the opposite is also true. And so what better way to begin our next century than by formalizing the success of that longstanding partnership?

Our new names, *Indiana Bank and Trust Company*, and – pending shareholder approval – *Indiana Community Bancorp*, do just that. They confirm our roots as a tenured Indiana enterprise. They underscore our pride in our state and its people. And they affirm our commitment to meeting their future financial needs with the same attention to detail, professionalism and courtesy that have made this institution a respected part of Indiana's financial community for 100 years.

We invite you to join us for the next phase of our journey – a journey that promises to generate still greater value and opportunity for our shareholders and customers alike. And we welcome your comments as we strive to make the new Indiana Bank and Trust Company one of our state's benchmark enterprises—and a leader among all American financial institutions.

Sincerely,

John K. Keach, Jr.

FINANCIAL *Statements*

SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(dollars in thousands except per share data & offices)

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005	Year Ended Dec 2004	Year Ended Dec 2003
Selected Balance Sheet Data:					
Total assets	$ 908,806	$ 904,467	$ 850,786	$ 868,207	$ 853,328
Cash and due from banks	40,552	106,063	53,736	52,320	34,178
Loans held for sale	7,112	6,925	4,795	2,617	6,272
Securities available for sale	62,306	56,887	123,351	124,790	123,638
Securities held to maturity	1,557	1,635	1,806	1,779	1,828
Portfolio loans, net	742,874	675,662	608,688	629,490	630,672
Deposits	707,551	727,159	655,314	640,181	588,666
Borrowings	114,833	84,131	101,041	139,899	169,162
Shareholders' equity	67,454	71,281	73,038	77,364	84,022
Selected Operations Data:					
Total interest income	$ 55,201	$ 50,355	$ 44,976	$ 42,746	$ 45,602
Total interest expense	27,661	24,644	19,817	19,159	22,264
Net interest income	27,540	25,711	25,159	23,587	23,338
Provision for loan losses	1,361	850	808	1,770	1,268
Net interest income after provision for loan losses	26,179	24,861	24,351	21,817	22,070
Gain on sale of loans	1,497	1,430	1,539	2,651	7,628
Loss on sale of securities	-	(1,956)	-	-	(83)
Gain on sale of mortgage servicing	-	1,957	-	-	-
Other non interest income	11,357	10,872	9,684	7,767	7,133
Non interest expenses	29,774	27,906	26,503	24,528	22,085
Income before income taxes	9,259	9,258	9,071	7,707	14,663
Income tax provision	3,136	2,817	2,969	2,544	5,020
Net Income	**$ 6,123**	**$ 6,441**	**$ 6,102**	**$ 5,163**	**$ 9,643**
Basic earnings per common share	$ 1.75	$ 1.74	$ 1.57	$ 1.25	$ 2.26
Diluted earnings per common share	$ 1.72	$ 1.70	$ 1.53	$ 1.21	$ 2.15
Cash dividends per share	$ 0.80	$ 0.79	$ 0.75	$ 0.75	$ 0.70
Selected Financial and Statistical Data:					
Return on average assets	0.70%	0.75%	0.71%	0.60%	1.10%
Return on average shareholders' equity	8.88%	9.00%	8.19%	6.50%	11.95%
Interest rate spread during the period	3.38%	3.24%	3.19%	2.97%	2.84%
Net interest margin on average earning assets	3.45%	3.29%	3.22%	3.00%	2.91%
Average shareholders' equity to average assets	7.89%	8.31%	8.68%	9.17%	9.20%
Efficiency ratio	71.26% (1)	73.41%	72.85%	72.13%	58.09%
Nonperforming loans to total loans	1.51%	0.54%	0.70%	2.01%	0.60%
Nonperforming assets to total assets	1.29%	0.46%	0.54%	1.71%	0.66%
Loss allowance to nonperforming loans	60.87%	175.90%	155.78%	61.23%	193.11%
Loss allowance to total loans	0.92%	0.95%	1.09%	1.23%	1.16%
Dividend payout ratio	45.30%	45.23%	47.67%	59.22%	31.08%
Loan servicing portfolio	$ 54,283	$ 36,977	$ 588,503	$ 605,040	$ 611,636
Allowance for loan losses	$ 6,972	$ 6,598	$ 6,753	$ 7,864	$ 7,506
Number of full service offices	20	19	19	18	18

(1) Non interest expense as a percentage of the sum of net interest income and non interest income, excluding one time expense items related to a pre-tax charge of $788,000 related to a separation agreement with a former executive vice president of the Bank and the Company and a $200,000 write-down of the Company’s former operations building.

QUARTERLY RESULTS OF OPERATIONS

(dollars in thousands except share data)

The following table presents certain selected unaudited data relating to results of operations for the three month periods ending on the dates indicated.

Fiscal Year Ended December 31, 2007 (Three months ended)	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007
Total interest income	$ 13,441	$ 13,653	$ 14,063	$ 14,044
Total interest expense	6,638	6,797	7,101	7,125
Net interest income	6,803	6,856	6,962	6,919
Provision for loan losses	280	223	286	572
Net interest income after provision for loan losses	6,523	6,633	6,676	6,347
Non interest income	2,907	3,216	3,344	3,387
Non interest expenses	7,798	7,303	7,357	7,316
Income before income taxes	1,632	2,546	2,663	2,418
Income tax provision	543	855	962	776
Net Income	**$ 1,089**	**$ 1,691**	**$ 1,701**	**$ 1,642**
Basic earnings per common share	$ 0.30	$ 0.48	$ 0.49	$ 0.48
Diluted earnings per common share	$ 0.30	$ 0.47	$ 0.48	$ 0.47
Cash dividends per share	$ 0.200	$ 0.200	$ 0.200	$ 0.200
Stock sales price range: High (1)	$ 29.50	$ 29.64	$ 29.19	$ 27.00
Low	$ 27.61	$ 28.30	$ 26.26	$ 22.57

Fiscal Year Ended December 31, 2006 (Three months ended)	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2006
Total interest income	$ 11,629	$ 12,014	$ 12,997	$ 13,715
Total interest expense	5,302	5,764	6,602	6,976
Net interest income	6,327	6,250	6,395	6,739
Provision for loan losses	117	220	196	317
Net interest income after provision for loan losses	6,210	6,030	6,199	6,422
Loss on sale of securities	-	-	(1,956)	-
Gain on sale of mortgage servicing	-	-	-	1,957
Other non interest income	2,765	3,275	3,128	3,134
Non interest expenses	6,702	7,052	6,888	7,264
Income before income taxes	2,273	2,253	483	4,249
Income tax provision	749	713	142	1,213
Net Income	**$ 1,524**	**$ 1,540**	**$ 341**	**$ 3,036**
Basic earnings per common share	$ 0.40	$ 0.42	$ 0.09	$ 0.83
Diluted earnings per common share	$ 0.39	$ 0.40	$ 0.09	$ 0.81
Cash dividends per share	$ 0.188	$ 0.200	$ 0.200	$ 0.200
Stock sales price range: High (1)	$ 26.98	$ 28.56	$ 28.50	$ 28.55
Low	$ 24.92	$ 26.60	$ 26.00	$ 26.90

(1)The Company's common stock trades on the NASDAQ Global Market under the symbol "HOMF."
As of December 31, 2007, the Company had 376 holders of record of its shares.

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

FORWARD LOOKING STATEMENTS

This Annual Report contains statements, which constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Annual Report and include statements regarding the intent, belief, outlook, estimate or expectations of the Company (as defined below), its directors or its officers primarily with respect to future events and the future financial performance of the Company. Readers of this Annual Report are cautioned that any such forward looking statements are not guarantees of future events or performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. The accompanying information contained in this Annual Report identifies important factors that could cause such differences. These factors include changes in interest rates, loss of deposits and loan demand to other financial institutions, substantial changes in financial markets, changes in real estate values and the real estate market, regulatory changes, changes in the financial condition of issuers of the Company's investments and borrowers, changes in the economic condition of the Company's market area, increases in compensation and employee expenses, or unanticipated results in pending legal or regulatory proceedings.

The following financial information presents an analysis of the asset and liability structure of Home Federal Bancorp and a discussion of the results of operations for each of the periods presented in the Annual Report as well as a discussion of Home Federal Bancorp's sources of liquidity and capital resources.

HOLDING COMPANY BUSINESS

Home Federal Bancorp (the "Company") is organized as a bank holding company authorized to engage in activities permissible for a financial holding company and owns all of the outstanding capital stock of Indiana Bank and Trust Company (the "Bank"). The business of the Bank and therefore, the Company, is providing consumer and business banking services to certain markets in the south-central portions of the state of Indiana. The Bank does business through 20 full service banking offices.

GENERAL

The Company's earnings in recent years reflect the fundamental changes that have occurred in the regulatory, economic and competitive environment in which commercial banks operate. The Company's earnings are primarily dependent upon its net interest income. Interest income is a function of the average balances of loans and investments outstanding during a given period and the average yields earned on such loans and investments. Interest expense is a function of the average amount of deposits and borrowings outstanding during the same period and the average rates paid on such deposits and borrowings. Net interest income is the difference between interest income and interest expense.

The Company is subject to interest rate risk to the degree that its interest-bearing liabilities, primarily deposits and borrowings with short- and medium-term maturities, mature or reprice more rapidly, or on a different basis, than its interest-earning assets. While having liabilities that mature or reprice more frequently on average than assets should be beneficial in times of declining interest rates, such an asset/liability structure should result in lower net income or net losses during periods of rising interest rates, unless offset by other factors such as non interest income. The Company's net income is also affected by such factors as fee income and gains or losses on sale of loans.

OVERVIEW

In reviewing the Company's performance in 2007, several factors contributed to the results for the year. The Company continued to focus on restructuring the balance sheet and increasing fee income. During 2007, the Company focused on generating higher yielding commercial and commercial real estate loans while decreasing balances of residential mortgage loans and indirect auto loans. As a result, commercial and commercial real estate loans increased $55.8 million and $41.6 million, respectively, while residential mortgage loans and consumer loans decreased $23.5 million and $7.1 million, respectively. During 2007, the Company also focused on managing the cost of funds through attracting retail deposits at competitive rates and shifting the mix of wholesale funding. Total retail deposits for 2007 decreased $5.2 million. The decrease in retail deposits was primarily the result of a decrease in public fund checking account balances of $25.2 million. The Company had a few public fund customers with unusually high balances at the end of 2006. The reduction in the balances of these public fund accounts at year end 2007 contributed to the reduction in retail deposit balances. All other retail deposit categories in total increased $20.0 million including growth of $7.2 million in certificates of deposit and growth of $20.2 million in money market accounts. The Company also had shifts in its wholesale funding as brokered deposits decreased $13.2 million and FHLB advances increased $30.7 million. As a result of the balance sheet restructuring, the rate paid on interest bearing liabilities increased by 32 basis points during 2007 while the yield on interest earning assets increased by 46 basis points. The Company's net interest margin increased 16 basis points to 3.45% for 2007.

Total non interest income increased $551,000 in 2007 due primarily to increases in investment advisory revenue and deposit fees. Investment advisory revenue increased $511,000, or 37.5%, for the year due to increased production in established markets and the mid year acquisition of a book of business located on the south side of Indianapolis. Deposit fees increased $450,000, or 7.4%, for the year due to the continued growth in fees associated with an overdraft privilege product and interchange fees related to increased debit card usage.

Total non interest expenses increased $1.9 million for 2007 and included a pre-tax charge of $788,000 related to a separation agreement with a former executive vice president of the Bank and the Company and a $200,000 write-down of the Company's former operations building, which was classified as held for sale.

The write-down represented the entire remaining book value of the building which was subsequently donated to a local non profit organization. Compensation expense increased $526,000 due to additional brokerage commission costs which resulted from increased revenue; normal annual salary increases; and the investment in additional commercial credit staff.

In 2008 and subsequent years, the Company faces several challenges. The major challenges for 2008 are expected to be related to net interest margin, deposit growth and asset quality. With 2008 beginning with substantial decreases in interest rates, the Company will be challenged to maintain current levels of net interest margin. As mentioned earlier, declining interest rates generally have a positive short term impact on the Company's net interest margin. However, the sharp decline in interest rates early in 2008 along with the inverted yield curve are likely to result in unusually sharp declines in yields on interest earning assets due to the refinancing of fixed rate loans. As loan yields decline and competitive pressures on deposit rates remain strong, the Company's net interest margin is expected to experience a decline in 2008. As mentioned, competitive pressures on deposit rates along with the significant reduction in rates being paid to deposit customers are expected to make deposit growth a challenge. The Company implemented enhanced commercial cash management products and services during the second half of 2007 in an effort to promote commercial deposit balance and fee income growth during 2008. Asset quality should be an area of focus and is likely to be a challenge for all banks during the year due, in part, to the national economy. During 2006 and 2007, the Company's commercial and commercial real estate portfolio grew $163.6 million. Commercial and commercial real estate loans are generally more risky than consumer loans. In an effort to manage the higher risk profile of the current loan portfolio, the Company has added a new Chief Credit Officer, experienced commercial credit analysts and in-house commercial loan review personnel to monitor the growth in commercial lending.

ASSET/LIABILITY MANAGEMENT

The Company follows a program designed to decrease its vulnerability to material and prolonged increases in interest rates. This strategy includes 1) selling certain longer term, fixed rate loans from its portfolio; 2) increasing the origination of adjustable rate loans; 3) improving its interest rate gap by increasing the interest rate sensitivity by shortening the maturities of its interest-earning assets and extending the maturities of its interest-bearing liabilities; and 4) increasing its non interest income.

A significant part of the Company's program of asset and liability management has been the increased emphasis on the origination of adjustable rate and/or short-term loans, which include adjustable rate residential construction loans, commercial loans, and consumer-related loans. The Company continues to originate fixed rate residential mortgage loans. However, management's strategy is to sell substantially all residential mortgage loans that the Company originates. The Company sells the servicing on mortgage loans sold, thereby increasing non interest income. The proceeds of these loan sales are used to reinvest in other interest-earning assets or to repay wholesale borrowings.

The Company continues to assess methods to stabilize interest costs and match the maturities of liabilities to assets. Customer preference for short term certificates of deposit and promotional rate transaction accounts has resulted in shorter maturities for retail deposits. Retail deposit specials are competitively priced to attract deposits in the Company's market area. However, when retail deposit funds become unavailable due to competition, the Company employs FHLB advances and brokered deposits to maintain the necessary liquidity to fund lending operations.

The Company applies early withdrawal penalties to protect the maturity and cost structure of its deposits and utilizes longer term, fixed rate borrowings when the cost and availability permit the proceeds of such borrowings to be invested profitably.

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

INTEREST RATE SPREAD

The following table sets forth information concerning the Company's interest-earning assets, interest-bearing liabilities, net interest income, interest rate spreads and net yield on average interest-earning assets during the periods indicated (including amortization of net deferred fees which are considered adjustments of yields). Average balance calculations were based on daily balances. (dollars in thousands)

	Year Ended Dec 2007			Year Ended Dec 2006			Year Ended Dec 2005		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Assets:									
Interest-earning assets:									

Residential mortgage loans	$ 162,641	$ 10,471	6.44%	$ 177,687	$ 10,939	6.16%	$ 185,815	$ 10,828	5.83%
Commercial mortgage loans	240,682	16,766	6.97%	215,633	14,312	6.64%	217,251	13,697	6.30%
Second and home equity loans	101,787	7,342	7.21%	96,104	7,021	7.31%	82,416	5,656	6.86%
Commercial loans	180,187	14,538	8.07%	126,282	10,015	7.93%	105,550	6,939	6.57%
Other consumer loans	30,502	2,280	7.47%	36,297	2,659	7.33%	34,846	2,490	7.15%
Securities	60,991	2,688	4.41%	105,604	4,246	4.02%	131,046	4,652	3.55%
Short-term investments	22,417	1,116	4.98%	23,459	1,163	4.96%	23,299	714	3.06%
Total interest-earning assets (1)	799,207	$ 55,201	6.92%	781,066	$ 50,355	6.46%	780,223	$ 44,976	5.76%
Allowance for loan losses	(6,720)			(6,696)			(7,408)		
Cash and due from banks	19,511			22,996			25,343		
Bank premises and equipment	16,765			17,568			16,632		
Other assets	45,474			47,853			42,957		
Total assets	**$ 874,237**			**$ 862,787**			**$ 857,747**		
Liabilities									
Interest-bearing liabilities:									
Deposits:									
Transaction accounts	$ 371,145	$ 7,630	2.06%	$ 360,133	$ 6,574	1.83%	$ 340,964	$ 2,981	0.87%
Certificate accounts	318,541	15,029	4.72%	307,608	12,805	4.16%	306,789	10,284	3.35%
FHLB advances	77,028	3,884	5.04%	83,157	4,284	5.15%	108,525	5,743	5.29%
Other borrowings	15,588	1,118	7.17%	15,100	981	6.50%	14,346	809	5.64%
Total interest-bearing liabilities	782,302	$ 27,661	3.54%	765,998	$ 24,644	3.22%	770,624	$ 19,817	2.57%
Other liabilities	22,976			24,101			11,020		
Total liabilities	805,278			790,099			781,644		
Total shareholders' equity	68,959			72,688			76,103		
Total Liabilities and Shareholders' Equity	**$ 874,237**			**$ 862,787**			**$ 857,747**		
Net Interest Income		**$ 27,540**			**$ 25,711**			**$ 25,159**	
Net Interest Rate Spread			**3.38%**			**3.24%**			**3.19%**
Net Earning Assets	**$ 16,905**			**$ 15,068**			**$ 9,599**		
Net Interest Margin (2)			**3.45%**			**3.29%**			**3.22%**

Average Interest-earning Assets to Average Interest-bearing Liabilities	**102.16%**	**101.97%**	**101.25%**

(1) Average balances are net of non-performing loans.
(2) Net interest income divided by the average balance of interest-earning assets.

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

RATE/VOLUME ANALYSIS

The following table sets forth the changes in the Company's interest income and interest expense resulting from changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities. Changes not solely attributable to volume or rate changes have been allocated in proportion to the changes due to volume or rate. (dollars in thousands)

	Year Ended Dec 2007 vs. Dec 2006 Increase/(Decrease)			Year Ended Dec 2006 vs. Dec 2005 Increase/(Decrease)		
	Due to Rate	Due to Volume	Total Change	Due to Rate	Due to Volume	Total Change
Interest Income on Interest-Earning Assets:						
Residential mortgage loans	$ 552	$ (1,020)	$ (468)	$ 495	$ (384)	$ 111
Commercial mortgage loans	734	1,720	2,454	716	(101)	615
Second and home equity loans	(88)	409	321	382	983	1,365
Commercial loans	177	4,346	4,523	1,576	1,500	3,076
Other consumer loans	55	(434)	(379)	64	105	169
Securities	459	(2,017)	(1,558)	876	(1,282)	(406)
Short-term investments	5	(52)	(47)	444	5	449
Total	1,894	2,952	4,846	4,553	826	5,379
Interest Expense on Interest-Bearing Liabilities:						
Deposits:						
Transaction accounts	850	206	1,056	3,416	177	3,593
Certificate accounts	1,756	468	2,224	2,494	27	2,521
FHLB advances	(89)	(311)	(400)	(148)	(1,311)	(1,459)
Other borrowings	104	33	137	127	45	172
Total	2,621	396	3,017	5,889	(1,062)	4,827
Net Change in Net Interest Income	**$ (727)**	**$ 2,556**	**$ 1,829**	**$ (1,336)**	**$ 1,888**	**$ 552**

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

RESULTS OF OPERATIONS

Comparison of Year Ended December 31, 2007 and Year Ended December 31, 2006:

General

The Company reported net income of $6.1 million for the year ended December 31, 2007. This compared to net income of $6.4 million for the year ended December 31, 2006, representing a decrease of $318,000, or 4.9%.

Net Interest Income

Net interest income increased $1.8 million, or 7.1%, for the year ended December 31, 2007, compared to the year ended December 31, 2006. The increase in net interest income was primarily due to the changing mix of the Company's interest-earning assets and interest-bearing liabilities. Total interest income for the year ended December 31, 2007, increased $4.8 million, or 9.6%, as compared to the year ended December 31, 2006. The increase in interest income was a result of two factors: 1) the $18.2 million increase in average earning assets for 2007 compared to 2006 and 2) the 46 basis point increase in yield on interest-earning assets for the same period. The yield on interest-earning assets increased during 2007 primarily due to a shift away from lower yielding residential mortgages into higher yielding commercial and commercial real estate loans. Total interest expense for the year ended December 31, 2007 increased $3.0 million, or 12.2%, as compared to the year ended December 31, 2006. The increase was due primarily to the changing mix of interest bearing liabilities as certificates of deposit and money market accounts increased $7.2 million and $20.2 million, respectively, while lower rate interest bearing checking accounts decreased $25.4 million for the year. As a result of the mix shift noted above, the rate paid on interest-bearing liabilities increased 32 basis points. The Company was able to increase its net interest margin 16 basis points to 3.45% for 2007.

Provision for Loan Losses

Provision for loan losses was $1.4 million for the year ended December 31, 2007, an increase of $511,000 from $850,000 in 2006. The provision for loan losses increased during 2007 due to increases in the loan portfolio and an increase in the Company's non performing assets. In addition, the Company considered negative national economic conditions and the impact on the Company's local markets and its customers. Commercial and commercial real estate growth has occurred primarily in the Indianapolis market over the past two years. This in-market commercial loan growth has been generated by commercial lending officers with significant experience in the Indianapolis market. Much of the loan growth has come from customer relationships that have been maintained by the commercial officers for a number of years. Based on the Company's knowledge of the Indianapolis market and the commercial lending officers' knowledge of the customers, management has assessed the risk related to the commercial loan growth to be consistent with historical risks for similar loans in the Company's commercial loan portfolio. Loss trends within the loan portfolio for 2007 were consistent with historical loss trends. Net charge offs for 2007 were $987,000 compared to $1.0 million for 2006. Based on the composition of the loan portfolio, management believes that historical loss trends continue to be an indication of probable loss exposure. Non-performing assets to total assets increased to 1.29% at December 31, 2007 from .46% at December 31, 2006, and non-performing loans to gross loans increased to 1.51% at December 31, 2007 from .54% at December 31, 2006. The increase in these two ratios is primarily the result of two commercial relationships totaling $6.1 million being added to non-performing loans in 2007. Management generally classifies problem assets and allocates a portion of the allowance for loan losses prior to loans becoming non-performing assets. During 2007, assets classified by management as special mention or substandard that were not included in non-performing assets decreased $8.3 million. Therefore, the shift from internally classified problem assets to non-performing assets during 2007 did not result in a significant change in the provision for loan losses as similar loss allocations were required for non-performing assets as compared to internally classified problem assets. During 2007, the banking industry experienced increasing trends in problem assets and credit losses which resulted from weakening national economic trends and a decline in housing values. As a result, local markets were impacted in varying degrees by the national trends. The Company's local market footprint was impacted by the slow down in the housing sector and the decline in housing values. However, the local markets in the Company's footprint were aided by diversified industry as well as the positive impact of new jobs created from existing employers or new projects. As a result, management determined that a slight increase in the provision for loan losses related to national and local economic factors was appropriate.

Non Interest Income

Non interest income increased $551,000, or 4.5%, for the year. The net increase in non interest income for 2007 was due primarily to increases in investment advisory fees and deposit fees partially offset by a decrease in loan servicing income, net of impairments. Investment advisory revenue increased $511,000, or 37.5%, for the year due to increased production in established markets and the mid year acquisition of a book of business located on the south side of Indianapolis. Deposit fees increased $450,000, or 7.4%, for the year due to the continued growth in fees associated with an overdraft privilege product and interchange fees related to increased debit card usage. The increases listed above were partially offset by a decrease in loan servicing income, net of impairments. Loan servicing income, net of impairments decreased $662,000 for the year due to the sale of the Company's mortgage servicing portfolio and the corresponding mortgage servicing rights in the fourth quarter of 2006. As a result of the sale of the mortgage servicing portfolio, the Company had decreases in fee income associated with the mortgage servicing portfolio including reductions in servicing fees and complementary fees such as insurance revenue and late charge fee income.

Non Interest Expenses

Non interest expenses totaled $29.8 million for the year ended December 31, 2007, an increase of $1.9 million, or 6.7%, compared to the year ended December 31, 2006. The expense increases were primarily related to increases in miscellaneous expenses and compensation and employee benefits expenses. Miscellaneous expense increased $1.2 million due to a first quarter charge associated with a separation agreement with a former executive vice president of

the Bank and the Company of $788,000, as well as the $200,000 write-down of the Company's former operations building, which was subsequently donated to a local non profit organization. Other non interest expense increases included $100,000 in professional fees primarily due to additional legal and accounting expenses incurred to address new proxy disclosure requirements and new accounting pronouncements.

The $526,000 increase in compensation and employee benefits was a result of additional salary and incentive compensation expense for the new commercial lending and commercial credit staff in Indianapolis, additional commission costs associated with increased investment advisory service fees and normal annual salary increases. Additionally, in 2006, the Company reduced its vacation accrual $260,000 pursuant to a change in vacation policy.

Income Taxes

Income tax expense totaled $3.1 million for the year ended December 31, 2007, an increase of $319,000, or 11.3%, compared to the year ended December 31, 2006. During 2006, the Company's effective tax rate was reduced due to the sale of available for sale securities which reduced the state apportionment factor for Indiana during the year. As a result, the Company's effective tax rate increased to 33.9% in 2007 compared to 30.4% in 2006.

RESULTS OF OPERATIONS

Comparison of Year Ended December 31, 2006 and Year Ended December 31, 2005:

General

The Company reported net income of $6.4 million for the year ended December 31, 2006. This compared to net income of $6.1 million for the year ended December 31, 2005, representing an increase of $339,000, or 5.6%.

Net Interest Income

Net interest income increased $552,000, or 2.2%, for the year ended December 31, 2006, compared to the year ended December 31, 2005. The increase in net interest income was primarily due to the changing mix of the Company's interest-earning assets and interest-bearing liabilities. Total interest income for the year ended December 31, 2006, increased $5.4 million, or 12.0%, as compared to the year ended December 31, 2005. The average balance of total interest-earning assets increased $843,000 for the year, and the yield on interest-earning assets increased 70 basis points for the year. The majority of the increase in interest income was a result of the increased yield on interest-earning assets. The yield on interest-earning assets increased during 2006 due to the impact of rising interest rates during the year along with a shift away from lower yielding investment securities into higher yielding commercial and commercial real estate loans. Total interest expense for the year ended December 31, 2006 increased $4.8 million, or 24.4%, as compared to the year ended December 31, 2005. The increase was due primarily to the impact of rising interest rates during the year. During periods of rising interest rates, banks generally see rates on interest-bearing liabilities increase more rapidly than rates on interest-earning assets. However, during 2006, growth in generally lower cost retail deposits provided funding for loan growth and funds to repay generally higher cost wholesale funding sources. The continued growth in checking and money market accounts increased the balance of interest-bearing transaction accounts $45.0 million while retail certificates of deposit increased $31.0 million for the year. The increase in retail deposits was used to pay down higher costing FHLB borrowings, which decreased $18.0 million during the year ended December 31, 2006. As a result of the mix shift noted above along with rising interest rates during the year, the yield on interest-earning assets increased 70 basis points for the year while the rate paid on interest-bearing liabilities increased 65 basis points. The Company was able to increase its net interest margin 7 basis points to 3.29% for 2006.

Provision for Loan Losses

Provision for loan losses was $850,000 for the year ended December 31, 2006, an increase of $42,000 from $808,000 in 2005. In spite of the growth during 2006 in normally higher risk commercial loans, the Company was able to retain the provision for loan losses at a level comparable to the prior year due to improved credit quality ratios. Non-performing assets to total assets decreased to .46% at December 31, 2006 from .54% at December 31, 2005, and nonperforming loans to gross loans decreased to .54% at December 31, 2006 from .70% at December 31, 2005. Net charge offs for 2006 were $1.0 million compared to $1.9 million for 2005. The increase in charge offs during 2005 was primarily due to charge offs associated with two large problem commercial loans.

Non Interest Income

Non interest income increased $1.1 million, or 9.6%, for the year. The net increase in non interest income for 2006 was due primarily to increases in deposit fees partially offset by a decrease in miscellaneous income. Total deposit fees increased $1.8 million, or 40.4%, for the year due to the enhanced overdraft privilege product as well as an increase in deposit accounts. Investment advisory fees increased $238,000, or 21.2%, for the year due to increased production in established markets along with brokerage production from a business acquired in the Indianapolis market during November 2005. The increases listed above were partially offset by a decrease in miscellaneous income. Miscellaneous income decreased $689,000 for the year primarily due to a decrease of $473,000 in joint venture partnership income. The Company has historically been involved in a limited number of real estate joint venture partnerships and the revenue has decreased as the Company wound down the remaining partnerships. The Company divested of the three remaining real estate joint venture partnerships during the fourth quarter of 2006.

During 2006, gain on sale of loans totaled $1.4 million representing a decrease of $110,000, or 7.1%, compared to the prior year. During the fourth quarter of 2006, the Company recognized a gain of $2.0 million associated with the sale of the Company's mortgage servicing portfolio and the corresponding mortgage servicing rights. In conjunction with the decision to sell the mortgage servicing portfolio, management began to sell residential mortgage originations on a servicing released basis.

During the third quarter of 2006, the Company recognized a loss of $2.0 million associated with the sale of investment securities. The Company chose to sell the securities and recognize the loss to provide funding for anticipated future loan growth. At December 31, 2006, management has the intent and ability to hold the remaining securities in an unrealized loss position to recovery, which may be maturity.

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

Non Interest Expenses

Non interest expenses totaled $27.9 million for the year ended December 31, 2006, an increase of $1.4 million, or 5.3%, compared to the year ended December 31, 2005. The expense increases were primarily related to an increase in compensation and employee benefits expense which increased $1.4 million for the year. The increase in compensation and employee benefits was a result of additional salary and incentive compensation expense for the new commercial lending and commercial credit staff in Indianapolis, additional commission costs associated with increased investment advisory service fees and normal annual salary increases. This increase was partially offset by an adjustment in the third quarter due to a change in the Company's vacation policy resulting in a $260,000 decrease in the vacation accrual. Occupancy and equipment expenses increased $229,000 due to the addition of the new commercial loan office in .downtown Indianapolis and costs associated with the Company's new operations center. Service bureau expense decreased $511,000 due to renegotiated contracts with the current service provider. Marketing expense increased $158,000 due primarily to additional amounts spent to more aggressively advertise and promote retail deposit products during 2006. Miscellaneous expenses increased $129,000 due primarily to additional expenses of approximately $160,000 ancillary to the sale of the mortgage servicing portfolio.

Income Taxes

Income tax expense totaled $2.8 million for the year ended December 31, 2006, a decrease of $152,000, or 5.1%, compared to the year ended December 31, 2005. The expense decrease was primarily related to the reduction to the Company's effective tax rate due to the impact of the sale of available for sale securities resulting in a decrease to the state apportionment factor for Indiana during the year. The state tax impact of the securities sale resulted in a reduction in the Company's effective tax rate to 30.4% in 2006 compared to 32.7% in 2005.

FINANCIAL CONDITION

The Company's total assets increased $4.3 million to $908.8 million at December 31, 2007, from $904.5 million at December 31, 2006. Cash and due from banks balances decreased $65.5 million during 2007. The cash was used to fund loan growth as total loans increased $67.6 million, or 9.9%, for the year. Commercial and commercial mortgage loans increased $97.4 million, or 25.7%, for the year. The growth in commercial and commercial mortgage loans was driven by growth from the Indianapolis market – commercial and commercial mortgage loans in Indianapolis increased $84.7 million during 2007. Of the commercial real estate loans, $19.6 million and $18.6 million were collateralized by multi-family residential property at December 31, 2007 and 2006, respectively, $75.6 million and $43.7 million were collateralized by property under construction at December 31, 2007 and 2006, respectively, and $1.3 million and $403,000 were collateralized by unimproved land at December 31, 2007 and 2006, respectively. In May of 2006, in the Indianapolis market, the Company staffed a commercial lending operation with two senior lenders; the Company hired two additional commercial lenders, one in the third quarter of 2006 and one in the first quarter of 2007. This new commercial lending operation led to the growth in this market. Residential mortgage balances decreased $23.5 million for the year as the Company sells substantially all residential mortgage originations. The Company's primary lending area is south-central Indiana. Virtually all of the Company's loans originated and purchased are to borrowers located within the state of Indiana. Of the residential mortgages, $1.0 million and $1.1 million were collateralized by unimproved land at December 31, 2007 and 2006, respectively. The consumer loan balances decreased $7.1 million for the year because the Company no longer originates indirect auto loans.

Premises and equipment decreased $1.6 million during 2007 as the Company completed a sale leaseback transaction involving four branch offices in the third quarter of 2007. This transaction provided $3.6 million in cash to fund loan growth. The gain on sale of $1.9 million was deferred and will be amortized into non interest income over the 15 year term of the leases.

Total retail deposits decreased $5.2 million, or .8%, for the year. This decrease is the result of a $25.2 million decrease in public funds checking accounts as these balances were unusually high with a December 31, 2006 balance of $77.8 million - compared to average yearly balances of $36.2 million and $39.4 million for 2006 and 2007, respectively. Other retail deposit categories showed growth of $20.0 million for the year ended 2007. This included growth of $20.2 million and $7.2 million in money market and certificate of deposit accounts, respectively. The Company focused its advertising dollars related to deposits on money market and certificate of deposit accounts in 2007.

Brokered deposits decreased $13.2 million for the year due to maturities, while Federal Home Loan Bank (FHLB) advances increased $30.7 million. The increase in advances was used to replace matured brokered deposit funds, and in the fourth quarter of 2007, additional funds were acquired due to attractive advance rates at the Indianapolis FHLB to fund anticipated loan growth in 2008.

As of December 31, 2007, shareholders' equity was $67.5 million, a decrease of $3.8 million compared to the prior year. During 2007, the Company repurchased 388,263 shares representing approximately 10.8% of shares outstanding at the beginning of 2007 at a total cost of $11.0 million.

Fourth Quarter 2007 Results

The Company had fourth quarter 2007 earnings of $1.6 million or $0.47 diluted earnings per common share compared to earnings of $3.0 million or $0.81 diluted earnings per common share for the fourth quarter of 2006. The Company's net income for the fourth quarter of 2006 included a pre-tax gain of $2.0 million resulting from the sale of its mortgage servicing portfolio and the related mortgage servicing rights. Net interest income increased $180,000, or 2.7%, to $6.9 million for the fourth quarter of 2007. Net interest margin increased 4 basis points to 3.38% for the quarter compared to the same quarter of the prior year. Non interest income, excluding the one time 2006 fourth quarter gain on sale of the mortgage servicing portfolio, increased $253,000, or 8.1%, for the fourth quarter. The increase in non interest income for the fourth quarter was due primarily to increases in investment advisory service fees related to the Company's purchase of a brokerage book of business in the second quarter of 2007. Non interest expenses remained relatively stable increasing $52,000, or 0.7%, for the

fourth quarter. Miscellaneous expenses were $1.4 million for the quarter ended December 31, 2007 compared to $1.5 million for the same quarter of 2006. The decrease of $105,000 related to expenses incurred ancillary to the sale of the mortgage servicing portfolio in December of 2006. Marketing expenses increased $90,000 due to the end of year timing of various marketing initiatives.

INTEREST RATE SENSITIVITY

Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Interest rate sensitivity for the Company is a result of repricing, option, and basis risks. Repricing risk represents timing mismatches in the Company's ability to alter contractual rates earned on financial assets or paid on liabilities in response to changes in market interest rates. For example, if interest-bearing liabilities reprice or mature more quickly than interest-earning assets, an increase in market rates could adversely affect net interest income. Conversely, if interest-bearing liabilities reprice or mature more quickly than interest-earning assets, a decrease in market rates could positively affect net interest income. Option risk arises from embedded options present in many financial instruments such as loan prepayment options and deposit early withdrawal options. These provide customers opportunities to take advantage of directional changes in rates, which could have an adverse impact on the Company's net interest income. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread earned on a loan or investment relative to its cost of funds.

Net interest income represents the Company's principal component of income. Consistency of the Company's net interest income is largely dependent upon the effective management of interest rate risk. The Company has established risk measures, limits and policy guidelines in its Interest Rate Risk Management Policy. The responsibility for management of interest rate risk resides with the Company's Asset/Liability Committee ("ALCO"), with oversight by the Board of Directors. The Company uses an earnings simulation analysis that measures the sensitivity of net interest income to various interest rate movements. The base-case scenario is established using current interest rates. The comparative scenarios assume an immediate parallel shock in increments of 100 basis point rate movements. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Company. Modeling the sensitivity of earnings to interest rate risk is highly dependent on numerous assumptions embedded in the model. These assumptions include, but are not limited to, management's best estimates of the effect of changing interest rates on the prepayment speeds of certain assets and liabilities, projections for activity levels in each of the product lines offered by the Company and historical behavior of deposit rates and balances in relation to changes in interest rates. These assumptions are inherently uncertain, and as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions. The Company's 12-month net interest income sensitivity profile as of fiscal year-end December 31, 2007 and December 31, 2006 is as follows:

As Of	Dec 2007	Dec 2006	
Changes in Rates	Net Interest Income % Change	Net Interest Income % Change	Interest Rate Risk Management Policy Guidelines
+ 300 basis points	(10.84)	1.75	(20.00)
+ 200 basis points	(6.91)	1.94	(15.00)
+ 100 basis points	(3.58)	1.36	(7.50)
- 100 basis points	3.47	(1.77)	(7.50)
- 200 basis points	4.37	(4.60)	(15.00)
- 300 basis points	2.40	(8.15)	(20.00)

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

ASSET QUALITY

In accordance with the Company's classification of assets policy, management evaluates the loan and investment portfolio each month to identify assets that may contain probable losses. In addition, management evaluates the adequacy of its allowance for loan losses.

NON-PERFORMING ASSETS

The following table sets forth information concerning non-performing assets of the Company. Real estate owned includes property acquired in settlement of foreclosed loans that is carried at net realizable value. (dollars in thousands)

As Of	Dec 2007	Dec 2006	Dec 2005	Dec 2004	Dec 2003
Non-accruing loans:					
Residential mortgage loans	$ 2,284	$ 1,637	$ 1,656	$ 1,249	$ 832
Commercial mortgage loans	2,009	413	212	5,633	247
Second and home equity loans	466	200	308	410	591
Commercial loans	5,613	490	754	2,094	647
Other consumer loans	144	112	140	149	182
Total	10,516	2,852	3,070	9,535	2,499
90 days past due and still accruing loans:					
Residential mortgage loans	64	459	456	168	1,125
Commercial loans	-	-	-	-	5
Total	64	459	456	168	1,130
Troubled debt restructured	874	440	809	3,141	258
Total non-performing loans	11,454	3,751	4,335	12,844	3,887
Real estate owned	311	436	271	2,019	1,739
Total Non-Performing Assets	**$ 11,765**	**$ 4,187**	**$ 4,606**	**$ 14,863**	**$ 5,626**
Non-performing assets to total assets	1.29%	0.46%	0.54%	1.71%	0.66%
Non-performing loans to total loans	1.51%	0.54%	0.70%	2.01%	0.60%
Allowance for loan losses to non-performing loans	60.87%	175.90%	155.78%	61.23%	193.11%

Total non-performing assets increased $7.6 million to $11.8 million at December 31, 2007. The increase was primarily the result of two commercial loan relationships totaling $6.1 million which were transferred to non-accrual status during 2007. One commercial relationship is a manufacturing company in southern Indiana totaling approximately $3.1 million which is secured by real estate, inventory and equipment. The other commercial relationship is a residential land development loan on the south side of Indianapolis totaling $3.0 million which is secured by partially developed land. In addition, non-accrual residential mortgage and second and home equity loans increased $647,000 and $266,000, respectively. In addition, at December 31, 2007 and 2006, there were $12.2 million and $20.5 million, respectively, in current performing loans that were classified as special mention or substandard for which potential weaknesses exist, which may result in the future inclusion of such items in the non-performing category.

ALLOWANCE FOR LOAN LOSSES

The provision for loan losses for the fiscal year ended December 31, 2007 was $1.4 million, which resulted in an allowance for loan losses balance of $7.0 million as of December 31, 2007 as compared to $6.6 million as of December 31, 2006. The allowance for loan losses as a percentage of total loans decreased to 0.92% at December 31, 2007 from 0.95% at December 31, 2006. During 2007, the loan portfolio increased $67.6 million with the growth occurring in generally higher risk commercial loans. The increase in the allowance for loan losses reflects the growth in the loan portfolio.

In determining the appropriate balance in the allowance for loan losses, management considered such factors as trends in the loan portfolio, historical loss trends, levels of non-performing assets and the impact of the local and national economy. Commercial and commercial real estate growth has occurred primarily in the Indianapolis market over the past two years. This in-market commercial loan growth has been generated by commercial lending officers with significant experience in the Indianapolis market. Much of the loan growth has come from customer relationships that have been maintained by the commercial officers for a number of years. Based on the Company’s knowledge of the Indianapolis market and the commercial lending officers’ knowledge of the customers, management has assessed the risk related to the commercial loan growth to be consistent with historical risks for similar loans in the Company’s commercial loan portfolio. Loss trends within the loan portfolio for 2007 were consistent with historical loss trends. Based on the composition of the loan portfolio, management believes that historical loss trends continue to be an indication of probable loss exposure. As explained under non-performing assets, levels of non-performing assets have increased $7.6 million to $11.8 million at December 31, 2007. Management generally classifies problem assets and allocates a portion of the allowance for loan losses prior to loans becoming non-performing assets. During 2007, assets classified by management as special mention or substandard that were not included in non-performing assets decreased $8.3 million. Therefore, the shift from internally classified problem assets to non-performing assets during 2007 did not result in a significant change in the allowance for loan losses as similar loss allocations were required for non-performing assets as compared to internally classified problem assets. Management considered the potential impact on loan losses related to national and local economic factors. During 2007, the banking industry experienced increasing trends in problem assets and credit losses which resulted from weakening national economic trends and a decline in housing values. As a result, local markets were impacted in varying degrees by the national trends. The Company’s local market footprint was impacted by the slow down in the housing sector and the decline in housing values. However, the local markets in the Company’s footprint were aided by diversified industry as well as the positive impact of new jobs created from existing

employers or

new projects. Many of the Company's commercial real estate loans are related to residential and commercial land development in the Indianapolis market. The commercial development has experienced only slight declines as a result of the current economic trends due to the diversity of the local market. The residential land development in Indianapolis has slowed as evidenced by decreasing new housing permits and values have declined due to excess residential inventory. The Company reviewed residential land development projects in light of the current market conditions and noted some deterioration as projects are not being completed as quickly as originally anticipated and prices have declined slightly. The Company has limited exposure within the consumer and residential mortgage portfolio in Indianapolis. As a result, management determined that a slight increase in the allowance for loan losses related to national and local economic factors was appropriate.

The following table sets forth an analysis of the allowance for loan losses. (dollars in thousands)

As Of	Dec 2007	Dec 2006	Dec 2005	Dec 2004	Dec 2003
Balance at beginning of period	$ 6,598	$ 6,753	$ 7,864	$ 7,506	$ 7,172
Provision for loan losses	1,361	850	808	1,770	1,268
Loan charge-offs:					
Residential mortgage loans	(136)	(84)	(264)	(88)	(176)
Commercial mortgage loans	(7)	-	(893)	(28)	(60)
Second and home equity loans	(24)	(67)	(158)	(136)	(163)
Commercial loans	(691)	(470)	(422)	(993)	(255)
Other consumer loans	(608)	(706)	(311)	(279)	(425)
Total charge-offs	(1,466)	(1,327)	(2,048)	(1,524)	(1,079)
Recoveries:					
Residential mortgage loans	14	14	10	16	28
Commercial mortgage loans	1	6	42	9	-
Second and home equity loans	22	2	1	2	-
Commercial loans	177	109	26	51	65
Other consumer loans	265	191	50	34	52
Total recoveries	479	322	129	112	145
Net charge-offs	(987)	(1,005)	(1,919)	(1,412)	(934)
Balance at End of Period	**$ 6,972**	**$ 6,598**	**$ 6,753**	**$ 7,864**	**$ 7,506**
Net charge-offs to average loans	0.14%	0.15%	0.31%	0.22%	0.14%
Allowance for loan losses to total loans	0.92%	0.95%	1.09%	1.23%	1.16%

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

The following table indicates the portion of the allowance for loan loss management has allocated to each loan type: (dollars in thousands)

As Of	Dec 2007	Dec 2006	Dec 2005	Dec 2004	Dec 2003
Residential mortgage loans	$ 1,153	$ 1,355	$ 1,858	$ 1,243	$ 1,535
Commercial mortgage loans	1,541	1,233	1,718	2,919	1,839
Second and home equity loans	762	640	567	633	712
Commercial loans	2,833	2,623	1,813	2,216	2,491
Other consumer loans	683	747	797	853	929
Total Allowance for Loan Losses	**$ 6,972**	**$ 6,598**	**$ 6,753**	**$ 7,864**	**$ 7,506**

The unallocated allowance is assigned to the various loan categories as follows. First a portion of the unallocated allowance is based on management's perception of probable risk in the different loan categories. At December 31, 2007, this included $400,000, $200,000 and $900,000 assigned to second mortgages and home equity loans, consumer loans and commercial loans, respectively. The $600,000 remainder of the unallocated allowance is assigned to the various loan categories based on principal balance of the loan categories.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains its liquid assets at a level believed adequate to meet requirements of normal daily activities, repayment of maturing debt and potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained. Cash for these purposes is generated through the sale or maturity of securities and loan prepayments and repayments, and may be generated through increases in deposits or borrowings. Loan payments are a relatively stable source of funds, while deposit flows are influenced significantly by the level of interest rates and general money market conditions.

Borrowings may be used to compensate for reductions in other sources of funds such as deposits. As a member of the FHLB System, the Company may borrow from the FHLB of Indianapolis. At December 31, 2007, the Company had $99.3 million in borrowings from the FHLB of Indianapolis. As of that date, the Company had commitments of approximately $180.4 million to fund lines of credit and undisbursed portions of loans in process, loan originations of approximately $43.8 million, letters of credit of $6.5 million, and commitments to sell loans of $29.9 million. In the opinion of management, the Company has sufficient cash flow and borrowing capacity to meet current and anticipated funding commitments.

SIGNIFICANT COMMITMENTS

Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company is a party to various activities that contain credit and market risk that are not reflected in the financial statements. Such activities include commitments to extend credit, selling loans, borrowing funds, and standby letters of credit. Commitments to borrow or extend credit, including loan commitments and standby letters of credit, do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Management believes that none of these arrangements exposes the Company to any greater risk of loss than already reflected on our balance sheet so accordingly no reserves have been established for these commitments. Commitments are summarized as follows: (dollars in thousands)

	Less Than 1 year	1-3 years	4-5 years	Greater Than 5 years	Total
Contractually obligated payments due by period:					
Certificates of deposits	$ 262,841	$ 34,926	$ 11,842	$ 1,274	$ 310,883
Long term debt	31,850	23,250	42,000	17,713	114,813
Long term compensation obligations	226	470	525	1,792	3,013
Commitments to extend credit:					
Commercial mortgage loans and commercial loans	141,490	-	-	-	141,490
Residential mortgage loans	18,451	-	-	-	18,451
Revolving home equity lines of credit	44,499	-	-	-	44,499
Other	19,806	-	-	-	19,806
Standby letters of credit	6,501	-	-	-	6,501
Commitments to sell loans:					
Residential mortgage loans	8,572	-	-	-	8,572
Commercial mortgage loans and commercial loans	21,285	-	-	-	21,285
Total	**$ 555,521**	**$ 58,646**	**$ 54,367**	**$ 20,779**	**$ 689,313**

Lease Obligations

The Company leases banking facilities and other office space under operating leases that expire at various dates through 2022 and that contain certain renewal options. Rent expense charges to operations were $242,000, $113,000, and $76,000 for the years ended December 31, 2007, 2006, and 2005, respectively. As of December 31, 2007, future minimum annual rental payments under these leases are as follows: (dollars in thousands)

Year Ended December	Amount
2008	$ 420
2009	424
2010	435
2011	444
2012	314
Thereafter	3,443
Total Minimum Operating Lease Payments	**$ 5,480**

Employment Agreements

The Company has entered into change in control agreements with certain executive officers. Under certain circumstances provided in the agreements, the Company may be obligated to pay three times such officers' base salary and to continue their health insurance coverage for twelve months.

OFF-BALANCE SHEET ARRANGEMENTS

The term "off-balance sheet arrangement" generally means any transaction, agreement, or other contractual arrangement to which an entity unconsolidated with the Company is a party under which the Company has (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets. The Company does not have any off-balance sheet arrangements with unconsolidated entities that have or are reasonably likely to have a current or future effect on the Company's financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, except as related to the guarantee of Capital Securities issued by the Company's unconsolidated Delaware Trust subsidiary, Home Federal Statutory Trust I, as disclosed in note 9 to the consolidated financial statements.

JOINT VENTURES

The Company has invested in joint ventures through its subsidiaries, Home Savings Corporation ("HSC") and HomeFed Financial Corp. On December 31, 2001, the Bank changed its charter from a Federal savings bank charter to an Indiana commercial bank charter. Commercial banks are not permitted to participate in real estate development joint ventures. The Company divested itself of these investments during the fourth quarter of 2006. The Company is not required to divest itself of its investment in Family Financial Holdings, Inc. or Heritage Woods.

DERIVATIVE FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 133, ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities" as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts requires all derivatives, whether designated as a hedge, or not, to be recorded on the balance sheet at fair value. The Company designates its fixed rate and variable rate interest rate swaps as fair value and cash flow hedge instruments, respectively. If the derivative is designated as a fair value hedge, the changes in fair value of the derivative are recognized in earnings. If the derivative is designated as a cash flow hedge, the changes in fair value of the derivative are recorded in Accumulated Other Comprehensive Income ("AOCI"), net of income taxes. The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. The Company has interest rate lock commitments for the origination of loans held for sale which are not material to the Company's consolidated financial statements. See Note 1 for further discussion of derivative financial instruments.

IMPACT OF INFLATION

The consolidated financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary assets and liabilities of commercial banks such as the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the price of goods and services. In the current interest rate environment, liquidity, maturity structure and quality of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

NEW ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accountings Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statement No. 133 and 140." This Statement amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities," and No. 140 as well as resolves issues addressed in Statement No. 133 Implementation Issue No. D1, "Application of Statement No. 133 to Beneficial Interests in Securitized Financial Assets." Specifically, this Statement: i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and v) amends Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. Management has determined the adoption of this Statement as of January 1, 2007 did not have a material effect on the Company's consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." This Statement amends FASB Statement No. 140 and requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this Statement permits the Company to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. Management has determined the adoption of this Statement as of January 1, 2007 did not have a material effect on the Company's consolidated financial statements.

FASB staff position FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event", was posted February 3, 2006. This FASB Staff Position ("FSP") addresses the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event that is not controlled by the employee. The guidance in this FSP amends paragraphs 32 and A229 of FASB Statement No. 123 (revised 2004), "Share-Based Payment". The guidance in this FSP shall be applied upon initial adoption of Statement 123(R). The guidance in this FSP is applicable only for options issued as part of employee compensation arrangements. Paragraphs 32 and A229 of Statement 123(R) require options or similar instruments to be classified as liabilities if "the entity can be required under any circumstances to settle the option or similar instrument by transferring cash or other assets". Since an entity may be required in at least one circumstance (that is, a change in control) to settle its options or similar instruments issued as employee compensation in cash, the option or similar instrument would be classified as a liability when the change in control occurs pursuant to paragraphs 32 and A229 of Statement 123(R). Management has determined the adoption of FSP FAS 123 (R)-4 did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." The interpretation prescribes a recognition threshold and measurement attribute for the financial

statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation was effective for fiscal years beginning after December 15, 2006. At January 1, 2007 management determined based on review of various tax positions that these positions would be sustained based on the technical merits of the related tax positions. Upon adoption of FIN 48, there was no effect on the Company's financial condition or results of operations.

The Company files income tax returns in the United States ("U.S."), federal and state of Indiana jurisdictions. The Company is no longer subject to U. S. federal and the state of Indiana tax examinations for years prior to 2004. Management does not believe there will be any material changes in our recognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, or interest expense recognized during the quarter. The Company's effective tax rate differs from the federal statutory rate primarily due to tax exempt income and the state tax expense benefit.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Management has determined the adoption of this Statement as of January 1, 2008 will not have a material effect on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through accumulated other comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. Additional disclosures about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation is also required. This Statement is effective as of the end of the first fiscal year ending after December 15, 2006. The adoption of this Statement as of December 31, 2006 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115," which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; b) is irrevocable (unless a new election date occurs); and c) is applied only to entire instruments and not to portions of instruments management did not elect the fair value option for any financial assets or liabilities. Management has determined the adoption of this Statement as of January 1, 2008 will not have a material effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" which replaces SFAS No. 141, "Business Combinations". This Statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (formerly referred to as purchase method) is used for all business combinations and that an acquirer is identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as of the date that the acquirer achieves control. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. This Statement requires the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. This statement requires that loans acquired in a purchase business combination be the present value of amounts to be received. Valuation allowances should reflect only those losses incurred by the investor after acquisition. This Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is currently in the process of determining what effect the provisions of this statement will have on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment to ARB No. 51." This Statement establishes new accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The Statement also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is currently in the process of determining what effect the provisions of this statement will have on the Company's financial position or results of operations.

CRITICAL ACCOUNTING POLICIES

The notes to the consolidated financial statements contain a summary of the Company's significant accounting policies. Certain of these policies are critical to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management believes that its critical accounting policies include a determination of the allowance for loan losses and the valuation of securities.

Allowance for Loan Losses

A loan is considered impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired

loans are measured based on the loan's discounted cash flow or the estimated fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

The allowance for loan losses is established through a provision for loan losses. Loan losses are charged against the allowance when management believes the loans are uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is maintained at a level management considers to be adequate to absorb probable loan losses inherent in the portfolio, based on evaluations of the collectibility and historical loss experience of loans. The allowance is based on ongoing assessments of the probable estimated losses inherent in the loan portfolio. The Company's methodology for assessing the appropriate allowance level consists of several key elements, as described below.

All delinquent loans that are 90 days past due are included on the Asset Watch List. The Asset Watch List is reviewed quarterly by the Asset Watch Committee for any classification beyond the regulatory rating based on a loan's delinquency.

Commercial and commercial real estate loans are individually risk rated pursuant to the loan policy. Homogeneous loans such as consumer and residential mortgage loans are not individually risk rated by management. They are pooled based on historical portfolio data that management believes will provide a good basis for the loans' quality. For all loans not listed individually on the Asset Watch List, historical loss rates based on the last four years are the basis for developing expected charge-offs for each pool of loans.

Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the local economy, trends in the nature and volume of loans (delinquencies, charge-offs, nonaccrual and problem loans), changes in the internal lending policies and credit standards, collection practices, and examination results from bank regulatory agencies and the Company's credit review function.

Finally, a portion of the allowance is maintained to recognize the imprecision in estimating and measuring loss when evaluating allowances for individual loans or pools of loans. This unallocated allowance is based on factors such as current economic conditions, trends in the Company's loan portfolio delinquency, losses and recoveries, level of under performing and non-performing loans, and concentrations of loans in any one industry. The unallocated allowance is assigned to the various loan categories based on management's perception of probable risk in the different loan categories and the principal balance of the loan categories.

Valuation of Securities

Securities are classified as held-to-maturity or available-for-sale on the date of purchase. Only those securities classified as held-to-maturity are reported at amortized cost. Available-for-sale securities are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of related deferred income taxes, on the consolidated balance sheets. The fair value of a security is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments. Realized securities gains or losses are reported within non interest income in the consolidated statements of income. The cost of securities sold is based on the specific identification method. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery, which may be maturity. A decline in value that is considered to be other-than-temporary is recorded as a loss within non interest income in the consolidated statements of income. Management believes the price movements in these securities are dependent upon the movement in market interest rates. As of December 31, 2007 the unrealized losses in the available for sale securities portfolio amounted to .9% of the fair value of these securities. Management also maintains the intent and ability to hold securities in an unrealized loss position to the earlier of the recovery of losses or maturity.

Management's Assessment as to the Effectiveness of Internal Control over Financial Reporting

The management of Home Federal Bancorp (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13A-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a 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 accounting principles generally accepted in the United States of America ("Generally Accepted Accounting Principles") and includes 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Home Federal Bancorp
Columbus, Indiana

We have audited the internal control over financial reporting of Home Federal Bancorp and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Assessments as to the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing, and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated March 14, 2008 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
March 14, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Home Federal Bancorp
Columbus, Indiana

We have audited the accompanying consolidated balance sheets of Home Federal Bancorp and its subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the 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 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Home Federal Bancorp and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an unqualified opinion on of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
March 14, 2008

CONSOLIDATED BALANCE SHEETS
(dollars in thousands except share data)

	December 31, 2007	December 31, 2006
Assets:		
Cash and due from banks	$ 40,552	$ 106,063
Securities available for sale at fair value (amortized cost $62,551 and $57,421)	62,306	56,887
Securities held to maturity at amortized cost (fair value $1,558 and $1,628)	1,557	1,635
Loans held for sale (fair value $7,250 and $7,055)	7,112	6,925
Portfolio loans:		
Commercial loans	207,590	151,781
Commercial mortgage loans	269,035	227,433
Residential mortgage loans	142,481	166,003
Second & home equity loans	103,560	102,713
Other consumer loans	27,345	34,483
Unearned income	(165)	(153)
Total portfolio loans	749,846	682,260
Allowance for loan losses	(6,972)	(6,598)
Portfolio loans, net	742,874	675,662
Premises and equipment	15,599	17,232
Accrued interest receivable	4,670	4,679
Goodwill	1,875	1,695
Other assets	32,261	33,689
Total Assets	**$ 908,806**	**$ 904,467**
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits:		
Demand	$ 69,728	$ 72,804
Interest checking	103,624	129,025
Savings	37,513	41,710
Money market	185,803	165,605
Certificates of deposit	301,146	293,914
Retail deposits	697,814	703,058
Brokered deposits	9,174	22,357
Public fund certificates	563	1,744
Wholesale deposits	9,737	24,101
Total deposits	707,551	727,159
FHLB borrowings	99,349	68,667
Short term borrowings	20	-
Junior subordinated debt	15,464	15,464
Accrued taxes, interest and expenses	2,981	4,462
Other liabilities	15,987	17,434
Total liabilities	841,352	833,186
Commitments and Contingencies		
Shareholders' equity:		
No par preferred stock; Authorized: 2,000,000 shares		
Issued and outstanding: None		
No par common stock; Authorized: 15,000,000 shares		
Issued and outstanding: 3,369,965 and 3,610,218 shares	20,305	17,081
Retained earnings, restricted	48,089	55,137
Accumulated other comprehensive loss, net	(940)	(937)
Total shareholders' equity	67,454	71,281
Total Liabilities and Shareholders' Equity	**$ 908,806**	**$ 904,467**

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands except per share data)

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Interest Income:			
Short term investments	$ 1,116	$ 1,163	$ 714
Securities	2,688	4,246	4,652
Commercial loans	14,538	10,015	6,939
Commercial mortgage loans	16,766	14,312	13,697
Residential mortgage loans	10,471	10,939	10,828
Second and home equity loans	7,342	7,021	5,656
Other consumer loans	2,280	2,659	2,490
Total interest income	55,201	50,355	44,976
Interest Expense:			
Checking and savings accounts	1,761	1,592	543
Money market accounts	5,869	4,982	2,438
Certificates of deposit	14,317	11,343	8,080
Total interest on retail deposits	21,947	17,917	11,061
Brokered deposits	665	1,118	1,326
Public funds	47	344	878
Total interest on wholesale deposits	712	1,462	2,204
Total interest on deposits	22,659	19,379	13,265
FHLB borrowings	3,884	4,284	5,743
Other borrowings	8	5	1
Long term debt	-	650	808
Junior subordinated debt	1,110	326	-
Total interest expense	27,661	24,644	19,817
Net interest income	27,540	25,711	25,159
Provision for loan losses	1,361	850	808
Net interest income after provision for loan losses	26,179	24,861	24,351
Non Interest Income:			
Gain on sale of loans	1,497	1,430	1,539
Loss on sale of securities	-	(1,956)	-
Gain on sale of mortgage servicing	-	1,957	-
Investment advisory services	1,874	1,363	1,125
Service fees on deposit accounts	6,574	6,124	4,363
Loan servicing income, net of impairment	571	1,233	1,354
Miscellaneous	2,338	2,152	2,842
Total non interest income	12,854	12,303	11,223
Non Interest Expenses:			
Compensation and employee benefits	16,426	15,900	14,502
Occupancy and equipment	4,086	3,908	3,679
Service bureau expense	1,637	1,506	2,017
Marketing	1,141	1,268	1,110
Miscellaneous	6,484	5,324	5,195
Total non interest expenses	29,774	27,906	26,503
Income before income taxes	9,259	9,258	9,071
Income tax provision	3,136	2,817	2,969
Net Income	**$ 6,123**	**$ 6,441**	**$ 6,102**
Basic Earnings per Common Share	**$ 1.75**	**$ 1.74**	**$ 1.57**
Diluted Earnings per Common Share	**$ 1.72**	**$ 1.70**	**$ 1.53**
Basic weighted average number of shares	**3,492,615**	**3,707,325**	**3,897,501**
Dilutive weighted average number of shares	**3,560,603**	**3,788,556**	**3,993,055**
Dividends per share	**$ 0.80**	**$ 0.79**	**$ 0.75**

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(dollars in thousands except share data)

	Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 2004	4,027,991	$ 13,514	$ 64,138	$ (288)	$ 77,364
Comprehensive income:					
Net income			6,102		6,102
Change in unrealized loss on securities available for sale, net of reclassification adjustment and tax effect of $864				(1,637)	(1,637)
Change in fair value of cash flow hedge, net of tax of $58				88	88
Total comprehensive income					4,553
Stock options exercised	109,066	1,846			1,846
Stock repurchased	(321,400)	(478)	(7,608)		(8,086)
Tax benefit related to exercise of non-qualified stock options		270			270
Cash dividends ($.750 per share)			(2,909)		(2,909)
Balance at December 2005	3,815,657	15,152	59,723	(1,837)	73,038
Comprehensive income:					
Net income			6,441		6,441
Change in unrealized loss on securities available for sale, net of reclassification adjustment and tax effect of $781				1,481	1,481
Change in fair value of cash flow hedge, net of tax of $7				11	11
Total comprehensive income					7,933
Cumulative effect in change in accounting for SRP obligations, net of tax of $388				(592)	(592)
Stock options exercised	104,724	1,962			1,962
Stock repurchased	(310,163)	(462)	(8,114)		(8,576)
Stock compensation expense		296			296
Tax benefit related to exercise of non-qualified stock options		133			133
Cash dividends ($.788 per share)			(2,913)		(2,913)
Balance at December 2006	3,610,218	17,081	55,137	(937)	71,281
Comprehensive income:					
Net income			6,123		6,123
Change in unrealized loss on securities available for sale, net of reclassification adjustment and tax effect of ($100)				189	189
Change in supplemental retirement plan obligations, net of tax of $126				(192)	(192)
Total comprehensive income					6,120
Stock options exercised	148,010	3,327			3,327
Stock repurchased	(388,263)	(579)	(10,397)		(10,976)
Stock compensation expense		137			137
Tax benefit related to exercise of non-qualified stock options		339			339
Cash dividends ($.800 per share)			(2,774)		(2,774)
Balance at December 2007	**3,369,965**	**$ 20,305**	**$ 48,089**	**$ (940)**	**$ 67,454**

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Cash Flows From Operating Activities:			
Net income	$ 6,123	$ 6,441	$ 6,102
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts, amortization and depreciation	1,589	1,816	1,808
Provision for loan losses	1,361	850	808
Stock based compensation expense	137	296	-
(Benefit)/provision for deferred income taxes	(196)	(2,041)	174
Net gain from sale of loans	(1,497)	(1,430)	(1,539)
Loss from sale of securities	-	1,956	-
(Income)/loss from joint ventures and net (gain)/loss from real estate owned	(191)	114	(566)
Loan fees deferred/(recognized), net	25	(418)	(216)
Proceeds from sale of loans held for sale	111,948	96,389	97,079
Origination of loans held for sale	(110,755)	(97,089)	(97,717)
(Increase)/decrease in accrued interest and other assets	960	(2,346)	(1,351)
Increase/(decrease) in other liabilities	(3,373)	(86)	7,443
Net Cash From Operating Activities	**6,131**	**4,452**	**12,025**
Cash Flows From / (Used In) Investing Activities:			
Net principal received/(disbursed) on loans	(50,083)	(55,080)	22,062
Proceeds from:			
Maturities/Repayments of:			
Securities held to maturity	176	268	461
Securities available for sale	6,517	25,086	25,895
Sales of:			
Securities available for sale	4,464	105,649	10,048
Real estate owned and other asset sales	870	778	1,706
Federal Home Loan Bank stock	-	1,636	-
Purchases of:			
Loans	(18,515)	(11,268)	(1,720)
Securities held to maturity	(100)	(100)	(490)
Securities available for sale	(16,166)	(64,151)	(37,208)
Return of/(investment in) joint ventures	29	586	1,507
Investment in brokerage business	100	-	-
Investment in cash surrender value of life insurance	-	-	(655)
(Acquisition/disposal of property and equipment	102	(1,078)	(2,353)
Net Cash From / (Used In) Investing Activities	**(72,606)**	**2,326**	**19,253**
Cash Flows From / (Used In) Financing Activities:			
Net increase/(decrease) in deposits	(19,608)	71,845	17,158
Proceeds from advances from FHLB	45,000	65,000	14,000
Repayment of advances from FHLB	(14,318)	(82,966)	(52,813)
Repayment of senior debt	-	(14,242)	-
Proceeds from issuance of junior subordinated debt	-	15,464	-
Net proceeds from/(net repayment of) overnight borrowings	20	(166)	(45)
Common stock options exercised	3,327	1,962	1,846
Repurchase of common stock	(10,976)	(8,576)	(8,086)
Excess tax benefit related to stock based compensation	339	133	270
Payment of dividends on common stock	(2,820)	(2,905)	(2,192)
Net Cash From / (Used In) Financing Activities	**964**	**45,549**	**(29,862)**
NET INCREAS/(DECREASE) IN CASH AND CASH EQUIVALENTS	(65,511)	52,327	1,416
Cash and cash equivalents, beginning of period	106,063	53,736	52,320
Cash and Cash Equivalents, End of Period	**$ 40,552**	**$ 106,063**	**$ 53,736**
Supplemental Information:			
Cash paid for interest	$ 27,835	$ 24,692	$ 19,955
Cash paid for income taxes	$ 5,280	$ 2,380	$ 2,236
Non Cash Items:			
Assets acquired through foreclosure	$ 944	$ 1,114	$ 1,262
Acquisition of broker dealer within accounts payable	$ 200	$ -	$ 400
Sale of joint venture, financed by the Company	$ -	$ 1,058	$ -

Real estate owned transferred to property and equipment, net	$ -	$ -	$ 1,173
Dividends payable	$ 678	$ 725	$ 717

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended December 31, 2007, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The accounting policies of Home Federal Bancorp and subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the more significant accounting policies follows:

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, HomeFed Financial Corp. and Indiana Bank and Trust Company (the "Bank") and its wholly-owned subsidiaries. As of March 1, 2008, the Bank changed its name to Indiana Bank and Trust Company, which has been reflected throughout this document. All significant intercompany balances and transactions have been eliminated.

Description of Business
The Company is a bank holding company. The Bank provides financial services to south-central Indiana through its main office in Columbus and 19 other full service banking offices and a commercial loan office in Indianapolis. The Company also has Home Investments, Inc., a Nevada corporation, that holds, services, manages, and invests a portion of the Bank's investment portfolio.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates most susceptible to change in the near term include the allowance for loan losses and the valuation of securities.

Cash and Cash Equivalents
All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Securities
Securities are required to be classified as held to maturity, available for sale or trading. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity. Debt and equity securities not classified as either held to maturity or trading securities are classified as available for sale. Only those securities classified as held to maturity are reported at amortized cost, with those available for sale and trading reported at fair value with unrealized gains and losses included in shareholders' equity or income, respectively. Premiums and discounts are amortized over the contractual lives of the related securities using the effective yield method. Gain or loss on sale of securities is based on the specific identification method.

Loans Held for Sale
Loans held for sale consist of mortgage loans conforming to established guidelines and held for sale to the secondary market. Mortgage loans held for sale are carried at the lower of cost or fair value determined on an aggregate basis. Gains and losses on the sale of these mortgage loans are included in non interest income.

Valuation of Mortgage Servicing Rights
The Company recognizes the rights to service mortgage loans as separate assets, which are included in other assets in the consolidated balance sheet. The total cost of loans when sold is allocated between loans and MSR's, based on the relative fair values of each. MSR's are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value. MSR's are evaluated for impairment based on the fair value of those rights. The Company uses a present value cash flow valuation model to establish the fair value of the MSR's. Factors included in the calculation of fair value of the MSR's include estimating the present value of future net cash flows, market loan prepayment speeds for similar loans, discount rates, servicing costs, and other economic factors. Servicing rights are amortized over the estimated period of net servicing revenue. It is likely that these economic factors will change over the life of the MSR's, resulting in different valuations of the MSR's. The differing valuations will affect the carrying value of the MSR's on the balance sheet as well as the income recorded from loan servicing in the consolidated statements of income. During 2006, the Company sold its mortgage servicing portfolio and related nonrecourse mortgage servicing rights for a gain on sale of $2.0 million.

Loans
Interest on real estate, commercial and installment loans is accrued over the term of the loans on a level yield basis. The recognition of interest income is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business.

Loan Origination Fees
Nonrefundable origination fees, net of certain direct origination costs, are deferred and recognized as a yield adjustment over the contractual life of the underlying loan. Any unamortized fees on loans sold are credited to gain on sale of loans at the time of sale.

Uncollected Interest
A reversal of uncollected interest is generally provided on loans which are more than 90 days past due. The only loans which are 90 days past due and are still accruing interest are loans where the Company is guaranteed reimbursement of interest by either a mortgage insurance contract or by a government agency. If neither of these criteria is met, a charge to interest income equal to all interest previously accrued and unpaid is made, and

income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments returns to normal, in which case the loan is returned to accrual status.

Allowance for Loan Losses

A loan is considered impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured based on the loan's discounted cash flow or the estimated fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. The allowance for loan losses is established through a provision for loan losses. Loan losses are charged against the allowance when management believes the loans are uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is maintained at a level management considers to be adequate to absorb probable loan losses inherent in the portfolio, based on evaluations of the collectibility and historical loss experience of loans. The allowance is based on ongoing assessments of

the probable estimated losses inherent in the loan portfolio. The Company's methodology for assessing the appropriate allowance level consists of several key elements, as described below.

All delinquent loans that are 90 days past due are included on the Asset Watch List. The Asset Watch List is reviewed quarterly by the Asset Watch Committee for any classification beyond the regulatory rating based on the loans' delinquency.

Commercial and commercial real estate loans are individually risk rated pursuant to the loan policy. Homogeneous loans such as consumer and residential mortgage loans are not individually risk rated by management. They are pooled based on historical portfolio data that management believes will provide a reasonable basis for the loans' quality. For all loans not listed individually on the Asset Watch List, historical loss rates based on the last four years are the basis for developing expected charge-offs for each pool of loans.

Historical loss rates for commercial and homogeneous loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the local economy, trends in the nature and volume of loans (delinquencies, charge-offs, nonaccrual and problem loans), changes in the internal lending policies and credit standards, collection practices, and examination results from bank regulatory agencies and the Company's credit review function.

Finally, a portion of the allowance is maintained to recognize the imprecision in estimating and measuring loss when evaluating allowances for individual loans or pools of loans. This unallocated allowance is based on factors such as current economic conditions, trends in the Company's loan portfolio delinquency, losses and recoveries, level of under performing and non-performing loans, and concentrations of loans in any one industry. The unallocated allowance is assigned to the various loan categories based on management's perception of probable risk in the different loan categories and the principal balance of the loan categories.

Valuation of Securities

Securities are classified as held-to-maturity or available-for-sale on the date of purchase. Only those securities classified as held-to-maturity are reported at amortized cost. Available-for-sale securities are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of related deferred income taxes, on the consolidated balance sheets. The fair value of a security is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments. Realized securities gains or losses are reported within non interest income in the consolidated statements of income. The cost of securities sold is based on the specific identification method. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery, which may be maturity. A decline in value that is considered to be other-than-temporary is recorded as a loss within non interest income in the consolidated statements of income. Management believes the price movements in these securities are dependent upon the movement in market interest rates.

As of December 31, 2007 the unrealized losses in the available for sale securities portfolio amounted to .9% of the fair value of these securities. Management also maintains the intent and ability to hold securities in an unrealized loss position to the earlier of the recovery of losses or maturity.

Real Estate Owned

Real estate owned represents real estate acquired through foreclosure or deed in lieu of foreclosure and is recorded at the lower of fair value less cost to sell or carrying amount. When property is acquired, it is recorded at net realizable value at the date of acquisition, with any resulting write-down charged against the allowance for loan losses. Any subsequent deterioration of the property is charged directly to real estate owned expense, which is included in miscellaneous non interest expenses on the consolidated statements of income. Costs relating to the development and improvement of real estate owned are capitalized, whereas costs relating to holding and maintaining the properties are charged to expense.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives that range from three to thirty-nine years. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company tests its long-lived assets for impairment through both a probability-weighted and primary-asset approach whenever events or changes in circumstances dictate. Maintenance, repairs and minor improvements are charged to non interest expenses as incurred.

Derivative Financial Instruments

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. The Company records all derivatives, whether designated as a hedge, or not, on the consolidated balance sheets at fair value. The Company designates its fixed rate and variable rate interest rate swaps as fair value and cash flow hedge instruments, respectively. If the derivative is designated as a fair value hedge, the changes in fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the changes in fair value of the derivative and of the hedged item attributable to the hedged risk are recorded in Accumulated Other Comprehensive Income ("AOCI"), net of income taxes.

The Company evaluates interest rate lock commitments issued on residential mortgage loan commitments that will be held for resale as free-standing derivative instruments. As of December 31, 2007 the total of these commitments was immaterial to the financial statements and therefore no liability was recorded.

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. The Company has entered into interest rate swap agreements as a means of managing its interest rate exposure on certain fixed rate commercial loans and variable rate debt obligations. As of December 31, 2007, the notional amount of the Company's two outstanding fair value interest rate swaps on commercial loans was $4.6 million with maturities in 2008 and 2009, as discussed in Note 3. The Company's cash flow interest rate swap matured in 2006.

As of December 31, 2007, the fair value of the derivatives designated in the fair value hedges were a liability of $70,000. The

total income statement impact resulting from the ineffectiveness from the fair value hedges was zero. The Company has adopted the short cut method of hedge accounting, which allows management to assume there is no ineffectiveness resulting from the fair value hedges in accordance with SFAS No. 133.

Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company annually, as of September 30th, evaluates goodwill for impairment. Management determined that there was no impairment charge resulting from its annual impairment test.

In the fourth quarter of 2005, the Company purchased a retail brokerage business on the south side of Indianapolis. This purchase increased goodwill $300,000. This purchase also included an intangible asset, customer list, valued at $200,000 which is being amortized over four years using the straight line method. The impairment analysis for the brokerage business goodwill is performed annually as of December 31.

In the second quarter of 2007, the Company purchased another retail brokerage business on the south side of Indianapolis. This purchase increased goodwill $180,000. This purchase also included an intangible asset, customer list, valued at $120,000 which is being amortized over four years using the straight line method. The impairment analysis for the brokerage business goodwill will be performed annually as of June 30.

Income Taxes

The Company and its wholly-owned subsidiaries file consolidated income tax returns. Deferred income tax assets and liabilities are determined using the balance sheet method and are reported in other assets in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities and recognizes enacted changes in tax rates and laws. Deferred tax assets are recognized to the extent they exist and are subject to a valuation allowance based on management's judgment that realization is more-likely-than-not.

Earnings per Common 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 the weighted average common shares for the basic and diluted earnings per share computations:

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Basic Earnings per Share:			
Weighted average common shares	3,492,615	3,707,325	3,897,501
Diluted Earnings per Share:			
Weighted average common shares	3,492,615	3,707,325	3,897,501
Dilutive effect of stock options	67,988	81,231	95,554
Weighted average common and incremental shares	3,560,603	3,788,556	3,993,055

Anti-dilutive options are summarized as follows:

As Of	Dec 2007	Dec 2006	Dec 2005
Anti-dilutive options	123,224	10,000	128,974

Comprehensive Income

The following is a summary of the Company's accumulated other comprehensive income: *(dollars in thousands)*

	Accumulated Balance		
	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Unrealized holding losses from securities available for sale	$ (245)	$ (534)	$ (2,796)
Cumulative effect in change in accounting for SRP obligations	-	(980)	-
SRP obligation	(1,298)	-	-
Unrealized losses from cash flow hedge	-	-	(18)
Net unrealized losses	(1,543)	(1,514)	(2,814)
Tax effect	603	577	977
Accumulated Other Comprehensive Loss, Net of Tax	**$ (940)**	**$ (937)**	**$ (1,837)**

Segments

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," management has concluded that the Company is comprised of a single operating segment, community banking activities, and has disclosed all required information relating to its one operating segment. Management considers parent company activity to represent an overhead function rather than an operating segment. The Company operates in one geographical area and does not have a single external customer from which it derives 10 percent or more of its revenue.

Stock Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 13. Prior to January 1, 2006, the Company accounted for the plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations ("APB 25"). Accordingly, because all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant, no expense related to employee stock options was recognized. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) "Share-Based Payment" ("SFAS 123(R)"). Under the modified prospective method of adoption selected by the Company, compensation expense related to stock options is recognized beginning January 1, 2006 for any new awards issued after this date, as well as for any previously-issued awards vesting on or after January 1, 2006. Compensation cost in previous periods related to stock options continues to be disclosed on a pro forma basis only. As required by SFAS 123(R), the Company also estimates forfeitures over the vesting period of awards.

The following table illustrates the effect on net income and earnings per share for 2005 if the Company had applied the fair value recognition provisions of SFAS Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation. *(dollars in thousands, except share data)*

		Year Ended Dec 2005
Net income, as reported	$	6,102
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(226)
Pro Forma Net Income	**$**	**5,876**
Earnings per share:		
Basic---as reported	$	1.57
Basic---pro forma	$	1.51
Diluted---as reported	$	1.53
Diluted---pro forma	$	1.47

The pro forma amounts are not representative of the effects on reported net income for current or future years.

New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statement No. 133 and 140." This Statement amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities," and No. 140 as well as resolves issues addressed in Statement No. 133 Implementation Issue No. D1, "Application of Statement No. 133 to Beneficial Interests in Securitized Financial Assets." Specifically, this Statement: i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and v) amends Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. Management has determined the adoption of this Statement as of January 1, 2007 did not have a material effect on the Company's consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." This Statement amends FASB Statement No. 140 and requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this Statement permits the Company to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. Management has determined the adoption of this Statement

as of January 1, 2007 did not have a material effect on the Company's consolidated financial statements.

FASB staff position FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event," was posted February 3, 2006. This FASB Staff Position ("FSP") addresses the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event that is not controlled by the employee. The guidance in this FSP amends paragraphs 32 and A229 of FASB Statement No. 123 (revised 2004), "Share-Based Payment". The guidance in this FSP shall be applied upon initial adoption of Statement 123(R). The guidance in this FSP is applicable only for options issued as part of employee compensation arrangements. Paragraphs 32 and A229 of Statement 123(R) require options or similar instruments to be classified as liabilities if "the entity can be required under any circumstances to settle the option or similar instrument by transferring cash or other assets". Since an entity may be required in at least one circumstance (that is, a change in control) to settle its options or similar instruments issued as employee compensation in cash, the option or similar instrument would be classified as a liability when the change in control occurs pursuant to paragraphs 32 and A229 of Statement 123(R). Management has determined the adoption of FSP FAS 123 (R)-4 did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new interpretation is effective for fiscal years beginning after December 15, 2006. At January 1, 2007 management determined based on review of various tax positions that these positions would be sustained based on the technical merits of the related tax positions. Upon adoption of FIN 48, there was no effect on the Company's financial condition or results of operations.

The Company files income tax returns in the United States ("U.S."), federal and state of Indiana jurisdictions. The Company is no longer subject to U. S. federal and the state of Indiana tax examinations for years prior to 2004. Management does not believe there will be any material changes in our recognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, or interest expense recognized during the year ended December 31, 2007. The Company's effective tax rate differs from the federal statutory rate primarily due to tax exempt income and the state tax expense benefit.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Management has determined the adoption of this Statement as of January 1, 2008 will not have a material effect on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through accumulated other comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet, with limited exceptions. Additional disclosures about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation is also required. This Statement is effective as of the end of the first fiscal year ending after December 15, 2006. Management has determined the adoption of this Statement as of December 31, 2006 did not have a material effect on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115," which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; b) is irrevocable (unless a new election date occurs); and c) is applied only to entire instruments and not to portions of instruments. Management did not elect the fair value option for any financial assets or liabilities. Management has determined the adoption of this Statement as of January 1, 2008 will not have a material effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" which replaces SFAS No. 141, "Business Combinations". This Statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (formerly referred to as purchase method) is used for all business combinations and that an acquirer is identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date

as of the date that the acquirer achieves control. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. This Statement requires the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. This statement requires that loans acquired in a purchase business combination be the present value of amounts to be received. Valuation allowances should reflect only those losses incurred by the investor after acquisition. This Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is currently in the process of determining what

effect the provisions of this statement will have on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment to ARB No. 51." This Statement establishes new accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The Statement also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is currently in the process of determining what effect the provisions of this statement will have on the Company's financial position or results of operations.

2. SECURITIES

Securities are summarized as follows: *(dollars in thousands)*

	Dec 2007				Dec 2006			
	Amortized	Gross Unrealized		Fair	Amortized	Gross Unrealized		Fair
	Cost	Gains	(Losses)	Value	Cost	Gains	(Losses)	Value
Held to Maturity:								
Municipal bonds	$ 775	$ 1	$ -	$ 776	$ 775	$ -	$ -	$ 775
Certificate of deposit	100	-	-	100	100	-	-	100
Mortgage backed securities	682	9	(9)	682	760	7	(14)	753
Total Held to Maturity	**$ 1,557**	**$ 10**	**$ (9)**	**$ 1,558**	**$ 1,635**	**$ 7**	**$ (14)**	**$ 1,628**
Available for Sale:								
Agency bonds	$ 10,608	$ 71	$ (1)	$ 10,678	$ 6,063	$ 4	$ (31)	$ 6,036
Municipal bonds	23,571	148	(16)	23,703	23,110	51	(160)	23,001
Collateralized mortgage obligations	9,396	7	(56)	9,347	7,012	-	(135)	6,877
Mortgage backed securities	11,741	72	(74)	11,739	14,073	36	(181)	13,928
Corporate debt	1,961	-	(286)	1,675	1,959	6	(30)	1,935
Bond mutual funds	5,198	-	(110)	5,088	5,129	-	(94)	5,035
Equity securities	76	-	-	76	75	-	-	75
Total Available for Sale	**$ 62,551**	**$ 298**	**$ (543)**	**$ 62,306**	**$ 57,421**	**$ 97**	**$ (631)**	**$ 56,887**

Certain securities, with amortized cost of $2.1 million and fair value of $2.1 million at December 31, 2007, and amortized cost of $2.2 million and fair value of $2.1 million at December 31, 2006 were pledged as collateral for the Bank's treasury, tax and loan account at the Federal Reserve and for certain trust, IRA and KEOGH accounts.

The amortized cost and fair value of securities at December 31, 2007 by contractual maturity are summarized as follows: *(dollars in thousands)*

	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Yield	Amortized Cost	Fair Value	Yield
Agency bonds:						
Due in one year or less	$ -	$ -	-	$ 5,248	$ 5,260	4.94%
Due after 1 year through 5 years	-	-	-	5,360	5,418	4.78%
Municipal bonds:						
Due in one year or less	-	-	-	302	302	3.79%
Due after 1 year through 5 years	535	536	7.36%	9,650	9,675	4.90%
Due after 5 years through 10 years	240	240	7.70%	13,619	13,726	5.54%
Certificate of deposit:						
Due in one year or less	100	100	4.35%	-	-	-
Collateralized mortgage obligations	-	-	-	9,396	9,347	4.30%
Mortgage backed securities	682	682	5.68%	11,741	11,739	5.04%
Corporate debt:						
Due after 10 years	-	-	-	1,961	1,675	5.98%
Bond mutual funds	-	-	-	5,198	5,088	4.87%
Equity securities	-	-	-	76	76	-
Total	**$ 1,557**	**$ 1,558**	**6.48%**	**$ 62,551**	**$ 62,306**	**4.99%**

Activities related to the sales of securities available for sale are summarized as follows: *(dollars in thousands)*

		Year Ended Dec 2007		Year Ended Dec 2006		Year Ended Dec 2005
Proceeds from sales	$	4,464	$	105,649	$	10,048
Gross losses on sales		-		1,956		-

Taxable interest income and non-taxable interest income earned on the investment portfolio is summarized as follows: *(in thousands)*

		Year Ended Dec 2007		Year Ended Dec 2006		Year Ended Dec 2005
Taxable interest income	$	1,830	$	3,389	$	4,111
Non-taxable interest income		858		857		541
Total Interest Income	**$**	**2,688**	**$**	**4,246**	**$**	**4,652**

Unrealized losses in the portfolio resulted from increases in market interest rates and not from deterioration in the creditworthiness of the issuer. The securities in a loss position at December 31, 2007 had ratings ranging from A – to AAA as rated by Moody's Investor Service. The total number of security positions in the investment portfolio that were in an unrealized loss position at December 31, 2007 is 35. Unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach maturity. At December 31, 2007, Management has the intent and ability to hold securities in an unrealized loss position to recovery, which may be maturity. Investments that have been in a continuous unrealized loss position for longer than one month as of December 31, 2007 are summarized as follows: *(dollars in thousands)*

	Less than Twelve Months				Twelve Months Or Longer				Total			
Description of Securities		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
Collateralized mortgage obligations	$	-	$	-	$	4,919	$	(55)	$	4,919	$	(55)
Mortgage backed securities		-		-		5,234		(83)		5,234		(83)
Corporate debt		810		(151)		865		(135)		1,675		(286)
Municipal bonds		-		-		5,920		(16)		5,920		(16)
Bond mutual funds		-		-		4,069		(110)		4,069		(110)
Total Temporarily Impaired Securities	**$**	**810**	**$**	**(151)**	**$**	**21,007**	**$**	**(399)**	**$**	**21,817**	**$**	**(550)**

3. PORTFOLIO LOANS

The Company originates both adjustable and fixed rate loans. The adjustable rate loans have interest rate adjustment limitations and are indexed to various indices. Adjustable residential mortgages are generally indexed to the one year Treasury constant maturity rate; adjustable consumer loans are generally indexed to the prime rate; adjustable commercial loans are generally indexed to either the prime rate or the one, three or five year Treasury constant maturity rate. Future market factors may affect the correlation of the interest rates the Company pays on the short-term deposits that have been primarily utilized to fund these loans.

The principal balance of loans on nonaccrual status totaled approximately $10.5 million at December 31, 2007, $2.9 million at December 31, 2006, and $3.1 at December 31, 2005. The Company would have recorded interest income of $958,000, $372,000, and $465,000 for the years ended December 31, 2007, 2006 and 2005 if loans on non-accrual status had been current in accordance with their original terms. Actual interest recognized was $252,000, $133,000, and $160,000 for the years ended December 31, 2007, 2006, and 2005, respectively. The Bank agreed to modify the terms of certain loans to customers who were experiencing financial difficulties. Modifications included forgiveness of interest, reduced interest rates and/or extensions of the loan term. The principal balance at December 31, 2007, December 31, 2006, and December 31, 2005 on these restructured loans was $874,000, $440,000, and $809,000, respectively. The Company originates and purchases commercial mortgage loans, which totaled $269.0 million and $227.4 million at December 31, 2007 and 2006, respectively. These loans are considered by management to be of somewhat greater risk of collectibility due to the dependency on income production or future development of the real estate. The Company also purchases and originates commercial loans. Collateral for commercial loans includes manufacturing equipment, real estate, inventory, accounts receivable, and securities. Terms of these loans are normally for up to ten years and

have adjustable rates tied to the reported prime rate and Treasury indices. Generally, commercial loans are considered to involve a higher degree of risk than residential real estate loans. However, commercial loans generally carry a higher yield and are made for a shorter term than real estate loans. As of December 31, 2007, impaired loans under SFAS No. 114, which did not include homogeneous loans such as residential real estate mortgages and consumer loans, with a valuation allowance totaled $7.1 million and impaired loans without a valuation allowance totaled $841,000. The total valuation allowance on impaired loans at December 31, 2007 was $559,000. As of December 31, 2006, impaired loans with a valuation allowance totaled $678,000 and impaired loans without a valuation allowance totaled $204,000. The total valuation allowance on the impaired loans at December 31, 2006 was $97,000.

Certain residential mortgage products have contractual features that may increase credit exposure to the Company in the event of a decline in housing prices. These type of mortgage products offered by the Company include high loan-to-value ("LTV") ratios and multiple loans on the same collateral that when combined result in a high LTV. Typically a residential mortgage loan is combined with a home equity loan for a LTV at origination of over 90% and less than or equal to 100%. The balance including unused lines of these loans over 90% LTV at December 31, 2007 was $10.9 million.

The Company has entered into two fair value interest rate swap agreements with a counterparty hedging two fixed rate commercial loans. In the first agreement the Company will receive variable rate payments at the thirty-day London inter bank offering rate ("LIBOR") index and make fixed rate payments at 6.28%. The notional amount on the swap was $2.9 million as of December 31, 2007. The thirty-day LIBOR was 4.60% at December 31, 2007. The termination date of the first swap agreement is July 1, 2008. In the second agreement the Company will receive variable rate payments at thirty day LIBOR and make fixed rate payments at 6.24%. The notional amount of the swap was $1.7 million as of December 31, 2007. The termination date of the second swap agreement is January 2, 2009. The two interest rate swaps are settled on a net basis. The Company is exposed to losses, in the event of nonperformance by the counterparty, for the net interest rate differential when floating rates exceed the fixed maximum rate. However, the Company does not anticipate nonperformance by the counterparty.

Under the capital standards provisions of FIRREA, the loans-to-one-borrower limitation is generally 15% of unimpaired capital and surplus, which, for the Bank, was approximately $12.9 million and $13.5 million at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, the Bank was in compliance with this limitation.

Aggregate loans to officers and directors included above were $4.0 million and $5.3 million as of December 31, 2007 and 2006, respectively. Such loans are made in the ordinary course of business and are made on substantially the same terms as those prevailing at the time for comparable transactions with other borrowers. For the year ended December 31, 2007, loans of $1.9 million were disbursed to officers and directors and repayments of $3.2 million were received from officers and directors.

At December 31, 2007 and 2006, deposit overdrafts of $217,000 and $208,000, respectively, were included in portfolio loans.

An analysis of the allowance for loan losses is as follows: *(dollars in thousands)*

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Beginning balance	$ 6,598	$ 6,753	$ 7,864
Provision for loan losses	1,361	850	808
Charge-offs	(1,466)	(1,327)	(2,048)
Recoveries	479	322	129
Ending Balance	**$ 6,972**	**$ 6,598**	**$ 6,753**

The following is a summary of information pertaining to impaired loans: *(dollars in thousands)*

As Of	Dec 2007	Dec 2006	Dec 2005
Impaired loans with a valuation reserve	$ 10,549	$ 3,088	$ 3,523
Impaired loans with no valuation reserve	841	204	356
Total Impaired Loans	**$ 11,390**	**$ 3,292**	**$ 3,879**
Valuation reserve on impaired loans	$ 956	$ 381	$ 570
Average impaired loans	$ 7,513	$ 3,508	$ 6,905

All loans were analyzed based on collateral analysis.

4. MORTGAGE BANKING ACTIVITIES

At December 31, 2007 and 2006, the Bank was servicing loans for others amounting to $54.3 million and $37.0 million, respectively consisting of commercial and commercial real estate participations. Management believes the Company receives adequate compensation for the servicing of the participation loans and therefore no servicing rights are generated by this activity. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. During 2006, the Company sold its mortgage servicing portfolio and related nonrecourse mortgage servicing rights for a gain on sale of $2.0 million.

Net gain on sale of loans was $1,497,000 for the year ended December 31, 2007 and $1,430,000 for the year ended December 31, 2006. The Bank is obligated to repurchase certain loans sold to others that become delinquent as defined by the various agreements. At December 31, 2007 and 2006, these obligations were approximately $7.5 million and $9.3 million, respectively. Management believes it is remote that, as of December 31, 2007, the Company would have to repurchase these obligations and therefore no reserve has been established for this purpose.

5. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following: *(dollars in thousands)*

As Of	Dec 2007	Dec 2006
Loans	$ 4,060	$ 3,959
Securities	507	434
Interest-bearing deposits	103	286
Total Accrued Interest Receivable	**$ 4,670**	**$ 4,679**

6. PREMISES AND EQUIPMENT

Premises and equipment consists of the following: *(dollars in thousands)*

As Of	Dec 2007	Dec 2006
Land	$ 2,427	$ 2,903
Buildings and improvements	15,404	19,594
Furniture and equipment	10,261	9,975
Total	28,092	32,472
Accumulated depreciation	(12,493)	(15,240)
Total Premises and Equipment	**$ 15,599**	**$ 17,232**

Depreciation expense included in operations for the years ended December 31, 2007, 2006 and 2005 totaled $1.5 million, $1.6 million, and $1.6 million, respectively. Premises and equipment decreased $1.6 million during 2007 as the Company completed a sale leaseback transaction involving four branch offices in the third quarter of 2007. This transaction provided $3.6 million in cash to fund loan growth. The gain on sale of $1.9 million was deferred and will be amortized into non interest income over the 15 year term of the leases.

7. DEPOSITS

Deposits are summarized as follows: *(dollars in thousands)*

	Dec 2007		Dec 2006	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Non-interest bearing	$ 69,728		$ 72,804	
Checking	103,624	1.98%	129,025	2.69%
Savings	37,513	0.15%	41,710	0.15%
Money market	185,803	3.38%	165,605	3.52%
Total transaction accounts	396,668	2.11%	409,144	2.29%
Certificates accounts:				
Less than one year	199,324	4.83%	127,888	4.92%
12-23 months	15,016	4.27%	34,709	4.64%
24-35 months	46,934	4.56%	72,849	4.15%
36-59 months	7,510	3.95%	10,084	3.51%
60-120 months	42,099	4.44%	72,485	4.70%
Total certificate accounts	310,883	4.69%	318,015	4.62%
Total Deposits	**$ 707,551**	**3.25%**	**$ 727,159**	**3.31%**

Certificate accounts include certificates of deposit and wholesale deposits. At December 31, 2007 and 2006, certificates accounts in amounts of

$100,000 or more totaled $85.7 million and $95.2 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 2007, 2006 and 2005

A summary of certificate accounts by scheduled maturities at December 31, 2007 is as follows: *(dollars in thousands)*

	2008	2009	2010	2011	2012	Thereafter	Total
1.99% or less	$ 186	$ -	$ -	$ -	$ -	$ -	$ 186
2.00% - 2.99%	1,249	-	72	-	-	-	1,321
3.00% - 3.99%	43,381	5,185	2,884	389	303	153	52,295
4.00% - 4.99%	83,612	19,068	3,391	4,322	4,704	1,121	116,218
5.00% - 5.99%	134,002	3,745	446	1,458	666	-	140,317
Over 6.00%	411	135	-	-	-	-	546
Total Certificate Accounts	**$ 262,841**	**$ 28,133**	**$ 6,793**	**$ 6,169**	**$ 5,673**	**$ 1,274**	**$ 310,883**

A summary of interest expense on deposits is as follows: *(dollars in thousands)*

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Checking	$ 1,698	$ 1,522	$ 467
Savings	63	70	76
Money market	5,869	4,982	2,438
Certificates accounts	15,029	12,805	10,284
Total Interest Expense	**$ 22,659**	**$ 19,379**	**$ 13,265**

8. FEDERAL HOME LOAN BANK ADVANCES

The Company was eligible to borrow from the FHLB additional amounts up to $28.5 million and $34.3 million at December 31, 2007 and 2006, respectively. The following FHLB borrowings were secured by assets totaling $329.9 million. The assets include securities and qualifying loans on residential properties, multifamily properties and commercial real estate. *(dollars in thousands)*

Maturing During Year Ended December 31	Amount	Weighted Average Rate
2008	$ 31,850	4.89%
2009	12,000	4.85%
2010	11,250	5.08%
2011	12,000	5.10%
2012	30,000	3.95%
Thereafter	2,249	6.51%
Total FHLB Borrowings	**$ 99,349**	**4.68%**

9. OTHER BORROWINGS

Junior Subordinated Debt

On September 15, 2006, the Company entered into several agreements providing for the private placement of $15,000,000 of Capital Securities due September 15, 2036 (the "Capital Securities"). The Capital Securities were issued by the Company's Delaware trust subsidiary, Home Federal Statutory Trust I (the "Trust"), to Bear, Stearns & Co., Inc. (the "Purchaser"). The Company bought $464,000 in Common Securities (the "Common Securities") from the Trust. The proceeds of the sale of Capital Securities and Common Securities were used by the Trust to purchase $15,464,000 in principal amount of Junior Subordinated Debt Securities (the "Debentures") from the Company pursuant to an Indenture (the "Indenture") between the Company and LaSalle Bank National Association, as trustee (the "Trustee").

The Common Securities and Capital Securities will mature in 30 years, will require quarterly distributions of interest and will bear a floating variable rate equal to the prevailing three-month LIBOR rate plus 1.65% per annum. Interest on the Capital Securities and Common Securities is payable quarterly in arrears each December 15, March 15, June 15 and September 15. The Company may redeem the Capital Securities and the Common Securities, in whole or in part, without penalty, on or after September 15, 2011, or earlier upon the occurrence of certain events described below with the payment of a premium upon redemption.

The Company, as Guarantor, entered into a Guarantee Agreement with LaSalle Bank National Association, as Guarantee

Trustee, for the benefit of the holders of the Capital Securities. Pursuant to the Guarantee Agreement, the Company unconditionally agreed to pay to the holders of the Capital Securities all amounts becoming due and payable with respect to the Capital Securities, to the extent that the Trust has funds available for such payment at the time. The Company's guarantee obligation under the Guarantee Agreement is a general unsecured obligation of the Company and is subordinate and junior in right of payment to all of the Company's long term debt.

The Debentures bear interest at the same rate and on the same dates as interest is payable on the Capital Securities and the Common Securities. The Company has the option, as long as it is not in default under the Indenture, at any time and from time to time, to defer the payment of interest on the Debentures for up to twenty consecutive quarterly interest payment periods. During any such deferral period, or while an event of default exists under the Indenture, the Company may not declare or pay dividends or distributions on, redeem, purchase, or make a liquidation payment with respect to, any of its capital stock, or make payments of principal, interest or premium on, or repay or repurchase, any other debt securities that rank equal or junior to the Debentures, subject to certain limited exceptions.

The Debentures mature 30 years after their date of issuance, and can be redeemed in whole or in part by the Company, without penalty, at any time after September 15, 2011. The Company may also redeem the Debentures upon the occurrence of a "capital treatment event," an "investment company event" or a "tax event" as defined in the Indenture, but if such redemption occurs prior to September 15, 2011, a premium will be payable to Debenture holders upon the redemption. The payment of principal and interest on the Debentures is subordinate and subject to the right of payment of all "Senior Indebtedness" of the Company as described in the Indenture.

Long Term Debt

The Company has a revolving note with LaSalle Bank N.A with an available balance of $17.5 million which matures February 15, 2009. The outstanding balance was zero at December 31, 2007 and 2006. The note accrues interest at a variable rate based on the ninety-day LIBOR index, on the date of the draw, plus 140 basis points (6.0% on December 31, 2007). Interest payments are due ninety days after the date of any principal draws made on the loan and every ninety days thereafter. The assets of the Company collateralized the borrowings under the note. Under terms of the agreement, the Company is bound by certain restrictive debt covenants relating to earnings, net worth and various financial ratios.

Other Borrowings

The Company has a $5.0 million overdraft line of credit with the Federal Home Loan Bank, none of which was used as of December 31, 2007 or 2006. The line of credit accrues interest at a variable rate (3.75% on December 31, 2007). The Company also has letters of credit for $1.4 million and $278,000, as of December 31, 2007 and 2006, respectively, none of which was used as of either year end. The Company has a contract with an official check overnight remittance service. The balance with the remittance service was $20,000 as of December 31, 2007 and zero as of December 31, 2006.

10. INCOME TAXES

An analysis of the income tax provision is as follows: *(dollars in thousands)*

	Year Ended Dec 2007	Year Ended Dec 2006	Year Ended Dec 2005
Current:			
Federal	$ 2,610	$ 4,202	$ 2,514
State	722	656	281
Deferred			
Federal	(164)	(1,552)	65
State	(32)	(489)	109
Income Tax Provision	**$ 3,136**	**$ 2,817**	**$ 2,969**

The difference between the financial statement provision and amounts computed by using the statutory rate of 34% is reconciled as follows: *(dollars in thousands)*

Period Ended	Dec 2007	Dec 2006	Dec 2005
Income tax provision at federal statutory rate	$ 3,148	$ 3,148	$ 3,084
State tax, net of federal tax benefit	456	110	256
Tax exempt interest	(300)	(315)	(206)
Increase in cash surrender value of life insurance	(171)	(157)	(152)
Other, net	3	31	(13)
Income Tax Provision	**$ 3,136**	**$ 2,817**	**$ 2,969**

The Company is allowed to deduct an addition to a reserve for bad debts in determining taxable income. This addition differs from the provision for loan losses for financial reporting purposes. No deferred taxes have been provided on the income tax bad debt reserves which total $6.0 million, for years prior to 1988. This tax reserve for bad debts is included in taxable income of later years only if the bad debt reserves are subsequently used for purposes other than to absorb bad debt losses. Because the Company does not intend to use the reserves for purposes other than to absorb losses, no deferred income taxes were provided at December 31, 2007 and 2006 respectively. Pursuant to Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes," the Company has recognized the deferred tax consequences of differences between the financial statement and income tax treatment of allowances for loan losses arising after June 30, 1987.

The Company's deferred income tax assets and liabilities, included in prepaid expenses and other assets, are as follows: *(dollars in thousands)*

As Of	Dec. 2007	Dec. 2006
Deferred tax assets:		
Bad debt reserves, net	$ 2,750	$ 2,602
Unrealized loss on securities available for sale	89	189
Capital loss on securities available for sale	-	771
Sale leaseback gain	751	-
Other	170	229
Deferred compensation	2,356	2,170
Total deferred tax assets	6,116	5,961
Deferred tax liabilities:		
Difference in basis of fixed assets	304	387
FHLB dividend	204	204
Deferred fees	610	595
Total deferred tax liabilities	1,118	1,186
Net Deferred Tax Asset	**$ 4,998**	**$ 4,775**

11. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possible additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's and 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 guidance. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures that have been established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table), of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). As of December 31, 2007, the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2007, the most recent notifications from the Federal Reserve categorized the Company and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed either entity's category.

A summary of capital amounts and ratios as of December 31, 2007 and 2006:
(dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total risk-based capital (to risk-weighted assets)						
Indiana Bank and Trust Company	$ 86,130	10.65%	$ 64,673	8.0%	$ 80,842	10.0%
Home Federal Bancorp Consolidated	$ 88,289	10.91%	$ 64,759	8.0%	$ 80,949	10.0%
Tier 1 risk-based capital (to risk-weighted assets)						
Indiana Bank and Trust Company	$ 79,158	9.79%	$ 32,337	4.0%	$ 48,505	6.0%
Home Federal Bancorp Consolidated	$ 81,317	10.05%	$ 32,380	4.0%	$ 48,569	6.0%
Tier 1 leverage capital (to average assets)						
Indiana Bank and Trust Company	$ 79,158	8.95%	$ 35,375	4.0%	$ 44,219	5.0%
Home Federal Bancorp Consolidated	$ 81,317	9.18%	$ 35,423	4.0%	$ 44,279	5.0%

	Actual		For Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total risk-based capital (to risk-weighted assets)						
Indiana Bank and Trust Company	$ 89,811	11.83%	$ 60,759	8.0%	$ 75,948	10.0%
Home Federal Bancorp Consolidated	$ 91,972	12.09%	$ 60,845	8.0%	$ 76,056	10.0%
Tier 1 risk-based capital (to risk-weighted assets)						
Indiana Bank and Trust Company	$ 83,213	10.96%	$ 30,379	4.0%	$ 45,569	6.0%
Home Federal Bancorp Consolidated	$ 85,374	11.23%	$ 30,423	4.0%	$ 45,634	6.0%
Tier 1 leverage capital (to average assets)						
Indiana Bank and Trust Company	$ 83,213	9.43%	$ 35,308	4.0%	$ 44,135	5.0%
Home Federal Bancorp Consolidated	$ 85,374	9.66%	$ 35,347	4.0%	$ 44,184	5.0%

Dividend Restrictions

The principal source of income and funds for the Company is dividends from the Bank. The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The Bank requested and received regulatory approval to pay $11.2 million and $7.5 million in dividends to its sole shareholder Home Federal Bancorp for the years ended December 2007 and 2006, respectively. In 2008, the Bank anticipates requesting regulatory approval to pay dividends to the Company.

Additionally eligible deposit account holders at the time of conversion, January 14, 1988, were granted priority in the event of a future liquidation of the Bank. Consequently, a special reserve account was established equal to the Bank's $9,435,000 equity at December 31, 1986. No dividends may be paid to shareholders or outstanding shares repurchased if such payments reduce the equity of the Bank below the amount required for the liquidation account.

12. EMPLOYEE BENEFIT PLANS

Multi-employer Pension Plan

The Company participates in a noncontributory multi-employer pension plan covering all qualified employees. The trustees of the Financial Institutions Retirement Fund administer the plan. There is no separate valuation of the plan benefits or segregation of plan assets specifically for the Company, because the plan is a multi-employer plan and separate actuarial valuations are not made with respect to each employer. However, as of June 30, 2007, the latest actuarial valuation, the total plan assets exceeded the actuarially determined value of accrued benefits. The Company had expenses of $1.2 million, $1.3 million and $1.3 million for the years ended December 2007, 2006 and 2005, respectively. Cash contributions to the multi-employer pension plan for these same periods were $1.2 million, $1.1 million and $1.4 million, respectively.

Supplemental Retirement Plan

The Company has entered into supplemental retirement agreements for certain officers (the "Plan"). These agreements are unfunded. However, the Company has entered into life insurance contracts to offset the expense of these agreements. Benefits under these arrangements are generally paid over a 15 year period. The following table sets forth the Plan's funded status and amount recognized in the Company's consolidated statements of income for the years ended December 31, 2007, 2006 and 2005, as well as the projected benefit cost for 2008: *(dollars in thousands)*

	Projected Dec 2008	Dec 2007	Dec 2006	Dec 2005
Economic assumptions:				
Discount rate		6.0%	5.8%	5.8%
Salary rate		4.0%	4.0%	4.0%
Components of net periodic pension expense:				
Interest cost on projected benefit obligation	$ 242	$ 222	$ 197	$ 197
Service cost	104	101	100	91
Prior service cost	99	93	61	53
Net Periodic Benefit Cost	**$ 445**	**$ 416**	**$ 358**	**$ 341**

A reconciliation of the prior and ending balances of the Projected Benefit Obligation ("PBO") for 2007 and 2006 is as follows: *(dollars in thousands)*

	Dec 2007	Dec 2006
Projected benefit obligation at beginning of year	$ 3,647	$ 3,522
Interest cost	222	197
Service cost	101	100
Actuarial loss	411	47
Benefits paid during year	(219)	(219)
Projected Benefit Obligation at End of Year (unfunded status)	**$ 4,162**	**$ 3,647**

In September 2006, the FASB issued SFAS No. 158. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its consolidated financial statements and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. A summary of the Plan's funded status at December 31, 2007 and 2006 is as follows: *(dollars in thousands)*

	Dec 2007	Dec 2006
Accrued benefit cost at beginning of year	$ 2,667	$ 2,528
Benefit cost	416	358
Benefits paid	(219)	(219)
Accrued Benefit Cost at End of Year	**$ 2,864**	**$ 2,667**
Unfunded status at End of Year	$ 4,162	$ 3,647
Balance sheet adjustment at End of Year	1,298	980
Accumulated other comprehensive income End of Year	784	592

Other changes in plan assets and benefit obligations recognized in other comprehensive income are as follows for the years ended December 31, 2007 and 2006: *(dollars in thousands)*

	Dec 2007	Dec 2006
Net loss	$ 372	$ 472
Amortization of prior service cost	(54)	508
Total recognized in other comprehensive income	$ 318	$ 980
Total recognized in net periodic benefit cost and other comprehensive income	$ 734	$ 1,337

The estimated net loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $45,000 and $54,000, respectively. As of December 31, 2007, the projected benefit obligation and the accumulated benefit obligation are $4.2 million and $4.0 million, respectively.

Prior service cost is amortized over the estimated remaining employee service lives of approximately eight years. The Company expects to make contributions of $445,000 to the plan in 2008. The Bank anticipates paying benefits over the next five years and in the aggregate for the five years thereafter as follows: 2008 - $226,000, 2009 - $212,000, 2010 - $258,000, 2011 - $262,000, 2012 - $263,000 and 2013 through 2017 - $1,792,000.

401(k) Plan

The Company has an employee thrift plan established for substantially all full-time employees. The Company has elected to make matching contributions equal to 50% of the employee contributions up to a maximum of 1.5% of an individual's total eligible salary. The Company contributed $136,000, $126,000 and $121,000, during the years ended December 31, 2007, 2006 and 2005, respectively, to this plan.

13. STOCK OPTIONS

The Company has stock option plans for the benefit of officers, other key employees and directors. As of December 31, 2007, the plans were authorized to grant additional options to purchase 230,662 shares of the Company's common stock. The option price is not to be less than the fair market value of the common stock on the date the option is granted, and the stock options are exercisable at any time within the maximum term of 10 years and one day from the grant date, limited by general vesting terms up to a maximum amount of $100,000 per year on incentive stock options. The options are nontransferable and are forfeited upon termination of employment, except in case of retirement, in which case the options are exercisable for three years after date of retirement. The Company issues new common shares to satisfy exercises of stock options.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (R) “Share-Based Payment” (“SFAS 123(R)”). Under the modified prospective method of adoption selected by the Company, compensation expense related to stock options is recognized beginning January 1, 2006 for any new awards issued after this date, as well as for any previously-issued awards vesting on or after January 1, 2006. The pre-tax compensation cost charged against income and the related income tax benefit recognized in the December 31, 2007 income statement was $137,000 and $46,000, respectively.

No options were granted during the year ended December 31, 2007. The weighted average grant date fair value of options granted December 31, 2006 and 2005 was $5.58 and $5.00, respectively. The Company estimates the fair value of each option on the date of grant using the Black Scholes model. The Black Scholes model uses the following assumptions: 1.) expected life in years which is based on historical employee behavior; 2.) annualized volatility which is based on the price volatility of the Company’s stock over the expected life of the option; 3.) annual rate of quarterly dividends based on most recent historical rate; 4.) the discount rate based on the zero coupon bond with a term equal to the expected life of the option; and 5.) assuming no forfeitures of options. The fair value of options granted in 2006 was calculated using the following assumptions: dividend yield of 2.81% to 3.08%; risk-free interest rates of 4.53% to 4.90%; expected volatility of 18.75% to 21.07%; and expected life of 5.91 to 6.03 years. The fair value of options granted in 2005 was calculated using the following assumptions: dividend yield of 2.97% to 3.07%; risk-free interest rates of 3.68% to 4.11%; expected volatility of 22.13% to 22.38%; and expected life of 5.91.

The following is the stock option activity for the years ended December 31, 2007, 2006 and 2005 and the stock options outstanding at the end of the respective periods:

Options	Shares	Weighted Average Exercise Price	Weighted Average Life (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2004	686,658			
Granted	50,000			
Forfeited	(9,875)			
Exercised	(109,066)			
Outstanding December 31, 2005	617,717	$ 21.86		
Granted	97,500	26.87		
Forfeited	(3,000)	26.90		
Exercised	(104,724)	18.74		
Outstanding December 31, 2006	607,493	$ 23.17		
Forfeited	(53,531)	25.58		
Exercised	(148,010)	22.48		
Outstanding December 31, 2007	**405,952**	$ 23.11	4.3	$989,000
Exercisable at December 31, 2007	**359,193**	$ 22.62	3.8	$1,051,000

Options outstanding at December 31, 2007 include vested options and options expected to vest, assuming no forfeitures. As of December 31, 2007, there was approximately $89,000 of unrecognized compensation cost related to the unvested shares; that cost is expected to be recognized over the remaining vesting period, which approximates 3 years. The total intrinsic value of options exercised for the year ended December 31, 2007 was $763,000. During 2007, 2006 and 2005, the Company received $3,300,000, $1,962,000 and $1,846,000, respectively, from stock options exercised. Additionally, the Company received a tax benefit from options which had been exercised of $339,000, $133,000 and $270,000 in 2007, 2006, and 2005, respectively.

14. COMMITMENTS

Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company makes various commitments to extend credit that are not reflected in the accompanying consolidated balance sheets. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are cancelled upon expiration of the commitment term as outlined in each individual contract. The following table summarizes the Company's significant commitments: *(dollars in thousands)*

	Dec 2007	Dec 2006
Commitments to extend credit:		
Commercial mortgage loans and commercial loans	$ 141,490	$ 123,734
Residential mortgage loans	18,451	23,184
Revolving home equity lines of credit	44,499	52,616
Other	19,806	20,812
Standby letters of credit	6,501	4,457
Commitments to sell loans:		
Residential mortgage loans	8,572	8,976
Commercial mortgage loans and commercial loans	21,285	6,262

Management believes that none of these arrangements exposes the Company to any greater risk of loss than already reflected on our balance sheet so accordingly no reserves have been established for these commitments.

The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit is represented by the contract amount of those instruments. The Company uses the same credit policies and collateral requirements in making commitments as it does for on-balance sheet instruments.

Lease Obligations

The Company leases banking facilities and other office space under operating leases that expire at various dates through 2022 and that contain certain renewal options. Rent expenses charged to operations were $242,000, $113,000, and $76,000 for the years ended December 31, 2007, 2006, and 2005, respectively. As of December 31, 2007, future minimum annual rental payments under these leases are as follow: *(dollars in thousands)*

Year Ended December		Amount
2008	$	420
2009		424
2010		435
2011		444
2012		314
Thereafter		3,443
Total Minimum Operating Lease Payments	**$**	**5,480**

Employment Agreements

The Company has entered into change in control agreements with certain executive officers. Under certain circumstances provided in the agreements, the Company may be obligated to pay three times such officer's base salary and to continue their health insurance coverage for twelve months.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The disclosure of the estimated fair value of financial instruments is as follows: *(dollars in thousands)*

	Dec 2007		Dec 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and due from banks	$ 40,552	$ 40,552	$ 106,063	$ 106,063
Securities available for sale	62,306	62,306	56,887	56,887
Securities held to maturity	1,557	1,558	1,635	1,628
Loans held for sale	7,112	7,250	6,925	7,055
Loans, net	742,874	748,545	675,662	667,573
Accrued interest receivable	4,670	4,670	4,679	4,679
Federal Home Loan Bank stock	8,329	8,329	8,329	8,329
Liabilities:				
Deposits	707,551	711,344	727,159	726,300
FHLB borrowings	99,349	101,409	68,667	68,723
Junior subordinated debt	15,464	15,520	15,464	14,999
Short-term borrowings	20	20	-	-
Advance payments by borrowers for taxes and insurance	233	233	354	354
Accrued interest payable	541	541	715	715
Financial Instruments:				
Commitments to extend credit	129	129	25	25
Interest rate swaps	(70)	(70)	(86)	(86)

The Company, using available market information and appropriate valuation methodologies, has determined the estimated fair values of financial instruments. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash, Interest-bearing Deposits, Accrued Interest Receivable, Advance Payments by Borrowers for Taxes and Insurance, Accrued Interest Payable and Short-term Borrowings
The carrying amount as reported in the Consolidated Balance Sheets is a reasonable estimate of fair value.

Securities Held to Maturity and Available for Sale
Fair values are based on quoted market prices and dealer quotes. If quoted market prices or dealer quotes are not available, fair value is determined based on quoted prices of similar instruments.

Loans Held for Sale and Loans, net
The fair value is estimated by discounting the future cash flows using the current rates for loans of similar credit risk and maturities. The estimate of credit losses is equal to the allowance for loan losses.

Federal Home Loan Bank Stock
The fair value is estimated to be the carrying value, which is par.

Deposits
The fair value of demand deposits, savings accounts and money market deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated, by discounting future cash flows, using rates currently offered for deposits of similar remaining maturities.

FHLB Borrowings
The fair value is estimated by discounting future cash flows using rates currently available to the Company for advances of similar maturities.

Junior Subordinated Debt and Long Term Debt
Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Interest Rate Swaps
The fair value is derived from models based upon well-recognized financial principles which management believes provide a reasonable approximation of the fair value of the interest rate swap transactions.

Commitments
The commitments to originate and purchase loans have terms that are consistent with current market conditions. The carrying value of the commitments to extend credit represent the unamortized fee income assessed based on the credit quality of the borrower. Since the amount assessed represents the market rate that would be charged for similar agreements, management believes that the fair value approximates the carrying value of these instruments.

The fair value estimates presented herein are based on information available to management at December 31, 2007 and 2006. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

16. PARENT COMPANY FINANCIAL STATEMENTS

The condensed financial statements of Home Federal Bancorp are as follows: *(dollars in thousands)*

As of		Dec 2007		Dec 2006
Condensed Balance Sheets *(Parent Company only)*				
Assets:				
Cash	$	2,203	$	1,406
Investment in subsidiary		81,184		84,958
Other		709		578
Total Assets	**$**	**84,096**	**$**	**86,942**
Liabilities:				
Junior subordinated debt	$	15,464	$	15,464
Other		1,178		197
Total liabilities		16,642		15,661
Shareholders' equity		67,454		71,281
Total Liabilities and Shareholders' Equity	**$**	**84,096**	**$**	**86,942**

Period Ended		Dec 2007		Dec 2006		Dec 2005
Condensed Statements of Income *(Parent Company only)*						
Dividends from subsidiary	$	11,246	$	7,548	$	8,172
Interest on securities		33		10		-
Other		-		39		176
Total income		11,279		7,597		8,348
Interest on junior subordinated debt		1,110		326		-
Interest on long term debt		6		650		808
Non interest expenses		820		902		971
Total expenses		1,936		1,878		1,779
Income before taxes and change in undistributed earnings of subsidiary		9,343		5,719		6,569
Applicable income tax benefit		(689)		(637)		(507)
Income before change in undistributed earnings of subsidiary		10,032		6,356		7,076
Increase/(decrease) in undistributed earnings of subsidiary		(3,909)		85		(974)
Net Income	**$**	**6,123**	**$**	**6,441**	**$**	**6,102**

Period Ended	Dec 2007	Dec 2006	Dec 2005
Condensed Statements of Cash Flows *(Parent Company only)*			
Operating Activities:			
Net income	$ 6,123	$ 6,441	$ 6,102
Adjustments to reconcile net income to net cash provided by operating activities:			
Benefit for deferred income taxes	-	(7)	-
(Increase)/decrease in other assets	(131)	(500)	49
Increase in other liabilities	1,026	585	480
(Increase)/decrease in undistributed earnings of subsidiary	3,909	(85)	974
Net cash provided by operating activities	10,927	6,434	7,605
Financing Activities:			
Payment of dividends on common stock	(2,820)	(2,913)	(2,909)
Repurchase shares of common stock	(10,976)	(8,576)	(8,086)
Excess tax benefit related to stock based compensation	339	133	270
Exercise of stock options	3,327	1,962	1,846
Net cash used in financing activities	(10,130)	(9,394)	(8,879)
Net increase/(decrease) in cash	797	(2,960)	(1,274)
Cash at beginning of period	1,406	4,366	5,640
Cash at End of Period	**$ 2,203**	**$ 1,406**	**$ 4,366**

Board of Directors & Officers
Of Home Federal Bancorp

Board of Directors

John K. Keach, Jr.
Chairman of the Board, President
and Chief Executive Officer,
Home Federal Bancorp

John T. Beatty
President,
Beatty Insurance, Inc.

William Blaser, CPA
Managing Principal,
L M Henderson & Co.

Harold Force
President,
Force Construction Company, Inc.

David W. Laitinen, MD
Orthopedic Surgeon

John M. Miller
President,
Best Beers, Inc.

Harvard W. Nolting, Jr.
Retired from Nolting Foods, Inc.

John K. Keach, Sr.
Chairman Emeritus
Retired

The Directors of Home Federal
Bancorp also serve as Directors
of Indiana Bank and Trust Company.

Officers

John K. Keach, Jr.
Chairman of the Board,
President and
Chief Executive Officer

Mark T. Gorski
Executive Vice President,
Chief Financial Officer, Treasurer
and Secretary

Charles R. Farber
Executive Vice President,
Indianapolis Market President

Officers of Indiana Bank and Trust Company

Executive Officers

John K. Keach, Jr.
Chairman of the Board, President
and Chief Executive Officer

Mark T. Gorski
Executive Vice President,
Chief Financial Officer, Treasurer
and Secretary

Charles R. Faber
Executive Vice President,
Indianapolis Market President

Senior Vice Presidents

J. Andrew Applewhite
Lending Operations

William Denton
Commercial Officer

Barry Kehl
Chief Credit Officer

Keith Luken
Mortgage Lending

Melissa McGill
Controller

Jennifer Manns
Operations

Pennie Stancombe
Human Resources

John Schilling
Commercial Real Estate Lending

John Travis
Commercial Officer

LuAnne Whewell
Marketing/Branch Administration

Shareholder Information

Stock Listing

The common stock of Home Federal Bancorp is traded on the National Association of Securities Dealers Automated Quotation System, Global Market, under the HOMF. Home Federal Bancorp stock appears in The Wall Street Journal under the abbreviation HomFedBcpIN, and in other publications under the abbreviation HFdBcp. Subject to shareholder approval of the Company's name change, the common stock of Indiana Community Bancorp is expected to be traded on NASDAQ under the symbol INCB. Indiana Community Bancorp stock abbreviations in the Wall Street Journal and other publications are not yet know.

Transfer Agent & Registrar

To change name, address or ownership of stock, to report lost certificates, or to consolidate accounts, contact:

LaSalle Bank National Association
Corporate Trust Shareholder Services
480 Washington Blvd.
Jersey City, NJ 07310-1900
(866) 892-5628

General Counsel

Barnes & Thornburg
11 South Meridian Street

For copies of the Home Federal Bancorp Annual Report, contact:

Donna Maxie

Home Federal Bancorp

3801 Tupelo Dr.

Columbus, IN 47201

(812) 376-3323

(877) 626-7000

For Financial Information and Security Analyst Inquires, Please Contact:

Mark T. Gorski
Home Federal Bancorp
501 Washington Street
Columbus, IN 47201
(812) 376-3323
(877) 626-7000

For An Online Annual Report or Shareholder Inquires On The Web, Visit Us At:

Indianapolis, IN 46204 www.myindianabank.com

Shareholder & General Inquiries

Home Federal Bancorp is required to file an Annual Report on Form 10-K for its fiscal year ended December 31, 2007, with the Securities and Exchange Commission.

Office Locations

Seymour
222 West Second Street
1117 East Tipton Street

Columbus
501 Washington Street
1020 Washington Street
3805 25th Street
2751 Brentwood Drive
4330 West Jonathan Moore Pike
1901 Taylor Road (Four Seasons)

Hope
8475 North State Road 9

Austin
67 West Main Street

North Vernon
111 North State Street
1540 North State Street

Osgood
820 South Buckeye Street

Batesville
114 State Road 46 East

Madison
201 Clifty Drive

Brownstown
101 North Main Street

Salem
1208 South Jackson Street

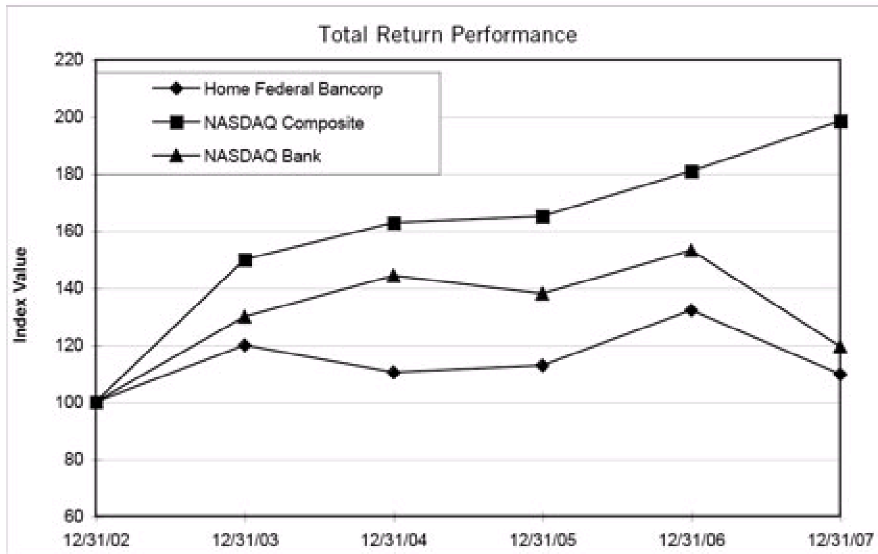
Greensburg
1801 Greensburg Crossing

Indianapolis/Greenwood
8740 South Emerson Avenue
1510 West Southport Road
10 West Market Street
(Commercial Loan Office)

Performance Graph

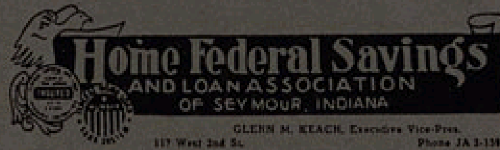
The graph below shows the performance of HomeFederal Bancorp's common stock for the period beginning December 31, 2002 and ending December 31, 2007, in comparison to the NASDAQ Composite index and the NASDAQ Bank index. The graph assumes that the value of the investment in our common stock and in each of the indexes (including reinvestment of dividends) was $100 on 12/31/2002 and tracks it through 12/31/2007.

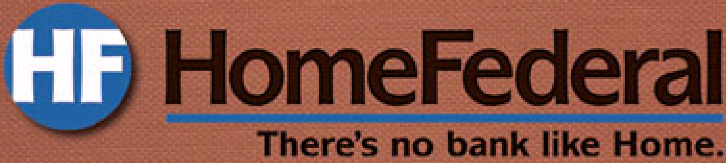
Graph provided by SNL Financial LC.



New
Building & Loan
Association

HOME SAVINGS AND LOAN ASSOCIATION
SEYMOUR, INDIANA





Section 3: EX-21.(3) (EXHIBIT 21.3 CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)

Exhibit 21.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-76036, 33-99096, 333-35122 and 333-81916 on Form S-8 of our reports dated March 14, 2008, relating to the consolidated financial statements of Home Federal Bancorp and subsidiaries, and the effectiveness of Home Federal Bancorp's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Home Federal Bancorp for the year ended December 31, 2007.

/s/Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
March 14, 2008

Section 4: EX-31.(1) (CERTIFICATION)

Exhibit 31.1

CERTIFICATION

I, John K. Keach, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Home Federal Bancorp;

2. Based on my knowledge, this 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 officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d - 15(f)) 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) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's 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 the 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 reasonably 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 14, 2008

/s/ John K. Keach, Jr.
John K. Keach, Jr., President and Chief Executive Officer

Section 5: EX-31.(2) (CERTIFICATION)

Exhibit 31.2

CERTIFICATION

I, Mark T. Gorski, certify that:

1. I have reviewed this annual report on Form 10-K of Home Federal Bancorp;

2. Based on my knowledge, this 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 officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d - 15(f)) 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) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's 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 the 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 reasonably 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 14, 2008

/s/ Mark T. Gorski
Mark T. Gorski, Chief Financial Officer

Section 6: EX-32 (CERTIFICATION)

Exhibit 32

CERTIFICATION

By signing below, each of the undersigned officers hereby certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his or her knowledge, (i) this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Home Federal Bancorp.

Signed this 14th day of March 2008.

/s/ Mark T. Gorski	/s/ John K. Keach, Jr.
(Signature of Authorized Officer)	(Signature of Authorized Officer)
Mark T. Gorski	John K. Keach, Jr.
(Typed Name)	(Typed Name)
Chief Financial Officer	President and Chief Executive Officer
(Title)	(Title)

A signed original of this written statement required by Section 906 has been provided to and is being retained by Home Federal Bancorp and will be forwarded to the Securities and Exchange Commission or its staff upon request.