

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Form ARS

October 10, 2008

2008 Annual Report

to Shareholders

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PRESIDENT'S LETTER TO SHAREHOLDERS

To our Shareholders:

Fiscal 2008 was a challenging and eventful year for Home Federal Bancorp as management and the Board of Directors embarked on a new business strategy which was ultimately impacted by the continuing turmoil in the financial markets. In December 2007, the Board of Directors approved a strategy to diversify and grow Home Federal Bancorp through the conversion of Home Federal Mutual Holding Company, reorganization of Home Federal Bancorp as a fully-public stock holding company and the simultaneous acquisition of a local financial institution and its holding company which would have more than doubled the asset size of Home Federal Bancorp. Unfortunately, market conditions for bank and thrift stocks changed significantly after we began the stock offering process. The ongoing problems in the residential mortgage lending market depressed the securities market for most financial institutions which adversely affected our ability to complete the stock offering. Fortunately, while there continues to be instability in the mortgage lending market, our loan quality remains strong with no non-performing loans at June 30, 2008. In August 2008, we terminated the stock offering and the acquisition which was contingent on completion of the offering. As a result, our earnings for fiscal 2008 were negatively impacted by the recognition of \$883,000 in merger and stock issuance expense.

Although we were not able to implement the conversion and acquisition, we remain committed to building on Home Federal Bancorp's core strengths, operating a profitable community-oriented financial institution and implementing elements of our business strategy including:

Growing and diversifying our loan portfolio by increasing our originations of commercial real estate and business loans;

Diversifying our products and services; and

Enhancing core earnings.

In August 2008, we adopted our third stock repurchase program since Home Federal Bancorp's initial public offering completed in January 2005. The new repurchase plan provides for the repurchase of up to 125,000 shares, or approximately 10.0% of Home Federal Bancorp's outstanding common stock held by shareholders other than Home Federal Mutual Holding Company.

Home Federal Bancorp continues to benefit from the strong economic outlook in the Shreveport-Bossier City market area. Construction, educational and health services, information, and leisure and hospitality sectors are expected to be the primary sources for employment growth in the near future. Approximately \$1.0 billion in public- and private-sector construction projects are currently planned or in process, including the construction of two steel manufacturing plants at the Port of Shreveport-Bossier, the recently completed Shreveport Convention Center and InterTech Science Park and a \$500 million redevelopment project in central Shreveport. Barksdale AFB, located in Bossier Parish, employs an estimated 7,900 active duty and reserve personnel and 2,000 civilian and contract employees. The Air Force Cyberspace Command is being considered for location at Barksdale AFB. In an effort to persuade the Air Force, Bossier City officials have broken ground on a Cyber Innovation Center and National Cyber Research Park, a private/public partnership between industry, government and academia. We expect that the developments will have a significant impact on the local economy due to the high salaries associated with the engineering and technical consulting positions that will be created at the base and by its contractors.

Fiscal 2009 will present Home Federal Bancorp with new challenges; however, we are hopeful that there will be new opportunities as well. The Board of Directors, senior management and staff of Home Federal Bancorp are committed to addressing the challenges and pursuing the opportunities that lie ahead.

Thank you for the trust you have placed in us and your continued support.

Daniel R. Herndon
President and Chief Executive Officer

Home Federal Bancorp, Inc. of Louisiana

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial and other data does not purport to be complete and is qualified in its entirety by the more detailed financial information contained elsewhere herein. You should read the consolidated financial statements and related notes contained in this Annual Report.

	At or For the Year Ended June 30,	
(Dollars in Thousands, except per share data)	2008	2007
Selected Financial and Other Data:		
Total assets	\$ 137,715	\$ 118,785
Cash and cash equivalents	7,363	3,972
Securities available for sale	96,324	83,752
Securities held to maturity	1,688	1,408
Loans held-for-sale	852	1,478
Loans receivable, net	28,263	25,211
Deposits	78,359	77,710
FHLB advances	26,876	12,368
Total Stockholders' Equity	27,874	27,812
Full service offices	3	3
Selected Operating Data:		
Total interest income	\$ 7,004	\$ 6,590
Total interest expense	3,968	3,448
Net interest income	3,036	3,142
Provision for loan losses	--	1
Net interest income after provision for loan losses	3,036	3,141
Total non-interest income	198	240
Total non-interest expense	(3,359)	(2,417)
(Loss) income before income taxes	(125)	964
Income tax (benefit) expense	(43)	327
Net (loss) income	\$ (82)	\$ 637
Selected Operating Ratios(1):		
Average yield on interest-earning assets	5.39%	5.69%
Average rate on interest-bearing liabilities	4.00	3.84
Average interest rate spread(2)	1.39	1.85
Net interest margin(2)	2.33	2.71
Average interest-earning assets to average interest-bearing liabilities	131.06	128.93
Net interest income after provision for loan losses to non-interest expense	90.38	129.95
Total non-interest expense to average assets	2.52	2.00
Efficiency ratio(3)	103.87	71.49
Return on average assets	(.06)	.53
Return on average equity	(2.48)	2.13
Average equity to average assets	24.83	24.82
Asset Quality Ratios(4):		
Non-performing loans as a percent of total loans receivable(5)	--%	.46%

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Non-performing assets as a percent of total assets(5)	.04	.10
Allowance for loan losses as a percent of total loans receivable	.82	.92
Net charge-offs to average loans receivable	--	--
Association Capital Ratios(4):		
Tangible capital ratio	20.21%	22.79%
Core capital ratio	20.21	22.79
Total capital ratio	73.08	80.63

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- (1) With the exception of end of period ratios, all ratios are based on average monthly balances during the indicated periods.
- (2) Average interest rate spread represents the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities, and net interest margin represents net interest income as a percentage of average interest-earning assets.
- (3) The efficiency ratio represents the ratio of non-interest expense divided by the sum of net interest income and non-interest income.
- (4) Asset quality ratios and capital ratios are end of period ratios, except for net charge-offs to average loans receivable.
- (5) Non-performing assets consist of non-performing loans at June 30, 2008 and 2007. Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due. Home Federal Savings and Loan did not have any real estate owned or troubled debt restructurings at June 30, 2007. Real estate owned at June 30, 2008 amounted to \$52,000.

Home Federal Bancorp, Inc. of Louisiana

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

General

Our profitability depends primarily on our net interest income, which is the difference between interest and dividend income on interest-earning assets, principally loans, investment securities and interest-earning deposits in other institutions, and interest expense on interest-bearing deposits and borrowings from the Federal Home Loan Bank of Dallas. Net interest income is dependent upon the level of interest rates and the extent to which such rates are changing. Our profitability also depends, to a lesser extent, on non-interest income, provision for loan losses, non-interest expenses and federal income taxes. Home Federal Bancorp, Inc. of Louisiana had a net loss of \$82,000 in fiscal 2008 and net income of \$637,000 in fiscal 2007.

Historically, our business has consisted primarily of originating single-family real estate loans secured by property in our market area. Typically, single-family loans involve a lower degree of risk and carry a lower yield than commercial real estate, construction, commercial business and consumer loans. Our loans are primarily funded by certificates of deposit, which typically have a higher interest rate than passbook accounts. The combination of these factors has resulted in low interest rate spreads and returns on equity. Due to the low interest rate environment, a significant amount of our loans have been refinanced in recent years. Rather than reinvest the proceeds from these refinancings in long-term, low yielding loans, we have invested in marketable securities in order to position ourselves more favorably for a rising interest rate environment. Because investment securities generally yield less than loans, however, our net interest margin has been further pressured and our net interest income has remained stable at \$3.0 million for fiscal 2008 and \$3.1 million for fiscal 2007. Although we may attempt to diversify into greater consumer and commercial lending in the future in order to improve the yield on our portfolio, we presently anticipate that our lending business will continue to consist primarily of originating single-family mortgages funded through deposits.

During fiscal 2008, Home Federal Bancorp entered into an Agreement and Plan of Merger with First Louisiana Bancshares, Inc., pursuant to which Home Federal Bancorp would acquire First Louisiana Bancshares and its wholly-owned subsidiary, First Louisiana Bank. Simultaneously with the adoption of the Agreement and Plan of Merger, Home Federal Mutual Holding Company adopted a Plan of Conversion and Reorganization whereby Home Federal Mutual Holding Company would convert from the mutual holding company form of organization to the fully public stock holding company form of organization and offer shares of a new holding company to its members and the general public in a subscription and community offering. At the close of the offering period in August 2008, the orders received were not sufficient to reach the required minimum of the offering range. As a result, Home Federal Bancorp's second-step conversion and offering terminated and, as of August 14, 2008, Home Federal Bancorp and First Louisiana Bancshares mutually agreed to terminate the Agreement and Plan of Merger. Completion of the merger was contingent on completion of the second-step conversion. During fiscal 2008, Home Federal Bancorp incurred related merger and stock issuance expenses of \$883,000.

Home Federal Bancorp's operations and profitability are subject to changes in interest rates, applicable statutes and regulations and general economic conditions, as well as other factors beyond our control.

Forward-Looking Statements Are Subject to Change

We make certain statements in this document as to what we expect may happen in the future. These statements usually contain the words "believe," "estimate," "project," "expect," "anticipate," "intend" or similar expressions. Because these statements look to the future, they are based on our current expectations and beliefs. Actual results or events may differ materially from those reflected in the forward-looking statements. You should be aware that our current

expectations and beliefs as to future events are subject to change at any time, and we can give you no assurances that the future events will actually occur.

Critical Accounting Policies

In reviewing and understanding financial information for Home Federal Bancorp, you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 1 of the notes to our consolidated financial statements included in this Annual Report. Our accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and li