Home Federal Bancorp, Inc.
Form 10-K
March 15, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2012
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-33795
HOME FEDERAL BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	68-0666697
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 12th Avenue South, Nampa, Idaho	83651
(Address of principal executive offices)	(Zip Code)
Registrant’s telephone number, including area code:	(208) 466-4634

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

Common Stock, par value $.01 per share	Nasdaq Global Select Market
(Title of Each Class)	(Name of Each Exchange on Which Registered)
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 (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes [X] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.	Yes [X] No [ ]

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 definition 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 [ ] Yes [ ]

As of March 4, 2013, there were 14,487,691 shares of the registrant’s common stock outstanding. The aggregate market value of the voting stock held by nonaffiliates of the registrant based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Global Select Market on June 30, 2012, was approximately $154,894,000 (14,751,783 shares at $10.50 per share).

DOCUMENTS INCORPORATED BY REFERENCE
Part II and Part III - Portions of the Registrant’s definitive Proxy Statement for its 2013 Annual Meeting of Stockholders.

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Forward-Looking Statements and “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as “believes,” “intends,” “expects,” “anticipates,” “estimates” or similar expressions. Forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- changes in general economic conditions, either nationally or in our market areas;
- changes in the levels of general interest rates, and the relative differences between short-term and long-term interest rates, deposit interest rates, our net interest margin and funding sources;
- risks related to acquiring assets in or entering markets in which we have not previously operated and may not be familiar;
- fluctuations in the demand for loans, the number of unsold homes and properties in foreclosure and fluctuations in real estate values in our market areas;
- results of examinations of the Company by the Federal Reserve Board and of our bank subsidiary by the Federal Deposit Insurance Corporation (FDIC) and the Idaho Department of Finance or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings and could increase our deposit premiums;
- legislative or regulatory changes, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and its implementing regulations that adversely affect our business, as well as changes in regulatory policies and principles or the interpretation of regulatory capital or other rules, including as a result of Basel III;
- our ability to attract and retain deposits;
- increases in premiums for deposit insurance;
- our ability to realize the residual values of our leases;
- our ability to control operating costs and expenses;
- the use of estimates in determining the fair value of certain of our assets or cash flows on purchased credit impaired loans, which estimates may prove to be incorrect and result in significant declines in valuation;
- difficulties in reducing risks associated with the loans on our balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- computer systems on which we depend could fail or experience a security breach;
- our ability to retain key members of our senior management team;
- costs and effects of litigation, including settlements and judgments;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- the possibility that the expected benefits from acquisitions will not be realized;

- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common stock;
- adverse changes in the securities markets and the value of our investments;
- the inability of key third-party providers to perform their obligations to us;

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- changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described as detailed from time to time in our filings with the SEC, including this 2012 Form 10-K and our subsequently filed Quarterly Reports on Form 10-Q. Such developments could have an adverse impact on our financial position and our results of operations.

Some of these and other factors are discussed in this Annual Report on Form 10-K under the caption “Risk Factors” and elsewhere in this document and in the documents incorporated by reference herein. Such developments could have an adverse impact on our financial position and our results of operations.

Any of the forward-looking statements that we make in this annual report and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements. We undertake no obligation to publish revised forward-looking statements to reflect the occurrence of unanticipated events or circumstances after the date hereof. These risks could cause our actual results for fiscal year 2013 and beyond to differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect our financial condition, liquidity and operating and stock price performance.

As used throughout this report, the terms “we”, “our”, “us” or the “Company” or "Home Federal Bancorp" refer to Home Federal Bancorp, Inc., and its consolidated subsidiaries, including Home Federal Bank ("Bank"), unless the context otherwise requires.

PART I.

Item 1. Business

Organization

Home Federal Bancorp, Inc., a Maryland corporation, was organized by Home Federal Mutual Holding Company (MHC), Home Federal Bancorp, Inc., and Home Federal Bank to facilitate the “second-step” conversion of the Bank from the mutual holding company structure to the stock holding company structure (Conversion). Upon consummation of the Conversion, which occurred on December 19, 2007, the Company became the holding company for Home Federal Bank and now owns all of the issued and outstanding shares of the Bank’s common stock. As part of the Conversion, shares of the Company’s common stock were issued and sold in an offering to certain depositors of the Bank and others. Concurrent with the offering, each share of MHC’s common stock owned by public shareholders was exchanged for 1.136 shares of the Company’s common stock, which resulted in an 853,133 increase in outstanding shares, with cash being paid in lieu of issuing any fractional shares.

As part of the Conversion, a total of 9,384,000 new shares of the Company were sold in the offering at $10 per share. Proceeds from the offering totaled $87.8 million, net of offering costs of approximately $5.9 million. The Company contributed $48.0 million or approximately 50% of the net proceeds to the Bank in the form of a capital contribution. The Company loaned $8.2 million to the Bank’s Employee Stock Ownership Plan (ESOP) and the ESOP used those funds to acquire 816,000 shares of the Company’s common stock at $10 per share.

The Conversion was accounted for as a reorganization in corporate form with no change in the historical basis of the Company’s assets, liabilities or stockholders’ equity. All references to the number of shares outstanding, including references for purposes of calculating per share amounts, are restated to give retroactive recognition to the exchange ratio applied in the Conversion.

On May 31, 2011, the Company completed its reorganization from a savings and loan holding company to a bank holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve). In connection with the Company’s holding company reorganization, the Bank completed its charter conversion by converting from a federally-chartered stock savings bank to an Idaho commercial bank. As a result of the reorganization and charter conversion, the Company’s primary regulator changed from the Office of Thrift Supervision (OTS) to the Federal Reserve and the Bank’s primary regulator changed from the OTS to the Idaho Department of Finance (Department). The Bank continues to be regulated by the FDIC as insurer of its deposits.

On January 24, 2012, the Company reported its decision to change its fiscal year end to December 31 from a fiscal year ending on September 30, effective January 1, 2012. This change in fiscal year end makes the Company’s year-end coincide with the regulatory reporting periods now effective with the Company’s reorganization to a bank holding company and the Bank’s conversion to a commercial bank. As a result of the change in fiscal year, the Company filed a transition report on Form 10-QT covering the transition period from October 1, 2011 to December 31, 2011. References the Company makes to a particular year before 2012 in this report applies to the Company’s fiscal year and not the calendar year, unless otherwise noted.

Acquisition of Assets and Liabilities of Community First Bank. On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to assume all of the deposits and certain assets of Community First Bank, a full-service commercial bank, headquartered in Prineville, Oregon (CFB Acquisition). Community First Bank operated eight locations in central Oregon. Home Federal Bank assumed approximately $142.8 million of the deposits of Community First Bank. Additionally, Home Federal Bank purchased approximately $142.3 million of loans and $12.9 million of real estate and other repossessed assets (REO). The loans and REO purchased are covered by loss sharing agreements between the FDIC and Home Federal Bank which affords the Bank significant protection. Under the loss sharing agreements, Home Federal Bank will share in the losses on assets covered under the agreement (referred to as covered assets). The FDIC has agreed to reimburse Home Federal Bank for 80% of the first $34.0 million of losses and certain related expense and 95% of losses and expenses that exceed that amount. The loss sharing agreements provide support on non-single family loans for five years and for ten years on single family loans, from the date of the CFB Acquisition. This acquisition was accounted for as a purchase under Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations (SFAS No. 141), with the assets acquired and liabilities assumed recorded at their respective fair values.

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Acquisition of Assets and Liabilities of LibertyBank. On July 30, 2010, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to assume all of the deposits and certain assets of LibertyBank, a full-service commercial bank headquartered in Eugene, Oregon (LibertyBank Acquisition). LibertyBank operated fifteen locations in central and western Oregon. The LibertyBank Acquisition consisted of assets with a fair value of approximately $690.6 million, including $373.1 million of cash and cash equivalents, $197.6 million of loans and leases and $34.7 million of securities. Liabilities with a fair value of $688.6 million were also assumed, including $682.6 million of deposits.

Included in the LibertyBank Acquisition were three subsidiaries of LibertyBank, which became subsidiaries of Home Federal Bank. Two of the subsidiaries, Liberty Funding, Inc., and Liberty Investment Services, Inc., had no business activities and were dissolved in September 2012. The third subsidiary, Commercial Equipment Lease Corporation (CELC) finances and leases equipment under equipment finance agreements and lease contracts, typically for terms of less than 5 years. The book value of the stock of CELC was $10.3 million on the date of the LibertyBank Acquisition. CELC conducted business in all fifty states, with a primary focus on Oregon, California and Washington State. Home Federal Bank is winding down the operations of CELC and the accounts of CELC have been consolidated in the accompanying Consolidated Financial Statements.

Home Federal Bank also entered into loss sharing agreements with the FDIC in the LibertyBank Acquisition. Under the loss sharing agreements, the FDIC has agreed to reimburse Home Federal for 80% of losses and certain related expenses on purchased REO and nearly all of the loans and leases of LibertyBank and CELC. The loss sharing agreements provide support on non-single family loans for five years and for ten years on single family loans, from the date of the LibertyBank Acquisition.

In September 2020, approximately ten years following the LibertyBank Acquisition date, the Bank is required to make a payment to the FDIC in the event that losses on covered assets under the loss sharing agreements have been less than the intrinsic loss estimate, which was determined by the FDIC prior to the LibertyBank Acquisition. The payment amount will be 50% of the excess, if any, of 20% of the Total Intrinsic Loss Estimate of $60.0 million, which equals $12.0 million, less the sum of the following:

- 20% of the Net Loss Amount, which is the sum of all loss amounts on covered assets less the sum of all recovery amounts realized. This amount is not yet known;
- 25% of the asset premium (discount). This amount is ($7.5) million; and
- 3.5% of the total covered assets under the loss share agreements. This amount is $10.1 million.

The Company has estimated the minimum level of losses to avoid a true-up provision payment to the FDIC to be $46.7 million. At December 31, 2012, the Company accrued $528,000 as an estimate of the true-up provision obligation.

Business Activities

The Company’s primary business activity is the ownership of the outstanding common stock of Home Federal Bank. Home Federal Bancorp neither owns nor leases any property but instead uses the premises, equipment and other property of Home Federal Bank with the payment of appropriate management fees, as required by applicable law and regulations. At December 31, 2012, Home Federal Bancorp had no significant assets, other than $8.4 million of cash and cash equivalents, $10.1 million of mortgage-backed securities and all of the outstanding shares of Home Federal Bank, and had no significant liabilities.

Home Federal Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. Home Federal Bank’s deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund. The Bank has been a member of the Federal Home Loan Bank (FHLB) System since 1937. Home Federal Bank's primary regulators are the FDIC and the Department.

We are in the business of attracting deposits from consumers and businesses in our market areas and utilizing those deposits to originate loans. We offer a wide range of loan products to meet the credit needs of our clients. The Board of Directors and the management team have undertaken efforts to change the Company's strategy from that of a traditional savings and loan association to a full-service community commercial bank. This transition includes a reduced reliance on one-to-four family loans originated for the Bank's portfolio. As a result, the Bank's lending activities have expanded in recent years to include commercial business lending, including commercial real estate and builder finance

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loans. The CFB Acquisition and the LibertyBank Acquisition significantly increased the Bank's commercial loan concentration.

At December 31, 2012, the Company had total assets of $1.0 billion, net loans of $409.8 million, deposit accounts of $850.9 million and stockholders' equity of $179.8 million.

Operating Lines

Home Federal Bancorp's sole subsidiary is Home Federal Bank. Management has determined that the Bank, as a whole, is the sole reporting unit and that no reportable operating segments exist other than Home Federal Bank.

Market Area

Home Federal Bank currently has operations in three distinct market areas. The Bank's primary market area is the Boise, Idaho, metropolitan statistical area (MSA) and surrounding communities, together known as the Treasure Valley region of southwestern Idaho, including Ada, Canyon, Elmore and Gem counties. The CFB Acquisition resulted in the Bank's entrance into the Tri-County Region of Central Oregon, including the counties of Crook, Deschutes and Jefferson. Through the LibertyBank Acquisition, Home Federal Bank expanded its markets into Lane, Josephine, Jackson and Multnomah counties in Western Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon, in addition to deepening its presence in Central Oregon.

At December 31, 2012, the Bank operated through 28 full-service branches and two commercial loan production offices. In November 2012, the Bank announced plans to close four of its branches by February 28, 2013. We monitor the performance of our branches and analyze market growth opportunities, current market share, and client transaction levels in determining underperforming branches. We identified four branches located in Grants Pass, Medford and Bend, Oregon, as branches least likely to provide profitable returns in the long-term and decided to close them and transition clients to our nearest branch upon closure. Those branches are noted in the table under "Item 2. Properties."

The following table summarizes key economic and demographic information about these market areas by state and county as compared to national trends:

	Median Household Income	Population Change	Projected Population Change	Unemployment Rate[1]		Total FDIC Deposits By County[2]		Home Federal Bank's Deposit Market Share
	2011	2010-2011	2011-2016	Dec 2012	Dec 2011	June 2012	June 2011	June 2012
Idaho								
Canyon	$41,205	1.38 %	5.81 %	7.5 %	10.5 %	$1,498	$1,468	12.0 %
Ada	53,419	1.65	7.01	5.5	7.5	6,547	6,341	2.3
Gem	37,662	0.14	2.83	8.0	10.9	136	132	22.9
Elmore	38,729	0.21	1.71	7.3	9.1	151	143	18.8
Oregon								
Deschutes	$48,310	1.29 %	6.37 %	10.8 %	12.3 %	$2,351	$2,354	7.5 %
Lane	41,728	0.75	3.61	7.9	8.7	4,132	4,155	2.9
Josephine	36,136	0.24	2.53	11.4	11.6	1,211	1,247	6.6
Jackson	40,790	0.86	4.70	9.5	10.3	2,783	2,742	2.2
Crook	43,031	(0.50)	1.30	14.2	15.6	206	197	19.1
Jefferson	42,211	0.57	3.63	12.8	13.4	139	139	11.5
National	$50,227	0.63 %	3.42 %	7.8 %	8.5 %			

(1) Not seasonally adjusted. December 2012 is preliminary.
(2) In millions. Excludes deposits in credit unions.
Source: FDIC, SNL Financial, Bureau of Labor Statistics

Idaho Region. The local economy is primarily urban with Boise, the state capital of Idaho, being the most populous city in Idaho, followed by Nampa and Meridian, the state’s second and third largest cities. Nearly 40% of the state’s population lives and/or works in the four counties of Ada, Canyon, Elmore and Gem that are served by Home Federal Bank. The population of the Boise-Nampa MSA is approximately 628,000 people.

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The regional economy is well diversified with government, education, health care, manufacturing, high technology, and construction providing sources of employment. In addition, agriculture and related industries continue to be key components of the economy in southwestern Idaho. Generally, sources of employment are concentrated in Ada and Canyon counties and include the headquarters of Micron Technology and J.R. Simplot Company, and a Walmart distribution center. Other major employers include Hewlett-Packard, Idaho Power, two regional medical centers and Idaho state government agencies. Boise is also home to Boise State University, the state's largest university.

The Treasure Valley has enjoyed strong population growth over the last ten years, which led to an increase in residential community developments. Historically, the unemployment rate has been lower than the national rate. The recent recession led to significant deterioration in residential home sales, caused acceleration in unemployment in the Treasure Valley from 2008 through 2010. These weak economic conditions created an over-supply of speculative construction and land development projects. During the build-up of residential construction, commercial real estate construction also accelerated and subsequently many speculative commercial construction projects became vacant, which contributed to falling property values. During 2012, the unemployment rate in the Boise-Nampa MSA fell quickly and residential and commercial construction activity increased significantly, particularly in Meridian, Idaho. As a result, general real estate values are rising after nearly two years of annual declines and the labor market has grown to levels near its pre-recession peak. However, overall economic output has not increased enough to support strong commercial loan growth from creditworthy borrowers. See "Risk Factors" under Item 1A of this Annual Report on Form 10-K.

Central Oregon Region. Within Central Oregon, Home Federal Bank operates in Deschutes, Crook and Jefferson counties. Central Oregon has become a year-round destination resort for visitors and tourists worldwide offering premiere skiing, golfing, fishing, hiking, museums, biking, kayaking, festivals and world-class destination resorts. The largest communities in the Central Oregon Region are Bend, Redmond and Prineville. The population of the Bend MSA is approximately 160,000 people.

While much smaller than the Idaho Region, Central Oregon's economy is primarily driven by healthcare, government, tourism and other service industries. St. Charles Medical Center in Bend is the largest private employer with Les Schwab Tires Centers, which is headquartered in Central Oregon, call centers and resorts also within the top ten employers in the region.

Central Oregon experienced rapid population growth and significant new construction occurred between 2003 and 2007 as the region's natural beauty and resorts gained greater renown; however, this growth has slowed significantly during the recent four years. Commercial and residential real estate values increased rapidly as construction of retail centers and new residential developments maintained pace with population growth. The median home price in Bend and Redmond rose 70% between April 2005 and April 2007 when values peaked. However, the economic slowdown nationally has reduced spending on vacations and tourism traffic in the region, resulting in very high unemployment in many Central Oregon communities. Additionally, commercial real estate vacancies in the region rose quickly and the median home prices in September 2011 had fallen approximately 50% from their peak. While unemployment in this region remains above the national average, home values began to increase during the second half of 2012.

Western Oregon Region. A benefit from the LibertyBank Acquisition was the expansion of our markets into the communities of Eugene, Springfield, Medford and Grants Pass, Oregon. Eugene is Oregon's second largest city with a population of more than 156,000 people. Manufacturing, retail trade and healthcare and social assistance make up nearly 40% of total employment in Lane County. Since the University of Oregon and a Federal courthouse are located there, government employment helps add stability to Lane County's economy. While unemployment in Lane County has not been as severe as in Central Oregon, it has trended above national unemployment rates.

Medford, a city of approximately 75,000 people in the southern Oregon county of Jackson, has healthcare as the largest employment industry, along with Lithia Motors and specialty food retailer Harry & David. Nearby Grants Pass, Oregon in Josephine County, is a city of approximately 35,000 people. The Rogue River serves as a primary source for tourism in both of these counties. The combined metropolitan areas of Medford and Grants Pass total approximately 250,000 people.

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Operating Strategy

Management's operating strategy centers on the continued development into a full-service, community commercial bank from a traditional savings and loan business model. Our goal is to continue to enhance our franchise value and earnings through acquisitions and organic growth in our banking operations, especially lending to small to medium-sized businesses, while maintaining the community-oriented client service and sales focus that has characterized our success to date. In order to be successful in this objective and increase stockholder value, we are committed to the following strategies:

Continue Growing in Our Existing Markets. We believe there is a large client base in our markets that are dissatisfied with the service received from larger regional banks. By offering quicker decision-making in the delivery of banking products and services, offering customized products where appropriate, and providing client access to our senior managers, we hope to distinguish ourselves from larger, regional banks operating in our market areas.

Actively Search for Appropriate Acquisitions. In order to enhance our ability to deliver products and services in our existing markets and to expand into surrounding markets, we intend to search for acquisition opportunities. We consummated FDIC-assisted transactions in August 2009 and July 2010 that increased our assets by $881.0 million, based on the fair value of assets purchased on the acquisition dates. We believe that consolidation of community banks will continue to take place and further believe that with our capital and liquidity positions, our approach to credit management and our acquisition experience, we are well positioned to take advantage of acquisition opportunities that provide the potential for significant earnings growth and enhancement of our franchise value.

Expand Our Product Offerings. We continue our emphasis on originating commercial lending products that diversify our loan portfolio by increasing the percentage of assets consisting of commercial real estate and commercial business loans with higher risk-adjusted returns, shorter maturities and less valuation sensitivity to interest rate fluctuations. We also intend to selectively add products to provide diversification of revenue sources and to capture our customers' full relationship by cross selling our loan and deposit products and services to our customers. We recently expanded our product offerings to include merchant banking and investment services as a third party agent and we launched a mobile banking product in 2012.

Increase Our Core Deposits. A fundamental part of our overall strategy is to improve both the level and the mix of deposits that serve as a funding base for asset growth. By growing demand deposit accounts and other savings and transaction accounts, we have reduced our reliance on higher-cost certificates of deposit and borrowings such as advances from the FHLB of Seattle. In order to expand our core deposit franchise, commercial deposits are being pursued through the introduction of cash management products and by specific targeting of small business customers.

Competition

We face intense competition in originating loans and in attracting deposits within our targeted geographic markets. We compete by leveraging our full-service delivery capability comprised of 28 convenient branch locations, two commercial loan production offices, a network of automated teller machines, a call center and Internet banking, and by consistently delivering high-quality, individualized service to our clients that result in a high level of client satisfaction. Our key large-bank competitors are Wells Fargo, U.S. Bank, Chase, Key Bank and Bank of America. These competitors control approximately 55% of the deposit market within our footprint. Community bank competitors include Umpqua Bank, Bank of the Cascades, Washington Trust Bank and Pacific Continental Bank. Aside from these traditional competitors, credit unions, insurance companies and brokerage firms are an increasingly competing challenge for consumer deposit relationships.

Our competition for loans comes principally from mortgage brokers, commercial banks, credit unions and finance companies. Several other financial institutions, including those previously mentioned, have greater resources than us and compete with us for lending opportunities in our targeted market areas. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising campaigns, access lower cost funding sources and allocate their investment assets to regions of highest yield and demand. This competition for the origination of loans may limit our future growth and earnings prospects.

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Subsidiaries and Other Activities

Home Federal Bank is the only subsidiary of Home Federal Bancorp. At December 31, 2012, Home Federal Bank had one active wholly-owned subsidiary of its own, Commercial Equipment Lease Corporation, which the Bank acquired through the LibertyBank Acquisition. The Bank also acquired a subsidiary through the CFB Acquisition, Community First Real Estate LLC, which owned three of our branches in Central Oregon and has no significant business activity. The Bank had three inactive subsidiaries, Idaho Home Service Corporation, Liberty Funding Inc. and Liberty Insurance Services, Inc. that had no business activities and were dissolved in September 2012.

Personnel

At December 31, 2012 we had 302 full-time equivalent employees compared to 395 at September 30, 2011. The reduction in personnel during fiscal year 2012 was primarily due to branch closures. In November 2012 we announced our intent to close four branches in February 2013 that will further reduce personnel. Our employees are not represented by any collective bargaining group. We believe our relationship with our employees is good.

Corporate Information

Our principal executive offices are located at 500 12th Avenue South, Nampa, Idaho, 83651. Our telephone number is (208) 466-4634. We maintain a website with the address www.myhomefed.com/ir. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor’s own Internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, Proxy Statements, quarterly reports on Form 10-QT or Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission (SEC). We have also posted our code of ethics and board committee charters on this site.

Lending Activities

General. Historically, our principal lending activity has consisted of the origination of loans secured by first mortgages on owner-occupied, one-to-four family residences and loans for the construction of one-to-four family residences. We also originate consumer loans, with an emphasis on home equity loans and lines of credit. While we intend to increase our commercial and small business loans, a substantial portion of our loan portfolio is currently secured by real estate, either as primary or secondary collateral. At December 31, 2012, real estate loans comprised 72.7% of our loan portfolio with 43.8% of gross loans secured by commercial real estate.

At December 31, 2012, the maximum amount of credit that we could have extended to any one borrower and the borrower’s related entities under applicable regulations was $22.3 million, although by internal policy we limit our exposure within a single borrower relationship to $12.0 million. The Senior Management Loan Committee, which includes executive management including the Bank's CEO, Chief Credit Officer, Chief Financial Officer and Senior Credit Officers, will approve loans once the aggregate borrowing relationship exposure exceeds $5.0 million. The Bank does not have a Board-level loan committee; however, if a single borrower relationship exceeds $12.0 million, the Senior Management Loan Committee must get approval from the Board of Directors. Additionally, the Board of Directors receives minutes of the activities of the Senior Management Loan Committee.

Based on outstanding principal balance, our largest single borrower relationship at December 31, 2012, was comprised of two commercial real estate loans on retail shopping centers totaling $13.6 million. The second largest lending relationship at that date totaled $8.2 million consisting of three loans including two term equipment notes and an operating line of credit. Our third largest borrower relationship at that date totaled $6.4 million consisting of two commercial real estate loans on office/warehouse buildings. The fourth largest lending relationship at that date was a multifamily loan on a 143-unit apartment building totaling $6.0 million. The fifth largest lending relationship at that date was comprised of two commercial real estate loans on medical office buildings totaling $5.7 million. The sixth largest lending relationship at that date was also $5.7 million and included a master line of credit, a development loan and two term loans to a residential real estate developer for speculative and presold single family homes. All of these loans are substantially secured by property or assets in our primary market area and except for one of the relationships (totaling $8.2 million to a not-for-profit corporation), loans made to corporations have personal guarantees in place as an additional source of repayment. The $8.2 million loan relationship is comprised of two term loans and a $1.4 million line of credit with the term loans subject to an 80% guarantee by the U.S. Department of Agriculture (USDA). The

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total commitment subject to the USDA guarantee is $8.5 million. In addition, 80% of losses on $20.0 million of these loans are covered by the FDIC under a purchase and assumption agreement with loss sharing. Loans underlying one of these lending relationships totaling $13.6 million were considered in the Watch category and another $6.4 million of the loans were classified as substandard at December 31, 2012.

At December 31, 2012, the largest lending relationship not covered by the loss sharing agreements totaled $8.2 million and consisted of three loans including two term equipment notes and an operating line of credit. The second largest noncovered lending relationship consisted of a $6.0 million multifamily loan on a 143-unit apartment building. The third largest noncovered lending relationship at that date totaled $5.7 million and was comprised of two commercial real estate loans on medical office buildings.

One-to-four Family Residential Real Estate Lending. We historically originated both fixed-rate loans and adjustable-rate loans in our residential lending program. Generally, these loans were originated to meet the requirements of Fannie Mae and Freddie Mac for sale in the secondary market to investors. We generally underwrote our one-to-four family loans based on the applicant’s employment, debt to income levels, credit history and the appraised value of the subject property. Generally, we lent up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans. In situations where we granted a loan with a loan-to-value ratio in excess of 80%, we generally required private mortgage insurance in order to reduce our exposure to 80% or less. Properties securing our one-to-four family loans are generally appraised by independent fee appraisers who have been approved by us. We required our borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount equal to the regulatory maximum. Beginning in December 2011, we ceased the origination of one-to-four family loans for sale in the secondary market. Rather, we refer nearly all of residential mortgage loan applications to a third party originator that underwrites and closes the mortgage funding for the Bank’s clients. While we may choose to directly originate some residential mortgage loans for our own portfolio from time to time, we expect very few residential mortgage loans will be originated by the Bank for its portfolio or for sale in the secondary market going forward.

Real Estate Construction. Most construction loans we originate are written with maturities of up to one year, have interest rates that are tied to The Wall Street Journal prime rate plus a margin, and are subject to periodic rate adjustments tied to the movement of the prime rate. All builder/borrower loans are underwritten to the same standards as other commercial loan credits, requiring liquid working capital, sufficient net worth and established cash reserves believed sufficient to carry projects through construction completion and sale of the project. The maximum loan-to-value ratio on both pre-sold and speculative projects originated by us is 80%.

We originate construction and site development loans to contractors and builders primarily to finance the construction of single-family homes and subdivisions, which homes typically have an average price ranging from $150,000 to $400,000. Loans to finance the construction of single-family homes and subdivisions are generally offered to experienced builders in our primary market areas. The maximum loan-to-value limit applicable to construction and site development loans is 80% and 70%, respectively, of the appraised market value upon completion of the project. Maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed 36 months for residential subdivision development loans. Substantially all of our residential construction loans have adjustable rates of interest based on The Wall Street Journal prime rate and during the term of construction, the accumulated interest is added to the principal of the loan through an interest reserve.

We originate land loans to local contractors and developers for the purpose of holding the land for future development. These loans are secured by a first lien on the property, are limited to 50% of the lower of the acquisition price or the appraised value of the land, and generally have a term of up to two years with an interest rate based on The Wall Street Journal prime rate. Our land loans are generally secured by property in our primary market areas. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste.

Our construction and land development loans are based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction and land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we generally require cash curtailments or additional collateral to support the shortfall.

Commercial and Multifamily Real Estate Lending. Multifamily and commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by multifamily or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. At December 31, 2012, $112.8 million, or 26.6%, of our loan portfolio was comprised of loans secured by nonowner-occupied commercial real estate loans, including $91.0 million in our noncovered loan portfolio. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation, we generally require and obtain personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports.

We target individual multifamily and commercial real estate loans to small and mid-size owner occupants and investors between $500,000 and $2.0 million; however, by internal policy as of December 31,2012, we can originate loans to one borrower up to $12.0 million. Commercial real estate loans are primarily secured by office and warehouse space, professional buildings, retail sites, multifamily residential buildings, industrial facilities and restaurants located in our primary market areas.

We have offered both fixed and adjustable-rate loans on multifamily and commercial real estate loans, although most of these loans are now originated with adjustable rates with amortization terms up to 25 years and maturities of up to 10 years. Commercial and multifamily real estate loans are originated with rates that generally adjust after an initial period ranging from three to five years and are generally priced utilizing the five-year constant maturity treasury note yield or the five-year FHLB borrowing rate, plus an acceptable margin. Prepayment penalty structures are applied for each rate lock period.

The maximum loan-to-value ratio for commercial and multifamily real estate loans is generally 75% - 80% on purchases and refinances, depending on the property type of the collateral. We require appraisals of all properties securing commercial and multifamily real estate loans. Appraisals are performed by independent appraisers designated by us or by our staff appraiser. We require our commercial and multifamily real estate loan borrowers with outstanding balances in excess of $500,000 to submit annual financial statements and rent rolls on the subject property. We also inspect the subject property at least every three to five years if the loan balance exceeds $250,000. We generally require a minimum pro forma debt coverage ratio of 1.25 times for loans secured by commercial and multifamily properties.

These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower’s project is reduced as a result of leases not being obtained or renewed, the borrower’s ability to repay the loan may be impaired. Commercial and multifamily mortgage loans also expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multifamily real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. If we foreclose on a commercial or multifamily real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential mortgage loans because there are fewer potential purchasers of the collateral. Accordingly, if we make any errors in judgment in the collectability of our commercial and multifamily real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

Consumer Lending. To a much lesser degree than commercial and construction loans, we offer a variety of consumer loans to our clients, including home equity loans and lines of credit, savings account loans, automobile loans, recreational vehicle loans and personal unsecured loans. Generally, consumer loans have shorter terms to maturity and higher interest rates than mortgage loans.

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At December 31, 2012, the largest component of the consumer loan portfolio consisted of home equity loans and lines of credit. Home equity loans are made for, among other purposes, the improvement of residential properties, debt consolidation and education expenses. The majority of these loans are secured by a first or second mortgage on residential property. The maximum loan-to-value ratio is 80%, when taking into account both the balance of the home equity loan and the first mortgage loan. Home equity lines of credit allow for a ten-year draw period, plus an additional ten year repayment period, and the interest rate is tied to the prime rate as published in The Wall Street Journal, and may include a margin.

Consumer loans entail greater risk than do residential first-lien mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles, and in second-lien loans such as home equity lines of credit in markets where residential property values have declined significantly since fiscal year 2007. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment when allowed by law. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. These risks are not as prevalent with respect to our consumer loan portfolio because a large percentage of the portfolio consists of home equity loans and lines of credit that are underwritten in a manner such that they result in credit risk that is substantially similar to one-to-four family residential mortgage loans. Nevertheless, home equity loans and lines of credit have greater credit risk than one-to-four family residential mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property, which we may or may not hold. In addition, we do not have private mortgage insurance coverage for these loans. We do not actively participate in wholesale or brokered home equity loan origination.

Commercial Business Lending. As part of our strategic plan, we are focusing on originating commercial business loans including lines of credit, term loans and letters of credit. However, the decline in economic activity that started in 2007 has limited our ability to originate commercial business loans. Commercial business loans totaled $3.1 million at September 30, 2006, however, through our acquisitions and organic originations, increased to $28.7 million at December 31, 2012, although this balance has declined significantly from the $49.8 million at September 30, 2011, as many of the loans in the acquisition portfolio have paid down. These loans are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Loan terms vary from one to seven years. The interest rates on such loans are generally floating rates indexed to The Wall Street Journal prime rate plus a margin.

Commercial business loans typically have shorter terms to maturity and higher interest spreads than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. We are focusing our efforts on small to medium-sized, privately-held companies with local or regional businesses that operate in our market area. Our commercial business lending policy includes credit file documentation and analysis of the borrower’s background, capacity to repay the loan, the adequacy of the borrower’s capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower’s past, present and future cash flows is also an important aspect of our credit analysis. We generally obtain personal guarantees on our commercial business loans.

Repayment of our commercial business loans is generally dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Our commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the general liquidity and secondary cash flow support of the borrower. Advance ratios against collateral provide additional support to repay the loan. Most often, this collateral consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

A significant portion of our commercial business loans ($12.3 million at December 31, 2012) were purchased from the FDIC in connection with the CFB and LibertyBank Acquisitions. All of the purchased commercial business loans in these acquisitions are covered under loss sharing agreements with the FDIC.

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Commercial business loans include equipment finance agreements for the purchase of personal property, business equipment and titled vehicles and construction equipment. Generally these agreements have terms of 60 months or less and the lessee is granted title to the collateral at the end of the term. All of these financing agreements were assets of CELC, the operations of which were assumed by the Bank in the LibertyBank Acquisition, and nearly all of them are covered under a loss share agreement with the FDIC. Equipment finance agreements included in commercial business loans totaled $4.4 million at December 31, 2012, net of purchase accounting adjustments. CELC also originated leases on personal property and business assets under terms similar to those collateralized by the financing agreements described above, however, at the end of the lease term, the collateral is returned to CELC and subsequently sold through a nationwide network of brokers. Leases totaled only $583,000 at December 31, 2012, net of purchase accounting adjustments as compared to $2.8 million at September 30, 2011. Nearly all of the leases outstanding at December 31, 2012, were covered under a loss sharing agreement with the FDIC. Currently, no new leases or commercial loans are being originated by CELC as we have decided to wind down the operations of CELC over the next few years.

Our leases entail many of the same types of risks as our commercial business loans. As with commercial business loans, the collateral securing our lease loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We rely on the lessee’s continuing financial stability, rather than the value of the leased equipment, for the repayment of all required amounts under lease loans. In the event of a default on a lease, it is unlikely that the proceeds from the sale of the leased equipment will be sufficient to satisfy the outstanding unpaid amounts under the terms of the loan.

Lease residual value represents the present value of the estimated fair value of the leased equipment at the termination date of the lease. Realization of these residual values depends on many factors, including management’s use of estimates, assumptions, and judgment to determine such values. Several other factors outside of our control may reduce the residual values realized, including general market conditions at the time of expiration of the lease, whether there has been technological or economic obsolescence or unusual wear and tear on, or use of, the equipment and the cost of comparable equipment. If, upon the expiration of a lease, we sell the equipment and the amount realized is less than the recorded value of the residual interest in the equipment, we will recognize a loss reflecting the difference. We review the lease residuals for potential impairment monthly.

Loan Portfolio Analysis. We refer to loans and leases subject to the loss sharing agreements with the FDIC as “covered loans.” All loans purchased in the CFB Acquisition were covered loans. Consumer loans not secured by real estate that were purchased in the LibertyBank Acquisition are not subject to the loss sharing agreements. These loans totaled $1.6 million at December 31, 2012. All other loans and leases purchased in the LibertyBank Acquisition are covered loans. When appropriate within this Annual Report on Form 10-K, we segregate covered loans from our noncovered loan portfolio, since we are afforded significant protection from credit losses on covered loans due to the loss sharing agreements.

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The following table summarizes covered loans by type of loan at the dates indicated (dollars in thousands):

	December 31, 2012		September 30, 2011		2010		2009	
	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:								
One-to-four family residential	$8,173	9.1 %	$15,467	10.0 %	$20,445	7.6 %	$8,537	6.8 %
Multifamily residential	3,325	3.7	8,787	5.7	10,286	3.8	6,270	5.0
Commercial real estate	48,579	54.3	60,779	39.2	83,794	31.1	61,601	48.7
Total real estate	60,077	67.1	85,033	54.9	114,525	42.5	76,408	60.5
Real estate construction:								
One-to-four family residential	—	—	950	0.6	16,884	6.3	3,128	2.5
Multifamily residential	—	—	—	—	1,018	0.4	1,521	1.2
Commercial and land development	5,417	6.1	9,573	6.2	13,246	4.9	17,230	13.6
Total real estate construction	5,417	6.1	10,523	6.8	31,148	11.6	21,879	17.3
Consumer:								
Home equity	10,279	11.5	13,765	8.9	16,124	6.0	6,728	5.3
Automobile	210	0.2	302	0.2	683	0.3	1,188	0.9
Other consumer	762	0.9	1,099	0.7	1,434	0.5	1,850	1.5
Total consumer	11,251	12.6	15,166	9.8	18,241	6.8	9,766	7.7
Commercial business	12,265	13.7	41,737	26.9	99,045	36.7	18,312	14.5
Leases	434	0.5	2,538	1.6	6,592	2.4	—	—
Gross loans	89,444	100.0 %	154,997	100.0 %	269,551	100.0 %	126,365	100.0 %
Allowance for loan losses	(3,917)		(5,140)		(3,527)		(16,812)	
Loans receivable, net	$85,527		$149,857		$266,024		$109,553	

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The following table sets forth the composition of the Company's loan portfolio, including covered and noncovered loans, by type of loan at the dates indicated (dollars in thousands):

	December 31, 2012		September 30, 2011		2010		2009		2008	
	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:										
One-to-four family residential	$87,833	20.8 %	$125,640	26.0 %	$157,574	24.7 %	$178,311	33.0 %	$210,501	45.2 %
Multifamily residential	34,377	8.1	18,418	3.8	20,759	3.3	16,286	3.0	8,477	1.8
Commercial	185,132	43.8	205,929	42.6	228,643	35.9	213,471	39.5	151,733	32.6
Total real estate	307,342	72.7	349,987	72.4	406,976	63.9	408,068	75.5	370,711	79.6
Real estate construction:										
One-to-four family residential	13,016	3.1	9,054	1.9	24,707	3.9	10,871	2.0	13,448	2.9
Multifamily residential	520	0.1	111	—	2,657	0.4	10,417	2.0	920	0.2
Commercial and land development	25,391	6.0	16,174	3.3	21,190	3.3	27,144	5.0	18,674	4.0
Total real estate construction	38,927	9.2	25,339	5.2	48,554	7.6	48,432	9.0	33,042	7.1
Consumer:										
Home equity	41,793	9.9	48,901	10.1	56,745	8.9	53,368	9.9	52,954	11.4
Automobile	966	0.2	980	0.2	1,466	0.2	2,364	0.4	1,903	0.4
Other consumer	4,012	1.1	5,473	1.2	8,279	1.3	3,734	0.7	1,370	0.3
Total consumer	46,771	11.2	55,354	11.5	66,490	10.4	59,466	11.0	56,227	12.1
Commercial business	28,666	6.8	49,777	10.3	108,051	17.0	24,256	4.5	5,385	1.2
Leases	583	0.1	2,821	0.6	6,999	1.1	—	—	—	—
Gross loans	422,289	100.0%	483,278	100.0%	637,070	100.0%	540,222	100.0%	465,365	100.0%
Deferred loan costs (fees), net	85		(700)		(628)		(858)		(973)	
Allowance for loan losses	(12,528)		(14,365)		(15,432)		(28,735)		(4,579)	
Loans receivable, net	$409,846		$468,213		$621,010		$510,629		$459,813	

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The previous table reflects the declines in loan balances since the acquisitions as loans receivable, net, totaled $409.8 million at December 31, 2012, compared to $459.8 million at September 30, 2008. Beginning with the recession in in 2008 and continuing through the relatively weak economic conditions that persist currently, we have had limited organic lending opportunities. Additionally, we ceased originating one-to-four family loans for our portfolio in 2006. The decline in one-to-four family loans from $210.5 million at September 30, 2008, to $87.8 million at December 31, 2012, contributed significantly to the overall decline in net loans. Commercial business loans and leases declined primarily due to our decision to wind-down the operations of CELC shortly after the LibertyBank Acquisition, which resulted in a decline in the loans and leases of CELC from $59.5 million on July 30, 2010, the date of the LibertyBank Acquisition to $6.0 million in remaining principal balance at December 31, 2012. Lastly, the loan portfolios purchased in the acquisitions included a significant number of impaired and nonaccrual loans, which have since been written down, charged-off, or the collateral has been repossessed, which has also contributed to the overall decline in loan balances since the acquisition dates.

Loans by Contractual Maturity. The following table sets forth certain information at December 31, 2012, regarding the dollar amount of loans maturing based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments (in thousands). Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Real estate:						
One-to-four family residential	$2,808	$3,075	$4,481	$14,976	$62,493	$87,833
Multifamily residential	292	1,449	94	18,864	13,678	34,377
Commercial	16,657	13,676	14,524	63,141	77,134	185,132
Total real estate	19,757	18,200	19,099	96,981	153,305	307,342
Real estate construction:						
One-to-four family residential	8,647	3,177	1,192	—	—	13,016
Multifamily residential	520	—	—	—	—	520
Commercial and land development	10,262	13,296	—	1,765	68	25,391
Total real estate construction	19,429	16,473	1,192	1,765	68	38,927
Consumer:						
Home equity	1,396	4,305	13,728	12,637	9,727	41,793
Automobile	36	259	468	138	65	966
Other consumer	1,317	958	602	584	551	4,012
Total consumer	2,749	5,522	14,798	13,359	10,343	46,771
Commercial business	6,792	7,975	5,830	4,045	4,024	28,666
Leases	251	332	—	—	—	583
Gross loans	$48,978	$48,502	$40,919	$116,150	$167,740	$422,289

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The following table sets forth the dollar amount of all loans maturing more than one year after December 31, 2012, which have fixed interest rates and have floating or adjustable interest rates (in thousands):

	Floating or Adjustable Rate	Fixed Rate	Total
Real estate:			
One-to-four family residential	$27,148	$57,877	$85,025
Multifamily residential	24,339	9,746	34,085
Commercial	143,058	25,417	168,475
Total real estate	194,545	93,040	287,585
Real estate construction:			
One-to-four family residential	863	3,506	4,369
Commercial and land development	8,071	7,058	15,129
Total real estate construction	8,934	10,564	19,498
Consumer:			
Home equity	31,921	8,476	40,397
Automobile	33	897	930
Other consumer	562	2,133	2,695
Total consumer	32,516	11,506	44,022
Commercial business	7,160	14,714	21,874
Leases	—	332	332
Gross loans	$243,155	$130,156	$373,311

Loan Solicitation and Processing. As part of our commercial banking strategy, we are focusing our efforts in increasing the amount of direct originations of commercial business loans, commercial and multifamily real estate loans and, to construction loans to builders and developers. Loan applications are initiated by loan officers and are required to be approved by our underwriting staff who has appropriately delegated lending authority. Loan officers do not have lending authority. Rather, all lending authority is centralized within our Credit Administration Team, which includes our Chief Credit Officer, our Senior Vice President – Senior Commercial Credit Officer, our Vice President – Senior Consumer Credit Officer, and other credit officers, none of whom receives production-based incentive compensation. Loans that exceed the underwriter's lending authority must be approved by Credit Officers with adequate aggregate lending authority or the Senior Management Loan Committee once the aggregate borrowing relationship exposure exceeds $5.0 million. We require title insurance on real estate loans as well as fire and casualty insurance on all secured loans and on home equity loans and lines of credit where the property serves as collateral. As noted earlier, the Bank began referring nearly all one-to-four family loan applications through a third party originating broker beginning in December 2011.

Residential real estate loans are solicited through media advertising, direct mail to existing customers and by realtor referrals. One-to-four family loan applications are further supported by lending services offered through our Internet website, advertising, cross-selling and through our employees' community service. One-to-four family loan applications are referred to a third party loan originator for underwriting, review and approval.

Loan Originations, Servicing, Purchases and Sales. During the year ended December 31, 2012, our total loan originations were $84.2 million, which did not include any loans originated for sale. Accordingly, we did not sell any first lien residential mortgages during the year ended December 31, 2012.

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Historically, our one-to-four family home loans were generally originated in accordance with the guidelines established by Freddie Mac and Fannie Mae, with the exception of special community development loans originated under the Community Reinvestment Act. We fully underwrote residential first mortgage real estate loans with internal designated real estate loan underwriters in accordance with standards as provided by our Board-approved loan policy and utilize the Freddie Mac Loan Prospector and Fannie Mae Desktop Underwriter automated loan systems to ensure conformity with secondary market underwriting criteria. From 2006 through 2011, nearly all of our one-to-four family residential loans were sold into the secondary market with servicing released on a non-recourse basis. Starting in December 2011, we ceased directly originating one-to-four family residential loans and instead are referring applicants to a third party loan originator.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated (in thousands):

	Year Ended December 31,	Three Months Ended December 31,	Years Ended September 30,	
	2012	2011	2011	2010
Loans originated:				
Real estate:				
One-to-four family residential [1]	$2,283	$3,023	$29,220	$31,209
Multifamily residential	8,744	2,061	1,087	52
Commercial	21,887	1,661	25,349	12,429
Total real estate	32,914	6,745	55,656	43,690
Real estate construction:				
One-to-four family residential	10,595	101	27,279	36,927
Multifamily residential	520	—	—	3,617
Commercial and land development	23,246	2,489	13,860	4,497
Total real estate construction	34,361	2,590	41,139	45,041
Consumer:				
Home equity	1,449	77	3,508	12,067
Automobile	456	116	374	411
Other consumer	1,147	185	1,658	3,540
Total consumer	3,052	378	5,540	16,018
Commercial business	13,862	3,587	37,337	42,286
Leases	—	—	—	—
Total loans originated	84,189	13,300	139,672	147,035
Loans purchased:				
Net loans purchased in acquisitions	—	—	—	197,596
Other loans purchased	8,289	—	—	—
Loans sold:				
One-to-four family residential	—	(4,749)	(30,240)	(26,937)
Principal repayments	(124,918)	(23,180)	(247,706)	(175,099)
Transfer to real estate owned	(10,038)	(3,881)	(21,214)	(24,659)
Increase (decrease) in allowance for loan losses and other items, net	2,416	206	3,644	(3,282)
Net increase (decrease) in loans receivable and loans held for sale	$(40,062)	$(18,304)	$(155,844)	$114,654

(1) Includes originations of loans held for sale of $0, $2.7 million, $27.2 million and $31.2 million for the year ended December 31, 2012, the three months ended December 31, 2011 and the years ended September 30, 2011 and

2010, respectively.

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Loan Origination and Other Fees. In some instances, we receive loan origination fees on our loan products. Loan fees generally represent a percentage of the principal amount of the loan, and are paid by the borrower. Accounting standards require that certain fees received, net of certain origination costs, be deferred and amortized over the contractual life of the loan. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income at the time of prepayment.

Asset Quality

The objective of our loan review process is to determine risk levels and exposure to loss. The depth of review varies by asset types, depending on the nature of those assets. While certain assets may represent a substantial investment and warrant individual reviews, other assets may have less risk because the asset size is small, the risk is spread over a large number of obligors or the obligations are well collateralized and further analysis of individual assets would expand the review process without measurable advantage to risk assessment. Asset types with these characteristics may be reviewed as a total portfolio on the basis of risk indicators such as delinquency (consumer and residential real estate loans) or credit rating. A formal review process is conducted on individual assets that represent greater potential risk.

A formal review process is a total reevaluation of the risks associated with the asset and is documented by completing an asset review report. Certain real estate-related assets must be evaluated in terms of their fair market value or net realizable value in order to determine the likelihood of loss exposure and, consequently, the adequacy of valuation allowances. Appraisals on loans secured by consumer real estate are updated when the loan becomes 120 days past due, or earlier if circumstances indicate the borrower will be unable to repay the loan under the terms of the note. Additionally, appraisals are typically updated if the borrower requests a modification to their loan. On commercial business loans, appraisals are updated upon a determination that the borrower will be unable to repay the loan according to the terms of the note or upon a notice of default, whichever is earlier. Appraisals are updated on all loan types immediately prior to a foreclosure sale and at least annually thereafter once the collateral title has been transferred to us. The frequency of appraisal updates is based upon property type and market trends, with nearly all real estate owned currently being reappraised semi-annually.

The lending production and credit administration and approval departments are segregated to maintain objectivity. Certain loan types, including commercial real estate, multifamily and commercial business loans, are subject to periodic review through our quarterly loan review process, annual loan officer reviews, an annual credit review by an independent third party, and by our annual safety and soundness examinations by our primary regulator.

We generally assess late fees or penalty charges on delinquent loans of five percent of the monthly principal and interest amount. The borrower is given a 10- to 15-day grace period to make the loan payment depending on loan type. When a borrower fails to make a required payment when it is due, we institute collection procedures. The first notice is mailed to the borrower on the day following the expiration of the grace period requesting payment and assessing a late charge. Attempts to contact the borrower by telephone generally begin upon the 15th day of delinquency. If a satisfactory response is not obtained, continual follow-up contacts are attempted until the loan has been brought current. Before the 60th day of delinquency, attempts to interview the borrower are made to establish the cause of the delinquency, whether the cause is temporary, the attitude of the borrower toward the debt and a mutually satisfactory arrangement for curing the default.

The Bank's Board of Directors is informed monthly as to the dollar amount of loans that are delinquent by more than 30 days, and is given information regarding classified assets.

If a borrower is chronically delinquent and all reasonable means of obtaining payments have been exercised, we will seek to recover any collateral securing the loan according to the terms of the security instrument and applicable law. In the event of an unsecured loan, we will either seek legal action against the borrower or refer the loan to an outside collection agency.

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Delinquent Loans. The following table shows our delinquent loans by the type of loan and number of days delinquent as of December 31, 2012, that were still accruing interest (dollars in thousands):

	Noncovered Loans Delinquent For:				Covered Loans Delinquent for 30 Days or More (1)	
	30-89 Days		90 Days or More			
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Real estate:						
One-to-four family residential	10	$715	—	$—	—	$—
Multifamily residential	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Total real estate	10	715	—	—	—	—
Real estate construction:						
One-to-four family residential	—	—	—	—	—	—
Multifamily residential	—	—	—	—	—	—
Commercial and land development	—	—	—	—	—	—
Total real estate construction	—	—	—	—	—	—
Consumer:						
Home equity	3	38	—	—	1	30
Automobile	1	3	—	—	—	—
Other consumer	3	13	—	—	2	10
Total consumer	7	54	—	—	3	40
Commercial business	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Total	17	$769	—	$—	3	$40

(1) Covered loans include loans purchased in the CFB Acquisition. Loans acquired in the LibertyBank Acquisition have been pooled and are not separately reported as nonperforming loans under ASC 310-30.

Impaired and Purchased Credit Impaired Loans. A loan is considered impaired when, based upon currently known information, it is deemed probable that we will be unable to collect all amounts due as scheduled according to the original terms of the agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of collateral, if the loan is collateral dependent. Estimated probable losses on non-homogeneous loans (generally commercial real estate and acquisition and land development loans) in the organic loan portfolio are allocated specific allowances. Therefore, impaired loans in our organic portfolio that are reported without a specific allowance are reported as such due to collateral or cash flow sufficiency, as applicable. Large groups of smaller balance homogeneous loans such as consumer secured loans, residential mortgage loans and consumer unsecured loans are collectively evaluated for potential loss. All other loans are evaluated for impairment on an individual basis. Acquisition, development and construction loans that have interest-only or interest reserve structures are reviewed at least quarterly and are reported as nonperforming or impaired loans if management determines the collectability of contractual principal or interest prior to or at maturity is less than probable. Evidence of impairment on such loans could include construction cost overruns, deterioration of guarantor strength and slowdown in sales activity.

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The FDIC-assisted acquisitions have increased the complexity in reporting nonperforming loans and the allowance for loan and lease losses. For example, purchased credit impaired loans that have been aggregated into pools are not included in the tables of delinquent, nonaccrual or impaired loans within this report on Form 10-K. Loans in the Company's organic portfolio have general and specific reserves allocated when management has determined it is probable a loss has been incurred. Loans in the Community First Bank portfolio were recorded and are currently accounted for under the business combination rules of SFAS No. 141 and Accounting Standards Codification Topic (ASC) 310-30. Loans in the Community First Bank portfolio that were not credit impaired on the date of purchase are allocated a general loss reserve. Loans that were credit impaired in the Community First Bank portfolio on the date of acquisition are reported at the present value of expected cash flows and an allowance for loan losses is not reported on these loans as impairments in excess of the acquisition-date fair value discount result in a partial charge-off of the loan's remaining unpaid principal balance. The loans purchased in the LibertyBank Acquisition are accounted for under the business combination rules of ASC 805, which requires all loans acquired in the LibertyBank portfolio to be reported initially at estimated fair value. Accordingly, an allowance for loan losses was not carried over or recorded as of the date of the LibertyBank Acquisition. The Company elected to apply the accounting methodology of ASC 310-30 to all loans purchased in the LibertyBank Acquisition. As such, all loans purchased in the LibertyBank Acquisition have been aggregated into 22 different pools based on common risk characteristics including collateral and borrower credit rating and the portion of the fair value discount not related to credit impairment is accreted over the life of the loan into interest income. Each loan pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation; therefore, loans purchased in the LibertyBank Acquisition are not individually identified as nonperforming loans.

The cash flows expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. Loans purchased in the CFB Acquisition were not pooled; therefore, loans that are on nonaccrual status, or are 90 days past due and still accruing are reported as nonperforming loans.

Our determination of the initial fair value of loans purchased in the FDIC-assisted acquisitions involved a high degree of judgment and complexity. The carrying value of the acquired loans reflects management's best estimate of the amount to be realized from the acquired loan and lease portfolios. However, the amounts we actually realize on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make payments. Additionally, increases in expected cash flows in subsequent periods or early prepayments of pooled loans may result in an increase in interest income due to unaccreted purchase discounts. This has caused the Company's yield on loans, yield on assets and net interest margin to be higher than what those amounts would be based on the actual note rate of the pooled loans, individually. As the balance of pools decline, the impact on interest income is diminished, which caused yield on loans, yield on assets and net interest margin to decline to a normalized level. We anticipate significant declines in interest income on loans over the next two years as pooled loans reduce in balance.

Because of the loss sharing agreements with the FDIC on covered assets and related FDIC indemnification receivable asset, we do not expect that we will incur excessive losses on the acquired loans, based on our current estimates. The indemnified portion of charge-offs and provisions for loan losses on covered loans are recorded in noninterest income and result in an increase in the FDIC indemnification asset. Under the loss sharing agreements with the FDIC in the CFB Acquisition, our share of the first $34.0 million of losses and reimbursable expenses on covered assets (defined as loans, leases and REO) is 20%. Any loss on covered assets in excess of the $34.0 million tranche is limited to 5%. Under the loss sharing agreements in the LibertyBank Acquisition, our share of all losses and reimbursable expenses on covered assets is 20%.

Troubled Debt Restructurings. According to generally accepted accounting principles, we are required to account for certain loan modifications or restructurings as a troubled debt restructuring, or TDR. In general, the modification or restructuring of a debt is considered a troubled debt restructuring if we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise consider.

The internal process used to assess whether a modification should be reported and accounted for as a troubled debt restructuring includes an assessment of the borrower's payment history, considering whether the borrower is in financial difficulty, whether a concession has been granted, and whether it is likely the borrower will be able to perform under the modified terms. Rate reductions below market rate, extensions of the loan maturity date that would not otherwise be considered, and deferrals or forgiveness of principal or interest are examples of modifications that are concessions.

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Troubled debt restructurings totaled $11.8 million and $7.0 million at December 31, 2012 and September 30, 2011, respectively, with noncovered loans representing $11.5 million and $6.6 million of those amounts, respectively. Modifications to loans not accounted for as troubled debt restructurings totaled $1.2 million at December 31, 2012, including approximately $790,000 of modifications for noncovered loans. These loans were not considered to be troubled debt restructurings because the borrower was not under financial difficulty at the time of the modification or extension. Extensions are made at market rates as evidenced by comparison to newly originated loans of generally comparable credit quality and structure.

Classified Assets. Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth, liquidity and paying capacity of the borrower or any collateral pledged. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When we classify problem assets as either substandard or doubtful, we may establish a specific allowance in an amount we deem prudent. Specific allowance amounts are approved by Senior Management and reviewed by the Bank’s Classified Asset Committee to address the risk specifically or we may allow the loss to be addressed in the general allowance. The doubtful category is generally a short-term interim step prior to charge off. Members of the Classified Asset Committee include the Bank’s Chief Credit Officer and Commercial Banking Team Leaders, as well as the Bank’s internal loan review director and other members of management in our Credit Administration department. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated as special mention. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the FDIC, the Department and the Federal Reserve which can order the establishment of additional loss allowances. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but require additional management oversight or possess minor credit weakness are designated by us as either “watch” or “special mention”, respectively.

In connection with the filing of periodic reports with the FDIC and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our loans, as of December 31, 2012, we had classified loans of $51.5 million, net of purchase accounting adjustments, with $29.0 million in the noncovered loan portfolio. The aggregate amounts of classified loans at the dates indicated were as follows (in thousands):

	December 31, 2012			September 30, 2011		
	Covered	Noncovered	Total	Covered	Noncovered	Total
Classified loans:						
Substandard	$22,444	$29,006	$51,450	$41,965	$40,645	$82,610
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	$22,444	$29,006	$51,450	$41,965	$40,645	$82,610

The total amount of noncovered classified assets (the loans in the table above plus REO) represented 18.51% of total stockholders' equity and 3.17% of total assets as of December 31, 2012.

Potential Problem Loans. Potential problem loans are loans that do not yet meet the criteria for placement on non-accrual status, but known information about possible credit problems of the borrowers causes management to have doubts as to the ability of the borrowers to comply with present loan repayment terms. This may result in the future inclusion of such loans in the non-accrual loan category. As of December 31, 2012, the aggregate amount of potential problem loans was $37.1 million, which includes loans that were rated "Substandard" under the Bank's risk grading

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process that are included in the classified loan table above but were not on non-accrual status. Noncovered loans included in that amount were $19.4 million at December 31, 2012. The $19.4 million balance of noncovered potential problem loans is primarily comprised of $18.2 million in loans secured by commercial real estate, $878,000 of loans secured by one-to-four family residential real estate, and $280,000 of various other loan types.

Real Estate Owned and Other Repossessed Assets (REO). Real estate and other assets we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as REO until it is sold. When the property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus foreclosure costs, or the fair market value of the property less selling costs. Other repossessed collateral, including autos, are also recorded at fair value, less costs to sell. As of December 31, 2012, we had $10.4 million in REO with $6.1 million, after fair value purchase adjustments, subject to the loss share agreement with the FDIC.

Nonperforming Assets. Nonperforming assets include nonaccrual loans, loans delinquent 90 days or more and still accruing, REO, and loans that are not delinquent but exhibit weaknesses that have evidenced doubt as to our ability to collect all contractual principal and interest and have been classified as impaired under ASC Topic 310-10-35. When a loan becomes 90 days delinquent, we typically place the loan on nonaccrual status. However, as noted earlier, loans purchased in the LibertyBank Acquisition were pooled and a pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation; therefore, loans purchased in the LibertyBank Acquisition are not individually identified as nonperforming loans. Loans purchased in the CFB Acquisition were not pooled; therefore, loans that are on nonaccrual status, or are 90 days past due and still accruing are reported as nonperforming loans.

The following table bifurcates our nonperforming assets into covered and noncovered as of December 31, 2012 and September 30, 2011 (in thousands):

	December 31, 2012			September 30, 2011		
	Covered Assets (1)	Noncovered Assets	Total	Covered Assets (1)	Noncovered Assets	Total
Nonperforming loans:						
Real estate construction	$248	$811	$1,059	$2,351	$1,248	$3,599
Commercial and multifamily residential real estate	4,108	4,552	8,660	8,320	5,887	14,207
One-to-four family residential	338	3,240	3,578	648	4,906	5,554
Other	95	994	1,089	298	904	1,202
Total nonperforming loans	4,789	9,597	14,386	11,617	12,945	24,562
REO and other repossessed assets	6,111	4,275	10,386	16,163	7,275	23,438
Total nonperforming assets	$10,900	$13,872	$24,772	$27,780	$20,220	$48,000

(1) Covered assets include loans purchased in the CFB Acquisition and all covered REO, including those purchased in the LibertyBank Acquisition. Loans acquired in the LibertyBank Acquisition have been pooled and are not separately reported as nonperforming loans.

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The following table sets forth information with respect to our nonperforming assets and troubled debt restructurings within the meaning of ASC 310-10-35 at the dates indicated (dollars in thousands).

	December 31,	September 30,			
	2012 [1]	2011	2010	2009	2008
Loans accounted for on a nonaccrual basis:					
Real estate:					
One-to-four family residential	$3,578	$5,554	$4,328	$10,617	$1,518
Multifamily residential	825	1,393	3,052	1,753	—
Commercial	7,835	12,814	15,839	10,750	100
Total real estate	12,238	19,761	23,219	23,120	1,618
Real estate construction	1,059	3,599	8,829	11,611	7,991
Consumer	738	483	1,371	544	316
Commercial business and leases	351	719	1,259	3,217	20
Total nonaccrual loans	14,386	24,562	34,678	38,492	9,945
Accruing loans with are contractually past due 90 days or more	—	—	344	—	—
Total of nonaccrual and 90 days past due loans	14,386	24,562	35,022	38,492	9,945
Repossessed assets	97	143	382	412	—
Real estate owned	10,289	23,295	30,099	17,979	650
Total nonperforming assets	$24,772	$48,000	$65,503	$56,883	$10,595
Nonperforming covered assets included above	$10,900	$27,780	$45,836	$34,224	$—
Nonperforming noncovered assets included above	13,872	20,220	19,667	22,659	10,595
Nonperforming noncovered loans as a percent of noncovered loans	2.88 %	3.94 %	2.64 %	2.93 %	2.14 %
Troubled debt restructurings	$11,825	$7,011	$10,110	$4,700	$812
Interest forgone on nonaccrual loans [2]	1,989	1,729	2,820	1,366	182

(1) Includes $6.0 million and $164,000 of noncovered TDRs and covered TDRs, respectively, classified as nonaccrual at December 31, 2012, as compared to $6.3 and $259,000 of noncovered TDRs and covered TDRs, respectively, classified as nonaccrual at September 30, 2011.

(2) If interest on the loans classified as nonaccrual had been accrued, interest income in these amounts would have been recorded on nonaccrual loans for the periods shown.

Allowance for Loan Losses. We review the allowance loan losses on a quarterly basis and record a provision for loan losses based on the risk composition of the loan portfolio, delinquency levels, loss experience, economic conditions, bank regulatory examination results, seasoning of the loan portfolios and other factors related to the collectability of the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries.

In estimating our allowance for loan losses, we consider our historical loss ratios as a basis for our general loss reserve. We then adjust those historical loss rates after consideration of current internal and external environmental factors. We consider economic indicators that may correlate to higher, or lower, loss ratios in the current environment compared to our historical loss experience. These external factors include trends in unemployment, levels of foreclosures and bankruptcy filings, vacancy rates and peer bank delinquency levels, as well as several other economic factors in our market area. Internal factors include changes in underwriting criteria or policies, management turnover and the results of our internal loan review processes and audits. Further, we estimate a range of losses in each loan portfolio. We then subjectively select a level of allowance for loan loss within those ranges that best reflects our estimate of the Bank's loss exposure. Classified assets that are not impaired are assigned an estimated loss percentage at a higher rate than nonclassified assets as these loans, by their nature, represent a higher likelihood of incurred loss. If management determines the repayment of an impaired loan is dependent upon the liquidation of collateral, an updated appraisal is requested. Management in some situations may use the appraiser's "quick sale" value rather than the full appraised value, with each further reduced by estimated costs to sell.

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At the time of the CFB Acquisition, we applied SFAS No. 141, Business Combinations, which was superseded by ASC 805 (formerly SFAS No. 141(R)). We were not permitted to apply ASC 805 to the CFB Acquisition as it occurred prior to the accounting standard's effective date for the Company. As such, we established an allowance for loan losses in accordance with industry practice under SFAS No. 141. Conversely, no allowance for loan losses was established on loans purchased in the LibertyBank Acquisition on the acquisition date as we applied ASC 805 to the LibertyBank Acquisition and the purchased loans were aggregated into pools and accounted for under ASC 310-30. An allowance for loan losses has since been established on certain loan pools purchased in the LibertyBank Acquisition because the net present value of cash flows expected to be received from loans in these certain pools became impaired subsequent to the acquisition date when compared to the original estimated cash flows for those pools.

The allowance for loan losses on noncovered loans consists of specific reserves allocated to individually reviewed loans and general reserves on all other noncovered originated loans. Commencing in April 2011, we changed our accounting policy for specific allowances on noncovered originated loans in process of foreclosure. Previously, we would maintain a specific reserve on these noncovered impaired loans. Since April 2011, we now treat such deficiencies on loans in process of foreclosure as “Loss” under our credit grading process and partially charge down the loan balance to our estimated net recoverable value, which removes the specific reserve previously recorded. As noted above, we record a general allowance on loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30. Loans purchased in the CFB Acquisition that are accounted for under ASC 310-30 are partially charged down to the estimated net recoverable value if estimated losses exceed the fair value discount established on the acquisition date. Lastly, an allowance for loans purchased in the LibertyBank Acquisition is not established unless the net present value of cash flows expected to be received for loans in the individual acquired loan pools become impaired.

Management believes the allowance for loan losses as of December 31, 2012, and the fair value adjustments under ASC 310-30 represent our best estimate of probable incurred losses inherent in our loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provision that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination. The preliminary estimated fair values of loans purchased in the LibertyBank Acquisition were highly subjective. The amount that we ultimately realize on these assets could differ materially from the carrying value reflected in our financial statements, based upon the timing and amount of collections on the acquired loans in future periods. Changes to the preliminary estimated fair values of assets purchased in the LibertyBank Acquisition may occur in subsequent periods up to one year from the date of acquisition.

The following table summarizes allowance for loan losses by loan category. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. However, the allowance for loan losses on covered loans may only be used for losses in the covered loan portfolio and the allowance for noncovered loans may only be used for losses on noncovered loans (dollars in thousands).

	December 31, 2012			September 30, 2011			2010			2009			2008
	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Bala
Noncovered loans:													
Real estate:													
One-to-four family residential	$79,660	$1,403	23.9 %	$110,173	$1,396	33.6 %	$137,128	$3,165	37.3 %	$169,774	$2,364	41.0 %	$210
Commercial and multifamily	167,605	3,776	50.4	154,781	5,003	47.1	155,322	5,188	42.3	161,886	5,511	39.1	160,2
Total real estate	247,265	5,179	74.3	264,954	6,399	80.7	292,450	8,353	79.6	331,660	7,875	80.1	370,7
Real estate construction	33,510	966	10.1	14,816	898	4.5	17,406	1,427	4.7	26,553	1,609	6.5	33,04
Consumer	35,519	1,798	10.7	40,188	1,641	12.3	48,249	1,655	13.1	49,700	2,212	12.0	56,22
Commercial business	16,401	637	4.9	8,040	211	2.4	9,006	470	2.5	5,943	227	1.4	5,38
Leases	150	31	—	283	76	0.1	408	—	0.1	—	—	—	—
Total noncovered loans	332,845	8,611	100.0%	328,281	9,225	100.0%	367,519	11,905	100.0%	413,856	11,923	100.0%	465,3
Covered loans [1]:													
Real estate	24,336	2,156		32,480	1,674		41,284	2,311		60,414	8,212		—
Real estate construction	2,105	474		3,961	2,569		6,940	448		14,413	7,108		—
Consumer	5,358	559		7,079	371		8,311	248		9,766	995		—
Commercial business	3,832	728		9,792	526		9,910	520		15,550	497		—
Covered loans with allowance	35,631	3,917		53,312	5,140		66,445	3,527		100,143	16,812		—
Covered loans with no allowance [2]	53,813	—		101,685	—		203,106	—		26,223	—		—
Total covered loans	89,444	3,917		154,997	5,140		269,551	3,527		126,366	16,812		—
	$422,289	$12,528		$483,278	$14,365		$637,070	$15,432		$540,222	$28,735		$465

Total gross loans

(1) Loans covered by loss sharing agreements with the FDIC. Loan balances and allowance for loan losses are reported separately from indemnifiable loss amounts estimated to be receivable from the FDIC.

(2) No allowance was recorded on covered loans purchased in the LibertyBank Acquisition or on loans purchased in the CFB Acquisition that were individually accounted for under ASC 310-30 at December, 31, 2012 or September 30, 2011, 2010, 2009 or 2008, as loan balances are reported at the net present value of estimated cash flows and no impairment subsequent to the acquisition date has been incurred in excess of original estimated cash flows as of those dates.

The following table sets forth an analysis of our allowance for loan losses on noncovered loans at the dates and for the periods indicated (dollars in thousands):

	Year Ended December 31, 2012	Three Months Ended December 31, 2011	Years Ended September 30, 2011	2010	2009	2008
Noncovered loans:						
Allowance at beginning of period	$9,947	$9,225	$11,905	$11,923	$4,579	$2,988
Provisions for loan losses	—	—	1,122	9,250	16,085	2,431
Recoveries:						
Real estate	180	43	432	64	122	—
Real estate construction	52	1,087	604	104	15	—
Consumer	82	38	126	17	100	24
Commercial business	12	—	142	113	1	—
Total recoveries	326	1,168	1,304	298	238	24
Charge-offs:						
Real estate	(985)	(366)	(2,401)	(7,494)	(2,490)	(665)
Real estate construction	—	(3)	(668)	(653)	(4,452)	—
Consumer	(582)	(77)	(1,734)	(1,216)	(1,843)	(199)
Commercial business	(95)	—	(303)	(203)	(194)	—
Total charge-offs	(1,662)	(446)	(5,106)	(9,566)	(8,979)	(864)
Net charge-offs (recoveries)	(1,336)	722	(3,802)	(9,268)	(8,741)	(840)
Allowance at end of period	$8,611	$9,947	$9,225	$11,905	$11,923	$4,579
Allowance for loan losses on noncovered loans as a percentage of noncovered loans	2.59%	3.06%	2.81%	3.24%	2.88%	0.98%
Allowance for loan losses on noncovered loans as a percentage of nonperforming noncovered loans	89.73	63.38	71.26	122.74	101.19	46.04
Net charge-offs on noncovered loans as a percentage of average noncovered loans outstanding during the period	0.40	(0.88)	1.09	2.51	1.82	0.18

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The following table details activity in the allowance for loan losses on covered loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30 and does not consider the impact of amounts received from the FDIC under the loss sharing agreement related to such activity at the dates and for the periods indicated (in thousands):

	Year Ended December 31,	Three Months Ended December 31,	Years Ended September 30,		
	2012	2011	2011	2010	2009
Covered loans:					
Allowance at beginning of period	$4,224	$5,140	$3,527	$16,812	$—
Provisions for loan losses	(1,765)	(474)	10,274	1,050	—
Addition to allowance due to acquisitions	—	—	—	—	16,812
Adjustment in preliminary estimated losses	—	—	—	(9,210)	—
Recoveries:					
Real estate	2,071	2	176	16	—
Real estate construction	944	66	792	—	—
Consumer	—	—	24	—	—
Commercial business	105	4	376		—
Total recoveries	3,120	72	1,368	16	—
Charge-offs:					
Real estate	(319)	(224)	(3,667)	(1,865)	—
Real estate construction	(298)	(80)	(5,056)	(2,117)	—
Consumer	(522)	(129)	(404)	(312)	—
Commercial business	(523)	(81)	(902)	(847)	—
Total charge-offs	(1,662)	(514)	(10,029)	(5,141)	—
Net recoveries (charge-offs)	1,458	(442)	(8,661)	(5,125)	—
Allowance at end of period	$3,917	$4,224	$5,140	$3,527	$16,812

Investment Activities

General. Federal banking regulations permit us to invest in various types of liquid assets, including U.S. Treasury obligations, securities of U.S. Government-sponsored enterprises, certificates of deposit of federally-insured banks and savings associations, bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, we also may invest a portion of our assets in commercial paper and corporate debt securities.

Our investment policies are designed to provide and maintain adequate liquidity and to generate favorable rates of return without incurring undue interest rate or credit risk. Our investment policies generally limit investments to Treasury notes, mortgage-backed securities, obligations of U.S. government sponsored enterprises, municipal bonds, certificates of deposit and marketable corporate debt obligations. Investment in mortgage-backed securities includes those issued or guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae and the Veterans Administration (each a U.S. government sponsored enterprise or GSE). We also have purchased investments issued or guaranteed by the Federal Home Loan Bank System and the U.S. Small Business Administration.

From time to time, investment levels may be increased or decreased depending upon yields available on investment alternatives and management's projections as to the demand for funds to be used in loan originations, deposits and other activities.

The following table sets forth the composition of our investment securities portfolios at the dates indicated (in thousands):

	December 31, 2012		September 30, 2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
Obligations of U.S. Government Sponsored Enterprises (GSE)	$56,179	$57,660	$81,751	$82,303	$51,844	$52,022
Obligations of states and political subdivisions	38,932	40,890	14,855	15,605	6,786	6,789
Corporate note, FDIC-guaranteed	—	—	1,008	1,011	1,022	1,025
Mortgage-backed securities:						
Fannie Mae	194,416	200,118	127,773	132,022	93,481	96,417
Freddie Mac	76,845	79,688	95,757	99,577	104,823	108,264
Ginnie Mae	37,634	38,954	46,108	46,896	8,763	8,814
Veterans Administration	2,795	2,912	3,127	3,108	1,425	1,425
Private label	287	283	369	325	449	424
Total	$407,088	$420,505	$370,748	$380,847	$268,593	$275,180

At December 31, 2012, we believe that it is more likely than not that the Company has the ability and intent to hold the securities with a fair value less than amortized cost until their value has recovered to amortized cost.

We received a significant balance of cash due to liabilities assumed in the LibertyBank Acquisition exceeding the book value of assets purchased. We have purchased a significant amount of investment securities since the LibertyBank Acquisition to invest this excess liquidity, with most of those purchases being comprised of mortgage-backed securities issued and guaranteed by U.S. Government-sponsored enterprises. We also purchased some obligations of state and local political subdivisions, but we were selective in our purchases, focusing on highly-rated and well-covered issues with strong cash flow coverage and revenue support. We have focused on mortgage-backed securities and other securities with medium-term durations to ensure the cash flow and liquidity remains strong to assist with strategic initiatives, such as acquisitions, and to protect our interest income against rising interest rates. To that end, we have targeted an average effective duration for our securities portfolio between 2.5 and 3.5 years. At December 31, 2012, we estimate the effective duration of our portfolio to be 3.0 years.

The table below sets forth information regarding the amortized cost, weighted average yields and maturities or periods to repricing of our investment portfolio at December 31, 2012 (dollars in thousands), without giving effect to contractual or estimated prepayments on mortgage-backed securities:

	Amounts Due or Repricing Within:									
	One Year or Less		Over One Year Through Five Years		Over Five Years Through Ten Years		Over Ten Years		Total	
	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)
Available-for-sale:										
Obligations of U.S. Government Sponsored Enterprises (GSE)	$22,325	0.55 %	$6,430	1.70 %	$6,707	2.21 %	$20,717	2.06 %	$56,179	1.44 %
Obligations of states and political subdivisions	—	—	—	—	12,159	3.15	26,773	3.24	38,932	3.21
Mortgage-backed securities, GSE-issued	14,573	2.55	10,430	1.88	142,377	2.02	144,310	1.91	311,690	1.99
Mortgage-backed securities, private label	287	2.62	—	—	—	—	—	—	287	2.62
Total	$37,185	1.35 %	$16,860	1.81 %	$161,243	2.11 %	$191,800	2.11 %	$407,088	2.03 %

(1) Interest and dividends are reported on a tax-equivalent basis, adjusted for a 34% federal tax rate since the interest and dividends are tax exempt. For available-for-sale securities carried at fair value, the weighted average yield is computed using amortized cost.

The following table sets forth certain information with respect to each issuer of securities, without regard to type of security, which had an aggregate book value in excess of 10% of our total equity at December 31, 2012 (in thousands):

	Amortized Cost	Fair Value
Available-for-sale:		
Fannie Mae	$200,439	$206,194
Freddie Mac	79,913	82,773
Ginnie Mae	37,634	38,954
U.S. Small Business Administration	31,934	33,005

Federal Home Loan Bank Stock. As a member of the FHLB of Seattle, the Bank is required to own its capital stock. The amount of stock the Bank holds is based on percentages specified by the FHLB of Seattle on outstanding advances. The redemption of any excess stock the Bank holds is at the discretion of the FHLB of Seattle. At December 31, 2012, the carrying value of FHLB stock was $17.4 million.

Over the last two years, the FHLB of Seattle has reported a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (FHFA), its primary regulator. As a result, the FHLB has stopped paying a dividend and stated that it would suspend the repurchase and redemption of outstanding common stock until its retained earnings deficiency was cured. As a result, the FHLB has not paid a dividend since the fourth quarter of 2008. Any dividends on, or repurchases of, the FHLB of Seattle stock require consent of the FHFA. The FHFA recently approved the FHLB of Seattle to repurchase a portion of its stock and the FHLB of Seattle stock purchased $158,000 of stock from us in September 2012 and an additional $158,000 in December 2012. The FHLB has communicated to its members, including us, that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market and credit risk of the FHLB's private label mortgage backed securities in the current market environment and that it has enough capital to cover the risks reflected in the FHLB's balance sheet. In this regard, the FHLB of Seattle reported that in September 2012 that the FHFA reclassified the FHLB of Seattle to be adequately capitalized. As a result, the Bank has not recorded an other-than-temporary impairment on its investment in FHLB stock. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment. Further deterioration in the FHLB's financial position may, however, result in impairment in the value of our FHLB securities, or the requirement that the Bank contribute additional funds to recapitalize the FHLB, or reduce the Bank's ability to borrow funds from the FHLB, which may impair the Bank's ability to meet liquidity demands.

Bank-Owned Life Insurance. We have purchased bank-owned life insurance policies (BOLI) to offset employee benefit costs. At December 31, 2012, we had a $15.9 million investment in general account life insurance contracts. The potential death benefits as of December 31, 2012 were $31.8 million. The policies have been issued by six insurance companies. All of the insurance companies that issued the policies in the Bank’s BOLI portfolio had investment grade ratings by Standard & Poor’s and A.M. Best at December 31, 2012, and all of these carriers have very high Comdex composite scores at December 31, 2012.

Deposit Activities and Other Sources of Funds

General. Deposits are the major source of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings from the FHLB of Seattle are used to supplement the availability of funds from other sources and also as a source of term funds to assist in the management of interest rate risk.

Changes in our deposit composition reflect our strategy to reduce reliance on certificates of deposit. Interest-bearing and noninterest-bearing checking, savings and money market accounts, which we collectively refer to as “core deposits”, comprised 75.4% of our total deposits at December 31, 2012. We believe core deposits have greater stability and higher profitability than certificates of deposit. We rely on marketing activities, convenience, customer service and the availability of a broad range of competitively priced deposit products and services to attract and retain customer deposits.

Deposits. With the exception of our Health Savings Accounts, which totaled $23.8 million at December 31, 2012, substantially all of our depositors are residents and businesses located in the states of Idaho and Oregon. Deposits are attracted from within our market areas through the offering of a broad selection of deposit instruments, including checking accounts, money market deposit accounts, savings accounts and certificates of deposit with a variety of rates and terms to maturity. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors.

Deposit Activities. The following table sets forth the total deposit activities of Home Federal Bank for the periods indicated (in thousands):

	Year Ended December 31,	Three Months Ended December 31,	Years Ended September 30,	
	2012	2011	2011	2010
Balance at beginning of period	$906,099	$959,509	$1,189,662	$514,858
Deposits assumed in acquisitions at fair value	—	—	—	682,569
Net decrease in deposits before interest credited	(59,022)	(54,622)	(236,944)	(14,350)
Interest credited	3,811	1,212	6,791	6,585
Net increase (decrease) in deposits	(55,211)	(53,410)	(230,153)	674,804
Balance at end of period	$850,888	$906,099	$959,509	$1,189,662

Time Deposits by Rate. The following table sets forth the time deposits in Home Federal Bank classified by contractual rate as of the dates indicated (in thousands):

	December 31,	September 30,	
	2012	2011	2010
0.00-0.99%	$112,215	$130,183	$59,356
1.00-1.99	29,262	62,009	280,261
2.00-2.99	32,774	69,288	168,664
3.00-3.99	33,038	35,773	47,631
4.00 and above	1,953	13,046	20,123
Total	$209,242	$310,299	$576,035

Time Deposits by Maturity. The following table sets forth the amount and maturities of time deposits at December 31, 2012 (in thousands):

	One Year or Less	After One Year Through Two Years	After Two Years Through Three Years	After Three Years Through Four Years	After Four Years Through Five Years	After Five Years	Total
0.00-0.99%	$85,436	$20,491	$2,266	$1,694	$2,328	$—	$112,215
1.00-1.99	3,435	1,419	6,463	11,992	5,718	235	29,262
2.00-2.99	13,180	2,608	16,612	374	—	—	32,774
3.00-3.99	3,638	20,512	8,874	4	—	10	33,038
4.00 and above	1,672	215	50	—	10	6	1,953
Total	$107,361	$45,245	$34,265	$14,064	$8,056	$251	$209,242

The following table sets forth information concerning our time deposits and other deposits at December 31, 2012 (dollars in thousands):

Weighted Average Interest Rate		Original Term	Category	Amount	Percentage of Total Deposits	
—	%	n/a	Noninterest-bearing demand deposits	$142,207	16.7	%
0.18		n/a	Interest-bearing demand deposits	225,017	26.5	
0.15		n/a	Money market accounts	167,202	19.7	
0.10		n/a	Health savings accounts	23,819	2.8	
0.05		n/a	Savings deposits	83,401	9.8	
			Certificates of deposit:			
0.69	%	1-11 months	Fixed term, fixed rate	107,361	12.6	
1.87		12-23 months	Fixed term, fixed rate	45,245	5.3	
2.48		24-35 months	Fixed term, fixed rate	34,265	4.0	
1.43		36-47 months	Fixed term, fixed rate	14,064	1.7	
1.09		48-60 months	Fixed term, fixed rate	8,056	0.9	
1.64		Over 60 months	Fixed term, fixed rate	251	—	
			Total certificates of deposit	209,242	24.5	
			Total deposits	$850,888	100.0	%

Jumbo Certificates. Jumbo certificates of deposit are certificates in amounts of $100,000 or more. We experienced a $38.4 million decrease in jumbo certificates from September 30, 2011 to December 31, 2012, primarily due to the significant maturities of higher-rate certificates of deposit assumed in the LibertyBank Acquisition and our pricing decisions intended to reduce these deposits. The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of December 31, 2012 (in thousands):

Maturity Period	Certificates of Deposit of $100,000 or More
Three months or less	$14,889
Over three months through six months	4,877
Over six months through twelve months	41,994
Over twelve months	12,241
Balance at end of period	$74,001

Deposit Flow. The following table sets forth the balances of deposits in the various types of accounts offered by Home Federal Bank at the dates indicated (dollars in thousands):

	December 31, 2012					September 30, 2011					2010			
	Amount	Percent of Total		Increase/ (Decrease)		Amount	Percent of Total		Increase/ (Decrease)		Amount	Percent of Total		Increase
Demand deposits	$367,224	43.2	%	$(2,131	)	$369,355	38.5	%	$27,501		$341,854	28.7	%	$195,306
Money market accounts	167,202	19.7		(9,981	)	177,183	18.5		(3,271	)	180,454	15.2		104,046
Health savings accounts	23,819	2.8		787		23,032	2.4		792		22,240	1.9		992
Savings deposits	83,401	9.8		3,761		79,640	8.3		10,561		69,079	5.8		27,322

Fixed-rate certificates maturing:									
Within one year	107,361	12.6	(86,462)	193,823	20.2	(175,947)	369,770	31.1	207,801
After one year, but within two years	45,245	5.3	2,464	42,781	4.5	(79,525)	122,306	10.3	87,485
After two years, but within five years	56,385	6.6	(17,097)	73,482	7.6	(9,016)	82,498	6.9	50,608
After five years	251	—	38	213	—	(1,248)	1,461	0.1	1,244
Total	$850,888	100.0 %	$(108,621)	$959,509	100.0 %	$(230,153)	$1,189,662	100.0 %	$674,804

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Borrowings. Historically, we used advances from the FHLB of Seattle to meet short-term deposit withdrawal requirements and also to provide longer term funding to better match the duration of selected loan and investment maturities. As one of our capital management strategies, we have and may use borrowings from the FHLB to fund the purchase of investment securities and origination of loans in order to increase our net interest income when attractive opportunities exist.

As a member of the FHLB, we are required to own its capital stock. Advances are made individually under various terms pursuant to several different credit programs, each with its own interest rate and range of maturities. We maintain a committed credit facility with the FHLB that provides for immediately available advances up to an aggregate of 40% of the Bank's total assets. In September 2011, we repaid all outstanding borrowings with the FHLB (approximately $48.3 million) before the scheduled maturity dates due to our excess liquidity position. We incurred a prepayment penalty of $2.0 million, however, the repayment should reduce interest expense in future periods. Our FHLB borrowing capacity was $95.9 million, at December 31, 2012, which was collateralized by our FHLB stock and through a blanket pledge on our first lien one-to-four family residential real estate loan portfolio and our securities portfolio. The Bank can increase its borrowing capacity by offering additional loans as collateral.

Other borrowings include securities sold under obligations to repurchase, also known as repurchase agreements. We originate repurchase agreements directly with our commercial and retail customers and collateralize these borrowings with securities issued by U.S. Government-sponsored enterprises. Other borrowings, consisting entirely of these repurchase agreements, totaled $4.8 million at December 31, 2012.

The following table sets forth information regarding our borrowings at the end of and during the periods indicated. The table includes both long- and short-term borrowings (dollars in thousands):

	Year Ended December 31,		Three Months Ended December 31,		Year Ended September 30,			
	2012		2011		2011		2010	
Maximum amount of FHLB advances and other borrowings outstanding at any month end	$4,914		$4,913		$67,224		$79,887	
Average FHLB advances and other borrowings outstanding	4,754		4,893		56,415		79,264	
FHLB advances and other borrowings at end of period	4,775		4,913		4,892		67,622	
Interest expense during the period	71		21		2,277		3,153	
Weighted average rates paid:								
During the period	1.49	%	1.72	%	4.04	%	3.98	%
At end of period	1.39		1.72		1.72		3.95	

At December 31, 2012, we also had access to the Federal Reserve Bank of San Francisco's discount window. No funds were drawn on this facility at December 31, 2012. Additionally, we had a $25.0 million line of credit with a third-party bank, however, no funds were drawn on this line at December 31, 2012.

HOW WE ARE REGULATED

The following is a brief description of certain laws and regulations applicable to Home Federal Bancorp and Home Federal Bank. Descriptions of laws and regulations here and elsewhere in this annual report on Form 10-K, do not purport to be complete and are qualified in their entirety by reference to the actual laws and regulations. Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing us may be amended from time to time by the respective regulators. Any such legislation or regulatory changes in the future could adversely affect our operations and financial condition. We cannot predict whether any such changes may occur.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. The following discussion summarizes significant aspects of the Dodd-Frank Act that may affect Home Federal Bank and Home Federal Bancorp. For certain of these changes, implementing regulations have not been promulgated, so we cannot determine the full impact of the Dodd-Frank Act on our business and operations at this time.

The following aspects of the Dodd-Frank Act are related to the operations of Home Federal Bank:

- The Consumer Financial Protection Bureau ("CFPB"), an independent consumer compliance regulatory agency within the Federal Reserve has been established. The CFPB is empowered to exercise broad regulatory, supervisory and enforcement authority over financial institutions with total assets of over $10 billion with respect to both new and existing consumer financial protection laws. Financial institutions with assets of less than $10 billion, like Home Federal Bank, will continue to be subject to supervision and enforcement by their primary federal banking regulator with respect to federal consumer financial protection laws. The CFPB also has authority to promulgate new consumer financial protection regulations and amend existing consumer financial protection regulations;
- The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries;
- The prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011;
- Deposit insurance is permanently increased to $250,000 and unlimited deposit insurance for noninterest-bearing transaction accounts is extended through December 31, 2012;
- The deposit insurance assessment base for FDIC insurance is the depository institution's average consolidated total assets less the average tangible equity during the assessment period; and
- The minimum reserve ratio of the FDIC's Deposit Insurance Fund ("DIF") increased to 1.35 percent of estimated annual insured deposits or the comparable percentage of the assessment base; however, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion. Pursuant to the Dodd-Frank Act, the FDIC recently issued a rule setting a designated reserve ratio at 2.0% of insured deposits.

The following aspects of the Dodd-Frank Act are related to the operations of Home Federal Bancorp:

- Tier 1 capital treatment for "hybrid" capital items like trust preferred securities is eliminated subject to various grandfathering and transition rules. The federal banking agencies must promulgate new rules on regulatory capital within 18 months from July 21, 2010, for both depository institutions and their holding companies, to include leverage capital and risk-based capital measures at least as stringent as those now applicable to Home Federal Bank under the prompt corrective action regulations;
- Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years;
- A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments;
- Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant;
- Stock exchanges are prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information;
- Disclosure in annual proxy materials is required concerning the relationship between the executive compensation paid and the financial performance of the issuer;
- Item 402 of Regulation S-K is amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees; and
- Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

Regulation and Supervision of Home Federal Bank

General. As a state-chartered, federally insured commercial bank, Home Federal Bank is subject to extensive regulation by the Department and the applicable provisions of Idaho law and regulations of the Department adopted thereunder. The Bank also is subject to regulation and examination by the FDIC, which insures the deposits of the Bank to the maximum extent permitted by law. State law and regulations govern the Bank's ability to take deposits and pay interest thereon, to make loans on or invest in residential and other real estate, to make consumer loans, to invest in securities, to offer various banking services to its customers, and to establish branch offices. The Bank is subject to periodic examination and reporting requirements by and of the Department and the FDIC. Federal and state bank regulatory agencies also have the general authority to limit the dividends paid by insured banks and bank holding companies if such payments should be deemed to constitute an unsafe and unsound practice. The respective primary federal regulators of Home Federal Bancorp and Home Federal Bank have authority to impose penalties, initiate civil and administrative actions and take other steps intended to prevent banks from engaging in unsafe or unsound practices.

Insurance of Accounts and Regulation by the FDIC. The DIF of the FDIC insures deposit accounts in Home Federal Bank up to $250,000 per separately insured depositor. Noninterest bearing transaction accounts had unlimited coverage until December 31, 2012. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. Our deposit insurance premiums for the year ended December 31, 2012, were $803,000. Those premiums have increased in recent years as a result of recent strains on the FDIC's DIF due to the cost of large bank failures and increase in the number of troubled banks. As a result of a decline in the reserve ratio (the ratio of the net worth of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of three basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash, or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 13, 2013, as applicable. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. Home Federal Bank's prepaid assessment no longer had a balance at December 31, 2012.

The Dodd-Frank Act requires the FDIC's deposit insurance assessments to be based on assets instead of deposits. The FDIC has issued rules, effective as of the second quarter of 2011, which specify that the assessment base for a bank is equal to its total average consolidated assets less average tangible capital. The FDIC assessment rates range from approximately five basis points to 35 basis points, depending on applicable adjustments for unsecured debt issued by an institution and brokered deposits (and to further adjustment for institutions that hold unsecured debt of other FDIC-insured institutions), until such time as the FDIC's reserve ratio equals 1.15%. Once the FDIC's reserve ratio reaches 1.15% and the reserve ratio for the immediately prior assessment period is less than 2.0%, the applicable assessment rates may range from three basis points to 30 basis points (subject to adjustments as described above). If the reserve ratio for the prior assessment period is equal to, or greater than 2.0% and less than 2.5%, the assessment rates may range from two basis points to 28 basis points and if the prior assessment period is greater than 2.5%, the assessment rates may range from one basis point to 25 basis points (in each case subject to adjustments as described above. No institution may pay a dividend if it is in default on its federal deposit insurance assessment.

The FDIC conducts examinations of and requires reporting by state non-member banks, such as Home Federal Bank. The FDIC also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious risk to the DIF.

The FDIC may terminate the deposit insurance of any insured depository institution, including Home Federal Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of Home Federal Bank's deposit insurance.

Prompt Corrective Action. Federal statutes establish a supervisory framework based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures, which include a risk-based capital measure, a leverage ratio capital measure and certain other factors. The federal banking agencies have adopted regulations that implement this statutory framework. Under these regulations, an institution is treated as well capitalized if its ratio of total capital to risk-weighted assets is 10% or more, its ratio of core capital to risk-weighted assets is 6% or more, its ratio of core capital to adjusted total assets (leverage ratio) is 5% or more, and it is not subject to any federal supervisory order or directive to meet a specific capital level. In order to be adequately capitalized, an institution must have a total risk-based capital ratio of not less than 8%, a core capital to risk-weighted assets ratio of not less than 4%, and a leverage ratio of not less than 4%. An institution that is not well capitalized is subject to certain restrictions on brokered deposits, including restrictions on the rates it can offer on its deposits generally. Any institution which is neither well capitalized nor adequately capitalized is considered undercapitalized.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions which become more extensive as an institution becomes more severely undercapitalized. Failure by Home Federal Bank to comply with applicable capital requirements would, if unremedied, result in progressively more severe restrictions on its activities and lead to enforcement actions, including, but not limited to, the issuance of a capital directive to ensure the maintenance of required capital levels and, ultimately, the appointment of the FDIC as receiver or conservator. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, approval of any regulatory application filed for their review may be dependent on compliance with capital requirements.

At December 31, 2012, Home Federal Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FDIC. For additional information on capital requirements, see Note 15 of the Notes to the Consolidated Financial Statements contained in Item 8, Financial Statements and Supplemental Data.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to internal controls, information systems and internal audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; asset quality; earnings; and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical, and physical safeguards appropriate to the institution's size and complexity and the nature and scope of its activities. The information security program must be designed to ensure the security and confidentiality of customer information, protect against any unanticipated threats or hazards to the security or integrity of such information, protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer, and ensure the proper disposal of customer and consumer information. Each insured depository institution must also develop and implement a risk-based response program to address incidents of unauthorized access to customer information in customer information systems. If the FDIC determines that an institution fails to meet any of these guidelines, it may require an institution to submit to the FDIC an acceptable plan to achieve compliance.

Capital Requirements. Federally insured financial institutions, such as Home Federal Bank, are required to maintain a minimum level of regulatory capital. FDIC regulations recognize two types, or tiers, of capital: core (Tier 1) capital and supplementary (Tier 2) capital. Tier 1 capital generally includes common stockholders' equity and qualifying noncumulative perpetual preferred stock, less most intangible assets. Tier 2 capital, which is recognized up to 100% of Tier 1 capital for risk-based capital purposes (after any deductions for disallowed intangibles and disallowed deferred tax assets), includes such items as qualifying general loan loss reserves (up to 1.25% of risk-weighted assets), cumulative perpetual preferred stock, long-term preferred stock, certain perpetual preferred stock, hybrid capital instruments including mandatory convertible debt, term subordinated debt, intermediate-term preferred stock (original average maturity of at least five years), and net unrealized holding gains on equity securities (subject to certain limitations); provided, however, the amount of term subordinated debt and intermediate term preferred stock that may in included in Tier 2 capital for risk-based capital purposes is limited to 50% of Tier 1 capital.

The FDIC currently measures an institution's capital using a leverage limit together with certain risk-based ratios. The FDIC's minimum leverage capital requirement for a bank to be considered adequately capitalized specifies a minimum ratio of Tier 1 capital to average total assets of 4%. At December 31, 2012, Home Federal Bank had a Tier 1 leverage capital ratio of 13.77%. The FDIC retains the right to require a particular institution to maintain a higher capital level based on an institution's particular risk profile.

FDIC regulations also establish a measure of capital adequacy based on ratios of qualifying capital to risk-weighted assets. Assets are placed in one of four categories and given a percentage weight based on the relative risk of the category. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the four categories. Under the guidelines, the ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets must be at least 8%, and the ratio of Tier 1 capital to risk-weighted assets must be at least 4%. In evaluating the adequacy of a bank's capital, the FDIC may also consider other factors that may affect the bank's financial condition. Such factors may include interest rate risk exposure, liquidity, funding and market risks, the quality and level of earnings, concentration of credit risk, risks arising from nontraditional activities, loan and investment quality, the effectiveness of loan and investment policies, and management's ability to monitor and control financial operating risks. At December 31, 2012, Home Federal Bank had a Tier 1 risk-based capital ratio of 33.26%, and a total risk-based capital ratio of 34.53%.

FDIC capital requirements are designated as the minimum acceptable standards for banks whose overall financial condition is fundamentally sound, which are well-managed and have no material or significant financial weaknesses. The FDIC capital regulations state that, where the FDIC determines that the financial history or condition, including off-balance-sheet risk, managerial resources and/or the future earnings prospects of a bank are not adequate and/or a bank has a significant volume of assets classified substandard, doubtful or loss or otherwise criticized, the FDIC may determine that the minimum adequate amount of capital for the bank is greater than the minimum standards established in the regulation.

We believe that, under the current regulations, Home Federal Bank exceeds its minimum capital requirements. However, events beyond the control of the Bank, such as weak or depressed economic conditions in areas where it has most of its loans, could adversely affect future earnings and, consequently, the ability of the Bank to meet its capital requirements.

New Proposed Capital Rules. In June 2012, the Federal Reserve, FDIC and the Office of the Comptroller of the Currency approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to Home Federal Bancorp and Home Federal Bank. The proposed rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to various documents released by the Basel Committee on Banking Supervision. The proposed rules were subject to a public comment period that has expired and there is no date set for the adoption of final rules.

The proposed rules include new minimum risk-based capital and leverage ratios, which would be phased in during 2013 and 2014, and would refine the definitions of what constitutes "capital" for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to Home Federal Bancorp and Home Federal Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The proposed rules would also establish a "capital conservation buffer" of 2.5% above each of the new regulatory minimum capital ratios would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

The proposed rules also implement other revisions to the current capital rules such as recognition of all unrealized gains and losses on available for sale debt and equity securities, and provide that instruments that will no longer qualify as capital would be phased out over time.

The federal bank regulatory agencies also proposed revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including Home Federal Bank, if their capital levels begin to show signs of weakness. These revisions would take effect January 1, 2015. Under the prompt corrective action requirements, insured depository institutions would be required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (iii) a total risk-based capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from the current rules).

The proposed rules set forth certain changes for the calculation of risk-weighted assets and utilize an increased number of credit risk and other exposure categories and risk weights. In addition, the proposed rules also address: (i) a proposed alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; and (iv) revised capital treatment for derivatives and repo-style transactions.

In particular, the proposed rules would expand the risk-weighting categories from the current four categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures. Higher risk weights would apply to a variety of exposure categories. Specifics include, among others:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.
- For residential mortgage exposures, the current approach of a 50% risk weight for high-quality seasoned mortgages and a 100% risk-weight for all other mortgages is replaced with a risk weight of between 35% and 200% depending upon the mortgage's loan-to-value ratio and whether the mortgage is a "category 1" or "category 2" residential mortgage exposure (based on eight criteria that include, among others, the term, seniority of the lien, use of negative amortization, balloon payments and certain rate increases).
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.
- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).
- Providing for a 100% risk weight for claims on securities firms.
- Eliminating the current 50% cap on the risk weight for OTC derivatives.

Temporary Liquidity Guarantee Program. Following a systemic risk determination, the FDIC established its Temporary Liquidity Guarantee Program (TLGP) in October 2008. The TLGP includes two programs: the Transaction Account Guarantee Program (TAGP) and the Debt Guarantee Program (DGP). The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. Home Federal Bancorp and Home Federal Bank opted out of the DGP, but did not opt out of the TAGP.

The TAGP provided unlimited deposit insurance coverage through December 31, 2010 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Other NOW accounts and money market deposit accounts are not covered. TAGP coverage on NOW accounts lasted until December 31, 2010, and will last until December 31, 2013 for noninterest-bearing transaction accounts.

Commercial Real Estate Lending Concentrations. The federal banking agencies have issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance directs the FDIC and other bank regulatory agencies to focus their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk:

- Total reported loans for construction, land development and other land represent 100% or more of the bank's capital; or

- Total commercial real estate loans (as defined in the guidance) represent 300% or more of the bank's total capital or the outstanding balance of the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

The guidance provides that the strength of an institution's lending and risk management practices with respect to such concentrations will be taken into account in supervisory guidance on evaluation of capital adequacy. As of December 31, 2012, Home Federal Bank's aggregate total for construction, land and land development loans was 26.23% of the Bank's total regulatory capital. In addition, at December 31, 2012, Home Federal Bank's commercial real estate loans totaled 124.75% of the Bank's total regulatory capital.

Activities and Investments of Insured State-Chartered Financial Institutions. Federal law generally limits the activities and equity investments of FDIC insured, state-chartered banks to those that are permissible for national banks. An insured state bank is not prohibited from, among other things, (1) acquiring or retaining a majority interest in a subsidiary, (2) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (3) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (4) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Environmental Issues Associated With Real Estate Lending. The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) is a federal statute that generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress asked to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this area, all creditors, including Home Federal Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Federal Reserve System. The Federal Reserve Board requires that all depository institutions maintain reserves on transaction accounts or nonpersonal time deposits. These reserves may be in the form of cash or noninterest-bearing deposits with the regional Federal Reserve Bank. NOW accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to Regulation D reserve requirements, as are any nonpersonal time deposits at a bank. At December 31, 2012, the Bank's deposits with the Federal Reserve Bank and vault cash exceeded its reserve requirements.

Federal Home Loan Bank System. Home Federal Bank is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the board of directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. Although we had FHLB advances outstanding during nearly all of fiscal year 2011, by September 30, 2011, Home Federal Bank had paid off all $48.3 million of outstanding advances from the FHLB of Seattle under the available credit facility. This credit facility as of December 31, 2012 is $95.9 million, which is limited to available collateral. See the section entitled "Business – Deposit Activities and Other Sources of Funds – Borrowings."

As a member, Home Federal Bank is required to purchase and maintain stock in the FHLB of Seattle. At December 31, 2012, Home Federal Bank had $17.4 million in FHLB stock, which was in compliance with this requirement.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to housing programs through direct loans or interest subsidies on advances targeted for community investment and low-to-moderate income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of Home Federal Bank's FHLB stock may result in a corresponding reduction in Home Federal Bank's capital.

Affiliate Transactions. Home Federal Bancorp and Home Federal Bank are separate and distinct legal entities. Federal laws strictly limit the ability of banks to engage in certain transactions with their affiliates, including their bank holding companies. Transactions deemed to be a "covered transaction" under Section 23A of the Federal Reserve Act and between a subsidiary bank and its parent company or any nonbank subsidiary of the bank holding company are limited to 10% of the subsidiary bank's capital and surplus and, with respect to the parent company and all such nonbank subsidiaries, to an aggregate of 20% of the subsidiary bank's capital and surplus. Further, covered transactions that are loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that covered transactions and certain other transactions listed in Section 23B of the Federal Reserve Act between a bank and its affiliates be on terms as favorable to the bank as transactions with nonaffiliates.

Community Reinvestment Act. Home Federal Bank is subject to the provisions of the Community Reinvestment Act of 1977 (CRA), which requires the appropriate federal bank regulatory agency to assess a bank's performance under the CRA in meeting the credit needs of the community serviced by the bank, including low and moderate income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the public. Further, a bank's CRA performance rating must be considered in connection with a bank's application to, among other things, to establish a new branch office that will accept deposits, relocate an existing office or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. Home Federal Bank received a "satisfactory" rating during its most recent CRA examinations.

Dividends. The amount of dividends payable by a bank depends upon its earnings and capital position, and is limited by federal and state laws, regulations and policies. Federal law further provides that no insured depository institution may make any capital distribution (which includes a cash dividend) if, after making the distribution, the institution would be "undercapitalized," as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies also have the general authority to limit the dividends paid by insured banks if such payments should be deemed to constitute an unsafe and unsound practice.

In addition, the Idaho Code provides that "no dividend shall be declared or paid by any bank until a surplus equal to 20% of the paid-in capital stock of such bank has been built up. Thereafter, the board of directors of any bank may declare a dividend of so much of its net profits as it shall deem expedient; but before any such dividend is declared or paid, not less than one-fifth of the net profits of the bank for such period as is covered by the dividend shall be carried to the surplus fund until such surplus fund shall amount to 50% of the paid-in common stock. Any loss sustained by any bank in excess of its undivided profits may be charged to its surplus account, provided that its surplus funds shall thereafter be reimbursed from its earnings in the manner above provided. If such surplus fund is reduced below an amount equal to 20% of the common stock, no further dividend shall be declared or paid until such surplus is restored to that amount, and thereafter dividends shall only be declared and paid in the amount and in the manner above provided until such surplus shall be restored to an amount equal to 50% of the common stock."

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (GLBA) modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. Home Federal Bank is subject to FDIC regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including informing consumers of its information sharing practices and informing consumers of their rights to opt out of certain practices.

Other Consumer Protection Laws and Regulations. The Bank is subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While the list set forth below is not exhaustive, these include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfers Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Banks to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Regulation and Supervision of Home Federal Bancorp

General. Home Federal Bancorp, a Maryland corporation and the sole shareholder of Home Federal Bank, is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to comprehensive regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (BHCA), and the regulations of the Federal Reserve. We are required to file quarterly reports with the Federal Reserve and provide additional information as the Federal Reserve may require. The Federal Reserve may examine us, and any of our subsidiaries, and charge us for the cost of the examination. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. Home Federal Bancorp is also required to file certain reports with, and otherwise comply with the rules and regulations of the SEC.

The Bank Holding Company Act. Under the BHCA, we are supervised by the Federal Reserve. The Federal Reserve has a policy that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, the Dodd-Frank Act and earlier Federal Reserve policy provide that a bank holding company should serve as a source of strength to its subsidiary banks by having the ability to provide financial assistance to its subsidiary banks during periods of financial distress to the banks. A bank holding company's failure to meet its obligation to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both. The Dodd-Frank Act requires new regulations to be promulgated concerning the source of strength. Home Federal Bancorp and any subsidiaries that it may control are considered "affiliates" within the meaning of the Federal Reserve Act, and transactions between Home Federal Bank and affiliates are subject to numerous restrictions. With some exceptions, Home Federal Bancorp, and its subsidiaries, are prohibited from tying the provision of various services, such as extensions of credit, to other services offered by Home Federal Bancorp, or by its affiliates.

Acquisitions. The BHCA prohibits a bank holding company, with certain exceptions, from acquiring ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company and from engaging in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. Under the BHCA, the Federal Reserve may approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve has determined to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. These activities include: operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders, travelers' checks and U.S. Savings Bonds; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers.

Federal Securities Laws. Home Federal Bancorp's common stock is registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended. We are subject to information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934 (the Exchange Act).

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with various accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Exchange Act.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and corporate governance rules and requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. Our policies and procedures have been updated to comply with the requirements of the Sarbanes-Oxley Act.

Interstate Banking and Branching. The Federal Reserve must approve an application of a bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than the holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. Nor may the Federal Reserve approve an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Federal law does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in the federal law.

The federal banking agencies are authorized to approve interstate merger transactions without regard to whether the transaction is prohibited by the law of any state, unless the home state of one of the banks adopted a law prior to June 1, 1997 which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. Interstate acquisitions of branches will be permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions will also be subject to the nationwide and statewide insured deposit concentration amounts described above. Under the Dodd-Frank Act, the federal banking agencies may generally approve interstate de novo branching.

Dividends. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses its view that although there are no specific regulations restricting dividend payments by bank holding companies other than state corporate laws, a bank holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company's net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company's capital needs, asset quality, and overall financial condition. The Federal Reserve policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Home Federal Bancorp is under no such restriction. Additionally, while the Company was not profitable in fiscal years 2010 and 2011, the Company had sufficient excess capital above the levels to be considered "Well Capitalized" under regulatory guidance, and the Company continued to pay dividends to shareholders during those periods.

Capital Requirements. The Federal Reserve has established capital adequacy guidelines for bank holding companies that generally parallel the capital requirements of the FDIC for the Bank. The Federal Reserve regulations provide that capital standards will be applied on a consolidated basis in the case of a bank holding company with $500 million or more in total consolidated assets. The guidelines require that a company's total risk-based capital must equal 8% of risk-weighted assets and one half of the 8% (4%) must consist of Tier 1 (core) capital. As of December 31, 2012, Home Federal Bancorp's total risk-based capital was 38.57% of risk-weighted assets and its Tier 1 (core) capital was 37.30% of risk-weighted assets.

Stock Repurchases. A bank holding company, except for certain "well-capitalized" and highly rated bank holding companies, is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve. We repurchased 1,251,943 shares of our common stock during the year ended December 31, 2012, and at that date, have authorization to repurchase an additional 641,570 shares.

TAXATION

Federal Taxation

General. The Company is subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company.

Because the Company owns 100% of the issued and outstanding capital stock of the Bank, the Company and the Bank are members of an affiliated group within the meaning of Section 1504(a) of the Internal Revenue Code, of which group the Company is the common parent corporation. As a result of this affiliation, the Bank is included in the filing of a consolidated federal income tax return with the Company. The parties agreed to compensate each other for their individual share of the consolidated tax liability and/or any tax benefits provided by them in the filing of the consolidated federal income tax return.

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a calendar year ending on December 31 for filing its federal income tax return.

Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of an exemption amount. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has not been subject to the alternative minimum tax, nor does it have any such amounts available as credits for carryover.

Net Operating Loss Carryovers. At December 31, 2012, the Company had no net operating loss carryforwards or carrybacks for federal income tax purposes.

Corporate Dividends-Received Deduction. Home Federal Bancorp may eliminate from its income dividends received from Home Federal Bank as a wholly-owned subsidiary of new Home Federal Bancorp if it elects to file a consolidated return with Home Federal Bank. The corporate dividends-received deduction is 100%, or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payer of the dividend. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct 70% of dividends received or accrued on their behalf.

State Taxation

Home Federal Bancorp and Home Federal Bank are subject to the general corporate tax provisions of the states of Oregon and Idaho. State corporate income taxes are generally determined under federal tax law with some modifications. Taxable income is taxed at a rate of 7.6% and 6.6% in Idaho and Oregon, respectively. These taxes are reduced by certain credits, primarily the Idaho investment tax credit in the case of Home Federal Bank.

Home Federal Bancorp also is subject to the corporate tax provisions of the state of Maryland. CELC is subject to property and income taxes in approximately 30 states where it conducts business.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information with respect to the executive officers of the Company and the Bank.

Name	Age as of December 31, 2012	Position Company	Bank
Len E. Williams	54	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer
Eric S. Nadeau	42	Executive Vice President, Treasurer, Secretary, and Chief Financial Officer	Executive Vice President, Treasurer, Secretary, and Chief Financial Officer
R. Shane Correa	47		Executive Vice President, Chief Banking Officer
Cindy L. Bateman	51		Executive Vice President, Chief Credit Officer
Mark C. Johnson	56		President, Western Oregon Region

The business experience of each executive officer for at least the past five years is set forth below.

Len E. Williams is President and Chief Executive Officer of Home Federal Bancorp and Home Federal Bank. He joined Home Federal Bank as President in September 2006, was appointed as a director of Home Federal Bank and Home Federal Bancorp in April 2007 and became President and Chief Executive Officer of Home Federal Bancorp and Chief Executive Officer of Home Federal Bank in January 2008. Mr. Williams has over 35 years of commercial banking experience serving in many regional and national leadership roles. Prior to joining Home Federal Bank, Mr. Williams was Senior Vice President and Head of Business Banking with Fifth Third Bank. He was charged with creating and growing the business line and providing leadership over the company's business banking personnel, processes and products. From 1987 to 2005, he held several management positions with Key Bank, including President of Business Banking from 2003 to 2005 and President of the Colorado District and Regional Leader over commercial banking for the Rocky Mountain Region from 1999 to 2003. His prior experience includes regional corporate and commercial banking leadership responsibility. Mr. Williams currently sits on the boards of the Nampa Development Corporation, the President's Advisory Council for Northwest Nazarene University, and the Advisory Board for the Nampa Boys and Girls Club. He holds an M.B.A. from the University of Washington and is a graduate of the Pacific Coast Banking School. Mr. Williams' extensive banking experience as a leader of lines of business with national scope and multi-billions of dollars of assets under management enables him to provide insight to the Board of Directors as the only management member on the Board. Additionally, his commercial banking knowledge, particularly in the areas of production leadership, credit risk management and commercial loan underwriting, has been instrumental in guiding Home Federal Bank through its transformation from a savings association to a commercial bank.

Eric S. Nadeau joined the Company in June 2008 as Executive Vice President, Treasurer, Corporate Secretary and Chief Financial Officer of Home Federal Bancorp and Home Federal Bank. He was most recently employed by Camco Financial Corporation in Cambridge, Ohio, as its Chief Financial Officer. From January 2003 until February 2006 he was the Chief Financial Officer of Ohio Legacy Corp, and its subsidiary, Ohio Legacy Bank, N.A. His previous experience also includes financial management positions with telecommunications and construction equipment companies. Mr. Nadeau was employed by Crowe Horwath from 1993 to 1998 where he provided audit, tax and consulting services to financial institutions in the Midwest. Mr. Nadeau is a certified public accountant and received his Bachelor of Science in Business Administration from the Richard T. Farmer School of Business at Miami University in Oxford, Ohio. Mr. Nadeau serves on the Board of Directors of the Boise Philharmonic Orchestra.

R. Shane Correa is the Chief Banking Officer for Home Federal Bank. Mr. Correa was President of the Central Oregon Region of Home Federal Bank until his appointment in September 2010. Mr. Correa previously served as Executive Vice President and Chief Banking Officer of Columbia River Bank (CRB) from September 2004 until he joined Home Federal in March 2010. He joined CRB in July 1998, and served in various leadership positions throughout Central and Eastern Oregon prior to his appointment as Chief Banking Officer. Prior to CRB, Mr. Correa spent 10 years with U.S. Bank in various management positions. Mr. Correa holds a B.S. degree in Agricultural Business Management from Oregon State University and is a graduate of Western School of Bank Management. He has 23 years of banking experience. Mr. Correa’s professional affiliations have included a current Board Member of the Oregon Bankers

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Association, Rotary Clubs of Oregon and Washington, Deschutes County United Way Board and the Greater Eastern Oregon Development Corporation Board.

Cindy L. Bateman is Executive Vice President and Chief Credit Officer of Home Federal Bank. Ms. Bateman joined Home Federal Bank in March 2007. Ms. Bateman was previously employed by Key Bank from 2002 until 2007 having served as Senior Vice President and District Business Leader. Having started her career with First Security Bank of Idaho in 1983 in the Management Training program, she has held various positions in Credit Administration and Commercial and Business Banking in Idaho, Southern California and Seattle. Ms. Bateman holds a B.B.A. in Finance from Idaho State University and an M.B.A. from the University of Washington. She serves on the Board of Trustees for the Idaho Shakespeare Festival and formerly served as the President of Financial Women International.

Mark C. Johnson is President of the Western Oregon Region of Home Federal Bank and oversees the commercial team, including commercial relationship managers and the Bank's commercial cash management sales team. Mr. Johnson joined Home Federal Bank as President, Western Oregon Region in November 2010 and assumed an expanded leadership role for company-wide commercial banking and treasury management activities in October 2011. With over 30 years of experience in commercial banking, primarily in Western Oregon, he previously served as Senior Vice President of Sterling Savings Bank from 2003 to 2010 in the roles of Commercial Banking Director, Regional Commercial Banking Director and Corporate Banking Team Leader. He also worked at Wells Fargo Bank and US Bank in various production and leadership positions. Mr. Johnson received his B.A. in Business Administration from Western State Colorado University, and is active in the local community including the Eugene Chamber of Commerce Finance Committee and United Way of Lane County Financial Services Committee and campaign cabinet. In addition, he was previously active in leadership positions in Junior Achievement of Western Oregon, the National Kidney Foundation of Oregon and Washington, and served as a founding director of Emerald Valley Youth Track Club.

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Item 1A. Risk Factors

Our business, and an investment in our common stock, involves risks. Summarized below are the risk factors which we believe are material to our business and could negatively affect our operating results, financial condition, capital levels, liquidity and the trading value of our common stock. Other risks factors, not currently known to us, or that we currently deem to be immaterial or unlikely, also could adversely affect our business. In assessing the following risk factors, you should also refer to the other information contained in this Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. This report is qualified in its entirety by these risk factors.

The current weak economic conditions in the market areas we serve may continue to adversely impact our earnings and could increase the credit risk associated with our loan portfolio.

Substantially all of our loans are to businesses and individuals in the states of Idaho and Oregon. A continuing decline in the economies of the markets in which we operate, and which we consider to be our primary market areas, could have a material adverse effect on our business, financial condition, results of operations and prospects. In particular, Idaho and Oregon have experienced substantial home price declines and increased foreclosures and have experienced above average unemployment rates.

Continued weakness or a further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- loan delinquencies, problem assets and foreclosures may increase;
- we may increase our allowance for loan losses;
- demand for our products and services may decline resulting in a decrease in our total loans or assets;
- collateral for loans made may decline further in value, exposing us to increased risk of loss on existing loans, reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- the amount of our low-cost or noninterest bearing deposits may decrease and the composition of our deposits may be adversely affected.

A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values to satisfy the debt, our financial condition and profitability could be adversely affected.

A return of recessionary conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

The ongoing debate in Congress regarding the national debt ceiling and federal budget deficit, and concerns over the United States' credit rating (which was downgraded by Standard & Poor's), the European sovereign debt crisis, the overall weakness in the economy and continued relatively high unemployment in the United States, among other economic indicators, have contributed to increased volatility in the capital markets and diminished expectations for the economy.

A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

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Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to pursue a significant growth strategy for our business. We regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions of financial institutions in the future, including FDIC-assisted transactions, or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

Our growth initiatives may require us to recruit experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risk related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

If we do not successfully execute our acquisition growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill or core deposit intangible had been impaired, that conclusion would result in an impairment charge to us, which would adversely affect our results of operations. While we believe we have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance that growth opportunities will be available or that we will successfully manage our growth. Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could adversely affect us.

We are pursuing a strategy of supplementing organic growth by acquiring other financial institutions that we believe will help us fulfill our strategic objectives and enhance our earnings. There are risks associated with this strategy, however, including the following:

- we may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;
- prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;
- our growth initiatives may require us to recruit experienced personnel to assist in such initiatives, which will increase our compensation costs;
- our strategic efforts may divert resources or management’s attention from ongoing business operations and may subject us to additional regulatory scrutiny;
- the acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not

conducted successfully and with minimal adverse effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful;

- to finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing stockholders; and
- we expect our net interest income will increase following our acquisitions, however, we also expect our general and administrative expenses to also increase. Ultimately, we would expect our efficiency ratio to improve;

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however, if we are not successful in our integration process, this may not occur, or may occur at a slower rate than originally anticipated, and our acquisitions may not be accretive to earnings in the short or long-term.

We have completed two acquisitions during the past four years that enhanced our rate of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in the future.

We may engage in additional FDIC-assisted transactions, which could present additional risks to our business.

We may have additional opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, however, the bidding process for FDIC-assisted transactions is competitive, and the competition may make it more difficult for us to bid on terms we consider to be acceptable. Many of these competing bidders will have more capital and other resources than Home Federal Bank. In addition, although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, we are (and would be in future transactions) subject to many of the same risks we would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. Further, because these acquisitions are structured in a manner that would not allow us the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, we may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to our capital resources requiring us to raise additional capital. We cannot give assurance that we will be successful in overcoming these risks or any other problems encountered in connection with our FDIC-assisted transactions. Our inability to overcome these risks could have a material adverse effect on our business, financial condition and results of operations.

Our earnings may be diminished until we can replace the revenue we expect to derive from the interest income and continued realization of accretable discounts on our acquired loans and invest the additional liquidity from the acquisition of LibertyBank.

As a result of the two FDIC-assisted acquisitions that we have made and the asset discount bids associated with each acquisition, we anticipate that a significant portion of our income over the next two to three years will be derived from the interest income and continued realization of accretable discounts on the loans that we purchased in our FDIC-assisted acquisitions and from the FDIC receivable. For the year ended December 31, 2012, we recognized $24.9 million of interest income on covered loans. The accretable discount on the acquired loans will be recognized into interest income over the estimated life of the covered loan portfolio. Furthermore, the discount recorded on the FDIC receivable will be accreted into noninterest income using the level yield method over the estimated life of the loan or pool of loans. During this period, if we are unable to replace our acquired loans and the related accretion with new performing loans or other interest earning assets at a similar yield due to such reasons as low loan demand or competition from other financial institutions in our markets, our financial condition and earnings, including our net interest rate margin, may be adversely affected.

The acquisition of LibertyBank also resulted in a significant increase in cash as a result of the excess of liabilities assumed over assets purchased and the amount of LibertyBank loans retained by the FDIC. We expect that the significant increase in cash balances will result in a decrease in our net interest margin until these additional funds can be invested in loans and securities. This influx of cash and the additional expense burden will keep our earnings below optimal levels until we can generate meaningful loan growth. As a result of the current environment, there is a lack of demand for loans, or a diminished supply of creditworthy lending opportunities, that limits our ability to increase outstanding organic loan balances meeting our investment and asset/liability objectives. Alternative investments are also unattractive as investment securities offer very low yields within management's credit and interest rate risk tolerances. If we are unable to invest this additional liquidity, our earnings may be adversely affected.

We are highly dependent on key individuals and a number of the members of executive and senior management have been with the Company for five years or less.

Consistent with our policy of focusing on select growth initiatives we are highly dependent on the continued services of a limited number of our executive officers and key management personnel. These individuals have been instrumental in developing and implementing our operating strategy. In addition, since our business is primarily relationship-driven, these individuals have developed extensive customer relationships. The loss of the services of any one of these

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individuals could have a material adverse impact on our operations because we have fewer management-level personnel that have the experience and expertise to readily replace these individuals.

We believe we have in place qualified individuals and have provided for an orderly transition. Additional changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and profitability. Moreover, our anticipated growth is expected to place increased demands on our human resources and will require the recruitment of additional middle management personnel. The competition to hire experienced banking professionals is also intense. If we are unable to attract qualified banking professionals, our expansion plans could be delayed or curtailed and our business, financial condition, and profitability may be adversely affected.

The price of our common stock may be volatile or may decline.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry both domestically and internationally;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility in recent years. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, or other factors. Market volatility during the past couple of years is unprecedented. The capital and credit markets have been experiencing volatility and disruption for more than a year. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers’ underlying financial strength. A significant decline in our stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation.

Fluctuating interest rates can adversely affect our profitability.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products (e.g., The Wall Street Journal prime rate) may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, our earnings may be negatively affected. In addition, loan and deposit volume and mix, the fair value of our financial assets and liabilities and the average duration of our mortgage-backed securities portfolio and other interest-earning assets can be affected by market interest rates. Changes in levels of market interest rates could materially affect our net interest spread, asset quality, origination volume, and overall profitability.

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We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively as our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Historically low interest rates may adversely affect our net interest income and profitability.

During the last four years it has been the policy of the Board of Governors of the Federal Reserve System (the "Federal Reserve") to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest-earning assets has decreased during the recent low interest rate environment. As a general matter, our interest-bearing liabilities re-price or mature more quickly than our interest-earning assets, which has contributed to increases in net interest income in the short term. However, our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest-earning assets may continue to decrease. The Federal Reserve has indicated its intention to maintain low interest rates in the near future. Accordingly, our net interest income may decrease, which may have an adverse affect on our profitability.

Our increasing emphasis on commercial real estate and commercial business loans may expose us to increased lending risks.

Our current business strategy includes the expansion of commercial real estate and commercial business lending. We have been increasing, and intend to continue to increase, our origination of commercial and multifamily real estate loans and commercial business loans in the future. This type of lending activity, while potentially more profitable than single-family residential lending, is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. The credit risk related to these types of loans also is considered to be greater than the risk related to one-to-four family residential loans because the repayment of commercial real estate loans and commercial business loans typically is dependent on the successful operation and income stream of the borrowers' business and the real estate securing the loans as collateral, which can be significantly affected by economic conditions.

Several of our borrowers have more than one commercial real estate loan outstanding with us and commercial real estate loans tend to have larger balances than one-to-four family residential loans. In addition, many of our commercial and multifamily real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. This risk is exacerbated in the current economic environment. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for a one-to-four family residential mortgage loan because there are fewer potential purchasers of the collateral. Since we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses due to the increased risk characteristics associated with these types of loans. Any increase to our allowance for loan losses would adversely affect our earnings. In addition, these loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family loans. Any delinquent payments or the failure to repay these loans would hurt our earnings.

A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Continued deterioration in the real estate markets or other segments of our loan portfolio could lead to additional losses, which could have a material negative effect on our financial condition and results of operations.

As a result of increased levels of residential and commercial loan delinquencies and declining real estate values, which reduce the customer's borrowing power and the value of the collateral securing the loan, we have experienced increasing levels of charge-offs and provisions for loan losses. Continued increases in delinquency levels or continued declines in real estate values, which cause our loan-to-value ratios to increase, could result in additional charge-offs and provisions for loan losses. This could have a material negative effect on our business and results of operations.

Many of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because either we originated upon purchase a first mortgage with an 80% loan-to-value ratio or because of the decline in home values in our market areas. Residential loans with high loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and, therefore, may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale. As a result, these loans may experience higher rates of delinquencies, defaults and losses.

Our loan portfolio has a concentration of loans secured by commercial real estate, which is primarily secured by nonowner-occupied investment properties. Continued deterioration in the local economy may result in additional losses on loans. Generally, deterioration in the performance and collectability of a loan secured by owner-occupied real estate can be better monitored than a nonowner-occupied real estate loan as we typically do not have the ability to assess the financial performance of tenants who are leasing from borrowers on investment property loans. We regularly review financial information of borrowers on owner-occupied loans whereas we can typically review only vacancy and rent rolls of tenants of borrowers on nonowner-occupied loans.

Deterioration in the general economy may further increase vacancies in office, retail and industrial real estate, which may result in decreased cash flow to our borrowers and further declines in value on foreclosed commercial real estate causing additional provisions for loan and REO losses.

Our construction loans are based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate.

We make land purchase, lot development and real estate construction loans to individuals and builders, primarily for the construction of residential properties and, to a lesser extent, commercial and multifamily real estate projects. We will originate these loans whether or not the collateral property underlying the loan is under contract for sale. Residential real estate construction loans include single-family tract construction loans for the construction of entry level residential homes.

Construction lending can involve a higher level of risk than other types of lending because funds are advanced partially based upon the value of the finished project, which is uncertain prior to the project's completion. Because of the uncertainties inherent in estimating construction costs as well as the market value of a completed project and the effects of governmental regulation of real property, our estimates with regard to the total funds required to complete a project and the related loan-to-value ratio may vary from actual results. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness. This risk has been compounded by the current slowdown in both the residential and the commercial real estate markets, which has negatively affected real estate values and the ability of our borrowers to liquidate properties or obtain adequate refinancing. If our estimate of the value of a project at completion proves to be overstated, we may have inadequate security for repayment of the loan and we may incur a loss. In addition, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk than construction loans to individuals on their personal residences.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

At December 31, 2012, we had $28.7 million or 6.8% of total loans in commercial business loans. Our commercial business loans include leases to finance the purchase of personal property, business equipment and titled vehicles and construction equipment. All of the financing leases included in our portfolio were leases of CELC, the operations of which were assumed by the Bank in the LibertyBank Acquisition, and nearly all of them are covered under a loss share agreement with the FDIC. Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Commercial business lending involves risks that are different from those associated with residential and commercial real estate lending. Collateral securing commercial loans may depreciate over time, be difficult to appraise and fluctuate in value. In addition, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect the amounts due from its customers. Accordingly, we make our commercial loans primarily based on the historical and expected cash flow of the borrower and secondarily on underlying collateral provided by the borrower.

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Our lease loans entail many of the same types of risks as our commercial business loans. As with commercial business loans, the collateral securing our lease loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We rely on the lessee's continuing financial stability, rather than the value of the leased equipment, for the repayment of all required amounts under lease loans. In the event of a default on a lease loan, it is unlikely that the proceeds from the sale of the leased equipment will be sufficient to satisfy the outstanding unpaid amounts under the terms of the loan.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings and capital levels could be reduced.

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms, or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

We maintain an allowance for loan losses, which we believe is an appropriate reserve to provide for probable losses in our loan portfolio. The allowance is funded by provisions for loan losses charged to expense. The amount of this allowance is determined by our management through periodic reviews and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience, certain macroeconomic factors, and management's expectations of future events;
- our specific reserve, based on our evaluation of nonperforming loans and their underlying collateral; and
- an unallocated reserve to provide for other credit losses inherent in our portfolio that may not have been contemplated in the other loss factors.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Slower sales, excess inventory and declining prices in the housing market have been the primary causes of the recent increases in delinquencies and foreclosure in our loan portfolio. If current weak conditions in the housing and real estate markets continue, we expect we will continue to experience further delinquencies and credit losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations.

The weakened housing market may result in a decline in fair value of REO.

In recent months we have foreclosed on certain real estate development and commercial real estate loans and have taken possession of several residential subdivision properties as well as single family residential properties. REO is initially recorded at its estimated fair value less costs to sell. Because of the weak housing market and decline in property values over the last several years, we may incur losses to write-down REO to new fair values or losses from the final sale of properties. Moreover, our ability to sell REO properties is affected by public perception that banks are inclined to accept large discounts from market value to quickly liquidate properties. Write-downs on REO or an inability to sell REO properties will have a material adverse effect on our results of operations and financial condition. In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our charge-offs, as required by the bank regulators, may have a material adverse effect on our financial condition, liquidity and results of operations.

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We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Idaho Department of Finance, the FDIC and the Federal Reserve Board. These banking regulators govern the activities in which we may engage, primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of our allowance for loan losses and determine the level of deposit insurance premiums assessed. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) has significantly changed, and will continue to change, the bank regulatory structure and has affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Among other provisions, the Dodd-Frank Act created an independent consumer protection bureau that has assumed the consumer protection responsibilities of various federal banking agencies, and will establish more stringent capital standards for banks and bank holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting and implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, and noninterest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau that has the authority to promulgate rules intended to protect consumers in the financial products and services market. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Financial institutions such as Home Federal Bank with $10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, whether in the form of new laws, rules or regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

The short-term and long-term impact of the changing regulatory capital requirements and anticipated new capital rules is uncertain.

In June 2012, the Federal Reserve, FDIC and the Office of the Comptroller of the Currency proposed rules that would substantially amend the regulatory risk-based capital rules applicable to Home Federal Bancorp and Home Federal. The proposed rules were subject to a public comment period that has expired and there is no date set for the adoption of final rules.

Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as Home Federal Bancorp. The leverage and risk-based capital ratios of these entities may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The proposed rules include new minimum risk-based capital and leverage ratios, which would be phased in during 2013 and 2014, and would refine the definition of what constitutes "capital" for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to Home Federal Bancorp and Home Federal under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios, and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions. While the proposed Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards, it is difficult at this time to predict when or how any new standards will ultimately be applied to Home Federal Bancorp and Home Federal.

In addition, in the current economic and regulatory environment, regulators of banks and bank holding companies have become more likely to impose capital requirements on bank holding companies and banks that are more stringent than those required by applicable existing regulations.

The application of more stringent capital requirements for Home Federal Bancorp and Home Federal could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying out dividends or buying back shares.

Continued deterioration in the financial position of the Federal Home Loan Bank of Seattle may result in future impairment losses of our investment in Federal Home Loan Bank stock.

At December 31, 2012, we owned $17.4 million of stock of the FHLB of Seattle. As a condition of membership at the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. Our FHLB stock has a par value of $100, is carried at cost, and is subject to impairment testing. The FHLB has announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. As a result, the FHLB has not paid a dividend since the fourth quarter of 2008. The FHLB has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in its balance sheet. As a result, we have not recorded an other-than-temporary impairment on our investment in FHLB stock. However, deterioration in the FHLB's financial position may result in impairment in the value of those securities. In addition, in October 2010, the FHLB received a consent order from the FHFA. In its Form 10-Q for the quarter ended December 31, 2012, the FHLB of Seattle reported that it continues to address the requirements of the Consent Agreement and that, as of December 31, 2012, it met all minimum financial metrics required under the Consent Agreement. Further, the FHLB of Seattle reported that in September 2012 the FHFA reclassified the FHLB of Seattle to be adequately capitalized. Any dividends on, or repurchases of, the FHLB of

Seattle stock continue to require consent of the FHFA. The FHFA recently approved the FHLB of Seattle to repurchase a portion of its stock and the FHLB of Seattle purchased $158,000 of stock from us in September, 2012 and an additional $158,000 in December, 2012. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition, growth and prospects.

Liquidity is essential to our business and the inability to obtain adequate funding may negatively affect growth and, consequently, our earnings capability and capital levels. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits

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and advances from the FHLB of Seattle, the Federal Reserve Bank of San Francisco (FRB) and other borrowings to fund our operations. Our access to funding sources in amounts adequate to finance our activities on terms which are acceptable could be impaired by factors that affect us specifically or the financial services industry or economy in general. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the deterioration in credit markets. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the Idaho or Oregon markets where our loans are concentrated or adverse regulatory action against us.

Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Although we consider our sources of funds adequate for our liquidity needs, we may seek additional debt in the future to achieve our long-term business objectives. Additional borrowings, if sought, may not be available to us or, if available, may not be available on reasonable terms. If that happens, our financial condition, results of operations, growth and future prospects could be materially adversely affected. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs.

Our litigation-related costs might continue to increase.

The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of its business. In the current economic environment the Bank’s involvement in litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims in order to defeat or delay foreclosure proceedings. The Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. Although management, based on discussion with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition or operations of the Bank, there can be no assurance that a resolution of any such legal matters will not result in significant liability to the Bank nor have a material adverse impact on its financial condition and results of operations or the Bank’s ability to meet applicable regulatory requirements. Moreover, the expenses of pending legal proceedings will adversely affect the Bank’s results of operations until they are resolved. There can be no assurance that the Bank’s loan workout and other activities will not expose the Bank to additional legal actions, including lender liability or environmental claims.

We face strong competition from other financial institutions, financial service companies and other organizations offering services similar to those offered by us, which could limit our growth and profitability.

We face direct competition from a significant number of financial institutions, many with a state-wide or regional presence, and in some cases a national presence, in both originating loans and attracting deposits. Competition in originating loans comes primarily from other banks, mortgage companies and consumer finance institutions that make loans in our primary market areas. We also face substantial competition in attracting deposits from other banking institutions, money market and mutual funds, credit unions and other investment vehicles.

In addition, banks with larger capitalization and non-bank financial institutions that are not governed by bank regulatory restrictions have large lending limits and are better able to serve the needs of larger customers. Many of these financial institutions are also significantly larger and have greater financial resources than us, have been in business for a long period of time and have established customer bases and name recognition.

We compete for loans principally on the basis of interest rates and loan fees, the types of loans we originate and the quality of service we provide to borrowers. Our ability to attract and retain deposits requires that we provide customers with competitive investment opportunities with respect to rate of return, liquidity, risk and other factors. To effectively compete, we may have to pay higher rates of interest to attract deposits, resulting in reduced profitability. If we are not able to effectively compete in our market area, our profitability may be negatively affected, potentially limiting our ability to pay dividends. The greater resources and deposit and loan products offered by some of our competitors may also limit our ability to increase our interest-earning assets.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial

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institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

The operations of our business, including our interaction with customers, are increasingly done via electronic means, and this has increased our risks related to cybersecurity.

We are exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. We have observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Cyber-attacks may be carried out by third parties or insiders using techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm websites to more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The objectives of cyber-attacks vary widely and can include theft of financial assets, intellectual property, or other sensitive information, including the information belonging to our banking customers. Cyber-attacks may also be directed at disrupting our operations.

While we have not incurred any material losses related to cyber-attacks, nor are we aware of any specific or threatened cyber-incidents as of the date of this report, we may incur substantial costs and suffer other negative consequences if we fall victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; increased cybersecurity protection costs that may include organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, and, as a result, investors and depositors could lose confidence in our financial reporting, which could materially adversely affect our business, the trading price of our common stock and our ability to attract additional deposits.

In connection with the enactment of the Sarbanes-Oxley Act of 2002 (Act) and the implementation of the rules and regulations promulgated by the SEC, we document and evaluate our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Act. This requires us to prepare an annual management report on our internal control over financial reporting, including among other matters, management’s assessment of the effectiveness of internal control over financial reporting and an attestation report by our independent auditors addressing these assessments. If we fail to identify and correct any deficiencies in the design or operating effectiveness of our internal control over financial reporting or fail to prevent fraud, current and potential shareholders and depositors could lose confidence in our internal controls and financial reporting, which could materially adversely affect our business, financial condition and results of operations, the trading price of our common stock and our ability to attract additional deposits.

Our earnings may be negatively affected by a failure to comply with the terms of the loss share agreements with the FDIC or if our losses are less than expected.

In connection with the CFB and LibertyBank Acquisitions, Home Federal Bank entered in to loss sharing agreements with the FDIC that significantly reduces the Bank's credit loss exposure. Losses on covered assets in the CFB Acquisition are indemnified by the FDIC at the rate of 80% on the first $34 million of losses and at a rate of 95% after that. Losses on covered assets in the LibertyBank Acquisition are indemnified by the FDIC at a rate of 80%. The loss sharing agreements will expire five years after the acquisition date for non-single family covered assets and ten years after the acquisitions date for single-family covered assets. After the expiration of the loss sharing agreements, the Company will not be indemnified for losses and related expenses on covered assets. At December 31, 2012, nearly all of the assets remaining in the covered asset portfolios qualify as non-single family covered assets. Therefore, most of our covered assets will no longer be indemnified after September 2014 for assets purchased in the CFB Acquisition and September 2015 for assets purchased in the LibertyBank Acquisition.

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The purchase and assumption agreements and the loss sharing agreements for the Community First Bank and LibertyBank Acquisitions have specific, detailed and cumbersome compliance, servicing, notification and reporting requirements. Our failure to comply with the terms of the agreements or to properly service the loans and REO under the requirements of the loss sharing agreements may cause individual loans or large pools of loans to lose eligibility for loss share payments from the FDIC. This could result in material losses that are currently not anticipated. In addition, in September 2020, approximately ten years following the LibertyBank Acquisition date, the Bank is required to make a payment to the FDIC in the event that losses on covered assets under the loss sharing agreements have been less than the intrinsic loss estimate, which was determined by the FDIC prior to the LibertyBank Acquisition, based on a formula in the agreement. Under the formula, the Bank has estimated the minimum level of losses to avoid a true-up provision payment to the FDIC to be $46.7 million. The maximum amount of the true-up provision is $4.7 million, if there are no losses in the covered loan portfolio. At December 31, 2012, the Bank accrued $528,000 as an estimate of the true-up provision obligation, however, there can be no assurance that additional accruals will not be required in future periods that will negatively affect earnings.

In addition, we are required to obtain the consent of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss share benefits. For example, any merger or consolidation of Home Federal Bank with another financial institution where our stockholder's would own less than two-thirds of the combined entity would require the consent of the FDIC under the loss share agreements. In instances where the FDIC's consent is required under the loss share agreements, the FDIC may withhold its consent to such transactions or may condition its consent on terms that we do not find acceptable. If the FDIC does not grant its consent to a transaction we would like to pursue, or conditions its consent on terms that we do not find acceptable, this may cause us not to engage in a corporate transaction that might otherwise benefit our stockholders or we may elect to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of our loss share agreements with the FDIC.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a retrospective adjustment to prior financial statements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2012, we conducted business from 28 full service banking offices. 16 of the locations are owned (one of which is scheduled to close during approximately the next three months), seven locations are leased (one of which is scheduled to close during approximately the next three months) and five locations are owned with the land being leased (two of which are scheduled to close during approximately the next three months). At December 31, 2012, the net book value of our investment in properties and equipment was $29.1 million. The net book value of the data processing and computer equipment utilized by us at December 31, 2012 was $1.6 million.

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The following table sets forth certain information relating to our offices as of December 31, 2012:

Location	Leased or Owned	Lease Expiration Date	Square Footage
ADMINISTRATIVE OFFICES:			
Main Administration (1) 500 12th Ave S Nampa, ID 83651	Owned	n/a	35,514
Western Oregon Administration 78 Centennial Loop Eugene, OR 97401	Leased	February 2014	10,000
Portland Loan Production Office 10121 SE Sunnyside, Ste BB and Ste CC Clackamas, OR 97015	Leased	February 2013	500
Bend Mill Quarter Loan Production Office 606 NW Arizona Ave Bend, OR 97701	Owned	n/a	6,500
BRANCH OFFICES:			
Ustick Marketplace 3630 N Eagle Rd Boise, ID 83713	Owned	n/a	3,500
Parkcenter 871 E Parkcenter Blvd Boise, ID 83706	Owned	n/a	5,500
Downtown Boise 800 W State St Boise, ID 83703	Leased	February 2013	8,250
Karcher 1820 Caldwell Blvd Nampa, ID 83651	Owned	n/a	4,900
Caldwell 923 Dearborn Caldwell, ID 83605	Owned	n/a	5,844
Meridian 55 E Franklin Rd Meridian, ID 83642	Owned	n/a	5,000
Silverstone 3405 E Overland Rd Meridian, ID 83642	Owned	n/a	20,000
Mountain Home 400 N 3rd E Mountain Home, ID 83647	Owned	n/a	3,600
Eagle 100 E Riverside Dr Eagle, ID 83616	Owned	n/a	5,500
Emmett 250 S Washington Ave Emmett, ID 83617	Owned	n/a	3,600
Bend North (2)	Owned	n/a	3,815

20365 Empire Ave Bend, OR 97702			
Bend South (2) 61379 S Hwy 97 Bend, OR 97701	Building Owned Land Leased	July 2026	4,394
Bend West 200 SW Century Dr Bend, OR 97702	Leased	December 2016	3,600
Bend Greenwood 671 NE Greenwood Bend, OR 97701	Leased	November 2015	2,600
Bend Downtown 805 NW Bond St Bend, OR 97701	Leased	February 2016	5,128

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Redmond 821 SW 6th St Redmond, OR 97756	Owned	n/a	7,800
Prineville 555 NW Third Prineville, OR 97754	Owned	n/a	12,860
Madras 1150 SE Hwy 97 Madras, OR 97741	Owned	n/a	4,500
Eugene Coburg 1585 Coburg Rd Eugene, OR 97401	Owned	n/a	3,993
Eugene West 3540 West 11th Ave Eugene, OR 97402	Building Owned Land Leased	March 2017	3,822
Eugene Downtown 899 Pearl Street Eugene, OR 97401	Owned	n/a	16,140
Eugene Santa Clara 25 Division Ave Eugene, OR 97404	Building Owned Land Leased	March 2014	3,993
Springfield Gateway 1008 Harlow Rd Springfield, OR 97501	Leased	February 2017	5,191
Medford North 1000 Biddle Rd Medford, OR 97504	Building Owned Land Leased	February 2026	3,950
Medford South (2) 295 E Barnett Rd Medford, OR 97501	Building Owned Land Leased	February 2018	4,480
Grants Pass Downtown 660 SE 7th St Grants Pass, OR 97526	Leased	January 2015	2,464
Grants Pass South (2) 590 Union Ave Grants Pass, OR 97527	Leased	June 2015	3,708

(1) Includes a full-service branch.
(2) Per the Company’s announcement on November 30, 2012, these branches were closed in February, 2013.

Item 3. Legal Proceedings

From time to time we are involved as a plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of such litigation, nor do we expect any material impact on our financial position, results of operations or cash flows. The Company reported on its Form 10-Q for the quarter ended June 30, 2010, and later included the disclosure on its Form 10-Q for the quarter ended September 30, 2012, that on June 25, 2010, a borrower of the Bank filed a Complaint and Demand for Jury Trial in Canyon County, Idaho, asserting a claim against the Bank for alleged breach of contract, breach of the covenant of good faith and fair dealing and violation of the Uniform Commercial Code in connection with a borrowing agreement between the borrower and the Bank. That case was resolved during the quarter ended December 31, 2012, and did not result in a significant loss, as we expected and stated in our disclosures.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II.

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

Home Federal Bancorp's common stock is currently listed on the NASDAQ Global Market under the symbol "HOME," and there is an established market for such common stock. As of March 4, 2013, there were approximately 853 stockholders of record, excluding persons or entities that hold stock in nominee or "street name" accounts with brokers.

The following table sets forth the high and low closing trading prices for Home Federal Bancorp common stock, as reported by The NASDAQ Stock Market LLC, and cash dividends paid for each quarter during the year ended December 31, 2012, the three months ended December 31, 2011 and the year ended September 30, 2011:

Period	High	Low	Cash Dividends Paid
Year Ended December 31, 2012			
Quarter ended December 31, 2012	$12.43	$10.33	$0.180
Quarter ended September 30, 2012	11.44	9.67	0.060
Quarter ended June 30, 2012	10.50	8.82	0.055
Quarter ended March 31, 2012	11.18	9.46	0.055
Three Month Period Ended December 31, 2011	$10.99	$7.17	$0.055
Fiscal Year Ended September 30, 2011			
Quarter ended September 30, 2011	$11.76	$7.79	$0.055
Quarter ended June 30, 2011	12.15	10.24	0.055
Quarter ended March 31, 2011	12.74	10.46	0.055
Quarter ended December 31, 2010	13.41	10.64	0.055

Dividends

Home Federal Bancorp has paid quarterly cash dividends since the quarter ended June 30, 2005. In addition to a dividend of $0.06 per share, the Company declared a special dividend of $0.12 per share during the quarter ended December 31, 2012. The dividend rate and the continued payment of dividends depends on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced in the future.

Dividend payments by us may depend upon dividends received by the Company from the Bank. Under federal regulations, the amount of dividends the Bank may pay is dependent upon its capital position and recent net income. Generally, if the Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed in the FDIC regulations. Currently, we believe Home Federal Bancorp has sufficient liquidity and capital levels to continue to support management's current dividend policy without reliance on dividend payments from the Bank.

Equity Compensation Plan Information

The equity compensation plan information presented under subparagraph (d) in Part III, Item 12, of this Form 10-K is incorporated herein by reference.

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Issuer Purchases of Equity Securities

The following table provides information about purchases of common stock by the Company during the quarter ended December 31, 2012:

Period of Repurchase	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1 – October 31, 2012	—	$—	—	725,000
November 1 – November 30, 2012	83,430	10.54	83,430	641,570
December 1 – December 31, 2012	—	—	—	641,570

On October 26, 2012 the Company announced a stock repurchase of up to 725,000 shares of its outstanding common stock, inclusive of all remaining shares from previously announced repurchase plans. At December 31, 2012, 83,430 shares had been purchased under this stock repurchase plan.

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Performance Graph

The following graph compares the cumulative total stockholder return on the Company's common stock with the cumulative total return on the Russell 2000 Index and the SNL Bank Index. Stock prices prior to December 19, 2007, the effective date of the Conversion, relate to old Home Federal Bancorp. The graph assumes that total return includes the reinvestment of all dividends, and that the value of the investment in Home Federal Bancorp's common stock and each index was $100 on December 31, 2007. Historical stock prices are not necessarily indicative of future stock performance.

	As of December 31,					
Index	2007	2008	2009	2010	2011	2012
Home Federal Bancorp, Inc.	100.00	108.88	138.20	129.64	112.21	138.57
Russell 2000	100.00	66.21	84.20	106.82	102.36	119.09
SNL Bank Index	100.00	57.06	56.47	63.27	49.00	66.13

Item 6. Selected Financial Data

The following table sets forth certain information concerning the consolidated financial position and results of operations at and for the dates indicated and has been derived from our audited consolidated financial statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

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	December 31,	September 30,			
	2012	2011	2010	2009	2008
FINANCIAL CONDITION DATA:	(In thousands)				
Total assets	$1,048,620	$1,177,228	$1,482,861	$827,899	$725,070
Investment securities, available-for-sale	420,505	380,847	275,180	169,320	188,787
Loans receivable, net (1)	409,846	468,213	621,010	510,629	459,813
Loans held for sale	—	2,088	5,135	862	2,831
Total deposits	850,888	959,509	1,189,662	514,858	372,925
FHLB advances and other borrowings	4,775	4,892	67,622	84,737	136,972
Stockholders' equity	179,785	194,654	205,088	209,665	205,187
OTHER DATA:					
Number of:					
Real estate loans outstanding	2,950	3,594	3,425	2,404	2,443
Deposit accounts	77,035	95,515	107,344	97,893	66,366
Full service offices	28	33	37	23	15

	Year Ended December 31,	Three Months Ended December 31,	Years Ended September 30,			
	2012	2011	2011	2010	2009	2008
OPERATING DATA:						
Interest and dividend income	$49,149	$15,566	$51,067	$37,534	$35,827	$40,583
Interest expense	3,882	1,233	9,068	10,355	11,977	17,935
Net interest income	45,267	14,333	41,999	27,179	23,850	22,648
Provision for loan losses	(1,765)	(474)	11,396	10,300	16,085	2,431
Net interest income after provision for loan losses	47,032	14,807	30,603	16,879	7,765	20,217
Noninterest income	(655)	(1,630)	15,045	16,679	9,291	10,490
Noninterest expense	43,514	11,016	53,509	40,843	28,971	24,439
Income (loss) before income taxes	2,863	2,161	(7,861)	(7,285)	(11,915)	6,268
Income tax expense (benefit)	1,061	785	(3,232)	(2,889)	(4,750)	2,263
Income (loss) before extraordinary item	1,802	1,376	(4,629)	(4,396)	(7,165)	4,005
Extraordinary item:						
Gain on acquisitions, net of tax	—	—	—	305	15,291	—
Net income (loss)	$1,802	$1,376	$(4,629)	$(4,091)	$8,126	$4,005
Earnings (loss) per share (EPS):						
Basic EPS before extraordinary item	$0.12	$0.09	$(0.30)	$(0.28)	$(0.46)	$0.25
Basic EPS of extraordinary item	—	—	—	0.02	0.97	—
Basic EPS after extraordinary item	0.12	0.09	(0.30)	(0.26)	0.51	0.25
Diluted EPS before extraordinary item	0.12	0.09	(0.30)	(0.28)	(0.46)	0.25
Diluted EPS of extraordinary item	—	—	—	0.02	0.97	—
Diluted EPS after extraordinary item	0.12	0.09	(0.30)	(0.26)	0.51	0.25
Dividends declared per share:	0.35	0.055	0.22	0.22	0.22	0.21

(1) Net of allowance for loan losses, loans in process and deferred loan fees.

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	At or For the Year Ended December 31,	At or For the Three Months Ended December 31,	At or For the Years Ended September 30,			
	2012	2011	2011	2010	2009	2008
KEY FINANCIAL RATIOS:						
Performance Ratios:						
Return on average assets [(1)]	0.17 %	0.48 %	(0.35)%	(0.40)%	1.12 %	0.54 %
Return on average equity [(2)]	0.95	2.85	(2.29)	(1.85)	4.01	2.16
Dividend payout ratio [(3)]	45.45	59.50	(74.03)	(84.33)	42.53	74.56
Equity-to-assets ratio [(4)]	17.12	17.13	15.11	21.87	27.98	24.94
Interest rate spread [(5)]	4.47	5.40	3.35	2.70	2.69	2.25
Net interest margin [(6)]	4.59	5.54	3.51	3.09	3.50	3.21
Efficiency ratio [(7)]	97.54	83.34	93.80	93.13	87.42	73.75
Noninterest income/operating revenue [(8)]	(1.47)	(12.84)	26.37	38.03	28.03	31.70
Average interest-earning assets to average interest-bearing liabilities	132.68	129.54	121.51	133.44	146.02	137.83
Noninterest expense as a percent of average total assets	4.03	3.86	4.00	4.03	4.00	3.28
Capital Ratios [(9)]:						
Tier 1 capital (leverage) to average assets	13.77 %	12.44 %	11.54 %	10.12 %	19.61 %	21.66 %
Tier 1 capital to risk-weighted assets	33.26	32.40	30.78	27.63	33.57	32.18
Total capital to risk-weighted assets	34.53	33.67	32.05	28.88	34.89	32.84
Asset Quality Ratios:						
Nonperforming noncovered loans as a percentage of noncovered loans	2.88 %	4.83 %	3.94 %	2.64 %	2.93 %	2.14 %
Nonperforming assets as a percentage of total assets, including covered assets	2.36	2.29	4.08	4.42	6.87	1.46
Allowance for loan losses on noncovered loans as a percentage of noncovered loans	2.59	3.06	2.81	3.24	2.88	0.98
Allowance for loan losses on noncovered loans as a percentage of nonperforming noncovered loans	89.73	63.38	71.26	122.74	101.19	46.04
Net charge-offs (recoveries) on noncovered loans as a percentage of average noncovered loans outstanding during the period	0.40	(0.88)	1.09	2.51	1.82	0.18

(1) Net income divided by average total assets.
(2) Net income divided by average equity.
(3) Dividends paid to stockholders, excluding shares held by Home Federal MHC, divided by net income.

(4) Average equity divided by average total assets.

(5) Difference between weighted average yield on interest-earning assets and weighted average rate on interest-bearing liabilities.

(6) Net interest margin, otherwise known as net yield on interest-earning assets, is calculated as net interest income divided by average interest-earning assets.

(7) Noninterest expense divided by the sum of net interest income and noninterest income.

(8) Operating revenue is defined as the sum of net interest income and noninterest income.

(9) The capital ratios presented here are for Home Federal Bank, and not the Company.

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

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as "believes," "intends," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- changes in general economic conditions, either nationally or in our market areas;
- changes in the levels of general interest rates, and the relative differences between short-term and long-term interest rates, deposit interest rates, our net interest margin and funding sources;
- risks related to acquiring assets in or entering markets in which we have not previously operated and may not be familiar;
- fluctuations in the demand for loans, the number of unsold homes and properties in foreclosure and fluctuations in real estate values in our market areas;
- results of examinations of the Company by the Federal Reserve Board and of our bank subsidiary by the Federal Deposit Insurance Corporation (FDIC) and the Idaho Department of Finance or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings and could increase our deposit premiums;
- legislative or regulatory changes, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and its implementing regulations that adversely affect our business, as well as changes in regulatory policies and principles or the interpretation of regulatory capital or other rules, including as a result of Basel III;
- our ability to attract and retain deposits;
- increases in premiums for deposit insurance;
- our ability to realize the residual values of our leases;
- our ability to control operating costs and expenses;
- the use of estimates in determining the fair value of certain of our assets or cash flows on purchased credit impaired loans, which estimates may prove to be incorrect and result in significant declines in valuation;
- difficulties in reducing risks associated with the loans on our balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- computer systems on which we depend could fail or experience a security breach;
- our ability to retain key members of our senior management team;
- costs and effects of litigation, including settlements and judgments;
- the possibility that the expected benefits from acquisitions will not be realized;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;

- our ability to pay dividends on our common stock;
- adverse changes in the securities markets and the value of our investments;
- the inability of key third-party providers to perform their obligations to us;

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- changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described as detailed from time to time in our filings with the SEC, including this our 2012 Form 10-K. Such developments could have an adverse impact on our financial position and our results of operations.

Some of these and other factors are discussed in this Annual Report on Form 10-K under the caption "Risk Factors" and elsewhere in this document and in the documents incorporated by reference herein. Such developments could have an adverse impact on our financial position and our results of operations.

Any of the forward-looking statements that we make in this annual report and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements. We undertake no obligation to publish revised forward-looking statements to reflect the occurrence of unanticipated events or circumstances after the date hereof. These risks could cause our actual results for fiscal year 2013 and beyond to differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect our financial condition, liquidity and operating and stock price performance.

GENERAL

In January 2012, we announced the change in the Company's fiscal year end from September 30 to December 31, effective January 1, 2012. As a result, the Company's current fiscal year comprises the twelve months ended December 31, 2012. Our previous fiscal year ended September 30, 2011. Consequently, we filed a transition report on Form 10-QT for the three month period ended December 31, 2011, and have included disclosures and narrative related to that transition period in this Form 10-K. Additionally, under SEC rules, while the income statement and related disclosures for the transition period have been audited, we do not present an audited balance sheet as of December 31, 2011. Therefore, balance sheet comparisons in this discussion and analysis are as of December 31, 2012, and September 30, 2011. Comparisons of operating results relate to the twelve months ended December 31, 2012, and September 30, 2011 and the three months ended December 31, 2011 and 2010.

Our primary source of revenue and earnings is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. We diversify the mix of our assets by reducing the percentage of our assets that are long-term, fixed-rate one-to-four family residential loans and increasing the percentage of our assets consisting of commercial loans that we believe have higher risk-adjusted returns and less interest rate risk than long-term fixed-rate one-to-four family residential loans.

Our operating expenses consist primarily of compensation and benefits, occupancy and equipment, data processing, and professional services expenses. Compensation and benefits consist primarily of the salaries and wages paid to our employees, non-cash expense related to our stock-based and deferred compensation plans, our 401(k) and Employee Stock Ownership Plan (KSOP), payroll taxes, and other employee benefits. Occupancy and equipment expenses, which are the fixed and variable costs of building and equipment, consist primarily of lease payments, taxes, depreciation charges, maintenance and costs of utilities.

Our results of operations may also be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities. See “Item 1A. Risk Factors" in this Annual Report on Form 10-K for additional discussion on the risks we face related to these items.

We entered into two purchase and assumption agreements with the FDIC to purchase certain assets and assume certain liabilities of Community First Bank, Prineville, Oregon, and LibertyBank, Eugene, Oregon, on August 7, 2009, and July 30, 2010, respectively. The acquisitions increased our total assets by $880 million, based on the fair value of assets purchased on the acquisition dates. These acquisitions have been reported on a prospective basis in the accompanying financial statements. Nearly all loans, leases and real estate owned acquired in both FDIC-assisted transactions are covered under FDIC loss sharing agreements which significantly reduce the Company’s credit loss exposure. We refer to these assets as “covered assets.” Loans and REO in the Bank’s organic operations and purchased assets not included

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in the loss sharing agreements are referred to as “noncovered assets.” We expect to recover 80% of losses and certain expenses associated with the covered assets of Community First Bank on the first $34 million of losses. After that, we expect to recover 95% of losses and expenses on those covered assets. We expect to recover 80% of losses and certain expenses associated with the covered assets of LibertyBank. The loss sharing agreements for covered assets that are non-single family loans and REO expire five years from the acquisition date, which will be in September 2014 for covered assets in the CFB Acquisition and September 2015 for the LibertyBank Acquisition. The loss sharing agreements provide indemnification for losses on single-family loans and REO for a period of 10 years from the acquisition date. After the expiration of the loss sharing agreements, we will no longer be protected against credit losses through FDIC indemnification.

OVERVIEW

Fiscal year 2012 (the twelve months ended December 31, 2012) was a year of stabilization as the operations of our acquisitions have been fully integrated and our core system conversions were completed. While economies in our markets have improved and stabilized, growth in economic output is still below average. However, our Idaho Region enjoyed strong growth in employment, declining unemployment, and increased construction activity during the second half of 2012. As a result, our construction loan portfolios grew during the year. We were unable, however, to originate new loans at a pace fast enough to offset overall declines in our loan portfolio during 2012. Most of the declines in our loan portfolios occurred in our one-to-four family residential loan and equipment finance portfolios. We no longer originate those loans for our portfolios. To a lesser extent, commercial real estate loans also declined, reflecting the currently weak economic conditions and lack of demand from credit-worthy borrowers. Additionally, nonperforming loans declined significantly during 2012, which also contributed to loan portfolio reductions.

We recognize the need to accelerate loan production and generate growth in net loans and intend to do so without reducing our credit underwriting standards. However, competition for loans is very strong and we experienced significant pressure to reduce new loan rates. We also observed competitors sacrificing prudent underwriting standards by loosening loan terms in order to originate new loans, including lower collateral and guarantor support and long-term final maturity dates with long amortization periods. We hired several commercial lending relationship managers in the fourth quarter of 2012 and in January 2013, which we believe will result in increased loan production as our market economies are expected to continue to improve in 2013.

We opened a builder finance loan production office in Portland in 2012 and believe that the construction loan portfolio will grow in 2013 as well. We are also considering another construction loan production office in Salt Lake City. We recognize the higher inherent risk in construction loans, but believe we have strong underwriting criteria and credit administration procedures as loan approval and construction site inspections are performed by our Credit Administration Team, which is not compensated based on loan production. We have also set concentration limits on the size of our construction loan portfolio, which is currently at 55% of the Bank's Tier 1 capital, plus the allowance for loan losses.

Additionally, we plan to implement a streamlined small business lending process in the second quarter of fiscal year 2013. This new program is currently under design and development and will include new products, underwriting processes and improved sales training as we continue to transition the focus of our branch teams to small business lending.

We have been diligent and very selective in our pursuit of acquisition opportunities. The FDIC-assisted acquisition of the assets and liabilities of Community First Bank and LibertyBank nearly doubled our total assets at the time of the LibertyBank Acquisition. The LibertyBank Acquisition increased our deposit market share in Central Oregon where we had developed an initial presence through the CFB Acquisition. We also benefited through the branch offices acquired which expanded our lending markets in Portland, Eugene, Bend, Grants Pass, and Medford, Oregon, diversified our footprint beyond the Boise-Nampa MSA and, we believe, increased our franchise value.

The LibertyBank Acquisition resulted in a significant increase in cash due to the excess of liabilities assumed over assets purchased and the retention by the FDIC of approximately half of the loans in the LibertyBank portfolio. This significant increase in cash balances put pressure on our net interest margin and will continue to do so until we have successfully deployed all of this cash received in the LibertyBank acquisition into loans. In the meantime, our liquidity ratio is strong, however, the excess liquidity places significant pressure on our net interest margin due to the current historically-low interest rate environment. Losses in the LibertyBank Acquisition portfolio have been significantly less than we estimated at the time of the acquisition in 2010. As a result, our net interest margin is higher than it would be if interest income on the purchased loans were accrued at the underlying note rate. However, the impact of lower losses

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and faster prepayments on loans has accelerated the accretion of the fair value purchase discounts (generically, "accretable yield") recorded on LibertyBank loans at acquisition. As this loan portfolio declines, the impact of accretable yield diminishes and our net interest margin declines. We believe the impact of accretable yield will be immaterial to interest income during the next two years, based on our current expected cash flows.

Asset quality improved significantly during the last 15 months as nonperforming loans declined $10.2 million to $14.4 million at December 31, 2012, compared to $24.6 million at September 30, 2011. REO also declined $13.1 million during that period to $10.4 million at December 31, 2012. We also experienced declining delinquencies and fewer classified and criticized loans during 2012, which we believe provides momentum for continued improvement in asset quality in 2013.

We continue to hold excess capital, which we believe provides support against further economic deterioration and loan losses, and also provides a solid foundation for additional growth through acquisition. The current economic and interest rate environments continue to challenge our organic growth plans. Alternative investments are also unattractive as investment securities offer very low yields within management’s credit and interest rate risk tolerances. Therefore, we intend to seek additional acquisitions that are within our core markets as we believe that acquisitive growth is the best short-term alternative to build an operational structure that will allow us to thrive profitably over the long-term.

While we constantly monitor branch performance and noninterest expense, our low net interest margin necessitates a heightened awareness of operating inefficiencies. Additionally, our broad network of branches exacerbates our higher than peer expense levels. We monitor the performance of our branches and analyze market growth opportunities, current market share, and client transaction levels in determining underperforming branches. In November 2012, we announced the plan to close four branches located in Grants Pass, Medford and Bend, Oregon, by February 28, 2013. We determined these branches were least likely to provide profitable returns in the long-term and decided to close them and transition clients to our nearest branch upon closure. Charges recorded during the fourth quarter of fiscal year 2012 reduced pre-tax income from operations by approximately $539,000 for the quarter and year ended December 31, 2012.

In September 2011, we announced a number of key initiatives that accelerated the Company’s return to profitability. The net impact of those initiatives reduced pre-tax income from operations by approximately $3.5 million for the fiscal year ended September 30, 2011, however, the reduction in operating expenses was approximately $3.6 million over the subsequent twelve months. These key initiatives included the merger of the Home Federal Bank 401(k) Plan and the Home Federal Bancorp, Inc., Employee Stock Ownership Plan (ESOP) into the Home Federal 401(k) Plan and Employee Stock Ownership Plan (KSOP) to reduce compensation expense; the repayment of all outstanding debt with the FHLB of Seattle, which resulted in a prepayment penalty of $2.0 million, pre-tax, however, interest expense should be reduced in 2012 and 2013; the closure of six branches and modified the organizational chart to improve operating efficiency and reduce compensation expense. Nearly all of those initiatives began to improve profitability by January 1, 2012, and further improved our operating efficiency after the successful integration of the back office operations of LibertyBank during the first half of calendar year 2011. As a result of these initiatives, noninterest expenses during the year ended December 31, 2012, were $10.0 million lower than the year ended September 30, 2011.

From 2006 through December 31, 2011, we originated residential mortgage loans primarily for sale in the secondary market with servicing released to investors. In December 2008, we sold all of our remaining servicing rights to a third party. Starting in December 2011, we began referring nearly all of our residential mortgage loan applications to a third party originator that underwrites and closes the mortgage funding for the Bank's clients. While we may choose to directly originate some residential mortgage loans from time to time, we currently expect very few residential mortgage loans will be originated by the Bank for its portfolio or for sale in the secondary market under this new model.

The following list summarizes additional key strategic initiatives undertaken by management and factors affecting the Company's performance during fiscal year 2012:

- We continued to execute our strategy of reducing reliance on high-cost certificates of deposit and borrowings as core deposits (defined as interest-bearing and noninterest-bearing checking, savings and money market accounts) increased to 75.4% of total deposits at December 31, 2012, compared to 67.7% at September 30, 2011;
- Nonperforming assets decreased $23.2 million from September 30, 2011 to December 31, 2012, and nonperforming noncovered loans declined to 2.88% of noncovered loans at December 31, 2012, compared to 3.94% at September 30, 2011;

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- Economic conditions in our primary markets improved as unemployment, bankruptcies and foreclosures declined during 2012 and real estate values began to rise;
- Noninterest expenses declined $10.0 million during the year ended December 31, 2012 compared to the year ended September 30, 2011;
- The Company maintained its strong capital position with a total risk-based capital ratio of 38.57% and a Tier-1capital ratio of 15.36% at December 31, 2012;
- Capital management activity remained strong during fiscal year 2012 as the Company repurchased 1,251,943 shares at an average cost of $9.86 per share and 390,131 shares during the three months ended December 31, 2011, at an average cost of $10.02 per share, all at significant discounts to tangible book value; and,
- The Company increased its quarterly dividend during 2012, paying $0.23 per share in regular dividends and the Company declared and paid an additional special dividend of $0.12 per share in the fourth quarter of 2012.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this Annual Report on Form 10-K, are based upon the Company's consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under US GAAP.

Management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our financial statements. These policies relate to the determination of the allowance for loan losses (including the evaluation of impaired loans and the associated provision for loan losses), accounting for acquired loans and covered assets, the valuation of noncovered real estate owned, as well as deferred income taxes and the associated income tax expense. Management reviews the allowance for loan losses for adequacy on a quarterly basis and establishes a provision for loan losses that it believes is sufficient for the loan portfolio growth expected and the loan quality of the existing portfolio. The carrying value of real estate owned is also assessed on a quarterly basis. Income tax expense and deferred income taxes are calculated using an estimated tax rate and are based on management's and our tax advisor's understanding of our effective tax rate and the tax code. These estimates are reviewed by our independent auditor on an annual basis and by our regulators when they examine Home Federal Bank.

Allowance for Loan Losses. Management recognizes that losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Management assesses the allowance for loan losses on a quarterly basis by analyzing several factors including delinquency rates, charge-off rates and the changing risk profile of the Bank's loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

The Company believes that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about probable incurred losses inherent in the loan portfolio at the balance sheet date. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

The Company’s methodology for analyzing the allowance for loan losses consists of specific allocations on significant individual credits and a general allowance amount, including a range of losses. The specific allowance component is determined when management believes that the collectability of an individually reviewed loan has been impaired and a loss is probable. The general allowance component relates to assets with no well-defined deficiency or weakness and takes into consideration loss that is inherent within the portfolio but has not been identified. The general allowance is determined by applying a historical loss percentage to various types of loans with similar characteristics and classified loans that are not analyzed specifically. Adjustments are made to historical loss percentages to reflect current economic and internal environmental factors such as changes in underwriting standards and unemployment rates that may increase or decrease those loss factors. As a result of the imprecision in calculating inherent and potential losses, a range is added to the general allowance to provide an allowance for loan losses that is adequate to cover losses that may arise as a result of changing economic conditions and other qualitative factors that may alter historical loss experience.

The allowance for loan losses is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries. Provisions for losses on covered loans are recorded gross of recoverable amounts from the FDIC under the loss sharing agreements. The recoverable portion of the provision for loan losses on covered loans is recorded in other income.

The allowance for loan losses on noncovered originated loans consists of specific reserves allocated to individually reviewed loans and general reserves on all other noncovered originated loans. Commencing in April 2011, management changed its accounting policy for specific allowances on noncovered originated loans in process of foreclosure. Previously, the Bank would maintain a specific reserve on these noncovered impaired loans. Since April 2011, such deficiencies on loans in process of foreclosure are classified as “Loss” under our credit grading process and the loan balance is charged down to the estimated net recoverable value, which removes the specific reserve previously recorded. A general allowance for loan losses is recorded on loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30. Loans purchased in the CFB Acquisition that are accounted for under ASC 310-30 are partially charged down to the estimated net recoverable value if estimated losses exceed the fair value discount established on the acquisition date. Lastly, an allowance for loans purchased in the LibertyBank Acquisition is not established unless the net present value of cash flows expected to be received for loans in the acquired loan pools become impaired.

The Company also estimates a reserve related to unfunded loan commitments. In assessing the adequacy of the reserve, the Company uses a similar approach used in the development of the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities on the Consolidated Balance Sheets. The provision for unfunded commitments is charged to noninterest expense.

Acquired Loans. Loans acquired in the CFB Acquisition were valued as of the acquisition date in accordance with SFAS No. 141, Business Combinations. At the time of the CFB Acquisition, the Company applied SFAS No. 141, which was superseded by SFAS No. 141(R). The Company was not permitted to adopt SFAS No. 141(R) prior to its effective date, which was October 1, 2009, due to the Company’s September fiscal year end. ASC Topic 310-30 applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. For loans purchased in the CFB Acquisition that were accounted for under ASC 310-30, management determined the value of the loan portfolio based on work provided by an appraiser. Factors considered in the valuation were projected cash flows for the loans, type of loan and related collateral, classification status and current discount rates. Management also estimated the amount of credit losses that were expected to be realized for the loan portfolio primarily by estimating the liquidation value of collateral securing loans on non-accrual status or classified as substandard or doubtful. At December 31, 2012, a majority of these loans were valued based on the liquidation value of the underlying collateral, because the expected cash flows are primarily based on the liquidation of the underlying collateral. Loans purchased in the CFB Acquisition accounted for under ASC 310-30 were not aggregated into pools and are accounted for on a loan-by-loan basis. An allowance for loan losses was established for loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30.

Loans purchased in the LibertyBank Acquisition were valued as of acquisition date in accordance with ASC 805 Business Combinations, formerly SFAS 141(R). Further, the Company elected to account for all other loans purchased in the LibertyBank Acquisition within the scope of ASC 310-30 using the same methodology. Under ASC 805 and ASC 310-30, loans purchased in the LibertyBank Acquisition were recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date, unlike the loans purchased in the CFB Acquisition, which are accounted for under previous guidance as described above. In situations where loans have similar risk characteristics, loans were aggregated into pools to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Company aggregated all of the loans purchased in the LibertyBank Acquisition into 22 different pools, based on common risk characteristics such as loan classification, loan structure, nonaccrual status and collateral type.

The cash flows expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to

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calculate the expected cash flows. Under ASC 310-30, the excess of the expected cash flows at acquisition over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference. Subsequent increases in cash flow over those expected at purchase date in excess of fair value are recorded as an adjustment to accretable difference on a prospective basis. Any subsequent decreases in cash flow over those expected at purchase date are recognized by recording an allowance for loan losses. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the carrying amount.

Covered Assets. All of the loans purchased in the CFB Acquisition and nearly all of loans and leases purchased in the LibertyBank Acquisition are included under various loss sharing agreements with the FDIC and are referred to as "covered loans." Covered loans, and provisions for loan losses, charge offs and recoveries, are reported exclusive of the expected cash flow reimbursements expected from the FDIC. All REO acquired in the CFB Acquisition and the LibertyBank Acquisition are also included in the loss sharing agreements and are referred to as "covered REO." Covered REO is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered REO status, acquisition date fair value discounts on the related loan are also transferred to covered REO. Fair value adjustments on covered REO result in a reduction of the covered REO carrying amount and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss to the Bank charged against earnings. The Bank is reimbursed by the FDIC on losses and reimbursable expenses on covered assets purchased in the CFB Acquisition at a rate of 80% on the first $34.0 million of losses and at a rate of 95% on losses thereafter. The Bank is reimbursed by the FDIC on losses and reimbursable expenses on covered assets purchased in the LibertyBank Acquisition at a rate of 80%.

FDIC Indemnification Asset. In conjunction with the CFB Acquisition and the LibertyBank Acquisition, the Bank entered into loss sharing agreements with the FDIC for amounts receivable under the loss sharing agreements. In some cases the FDIC indemnification agreement may be terminated on a loan by loan basis if the Bank renews or extends individual loans. At each acquisition date the Company elected to account for amounts receivable under the loss sharing agreements as an indemnification asset. Subsequent to the acquisitions the indemnification asset is tied to the loss in the covered loans and is not being accounted for under fair value. The FDIC indemnification asset is accounted for on the same basis as the related covered loans and represents the present value of the cash flows the Company expects to collect from the FDIC under the loss sharing agreements. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted or amortized into noninterest income over the life of the FDIC indemnification asset.

The FDIC indemnification asset is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification asset. The FDIC indemnification asset will be reduced as losses are recognized on covered assets, if losses in future periods are projected to decline, and loss sharing payments are received from the FDIC. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Noncovered Real Estate Owned. Real estate properties acquired through, or in lieu of, loan foreclosure that are not covered under a loss sharing agreement with the FDIC (noncovered REO) are initially recorded at fair value at the date of foreclosure minus estimated costs to sell. Any valuation adjustments required at the time of foreclosure are charged to the allowance for loan losses. After foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs to sell. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are recognized in current operations. The valuation allowance is established based on our historical realization of losses and adjusted for current market trends.

Deferred Income Taxes. Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability approach as prescribed in ASC Topic 740, Income Taxes. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in an institution's income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available-for-sale. The effect on deferred taxes of a change in tax rates is recognized as income in the period that includes the enactment date. The primary differences between financial statement income and taxable income result from

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depreciation expense, mortgage servicing rights, loan loss reserves, deferred compensation, mark to market adjustments on our available-for-sale securities, and dividends received from the FHLB of Seattle. Deferred income taxes do not include a liability for pre-1988 bad debt deductions allowed to thrift institutions that may be recaptured if the institution fails to qualify as a bank for income tax purposes in the future.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2012 AND SEPTEMBER 30, 2011

Total assets decreased $128.6 million, or 10.9%, to $1.0 billion at December 31, 2012, from $1.2 billion at September 30, 2011. Total liabilities decreased $113.7 million, or 11.6%, to $868.8 million. These decreases were primarily a result of the maturity and repayment of certificates of deposit in the branches purchased in the LibertyBank Acquisition and due to the decline in net loans receivable during this period.

Assets. The increases and decreases in total assets were primarily concentrated in the following asset categories (dollars in thousands):

	December 31, 2012	September 30, 2011	Increase/(Decrease) Amount	Percent
Cash and amounts due from depository institutions	$115,529	$190,734	$(75,205)	(39.4)%
Investments available-for-sale, at fair value	420,505	380,847	39,658	10.4
Loans receivable, net of allowance for loan losses	409,846	468,213	(58,367)	(12.5)
Real estate owned and other repossessed assets	10,386	23,438	(13,052)	(55.7)
FDIC indemnification receivable, net	10,846	33,863	(23,017)	(68.0)

Cash and Amounts Due From Depository Institutions. The $75.2 million decrease in cash and equivalents to $115.5 million at December 31, 2012 from $190.7 million at September 30, 2011, was due to the purchase of investments and payments on maturing certificates of deposit that were not renewed, reflecting our strategy of allowing higher cost certificates of deposit to decline. These cash outflows were partially offset by proceeds received from loan payments and other operating income. We anticipate, subject to market conditions, that we will maintain higher than average liquidity in order to meet the demand of maturing certificates of deposit, prepare for the potential of rising interest rates, and to provide flexibility for potential acquisitions and repurchases of common stock.

Since 2008, we have placed excess cash balances with the Federal Reserve in order to reduce credit risk exposure to other financial institutions. Balances on deposit at the Federal Reserve Bank of San Francisco totaled $105.0 million and $180.6 million at December 31, 2012, and September 30, 2011, respectively. Currently, balances on deposit with the Federal Reserve Bank that are in excess of our required reserve balances earn interest at a rate that approximates the federal funds rate. In 2009, in response to the national banking crisis, the Board of Governors amended Regulation D, which established excess balance accounts. Previously, excess balances on deposit with the Federal Reserve Bank did not earn interest. The excess balance accounts are intended to be temporary accounts to assist financial institutions during the economic crisis. We consider excess reserve balances at the Federal Reserve Bank to be the more attractive alternative to other short-term investments due to low credit risk and comparatively higher yield to investments with less than one year to maturity. While the Board of Governors of the Federal Reserve Bank has not set a date for expiration of these accounts, we could experience a decline in interest income once the Federal Reserve Bank discontinues interest payments on excess balances. If these accounts expire, we may place excess cash in interest-bearing deposits with other financial institutions that do not have a guarantee from the U.S. Government, or we may purchase additional investments.

Investments. Investments increased $39.7 million, or 10.4% to $420.5 million at December 31, 2012 from $380.8 million at September 30, 2011. Our purchases of investments in 2012, and going forward into 2013, have focused on high-quality investments with an average duration, or average life, of approximately 2.5 to 3.5 years. We have given preference to medium-term securities in anticipation of rising interest rates and increases in loan demand in the next

18 to 24 months. Additionally, we believe our strategy mitigates price sensitivity to protect capital if we need to sell significant amounts of securities in the future to increase liquidity. We estimate the effective duration of our investment portfolio to be 3.0 years at December 31, 2012, compared to 2.7 years at September 30, 2011.

We continually analyze our investment portfolio to improve and optimize total return. During the year ended December 31, 2012, we were able to purchase and sell U.S. Treasury notes and certain mortgage-backed securities, recording pre-tax gains of $2.0 million due to price volatility and a strong rally in the bond market during this period.

Most of the Company's mortgage-backed securities were issued by U.S. Government-sponsored enterprises, Fannie Mae, Freddie Mac and Ginnie Mae. While the U.S. Government has recently affirmed its support for government-sponsored enterprises and the mortgage-backed securities they issued, significant deterioration in their financial strength may have a material effect on the valuation and performance of the Company's mortgage-backed securities portfolio in future periods. At December 31, 2012, we held one private label security with a fair value of $283,000 which carried a Moody's rating of Ba3. Management has reviewed the delinquency status, credit support and collateral coverage of the loans pooled in this security and has concluded it was not other-than-temporarily impaired at December 31, 2012.

Loans and Leases. Loans and leases receivable, net, decreased $58.4 million to $409.8 million at December 31, 2012, from $468.2 million at September 30, 2011, as loans and leases in the portfolio of CELC, the leasing subsidiary of LibertyBank, declined rapidly and our one-to-four family residential loan portfolio continues to shrink. Additionally, the workout and foreclosure on nonperforming loans as well as loan charge-offs reduced outstanding loan balances. Covered loans and leases totaled $89.4 million at December 31, 2012, compared to $155.0 million at September 30, 2011. During 2012, we purchased $8.3 million of multifamily residential real estate loans from the Network for Oregon Affordable Housing. These loans were generally seasoned between three and 13 years and were originally underwritten to fund the construction of low-income individuals. We performed due diligence and reviewed the underwriting of these loans to ensure they were consistent with our internal underwriting standards.

Commercial business loans declined $21.1 million, or 42.4% to $28.7 million at December 31, 2012 from $49.8 million at September 30, 2011. At December 31, 2012, loans and leases in CELC totaled $5.0 million compared to $20.4 million at September 30, 2011, and accounted for nearly all of the decline in our commercial business loans during fiscal 2012. We have been winding down the operations of CELC since the LibertyBank acquisition and anticipate these balances will be substantially paid off by December 31, 2013.

One-to-four family residential loans declined $37.8 million, or 30.1% between September 30, 2011 and December 31, 2012. The reduction of one-to-four family residential loans is consistent with our strategy to reduce the portfolio's concentration in those loans in favor of increasing the mix of commercial and commercial real estate loans in order to improve interest rate sensitivity and net interest margin. We began selling nearly all new one-to-four family loan originations in the secondary market in 2006. The sale of one-to-four family residential real estate loans to investors in the secondary market in connection with our mortgage banking activities required us to make representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, we may have an obligation to repurchase the assets or indemnify the purchaser against loss. We believe that the potential for significant loss under these arrangements is remote due to our underwriting standards. However, past performance may not be representative of future performance on sold loans and we may experience losses in the future. We recorded losses totaling $148,000 in connection with these arrangements during the year ended December 31, 2012, but no losses were incurred during fiscal year 2011.

Real estate construction loans increased $13.6 million, or 53.6%, between December 31, 2012 and September 30, 2011. Our noncovered construction portfolios increased to $33.5 million at December 31, 2012 from $14.8 million at September 30, 2011, while our covered loans purchased in the FDIC-assisted acquisitions decreased $5.1 million to $5.4 million at December 31, 2012. As noted earlier, construction of single family residences has increased in 2012, particularly in our Idaho Region. We opened a construction loan production office in Portland, Oregon, in 2012 and we are considering another construction loan production office in Salt Lake City in early 2013.

Home equity loans declined $7.1 million to $41.8 million at December 31, 2012 from September 30, 2011 as consumer spending improved over 2011, but households did not borrow to fund expenditures. Additionally, while home values began to rise again in 2012, we believe many homeowners still have negative equity, or insufficient equity, in their homes to support additional borrowings.

Allowance for Loan Losses. The allowance for loan losses decreased to $12.5 million at December 31, 2012, from $14.4 million at September 30, 2011, as the quality of our loan portfolio continues to show signs of improvement and we realized significant recoveries in our covered loan portfolios in 2012. The allowance for loan losses on the noncovered loan portfolio was 2.59% of noncovered loans at December 31, 2012, with only $792,000 of the $8.6 million allowance for losses on noncovered loans specifically allocated to impaired noncovered loans. At December 31, 2012, we had an allowance of $8.6 million on noncovered loans, an allowance of $1.2 million on covered loans purchased in the CFB Acquisition and an allowance of $2.7 million on loan pools purchased in the LibertyBank Acquisition.

Loans delinquent 30 to 89 days and still accruing interest totaled $809,000 at December 31, 2012, compared to $1.3 million at September 30, 2011. Nonperforming assets, which include nonaccrual loans and REO, totaled $24.8 million at December 31, 2012, compared to $48.0 million at September 30, 2011. Nonperforming noncovered loans totaled $9.6 million at December 31, 2012, compared to $12.9 million at September 30, 2011. Total nonperforming loans declined $10.2 million from September 30, 2011 to December 31, 2012.

Loans classified by us as "Watch" and "Special Mention", which are early indications of deterioration in creditworthiness, declined to $44.0 million at December 31, 2012, compared to $61.8 million at September 30, 2011. Noncovered loans criticized as "Watch" and "Special Mention" declined to $25.6 million at December 31, 2012, compared to at September 30, 2011. Noncovered loans classified as "Substandard" declined to $29.0 million at December 31, 2012, compared to $40.6 million at September 30, 2011.

Net charge-offs on noncovered loans totaled $1.3 million during the year ended December 31, 2012, while net recoveries on covered loans totaled $1.5 million during 2012. While we realized net charge-offs in our noncovered organic loan portfolio in 2012, we did not believe a provision for loan losses on noncovered organic loans was required due to a decline in overall balances in the loan portfolio and the improvement in key asset quality metrics (delinquent and nonperforming loans) experienced during the year and described above. Stable management and personnel in our Credit Administration Team and improving economic indicators further supported management's conclusion that additional reserves on noncovered organic loans was not necessary.

See “Asset Quality” on page 18 of this Form 10-K for additional discussion on our nonperforming loans, the loss sharing agreements and our estimate of losses under these agreements and our allowance for loan losses, including the allocation of the allowance for loan losses on page 25.

FDIC Indemnification Asset. As part of the purchase and assumption agreements for the acquisitions, we entered into loss sharing agreements with the FDIC. These agreements cover realized losses and certain related expenses on covered assets purchased from the FDIC in the CFB Acquisition and the LibertyBank Acquisition. The decrease in the FDIC indemnification receivable to $10.8 million at December 31, 2012 compared to $33.9 million at September 30, 2011, was due to the receipt of payments on loss claims made to the FDIC and due to the net reduction in estimated future losses on covered assets, which caused impairment charges of $10.9 million during the year ended December 31, 2012, and $4.7 million during the three months ended December 31, 2011. The impairment in the FDIC indemnification asset recognizes the decreased amount that the Company expects to collect from the FDIC under the terms of its loss sharing agreements due to lower expected losses on covered assets recognized in noninterest income. At December 31, 2012, the FDIC indemnification receivable for estimated losses on covered assets in the LibertyBank Acquisition totaled $8.6 million, while the receivable for estimated losses on covered assets in the CFB Acquisition was $2.2 million.

The loss sharing agreements will expire five years after the acquisition date for non-single family covered assets and ten years after the acquisitions date for single-family covered assets. After the expiration of the loss sharing agreements, the Company will not be indemnified for losses and related expenses on covered assets. Additionally, the Company's and the Bank's risk-based capital ratios will be reduced comparatively after expiration of the loss sharing agreements as covered assets currently receive a 20% risk-weighting. After the agreements expire, the risk-weighting for previously covered assets will most likely increase to 100%, based on current regulatory capital definitions. Nearly all of the assets remaining in the covered asset portfolios qualify as non-single family covered assets. Therefore, most of the covered assets will no longer be indemnified after September 2014 for assets purchased in the CFB Acquisition and September 2015 for assets purchased in the LibertyBank Acquisition.

Bank Owned Life Insurance. The value of bank owned life insurance increased $3.1 million to $15.9 million at December 31, 2012 from $12.8 million at September 30, 2011. The policy premiums are invested in insurance companies which each have a rating of at least ‘A’ by Standard & Poor’s and A.M. Best. We continue to monitor the financial performance, capital levels and financial ratings of the companies that have issued the Bank’s “general account” life insurance policies.

Real Estate and Other Property Owned (REO). REO declined $13.1 million to $10.4 million at December 31, 2012 from $23.4 million at September 30, 2011 due to the sale of foreclosed assets during that period. Covered REO totaled $6.1 million at December 31, 2012, compared to $16.2 million at September 30, 2011. Noncovered REO totaled $4.3 million at December 31, 2012, compared to $7.3 million at September 30, 2011.

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Deferred Taxes. As of December 31, 2012, the net deferred tax asset balance was $9.0 million compared to $3.9 million at September 30, 2011. The $5.1 million difference is primarily due to the change in interest on nonaccrual loans, which increased $2.6 million, and a $2.5 million reduction of the liability related to purchase accounting adjustments. All other items, net, decreased $77,000 since September 30, 2011.

Deposits. Deposits decreased $108.6 million, or 11.3%, to $850.9 million at December 31, 2012, from $959.5 million at September 30, 2011 primarily due to the managed reduction of higher-rate certificates of deposit. The following table details the changes in total deposit accounts (dollars in thousands):

	December 31, 2012	September 30, 2011	Increase/(Decrease) Amount	Percent
Noninterest-bearing demand	$142,207	$141,040	$1,167	0.8 %
Interest-bearing demand	225,017	228,315	(3,298)	(1.4)
Money market	167,202	177,183	(9,981)	(5.6)
Health savings accounts	23,819	23,032	787	3.4
Savings	83,401	79,640	3,761	4.7
Certificates of deposit	209,242	310,299	(101,057)	(32.6)
Total deposit accounts	$850,888	$959,509	$(108,621)	(11.3)%

Certificates of deposit comprised the majority of the deposit liabilities assumed in the LibertyBank Acquisition. Since we received a significant balance of cash in connection with the LibertyBank Acquisition, we executed a managed reduction in certificates of deposit in the LibertyBank portfolio. We recognized that some clients chose to move the balances of their maturing certificates of deposit into a money market account due to comparatively higher rates and the immediate availability of funds afforded in a money market account. As interest rates continued to fall and loan production remained relatively weak during the year ended December 31, 2012, we reduced our deposit rates to continue to reduce certificates of deposit. As a result, certificates of deposit declined $101.1 million to $209.2 million at December 31, 2012. We also reduced the rates offered on our money market accounts during 2012. Despite these actions, core deposit balances decreased only $7.6 million between these periods, with reductions in money market account balances comprising $10.0 million of the decline.

We believe increasing core deposits, particularly commercial checking accounts, and reducing reliance on certificates of deposits is an important component in the strategy to transform our balance sheet toward a commercial bank. The investment in free-standing full-service banking offices, reduced reliance on in-store branches, and changes made in the management team and the organizational alignment of our retail banking program should help increase core deposit accounts, despite the significant challenges in our markets.

Our deposit portfolio includes a concentration of low-cost health savings accounts. Health savings accounts totaled $23.8 million and $23.0 million at December 31, 2012 and September 30, 2011, respectively. Most of these accounts are originated through third-party relationships throughout the United States that refer to the bank entities that wish to offer health savings accounts as a benefit to their employees. Changes in tax law, government health care mandates or the structure of health savings accounts could cause the balances to be withdrawn.

Borrowings. FHLB advances and other borrowings decreased $117,000 to $4.8 million at December 31, 2012, and was comprised of retail repurchase agreements that are collateralized by various investment securities. We prepaid our FHLB advances in September 2011. The prepayment penalty recorded during fiscal year 2011 was $2.0 million, before income taxes.

Equity. Stockholders' equity decreased $14.9 million to $179.8 million at December 31, 2012, from $194.7 million at September 30, 2011. The primary reason for the decrease was the repurchase of 1,251,943 shares during the year ended December 31, 2012 and an additional 390,131 shares during the three months ended December 31, 2011 at a total cost of $16.3 million. On October 26, 2012 the Company announced a stock repurchase of up to 725,000 shares of its outstanding common stock, inclusive of all remaining shares from previously announced repurchase plans. Through December 31, 2012, we have purchased 83,430 shares under this renewed stock repurchase plan. We do not anticipate purchasing shares at a price per share that is higher than the Company’s tangible book value per share, which was $12.26 (common stockholders' equity of $179.8 million less intangible assets of $2.5 million divided by outstanding common shares) at December 31, 2012. Our book value per share (common stockholders' equity divided by outstanding common shares) was $12.44 at December 31, 2012. Additionally, during these periods we paid $5.7 million in dividends to shareholders during 2012, which included an increase in the regular quarterly dividend from $0.055 per share to

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$0.06 per share and the payment of a special dividend of $0.12 per share during the fourth quarter of 2012. Net income during the year ended December 31, 2012 and the three months ended December 31, 2011 of $1.8 million and $1.4 million, respectively, partially offset these decreases. Additionally, the unrealized gain on securities available-for-sale, net of tax, increased $2.0 million at December 31, 2012, to $8.2 million compared to $6.2 million at September 30, 2011.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND SEPTEMBER 30, 2011

General. Net income for the year ended December 31, 2012 was $1.8 million, or $0.12 per diluted share, compared to a net loss of $(4.6) million, or $(0.30) per diluted share, for the year ended September 30, 2011. The net loss for the fiscal year ended September 30, 2011, included a number of charges related to strategic initiatives undertaken in the fourth quarter of fiscal year 2011. These initiatives reduced interest expense and noninterest expense during the year ended December 31, 2012 and were the key contributors to our profitability in 2012.

Net Interest Income. Net interest income increased $3.3 million, or 7.8%, to $45.3 million for the year ended December 31, 2012, from $42.0 million for the year ended September 30, 2011. The increase in net interest income was primarily attributable to the a decrease in interest expense as interest and dividend income also declined in 2012. Net interest margin increased to 4.59% during the year ended December 31, 2012 from 3.51% in fiscal 2011.

The following table sets forth the results of balance sheet growth and changes in interest rates to our net interest income (in thousands). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Year Ended December 31, 2012 Compared to September 30, 2011 Increase/(Decrease) Due to		
	Rate	Volume	Total
Interest-earning assets:			
Loans receivable, net	$9,184	$(11,051)	$(1,867)
Loans held for sale	—	(56)	(56)
Interest-bearing deposits in other banks	(77)	(271)	(348)
Investment securities	(251)	604	353
Total net change in income on interest-earning assets	$8,856	$(10,774)	(1,918)
Interest-bearing liabilities:			
Savings deposits	$(124)	$7	(117)
Interest-bearing demand deposits	(396)	31	(365)
Money market accounts	(445)	2	(443)
Certificates of deposit	570	(2,625)	(2,055)
Total deposits	(395)	(2,585)	(2,980)
FHLB advances	(110)	(2,096)	(2,206)
Total net change in expense on interest-bearing liabilities	$(505)	$(4,681)	(5,186)
Total increase in net interest income			$3,268

Interest and Dividend Income. Total interest and dividend income for the year ended December 31, 2012, decreased $1.9 million, or 3.8%, to $49.1 million, from $51.1 million for fiscal year 2011. The decrease during the period was primarily attributable to a decrease in the balance of loans purchased in the acquisitions. Average interest-earning assets decreased $211.6 million to $985.6 million during the year ended December 31, 2012 from $1.2 billion during fiscal year 2011 due to the decline in the loan portfolio. This decline in average interest-earning assets was partially offset by an increase in the yield on earning assets to 4.99% during 2012 as compared to 4.27% in fiscal 2011.

Net interest margin is significantly enhanced by accretable income on purchased loans from the acquisitions. This additional income stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. Each quarter the Company analyzes the cash flow assumptions on loan pools purchased in the LibertyBank Acquisition and, at least semi-annually, the Company updates loss estimates,

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prepayment speeds and other variables when analyzing cash flows. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. As a result, income from loan pools can be volatile from quarter to quarter. During the year ended December 31, 2012, the Company experienced significant prepayments on pooled loans, which resulted in accretion gains.

The Company's net interest income and net interest margin continue to be reduced by an unfavorable interest-earning asset mix that is weighted heavily toward cash and securities (55.6% of interest earning assets at December 31, 2012). This excess liquidity is primarily the result of the cash received in the LibertyBank Acquisition, continues to adversely affect our asset yields as the weak lending and investing environment has limited our opportunities to invest this exces liquidity in higher yielding assets. While we expect accretable yield will continue to be a significant component of loan income over the next several quarters, we believe the underlying net interest margin will continue to perform below optimal levels due to the unfavorable asset mix. Additionally, as the acquired loan pools decline in balance, the impact of accretable yield is diminished. As a result, the Company expects net interest margin to decline in 2013 as accretable yield declines compared to previous years. The following table compares average earning asset balances, associated yields, and resulting changes in interest and dividend income for the years ended December 31, 2012 and September 30, 2011 (dollars in thousands):

	Year Ended December 31, 2012			September 30, 2011			Increase/ (Decrease) in Interest and Dividend Income	
	Average Balance	Yield		Average Balance	Yield			
Loans receivable, net of deferred fees	$440,199	9.10	%	$552,111	7.59	%	$(1,867	)
Loans held for sale	—	—		1,808	4.13		(56	)
Interest bearing deposits in other banks	98,658	0.23		226,246	0.26		(348	)
Investment securities, available-for-sale	429,044	2.07		399,300	2.13		353	
FHLB stock	17,665	—		17,717	—		—	
Total interest-earning assets	$985,566	4.99	%	$1,197,182	4.27	%	$(1,918	)

Interest Expense. Interest expense decreased $5.2 million, or 57.2% to $3.9 million for the year ended December 31, 2012, compared to $9.1 million for the year ended September 30, 2011. Average interest-bearing liabilities decreased $242.5 million between these periods to $742.8 million, and our cost of funds decreased to 0.52% for the year ended December 31, 2012, compared to 0.92% for the year ended September 30, 2011. In September 2011, we repaid all outstanding borrowings with the FHLB of Seattle (approximately $48.3 million), for which we incurred a prepayment penalty of $2.0 million. However, the prepayment decreased interest expense by an estimated $2.2 million between these periods.

The decline in average certificates of deposits during the year ended December 31, 2012, compared to the year ended September 30, 2011, was due to maturities of certificates of deposit, primarily in the LibertyBank Acquisition deposit portfolio. Due to the significant amount of cash we received in the LibertyBank Acquisition, the current low interest rate environment, and weak loan demand from creditworthy borrowers, the need for additional funding through certificates was muted so we reduced our rates on deposits during the fiscal year 2011, and continued to reduce rates throughout 2012, permitting certificates of deposit to decline.

The following table details average balances, cost of funds and the change in interest expense for the years ended December 31, 2012 and September 30, 2011 (dollars in thousands):

	Year Ended December 31, 2012			September 30, 2011			Decrease in Interest Expense	
	Average Balance	Rate		Average Balance	Rate			
Interest-bearing demand deposits	$245,991	0.18	%	$236,599	0.34	%	$(365	)
Savings deposits	80,922	0.07		77,948	0.22		(117	)
Money market deposits	176,885	0.20		176,331	0.45		(443	)
Certificates of deposit	234,236	1.27		437,996	1.15		(2,055	)
FHLB advances and other borrowings	4,754	1.49		56,415	4.04		(2,206	)
Total interest-bearing liabilities	$742,788	0.52	%	$985,289	0.92	%	$(5,186	)

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Approximately $107.4 million of certificates of deposit are scheduled to mature during 2013.

Provision for Loan Losses. A negative provision for loan losses of $(1.8) million (entirely on covered loans), was recorded in connection with our analysis of losses in the loan portfolio for the year ended December 31, 2012, compared to a provision for loan losses of $11.4 million for fiscal year 2011, which included a $10.3 million provision on covered loans. The estimated indemnifiable portion for a negative provision for loan losses on covered loans is recorded as a decrease to the FDIC indemnification asset and a decrease in other income, which totaled $(1.8) million for the year ended December 31, 2012. The offset to the provisions in fiscal 2011 was recorded as an increase to the FDIC indemnification asset and an increase in other income, which totaled $9.3 million for that year.

Loans purchased in the LibertyBank Acquisition were aggregated into pools. If an individual pool performs better than management's original estimates, the Company may incur an increase in accretable yield in interest income, which is offset somewhat by impairment in the FDIC indemnification asset since loan losses are expected to be less than previously estimated. If the estimated cash flows in a loan pool are less than management previously estimated, an allowance for loan losses may be recorded through a provision, which is offset somewhat by the amount expected to be recovered from the FDIC under the loss sharing agreements. During the year ended December 31, 2012, we recognized $829,000 in impairments on certain loan pools purchased in the LibertyBank Acquisition. These impairments were partially offset by an indemnification recovery of $657,000. We recognized provisions for loan losses on certain pools of loans purchased in the LibertyBank Acquisition of $2.3 million during the year ended September 30, 2011, which was partially offset by an indemnification recovery of $1.9 million.

Improving credit quality and an improving economy have reduced the likelihood of additional losses in the noncovered, originated loan portfolio at December 31, 2012. Therefore, we did not record a provision for noncovered, originated loans during the year ended December 31, 2012, compared to a provision of $1.1 million during fiscal year 2011.

We consider the allowance for loans losses at December 31, 2012, to be our best estimate of probable incurred losses inherent in the loan portfolio as of that date based on the assessment of the above-mentioned factors affecting the loan portfolio. While we believe the estimates and assumptions used in the determination of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provision that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Noninterest Income. Noninterest income decreased $15.7 million, to $(655,000) for the year ended December 31, 2012 from $15.0 million for the year ended September 30, 2011. The FDIC indemnification recovery represents the recovery of amounts expected from the FDIC under loss sharing agreements due to incremental provisions for loan losses in the current period or the impairment (reduction) in the expected amounts to be recovered from the FDIC due to a negative provision in the current period. Impairment of the FDIC indemnification asset generally relates to the reduction in the amounts estimated to be received from the FDIC on pooled loans as a result of increases in cash flows. The impairment of the FDIC indemnification asset was higher in 2012 due to higher expected cash flows from loans purchased in the LibertyBank Acquisition. As noted earlier, increases in estimated cash flows increase interest on loans through the higher accretable yield on purchased loans. A $2.0 million prepayment penalty on FHLB borrowings reduced noninterest income for fiscal year 2011. Excluding the impact of the FDIC indemnification asset and the prepayment penalty, noninterest income declined $720,000 during the year ended December 31, 2012, as compared to the fiscal year ended September 30, 2011.

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The following table provides a detailed analysis of the changes in components of noninterest income (dollars in thousands):

	Year Ended		Increase/(Decrease)	
	December 31, 2012	September 30, 2011	Amount	Percent
Service charges and fees	$8,653	$9,823	$(1,170)	(11.9)%
Gain on sale of loans	1	849	(848)	(99.9)
Gain on sale of securities	1,971	607	1,364	224.7
Increase in cash surrender value of life insurance	488	412	76	18.4
FDIC indemnification recovery	(1,807)	9,313	(11,120)	(119.4)
Impairment of FDIC indemnification asset	(10,856)	(4,989)	(5,867)	117.6
Prepayment penalty on borrowings	—	(2,007)	2,007	(100.0)
Other	895	1,037	(142)	(13.7)
Total noninterest income	$(655)	$15,045	$(15,700)	(104.4)%

Service charges and fee income decreased $1.2 million to $8.7 million for the year ended December 31, 2012, compared to the year ended September 30, 2011. Compared to the comparable year, overdraft fees were $1.4 million lower in the year ended December 31, 2012. The continued decline in overdraft fees was due to fewer “free checking” accounts and regulatory changes that were first implemented in July 2010. Subsequent guidance from bank regulatory agencies and the Company's risk management practices have caused further reductions in overdraft fees as fewer clients qualify for participation in our extended overdraft program, which further exacerbates the decline in fee income. The elimination of "free checking" accounts and the implementation of a new checking account with minimum balance requirements in order to avoid a monthly service charge helped to otherwise increase fee income by $142,000 during 2012 compared to the year ended September 30, 2011.

Noninterest income includes pre-tax gains on sales of investments of $2.0 million during the year ended December 31, 2012, compared to $607,000 for the year ended September 30, 2011. Most of the gains during 2012 were realized on U.S. Treasury bonds that were purchased during the first half of 2012 and sold during the strong rally in the bond market later in 2012. During the year ended September 30, 2011, we identified approximately $27.6 million of mortgage-backed securities that evidenced a significant risk of prepayment and the possibility of negative recorded yields due to accelerated amortization of the purchase premiums on those investments if the prepayment speeds accelerated. As a result, we sold those investments at a $607,000 gain to avoid the risk of negative book yields in future periods.

We changed our mortgage loan origination strategy in December 2011. Previously, we directly originated one-to-four family residential loans for sale in the secondary market. Starting in December 2011, we now refer mortgage applications to a third party originator. As a result, we no longer report gains on sale of loans. While we recognized $849,000 during the year ended September 30, 2011, the personnel and compliance expenses associated with the previous strategy of direct origination of one-to-four family loans caused that line of business to be unprofitable for us.

The Bank repaid its $48.3 million of outstanding borrowings with the FHLB on September 22, 2011. The prepayment penalty was $2.0 million recognized during the year ended September 30, 2011.

Noninterest Expense. Noninterest expense decreased $10.0 million, or 18.7%, to $43.5 million for the year ended December 31, 2012, compared to the year ended September 30, 2011, as we incurred significant compensation, data processing and professional services expenses during most of fiscal year 2011 to complete the integration of LibertyBank and closed six branches between September 30, 2011 and December 31, 2011, which reduced personnel and occupancy expenses. The LibertyBank Acquisition occurred in July 2010 and added 13 branches. Additionally, noninterest expense was higher in fiscal 2011 as we maintained two core application software platforms until March 2011 when the LibertyBank core system conversion was completed. We also achieved additional cost savings in the year ended December 31, 2012 by consolidating in May 2011 two separately located administrative teams into our Eugene, Oregon administrative office.

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The following table provides a detailed analysis of the changes in components of noninterest expense (dollars in thousands):

	Year Ended		Decrease	
	December 31, 2012	September 30, 2011	Amount	Percent
Compensation and benefits	$24,054	$28,135	$(4,081)	(14.5)%
Occupancy and equipment	6,176	6,897	(721)	(10.5)
Data processing	3,945	4,243	(298)	(7.0)
Advertising	776	1,122	(346)	(30.8)
Postage and supplies	987	1,252	(265)	(21.2)
Professional services	2,351	3,204	(853)	(26.6)
Insurance and taxes	2,158	3,294	(1,136)	(34.5)
Amortization of intangibles	564	725	(161)	(22.2)
Provision for REO	736	1,414	(678)	(47.9)
Other	1,767	3,223	(1,456)	(45.2)
Total noninterest expense	$43,514	$53,509	$(9,995)	(18.7)%

Compensation and benefits decreased $4.1 million or 14.5% to $24.1 million for the year ended December 31, 2012 from $28.1 million for the year ended September 30, 2011 due to branch closings and the consolidation of operations that occurred during calendar year 2011. Compensation expense related to the KSOP was $815,000 during the year ended December 31, 2012, compared to $1.6 million during the year ended September 30, 2011. The reduced expense in 2012 was a result of the merger of the ESOP and the 401(k) plan and the refinancing of the ESOP loans, which reduced the number of shares released in fiscal year 2012.

All other categories of expenses were $5.9 million in the aggregate lower during the year ended December 31, 2012 compared to the year ended September 30, 2011. Occupancy and equipment expense was $721,000 lower in 2012 due to branch closures that occurred in late 2011. Professional services declined by $853,000 in 2012 compared to fiscal 2011 as a result of a number of information technology integration projects that were in process in the first half of 2011 that have since been completed. Insurance and taxes declined by $1.1 million in 2012 primarily due to a change in the assessment base for deposit insurance premiums, as well as lower REO balances and fewer branches in 2012.

Other expenses declined $1.5 million for the year ended December 31, 2012, due primarily to the $1.1 million of expenses incurred in September 2011 related to branch closures, and improved operating efficiency due to operational integration and fewer branches, partially offset by the accrual of $539,000 of expenses related to branch closures recorded in 2012. The provision for REO declined $678,000 to $736,000 during the year ended December 31, 2012.

Income Tax Benefit. The income tax provision from continuing operations was $1.1 million based on pre-tax income from operations of $2.9 million, which equates to an effective rate of 37.06%. This compares to income tax benefit from continuing operations of $3.2 million based on a pre-tax loss of $7.9 million for the year ended September 30, 2011.

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COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010

Net income for the three months ended December 31, 2011, was $1.4 million, or $0.09 per diluted share, compared to a net loss of $1.3 million, or $0.08 per diluted share, for the same period in the prior year. Net interest margin during the quarter ended December 31, 2011, increased substantially to 5.54% compared to 2.58% during the quarter ended December 31, 2010. The increase over the quarter a year earlier was primarily the result of the increase in accretable yield during the quarter ended December 31, 2011, on loans purchased in the LibertyBank Acquisition.

Net Interest Income. Net interest income before the provision for loan losses increased $6.0 million, or 72.4%, to $14.3 million for the quarter ended December 31, 2011, compared to $8.3 million for the same quarter of the prior year. The increase was attributable to the increase in accretable yield on purchased loans in fiscal year 2011 due to the LibertyBank Acquisition. The incremental accretion income due to repayments represented the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan notes. The additional income stemmed from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. During the quarters ended December 31, 2011 and 2010, the impact of loan removals totaled $1.2 million and $0, respectively.

The following table sets forth the impact to the Company's net interest income from changes in balances of interest earning assets and interest bearing liabilities as well as changes in interest rates (in thousands). The rate column shows the effect attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effect attributable to changes in volume (changes in volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010 Increase/(Decrease) Due to		
	Rate	Volume	Total
Interest-earning assets:			
Loans receivable, net	$9,799	$(5,729)	$4,070
Loans held for sale	(9)	(33)	(42)
Interest-bearing deposits in other banks	17	(129)	(112)
Investment securities	25	382	407
Total net change in income on interest-earning assets	$9,832	$(5,509)	4,323
Interest-bearing liabilities:			
Savings deposits	$(45)	$6	(39)
Interest-bearing demand deposits	(169)	20	(149)
Money market accounts	(138)	4	(134)
Certificates of deposit	41	(773)	(732)
Total deposits	(311)	(743)	(1,054)
FHLB advances and other borrowings	(28)	(615)	(643)
Total net change in expense on interest-bearing liabilities	$(339)	$(1,358)	(1,697)
Total increase in net interest income			$6,020

Interest and Dividend Income. Total interest and dividend income for the three months ended December 31, 2011, increased $4.3 million, to $15.6 million, from $11.2 million for the three months ended December 31, 2010. The increase during that quarter was primarily attributable to an increase in the yield earned on loans due the LibertyBank

Acquisition, partially offset by a decrease in average earning asset balances.

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The following table compares detailed average earning asset balances, associated yields, and resulting changes in interest and dividend income (dollars in thousands):

	For the Three Months Ended December 31,						
	2011			2010			Increase/ (Decrease) in Interest and Dividend Income
	Average Balance	Yield		Average Balance	Yield		
Loans receivable, net of deferred fees	$469,947	11.38	%	$616,643	6.03	%	$4,070
Loans held for sale	1,012	3.67		4,759	4.31		(42)
Interest bearing deposits in other banks	143,610	0.28		321,745	0.26		(112)
Investment securities, available-for-sale	402,134	2.08		328,853	2.05		407
FHLB stock	17,717	—		17,717	—		—
Total interest-earning assets	$1,034,420	6.02	%	$1,289,717	3.49	%	$4,323

The average yield on loans increased due to accretion of discounts on purchased loans in the LibertyBank Acquisition. Income on loans held for sale declined during the December 31, 2011 quarter declined as we ceased originating mortgage loans for sale in the secondary market during the quarter ended December 31, 2011.

Interest Expense. Managed runoff in certificates of deposits combined with lower average interest-bearing core deposits resulted in a reduced cost of funds compared to prior periods. Additionally, the Bank paid off all outstanding borrowings with the FHLB in September 2011, which reduced interest expense on borrowings during the quarter ended December 31, 2011 compared to the same quarter in the prior year. The cost of funds for the quarter ended December 31, 2011 was 0.62% compared to 1.09% for the quarter ended December 31, 2010. The following table details average balances, cost of funds and the change in interest expense (dollars in thousands):

	For the Three Months Ended December 31,						
	2011			2010			Decrease in Interest Expense
	Average Balance	Rate		Average Balance	Rate		
Savings deposits	$247,967	0.22	%	$230,898	0.50	%	$(149)
Interest-bearing demand deposits	79,192	0.14		71,884	0.37		(39)
Money market deposits	178,418	0.32		175,830	0.63		(134)
Certificates of deposit	288,082	1.26		530,780	1.23		(732)
FHLB advances and other borrowings	4,893	1.72		66,422	4.00		(643)
Total interest-bearing liabilities	$798,552	0.62	%	$1,075,814	1.09	%	$(1,697)

The decline in average certificates of deposits during the three months ended 2011 compared to the three months ended December 31, 2010 was due to maturities of certificates of deposit, primarily in the LibertyBank Acquisition deposit portfolio. Due to the significant amount of cash we received in the LibertyBank Acquisition, the very low interest rate environment and weak loan demand from creditworthy borrowers, we reduced our rates on deposits during fiscal year 2011 and permitted certificates of deposit to decline. As noted earlier, we repaid all outstanding advances from the FHLB during the fiscal year ended September 30, 2011.

Provision for Loan Losses. A negative provision for loan losses of ($474,000) was recorded during the quarter ended December 31, 2011, compared to a provision of $3.0 million for the year-ago period. The gross negative provision on covered loans purchased in the CFB Acquisition totaled ($872,000) and related to a reduction in the estimated losses on covered loans that have had partial charge-downs due to observed credit impairment. A gross provision for loan losses on certain pools of loans purchased in the LibertyBank Acquisition totaled $398,000 during the quarter ended December 31, 2011. Net of amounts recorded in noninterest income as FDIC indemnification recovery or provision, the impact of the provision for loan losses reduced income before taxes by $41,000 during the quarter ended December 31, 2011.

Nonperforming loans declined significantly to $26.1 million at December 31, 2011, compared to $40.0 million at December 31, 2010, and delinquent and classified loans were significantly lower at December 31, 2011 as well. As a result, the provision for loan losses declined substantially during the quarter ended December 31, 2011 compared to 2010.

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Noninterest Income. Noninterest income for the quarter ended December 31, 2011, was reported as a loss due to the impairment of the FDIC indemnification asset, which totaled $4.7 million during the quarter. The following table provides a detailed analysis of the changes in components of noninterest income (dollars in thousands):

	Three Months Ended December 31,		Increase/(Decrease)	
	2011	2010	Amount	Percent
Service charges and fees	$2,246	$2,459	$(213)	(8.7)%
Gain on sale of loans	181	348	(167)	(48.0)
Gain on sale of securities available for sale	590	—	590	n/a
Gain on sale of fixed assets and repossessed assets	328	274	54	19.7
FDIC indemnification recovery (provision)	(515)	1,996	(2,511)	(125.8)
Accretion (impairment) of FDIC indemnification asset	(4,667)	922	(5,589)	(606.2)
Other	206	304	(98)	(32.2)
Total noninterest income	$(1,631)	$6,303	$(7,934)	(125.9)%

Service charges and fee income decreased $213,000 to $2.2 million for the quarter ended December 30, 2011, compared to the compared to the same period a year ago. Overdraft fees and interchange income were $187,000 and $140,000 lower in the quarter ended December 31, 2011, compared to the same quarter in the prior year. Noninterest income also included pre-tax gains on sales of securities of $590,000 during the quarter ended December 31, 2011. Additionally, the Bank sold one of the branch facilities that was closed in December 2011 and recorded a pre-tax gain of $264,000 during the quarter ended December 31, 2011. The gain on sale of REO was $168,000 and $127,000 during the quarters ended December 31, 2011 and 2010, respectively.

Noninterest Expense. Noninterest expense for the quarter ended December 31, 2011, decreased $2.8 million or 20.3% compared to the quarter ended December 31, 2010, due to a significant reduction in personnel and integration costs as a result of the consolidation of operating systems of the acquired operations of LibertyBank and Community First Bank that was completed during the first half of fiscal year 2011. This integration reduced compensation expense, data processing and professional fees for the quarter ended December 31, 2011 compared to the same period of the prior year.

The following table provides a detailed analysis of the changes in components of noninterest expense (dollars in thousands):

	Three Months Ended December 31,		Increase/(Decrease)	
	2011	2010	Amount	Percent
Compensation and benefits	$5,866	$7,094	$(1,228)	(17.3)%
Occupancy and equipment	1,476	1,845	(369)	(20.0)
Data processing	1,023	1,177	(154)	(13.1)
Advertising	145	213	(68)	(31.9)
Postage and supplies	287	254	33	13.0
Professional services	535	718	(183)	(25.5)
Insurance and taxes	707	1,049	(342)	(32.6)
Amortization of intangibles	160	195	(35)	(17.9)
Provision for REO	482	675	(193)	(28.6)
Other	335	599	(264)	(44.1)
Total noninterest expense	$11,016	$13,819	$(2,803)	(20.3)%

Compensation and benefits expense decreased $1.2 million during the quarter ended December 31, 2011, compared to the quarter a year earlier due to branch closings and the consolidation of operations that occurred during fiscal year 2011. On September 30, 2011, with an effective date of January 1, 2012, we merged our employee stock ownership ("ESOP") and 401(k) plans into a single plan ("KSOP") and refinanced the loans associated with the ESOP, which lowered the allocation of ESOP shares in future periods. Compensation expense related to the ESOP was $35,000 during the quarter ended December 31, 2011, compared to $336,000 in the quarter ended December 31, 2010. Expense related to the ESOP is recorded based on the fair value of the Company's share price and, therefore, is subject to fluctuation in future periods.

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Insurance and taxes expense was $342,000 lower during the quarter ended December 31, 2011, compared to the same quarter in the prior year due to a $234,000 reduction in the Bank's FDIC insurance premiums as a result of a change in the way premiums are calculated during 2011. Other expenses declined $264,000 from the same quarter in the prior year due primarily to the fewer miscellaneous expenses as a result of the integration of operations. Additionally the provision for noncovered REO totaled $482,000 during the quarter ended December 31, 2011, which represents a $193,000 decrease from the provision recorded during the quarter ended December 31, 2010.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

General. Net loss for the year ended September 30, 2011 was ($4.6 million), or ($0.30) per diluted share, compared to a net loss of ($4.1 million), or ($0.26) per diluted share, for the year ended September 30, 2010. The net loss for the fiscal year ended September 30, 2011, included a number of charges related to strategic initiatives undertaken in the fourth quarter of fiscal year 2011. The net loss for the fiscal year ended September 30, 2010 included a $3.2 million bargain purchase gain related to the LibertyBank Acquisition.

The LibertyBank Acquisition was consummated on July 30, 2010, during the fourth quarter of fiscal year 2010. The LibertyBank Acquisition was incorporated prospectively in the Company's Consolidated Financial Statements from that date; therefore, year-over-year results of operations from fiscal year 2010 may not be comparable.

Net Interest Income. Net interest income increased $14.8 million, or 54.5%, to $42.0 million for the year ended September 30, 2011, from $27.2 million for the year ended September 30, 2010. The increase in net interest income was primarily attributable to the increase in net earning assets due to the acquisitions and lower interest expense during fiscal year 2011. Additionally, net interest margin increased to 3.51% during fiscal 2011 from 3.09% in fiscal 2011 primarily due to the impact of accretable yield on loans purchased in the LibertyBank Acquisition.

The following table sets forth the results of balance sheet growth and changes in interest rates to our net interest income (in thousands). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Year Ended September 30, 2011 Compared to September 30, 2010 Increase/(Decrease) Due to		
	Rate	Volume	Total
Interest-earning assets:			
Loans receivable, net	$10,340	$927	$11,267
Loans held for sale	(23)	(2)	(25)
Interest-bearing deposits in other banks	87	163	250
Investment securities	(2,611)	4,652	2,041
Total net change in income on interest-earning assets	$7,793	$5,740	13,533
Interest-bearing liabilities:			
Savings deposits	$(208)	$76	(132)
Interest-bearing demand deposits	(445)	350	(95)
Money market accounts	(441)	330	(111)
Certificates of deposit	(1,535)	1,462	(73)
Total deposits	(2,629)	2,218	(411)
FHLB advances	49	(925)	(876)
Total net change in expense on interest-bearing liabilities	$(2,580)	$1,293	(1,287)

Total increase in net interest income	$14,820

Interest and Dividend Income. Total interest and dividend income for the year ended September 30, 2011, increased $13.5 million, or 36.1%, to $51.1 million, from $37.6 million for fiscal year 2010. The increase during that period was primarily attributable to the increase in interest-earning balances purchased in the acquisitions. Interest income on loans was significantly higher in fiscal year 2011 due to the impact of accretable yield on loans purchased in the LibertyBank Acquisition. The incremental accretion income represents the amount of income recorded on the acquired loans above

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the contractual rate stated in the individual loan notes and stems from the discount established at the time these loan portfolios were acquired.

Despite the increase in accretable yield, the Company's net interest income and net interest margin continued to be reduced by an unfavorable interest-earning asset mix that was heavily weighted toward cash and securities (52.3% of interest earning assets at September 30, 2011). This excess liquidity was primarily the result of the cash received in the LibertyBank Acquisition, which was exacerbated by a weak lending and investing environment. The following table compares detailed average earning asset balances, associated yields, and resulting changes in interest and dividend income for the years ended September 30, 2011 and 2010 (dollars in thousands):

	Year Ended September 30,				
	2011		2010		Increase/ (Decrease) in
	Average Balance	Yield	Average Balance	Yield	Interest and Dividend Income
Loans receivable, net of deferred fees	$552,111	7.59 %	$536,342	5.72 %	$11,267
Loans held for sale	1,808	4.13	1,719	4.74	(25)
Interest bearing deposits in other banks	226,246	0.26	156,409	0.21	250
Investment securities, available-for-sale	399,300	2.13	173,930	3.72	2,041
FHLB stock	17,717	—	11,601	—	—
Total interest-earning assets	$1,197,182	4.27 %	$880,001	4.27 %	$13,533

Interest Expense. Despite a 49.4% increase in average interest-bearing liabilities during fiscal 2011, interest expense decreased $1.3 million, or 12.4%, to $9.1 million for the year ended September 30, 2011. The decrease was primarily attributable to the decline in our cost of funds, which decreased from 1.57% in the prior year to 0.92% in the current year and lower FHLB balances in 2011. These effects were offset somewhat by higher balances of deposits due to organic core deposit growth and the acquisitions. Average interest-bearing liabilities (primarily deposits) increased to $985.3 million during fiscal 2011 from $659.5 million during fiscal 2010. Fair value adjustments from the CFB and LibertyBank Acquisitions reduced interest expense by $2.9 million during fiscal 2011.

The following table details average balances, cost of funds and the change in interest expense for the years ended September 30, 2011 and 2010 (dollars in thousands):

	Year Ended September 30,				
	2011		2010		Decrease in
	Average Balance	Rate	Average Balance	Rate	Interest Expense
Interest-bearing demand deposits	$236,599	0.34 %	$131,856	0.68 %	$(95)
Savings deposits	77,948	0.22	49,966	0.61	(132)
Money market deposits	176,331	0.45	102,657	0.88	(111)
Certificates of deposit	437,996	1.15	295,716	1.72	(73)
FHLB advances and other borrowings	56,415	4.04	79,264	3.98	(876)
Total interest-bearing liabilities	$985,289	0.92 %	$659,459	1.57 %	$(1,287)

Provision for Loan Losses. A provision for loan losses of $11.4 million, including a provision of $10.3 million on covered loans, was recorded in connection with our analysis of losses in the loan portfolio for the year ended September 30, 2011, compared to a provision for loan losses of $10.3 million for fiscal year 2010, which included a

$1.1 million provision on covered loans. The estimated indemnifiable portion of the provision for loan losses on covered loans was recorded as an increase to the FDIC indemnification asset and an increase in other income, which totaled $9.3 million and $1.3 million in fiscal years 2011 and 2010, respectively.

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Noninterest Income. Noninterest income decreased $1.6 million, or 9.8%, to $15.0 million for the year ended September 30, 2011 from $16.7 million for the year ended September 30, 2010. The following table provides a detailed analysis of the changes in components of noninterest income (dollars in thousands):

	Year Ended September 30,		Increase/(Decrease)	
	2011	2010	Amount	Percent
Service charges and fees	$9,823	$9,157	$666	7.3 %
Gain on sale of loans	849	648	201	31.0
Gain on sale of securities	607	98	509	519.4
Increase in cash surrender value of life insurance	412	423	(11)	(2.6)
FDIC indemnification recovery	9,313	1,276	8,037	629.9
Bargain purchase gain	—	3,209	(3,209)	(100.0)
Accretion (impairment) of FDIC indemnification asset	(4,989)	1,428	(6,417)	(449.4)
Prepayment penalty on borrowings	(2,007)	—	(2,007)	n/a
Other	1,037	440	597	135.7
Total noninterest income	$15,045	$16,679	$(1,634)	(9.80)%

During fiscal 2011, service fees and charges increased $666,000 to $9.8 million with most of the increase attributable to the LibertyBank Acquisition. Checking fee income historically represented a larger percentage of our total revenues than many of our peers due to a deposit strategy implemented many years ago that we no longer pursue. Historically, the Bank focused on high-transaction, low-balance “free checking” accounts that would result in high overdraft fee income. We changed our strategy on deposit aggregation in 2006 to focus on building deeper relationships with our depositors that has resulted in fewer accounts with higher, more stable balances because we believe relationship-based customers improve the Company’s franchise value and provide a stable, low-cost funding source for loans, which results in higher net interest income. While we began this strategic initiative several years ago, we have retained a significant number of those low-balance, high overdraft free checking accounts.

New overdraft fee regulations that went into effect in the fourth quarter of fiscal 2010 had a significant impact on overdraft fee income in fiscal 2011. In addition to changes in operational processing, customers were now explicitly required to “opt-in” to use our overdraft services on debit card and ATM transactions. While total organic checking account balances were higher in fiscal 2011, fees from overdrafts, excluding the LibertyBank Acquisition, declined $2.5 million, or 54.3%, in fiscal 2011, compared to fiscal 2010. However, the change in checking account composition has had a positive impact on earnings through fewer checking account balance charge offs. Net losses on checking accounts totaled $277,000 in fiscal 2011 compared to $621,000 in fiscal 2010.

Service charges and fees also included revenue from our non-banking lines of business, including merchant cards and investment services. Before the LibertyBank Acquisition, we referred merchant banking accounts to a third party in exchange for a referral fee. However, in connection with the LibertyBank Acquisition, we changed merchant services providers and hired a staff of salespersons to generate merchant accounts internally as an agent for the third party. Revenue for merchant banking services totaled $607,000 in fiscal 2011 compared to $111,000 in fiscal 2010. However, since this was a new program, personnel and other expenses directly related to the merchant banking program resulted in minimal profitability in fiscal year 2011. Similarly, we hired additional personnel to our investment services team since the LibertyBank Acquisition, which increased compensation expense, but also increased revenue. In fiscal 2011, commissions on non-deposit product investment services revenue totaled $876,000 compared to $440,000 in fiscal 2010.

Interchange fee income totaled $4.0 million in fiscal 2011, an increase of $922,000 compared to $3.1 million in fiscal 2010. Organically, our interchange fees increased $275,000, or 11.5%.

Nonrecurring items recorded in noninterest income included the prepayment penalty on FHLB advances of $2.0 million in fiscal 2011 and a bargain purchase gain of $3.2 million in connection with the LibertyBank Acquisition recorded in fiscal 2010.

Accretable income is recorded on the FDIC indemnification receivable related to the passage of time. If actual and projected future losses are less than previously estimated, the FDIC indemnification asset is reduced by amortizing expense to noninterest income. During fiscal year 2011, we updated our loss estimates and cash flows for the pools of loans purchased in the LibertyBank Acquisition, which resulted in lower loss projections than previously estimated.

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As a result, we recorded in noninterest income during fiscal 2011 an impairment of the FDIC indemnification asset of $5.0 million as compared to an accretion of $1.4 million for fiscal 2010.

An FDIC indemnification recovery of $9.3 million and $1.3 million were recorded in fiscal years 2011 and 2010, respectively, representing the increase in the FDIC indemnification asset due to a provision for loan losses of $10.1 million and $1.1 million recorded in fiscal years 2011 and 2010, respectively, on covered loans.

Other income included net gains on the sale of REO of $355,000 in fiscal year 2011 and net losses on the sale of REO of $265,000 in fiscal 2010. Additionally, other income in fiscal year 2010 included a recovery of $198,000 on loans that were charged off by LibertyBank prior to our acquisition. These charged-off loans were not included in the loss sharing agreements of the LibertyBank Acquisition; therefore the recovery does not need to be shared with the FDIC and were not recorded as purchase adjustments since the loans were not on the books of LibertyBank on the acquisition date.

Noninterest Expense. Noninterest expense increased $12.7 million, or 31.0%, to $53.5 million for the year ended September 30, 2011, due to the significant increase in operations undertaken with the LibertyBank Acquisition. The LibertyBank Acquisition occurred in July 2010 and added 13 branches. Additionally, we maintained two core operating platforms until March 2011 when the LibertyBank core system conversion was completed and two operations teams until May 2011 when our operations tasks and personnel were consolidated in Eugene, Oregon. Therefore, we incurred significant compensation, data processing and professional services expenses during most of fiscal year 2011 to complete the operational integration.

The following table provides a detailed analysis of the changes in components of noninterest expense (dollars in thousands):

	Year Ended September 30,		Increase/(Decrease)	
	2011	2010	Amount	Percent
Compensation and benefits	$28,135	$20,562	$7,573	36.8 %
Occupancy and equipment	6,897	4,693	2,204	47.0
Data processing	4,243	3,742	501	13.4
Advertising	1,122	1,223	(101)	(8.3)
Postage and supplies	1,252	848	404	47.6
Professional services	3,204	2,411	793	32.9
Insurance and taxes	3,294	2,213	1,081	48.8
Amortization of intangibles	725	136	589	433.1
Provision for REO	1,414	3,195	(1,781)	(55.7)
Other	3,223	1,820	1,403	77.1
Total noninterest expense	$53,509	$40,843	$12,666	31.0 %

Compensation and benefits increased $7.6 million or 36.8% to $28.1 million for the year ended September 30, 2011 from $20.6 million for the same period a year ago. The largest factor in the increase was compensation which increased $6.2 million or 47.7% due primarily to the increase in employees after the LibertyBank Acquisition. Payroll taxes also increased $608,000, or 44.7%, from the prior year. A large component of the increase in payroll taxes was unemployment expense which increased $202,000, or 79.5%. Commission expense also increased $649,000, or 123.8%. These increases were offset by a decrease in share-based compensation costs of $420,000, or 32.8%, and ESOP expense of $254,000 or 17.1% due to a lower average price of the Company’s common stock. No bonuses were paid to the executive officers of the Company in fiscal years 2011 or 2010.

Occupancy and equipment, data processing, professional services, and insurance and taxes all increased primarily due to the Community First Bank and LibertyBank Acquisitions. Although the integration of the CFB Acquisition was completed near the end of fiscal 2010, the core conversion and integration of operations for the LibertyBank Acquisition was not completed until March 2011, resulting in several months of parallel back offices.

REO and other property owned decreased to $23.4 million at September 30, 2011 from $30.5 million at September 30, 2010. Partially as a result of this, we experienced a decrease in provision for REO to $1.4 million in fiscal 2011 compared to $3.2 million in fiscal 2010. The $1.4 million of provision for REO expense represents additional adjustments downward in the carrying value of REO subsequent to foreclosure.

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Other noninterest expense for fiscal year 2011 includes postage and supplies expense of $1.3 million, an increase from the $848,000 in fiscal 2010, and other operating expenses, which increased $1.4 million from fiscal 2010 due to the acquisitions.

Income Tax Benefit. Income tax benefit from continuing operations was $3.2 million based on a pre-tax loss from operations of $7.9 million. This compared to an income tax benefit from continuing operations in fiscal 2010 of $2.9 million based on a $7.3 million pre-tax loss. We did not recognize an extraordinary gain in fiscal 2011, while the extraordinary gain in fiscal 2010 was $305,000, net of $195,000 in taxes, and was the result of a purchase price adjustment by the FDIC on the CFB Acquisition.

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AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS/COST

The following table sets forth for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin, and the ratio of average interest-earning assets to average interest-bearing liabilities (dollars in thousands). Average balances have been calculated using the average of daily balances during the period. Interest and dividends are reported on a tax-equivalent basis.

	Year Ended December 31, 2012			Three Months Ended December 31, 2011			Years Ended September 30, 2011			2010
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance
Interest-earning assets:										
Total loans [(1)]	$440,199	$40,058	9.10 %	$469,947	$13,365	11.38 %	$552,111	$41,925	7.59 %	$536,342
Loans held for sale	—	—	—	1,012	9	3.67	1,808	56	4.13	1,719
Interest bearing deposits in other banks	98,658	230	0.23	143,610	100	0.28	226,246	578	0.26	156,409
Investment securities	429,044	8,861	2.07	402,134	2,092	2.08	399,300	8,508	2.13	173,930
FHLB stock	17,665	—	—	17,717	—	—	17,717	—	—	11,601
Total interest-earning assets	985,566	49,149	4.99	1,034,420	15,566	6.02	1,197,182	51,067	4.27	880,001
Noninterest-earning assets	93,493			108,135			139,050			132,829
Total average assets	$1,079,059			$1,142,555			$1,336,232			$1,012,83
Interest-bearing liabilities:										
Savings deposits	$80,922	57	0.07	$79,192	28	0.14	$77,948	174	0.22	$49,966
Interest-bearing demand deposits	245,991	431	0.18	247,967	138	0.22	236,599	796	0.34	131,856
Money market accounts	176,885	352	0.20	178,418	141	0.32	176,331	795	0.45	102,657
Certificates of deposit	234,236	2,971	1.27	288,082	905	1.26	437,996	5,026	1.15	295,716
Total deposit accounts	738,034	3,811	0.52	793,659	1,212	0.61	928,874	6,791	0.73	580,195
Borrowed funds	4,754	71	1.49	4,893	21	1.72	56,415	2,277	4.04	79,264
Total interest-bearing liabilities	742,788	3,882	0.52	798,552	1,233	0.62	985,289	9,068	0.92	659,459
Noninterest-bearing liabilities	147,187			150,571			149,016			131,892
Total average liabilities	889,975			949,123			1,134,305			791,351

Average equity	189,084			193,432			201,927			221,479
Total average liabilities and stockholders' equity	$1,079,059			$1,142,555			$1,336,232			$1,012,83
Net interest income		$45,267			$14,333			$41,999		
Interest rate spread			4.47 %			5.40 %			3.35 %	
Net interest margin (2)			4.59 %			5.54 %			3.51 %	
Ratio of average interest-earning assets to average interest-bearing liabilities			132.68 %			129.54 %			121.51 %	

(1) Non-accrual loans are included in the average balance. Loan fees are included in interest income on loans and are insignificant.

(2) Net interest margin, otherwise known as yield on interest earning assets, is calculated as net interest income divided by average interest-earning assets.

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The following table sets forth (on a consolidated basis) for the periods and at the dates indicated, the weighted average yields earned on our assets, the weighted average interest rates paid on our liabilities, together with the net yield on interest-earning assets:

	At December 31,	Year Ended December 31,	Three Month Period Ended December 31,	Years Ended September 30,	
	2012	2012	2011	2011	2010
Weighted average yield on:					
Loans receivable	5.30 %	9.10 %	11.38 %	7.59 %	5.72 %
Loans held for sale	—	—	3.67	4.13	4.74
Interest bearing deposits in other banks	0.25	0.23	0.28	0.26	0.21
Investment securities, available-for-sale	2.08	2.07	2.08	2.13	3.72
Federal Home Loan Bank stock	—	—	—	—	—
Total interest-earning assets	3.22	4.99	6.02	4.27	4.27
Weighted average rate paid on:					
Interest-bearing demand deposits	0.18	0.18	0.22	0.34	0.68
Money market accounts	0.15	0.20	0.32	0.45	0.88
Health savings deposits	0.10	0.12	0.19	0.30	0.64
Savings deposits	0.05	0.07	0.14	0.22	0.61
Certificates of deposit	1.30	1.27	1.26	1.15	1.72
Total interest-bearing deposits	0.49	0.52	0.61	0.73	1.24
Federal Home Loan Bank advances	—	—	—	4.35	3.98
Repurchase agreements	1.39	1.49	1.72	1.56	1.65
Total interest-bearing liabilities	0.49	0.52	0.62	0.92	1.57
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	2.73	4.47	5.40	3.35	2.70
Net interest margin (net interest income as a percentage of average interest-earning assets)	n/a	4.59	5.54	3.51	3.09

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RATE/VOLUME ANALYSIS

The following table sets forth the effects of changing rates and volumes on our net interest income (in thousands). Information is provided with respect to: (1) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); and (2) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Year Ended December 31, 2012 Compared to Year Ended December 31, 2011 Increase (Decrease) Due to			Three Months Ended December 31, 2012 Compared to Three Month Period Ended December 31, 2011 Increase (Decrease) Due to			Year Ended September 30, 2011 Compared to Year Ended September 30, 2010 Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total	Rate	Volume	Total
Interest-earning assets:									
Loans receivable, net	$945	$(6,860)	$(5,915)	$9,799	$(5,729)	$4,070	$10,340	$927	$11,267
Loans held for sale	—	(36)	(36)	(9)	(33)	(42)	(23)	(2)	(25)
Interest-bearing deposits in other banks	(20)	(217)	(237)	17	(129)	(112)	87	163	250
Investment securities	(272)	219	(53)	25	382	407	(2,611)	4,652	2,041
FHLB stock	—	—	—	—	—	—	—	—	—
Total net change in income on interest-earning assets	$653	$(6,894)	(6,241)	$9,832	$(5,509)	4,323	$7,793	$5,740	13,533
Interest-bearing liabilities:									
Savings deposits	$(81)	$2	(79)	$(45)	$6	(39)	$(208)	$76	(132)
Interest-bearing demand deposits	(229)	13	(216)	(169)	20	(149)	(445)	350	(95)
Money market accounts	(309)	—	(309)	(138)	4	(134)	(441)	330	(111)
Certificates of deposit	533	(1,855)	(1,322)	41	(773)	(732)	(1,535)	1,462	(73)
Total deposits	(86)	(1,840)	(1,926)	(311)	(743)	(1,054)	(2,629)	2,218	(411)
FHLB advances	(78)	(1,485)	(1,563)	(28)	(615)	(643)	49	(925)	(876)
Total net change in expense on interest-bearing liabilities	$(164)	$(3,325)	(3,489)	$(339)	$(1,358)	(1,697)	$(2,580)	$1,293	(1,287)
Total (decrease) increase in net interest income			$(2,752)			$6,020			$14,820

ASSET AND LIABILITY MANAGEMENT AND MARKET RISK

General. Our Board of Directors has established an asset and liability management policy to guide management in maximizing net interest rate spread by managing the differences in terms between interest-earning assets and interest-bearing liabilities while maintaining acceptable levels of liquidity, capital adequacy, interest rate sensitivity, changes in net interest income, credit risk and profitability. The policy includes the use of an Asset Liability Management Committee whose members include certain members of senior management. The Committee’s purpose is to communicate, coordinate and manage our asset/liability positions consistent with our business plan and

Board-approved policies, as well as to price savings and lending products, and to develop new products.

The Asset Liability Management Committee meets to review various areas including:

- economic conditions;
- interest rate outlook;
- asset/liability mix;
- interest rate risk sensitivity;
- change in net interest income
- current market opportunities to promote specific products;
- historical financial results;
- projected financial results; and
- capital position.

The Committee also reviews current and projected liquidity needs. As part of its procedures, the Asset Liability Management Committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate

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environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential change in market value of portfolio equity that is authorized by the Board of Directors.

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Our loans generally have longer maturities than our deposits. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

In recent years, we primarily have utilized the following strategies in our efforts to manage interest rate risk:

- we have increased our originations of shorter term loans and particularly, commercial real estate and construction and land development loans;
- we have reduced our long-term borrowings;
- we have attempted, where possible, to reduce our concentration of fixed-rate deposits, which typically have shorter average lives than core deposits such as checking accounts, in order to extend the average lives of our deposit accounts to reduce rate sensitivity; and,
- we have invested in investments with relatively short anticipated lives, generally two to four years.

How We Measure the Risk of Interest Rate Changes. We measure our interest rate sensitivity on a monthly basis utilizing an internal model. Management uses various assumptions to evaluate the sensitivity of our operations to changes in interest rates. Although management believes these assumptions are reasonable, the interest rate sensitivity of our assets and liabilities on net interest income and the market value of portfolio equity could vary substantially if different assumptions were used or actual experience differs from such assumptions. The assumptions we use are based upon proprietary and market data and reflect historical results and current market conditions. These assumptions relate to interest rates, loan and investment prepayments, deposit decay rates and the market value of certain assets under the various interest rate scenarios. An independent service was used to provide decay rates and market rates of interest and certain interest rate assumptions to determine prepayments and maturities of real estate loans, investments and borrowings. Certificates of deposit are modeled to reprice to market rates upon their stated maturities. We assume that non-maturity deposits can be maintained with rate adjustments not directly proportionate to the change in market interest rates. In the past, we have demonstrated that the tiering structure of our deposit accounts during changing rate environments results in relatively low volatility and less than market rate changes in our interest expense for deposits. Our deposit accounts are tiered by balance and rate, whereby higher balances within an account earn higher rates of interest. Therefore, deposits that are not very rate sensitive (generally, lower balance tiers) are separated from deposits that are rate sensitive (generally, higher balance tiers).

When interest rates rise, we generally do not have to raise interest rates proportionately on less rate sensitive accounts to retain these deposits. These assumptions are based upon an analysis of our customer base, competitive factors and historical experience. The following table shows the change in our net portfolio value at December 31, 2012, that would occur upon an immediate change in interest rates based on our assumptions, but without giving effect to any steps that we might take to counteract that change (dollars in thousands). Given the relatively low level of market interest rates, a calculation for a decrease of greater than 100 basis points has not been prepared. The net portfolio value is calculated based upon the present value of the discounted cash flows from assets and liabilities. The difference between the present value of assets and liabilities is the net portfolio value and represents the market value of equity for the given interest rate scenario. Net portfolio value is useful for determining, on a market value basis, how much equity changes in response to various interest rate scenarios. Large changes in net portfolio value reflect increased interest rate sensitivity and generally more volatile earnings streams.

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Basis Point Change in Rates	Net Portfolio Value (NPV) Amount	$ Change (1)	% Change	Net Portfolio as Percentage of Portfolio Value of Assets NPV Ratio (2)	% Change (3)	Asset Market Value
+300	$178,728	$(13,414)	(6.98)%	18.08%	(0.12)%	$988,648
+200	181,893	(10,249)	(5.33)	17.98	(0.22)	1,011,769
+100	187,834	(4,308)	(2.24)	18.13	(0.07)	1,036,020
Base	192,142	—	—	18.20	—	1,055,628
-100	195,493	3,351	1.74	18.30	0.10	1,068,004

(1) Represents the change in net portfolio value at the indicated change in interest rates compared to the "Base" net portfolio value.
(2) Calculated as the estimated net portfolio value divided by the portfolio value of total assets.
(3) Calculated as the change in net portfolio value ratio assuming the indicated change in interest rates over the "Base" net portfolio value ratio.

The following table illustrates the change in net interest income at December 31, 2012, that would occur in the event of an immediate change in interest rates, but without giving effect to any steps that might be taken to counter the effect of that change in interest rates (dollars in thousands). This table does not consider the impact of accretable yield on purchased loans but instead presents net interest income using interest income on loans based on the underlying loan rate:

Basis Point Change in Rates	Net Interest Income Amount	$ Change (1)	% Change
+300	$32,189	$3,388	11.76%
+200	30,917	2,116	7.35
+100	29,690	889	3.09
Base	28,801	—	—
-100	28,497	(304)	(1.06)

(1) Represents the increase of the estimated net interest income at the indicated change in interest rates compared to net interest income assuming no change in interest rates ("Base").

We use certain assumptions in assessing our interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. The table above also includes projected balances for loans and deposits, actual results for which may be materially different from those estimates.

As with any method of measuring interest rate risk, shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in the market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

LIQUIDITY AND COMMITMENTS

We are required to have sufficient cash flow in order to maintain liquidity to ensure a safe and sound operation. Liquidity management is both a daily and long-term function of business management. On a monthly basis, we review and update cash flow projections to ensure that adequate liquidity is maintained. Excess liquidity is generally invested in short-term investments such as overnight deposits or excess balances at the Federal Reserve Bank of San Francisco. On a longer-term basis, we maintain a strategy of investing in loans and investments.

Our primary sources of funds are from client deposits, loan repayments, maturing investments and advances from the Federal Home Loan Bank of Seattle. These funds, together with retained earnings and equity, are used to make loans, purchase investments and other assets, and fund continuing operations. While maturities and the scheduled amortization of loans and investments are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by the level of interest rates, economic conditions and competition. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain our portfolio of investments. Alternatively, we may also liquidate assets to meet our funding needs.

We measure our liquidity based on our ability to fund our assets and to meet liability obligations when they come due. Liquidity (and funding) risk occurs when funds cannot be raised at reasonable prices, or in a reasonable time frame, to meet our normal or unanticipated obligations. We regularly monitor the mix between our assets and our liabilities to manage effectively our liquidity and funding requirements.

We believe that our current liquidity position is sufficient to fund all of our existing commitments. We currently maintain cash flow above the minimum level believed to be adequate to meet the requirements of normal operations, including potential deposit outflows, as we continue to seek acquisition opportunities and need to ensure adequate liquidity to support the integration of the acquired balance sheet.

As noted earlier, balances on deposit with the Federal Reserve Bank of San Francisco that are in excess of our required reserve balances earn interest at a rate that approximates the federal funds rate. In 2009, in response to the national banking crisis, the Board of Governors amended Regulation D, which established excess balance accounts. Previously, excess balances on deposit with the Federal Reserve Bank did not earn interest. The excess balance accounts are intended to be temporary accounts to assist financial institutions during the economic crisis. We consider excess reserve balances at the Federal Reserve Bank to be the more attractive alternative to other short-term investments due to low credit risk and comparatively higher yield to investments with less than one year to maturity. While the Board of Governors of the Federal Reserve Bank has not set a date for expiration of these accounts, we could experience a decline in interest income once the Federal Reserve Bank discontinues interest payments on excess balances. If these accounts expire, we may place excess cash in interest-bearing deposits with other financial institutions that do not have a guarantee from the U.S. Government, or we may purchase additional investments.

Certificates of deposit scheduled to mature in one year or less at December 31, 2012, totaled $107.4 million, which represented 51.3% of our certificates of deposit portfolio at December 31, 2012. Management’s policy is to generally maintain deposit rates at levels that are competitive with other local financial institutions. Historically, the Bank has been able to retain a significant amount of deposits as they mature. However, recent deterioration in credit quality and capital levels at many of our competitors have limited their sources of wholesale funding, which has resulted in a highly price-competitive market for retail certificates of deposit. These rates currently exceed alternative costs of borrowings and are high compared to historical spreads to U.S. Treasury note rates. Additionally, since loan demand has slowed, we have been reluctant to offer rates in excess of wholesale borrowing costs. This has resulted in expected deposit runoff as customers are moving their maturing balances to competitors at a higher pace than the Bank has historically experienced. Nonetheless, we believe the Company has adequate resources to fund all loan commitments through FHLB advances, loan repayments, maturing investment securities, and the sale of mortgage loans in the secondary markets. We had the ability at December 31, 2012, to borrow an additional $95.9 million from the Federal Home Loan Bank of Seattle. We are also approved at the Discount Window of the Federal Reserve Bank of San Francisco and could use that facility as a funding source to meet commitments and for liquidity purposes. Additionally, in July 2011, we opened a $25.0 million line of credit with a third-party bank. There were no funds drawn on this line of credit at December 31, 2012.

We had no borrowed funds from the FHLB at December 31, 2012; however, we are dependent on the FHLB of Seattle to provide the primary source of wholesale funding for immediate liquidity and borrowing needs. The failure of the FHLB of Seattle or the FHLB system in general may materially impair our ability to meet our growth plans or to meet short and long term liquidity demands. However, our mortgage backed securities are marketable and could be sold to obtain cash to meet liquidity demands should our access to FHLB funding be impaired.

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CONTRACTUAL OBLIGATIONS

Through the normal course of operations, we have entered into certain contractual obligations. Our obligations generally relate to funding of operations through deposits and borrowings as well as leases for premises. Lease terms generally cover a five-year period, with options to extend, and are non-cancelable.

At December 31, 2012, scheduled maturities of contractual obligations were as follows (in thousands):

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years	Total
Certificates of deposit	$107,361	$79,510	$22,120	$251	$209,242
Repurchase agreements	4,775	—	—	—	4,775
Deferred compensation [(1)]	363	798	1,030	3,958	6,149
Operating leases	1,036	1,636	1,057	5,853	9,582
Total contractual obligations	$113,535	$81,944	$24,207	$10,062	$229,748

(1) Disclosed at the December 31, 2012 present value of estimated payments assuming all future vesting conditions are met.

OFF-BALANCE SHEET ARRANGEMENTS

We are party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of our customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. Our maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Because some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit policies in making commitments as we do for on-balance sheet instruments. Collateral is not required to support commitments.

Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed to, home equity, commercial and consumer lines of credit. Commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily used to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral is required in instances where we deem it necessary.

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of December 31, 2012 (in thousands):

	Contract or Notional Amount
Commitments to originate loans:	
Fixed rate	$13,750
Adjustable rate	3,786
Undisbursed balance of loans	17,111
Unused lines of credit	64,176
Commercial letters of credit	300
Total	$99,123

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CAPITAL

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a "well capitalized" institution in accordance with regulatory standards. Home Federal Bank's total equity capital was $156.7 million at December 31, 2012 or 15.16%, of total assets on that date. As of December 31, 2012, we exceeded all regulatory capital requirements. We did not apply for government assistance through the Capital Purchase Program under the U.S. Treasury Department's Troubled Asset Relief Program (TARP) or the Small Business Lending Fund. See "How We Are Regulated – Regulation and Supervision of Home Federal Bank – Capital Requirements" and Note 15 to the Consolidated Financial Statements under Item 8 to this Annual Report on Form 10-K.

The following table discloses the regulatory capital ratios for the Company and the Bank at December 31, 2012 and September 30, 2011:

	Home Federal Bancorp				Home Federal Bank			
Capital Ratios	Ratio		Minimum for Capital Adequacy Purposes (1)		Ratio		"Well Capitalized" Minimum Ratio (1)	
December 31, 2012:								
Tier 1 capital (leverage) to average assets	15.36	%	4.00	%	13.77	%	5.00	%
Tier 1 capital to risk-weighted assets	37.30		4.00		33.26		6.00	
Total capital to risk-weighted assets	38.57		8.00		34.53		10.00	
September 30, 2011:								
Tier 1 capital (leverage) to average assets	14.91	%	4.00	%	11.54	%	5.00	%
Tier 1 capital to risk-weighted assets	39.99		4.00		30.78		6.00	
Total capital to risk-weighted assets	41.26		8.00		32.05		10.00	

(1) A bank holding company such as Home Federal Bancorp does not have a "Well-capitalized" measurement. "Well-capitalized" only applies to the Bank.

Covered assets and the FDIC indemnification receivable from the CFB Acquisition and the LibertyBank Acquisition are assessed a risk-weight of 20% during the period such assets are covered under the loss sharing agreements rather than 50% or 100% if they were not covered assets. While the risk-based capital ratios would be lower if the covered assets and the FDIC indemnification receivable were risk-weighted at their normal levels, the Bank's capital ratios would still exceed the minimum requirements to be considered well capitalized.

The Company's total consolidated capital was $179.8 million and $194.7 million at December 31, 2012 and September 30, 2011, respectively. The Company's total capital, excluding its investment in the Bank was $23.1 million and $44.8 million as of December 31, 2012 and September 30, 2011, respectively, as Home Federal Bancorp retained some of the capital raised in the Conversion and did not inject all of the capital raised into the Bank. This additional capital is held primarily in cash and highly liquid mortgage-backed securities and supports the payment of dividends to shareholders and could be used for acquisitions, repurchases of the Company's common stock or other corporate purposes.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and related financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles generally 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.

Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. The primary impact of inflation is reflected in the increased cost of our operations. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services. In a period of rapidly rising interest rates, the liquidity and maturity structures of our assets and liabilities are critical to the maintenance of acceptable performance levels.

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The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of noninterest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in dollar value of the collateral securing loans that we have made. Our management is unable to determine the extent, if any, to which properties securing loans have appreciated in dollar value due to inflation.

Deflation, or a decrease in overall prices from one period to the next, could have a negative impact on the Company's operations and financial condition. Deflationary periods impute a higher borrowing cost to debtors as the purchasing power of a dollar increases with time. This may decrease the demand for loan products offered by the Bank.

Inflation also indirectly impacts the Company through the pressure it may place on consumer and commercial borrowers. For example, as commodity prices rose rapidly during calendar year 2008, national delinquency rates on loans increased as the cost of gasoline and food significantly eroded disposable income available to consumers. As a result, they were unable to service their debt obligations as a greater share of their income was used to meet ordinary daily expenditures.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. The new guidance is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this guidance is expected to impact financial statement.

In October 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 addresses the diversity in practice about how to interpret the terms "on the same basis" and "contractual limitations" when subsequently measuring an indemnification asset. This ASU was effective for fiscal years and interim periods beginning on or after December 15, 2012. This ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements at the date of adoption.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). This ASU is effective for the first interim or annual period beginning on or after December 15, 2011, and will be applied prospectively beginning in the period of adoption. The amendments change the wording used to describe requirements for measuring fair value under U.S. GAAP to be more consistent with IFRSs. The adoption of this ASU did not have a material effect on the Company's Consolidated Financial Statements.

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CYBER RISKS

As a financial institution that serves over 100,000 clients through 28 branches the Internet and other distribution channels, we depend on our ability, and the abilities of several third party vendors, to process, record and monitor a large number of customer transactions on a continuous basis. As our customer base and locations have expanded through acquisition and organic growth, and as customer, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure have been, and must continue to be, safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

Information security risks for financial institutions such as Home Federal Bank have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Those parties also may attempt to fraudulently induce employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our retail and commercial banking services businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smart phones, tablets, and other mobile devices that are beyond our control systems. Although we believe we have effective information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Home Federal Bank's or our customers' confidential, proprietary and other information, or otherwise disrupt our business operations. We have purchased property and cyber insurance to mitigate the financial impact of such events; however, losses could exceed our coverage limits and the impact to our reputation as a result of a material breach could significantly impair our ability to maintain client relationships and conduct business.

Third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Poor security controls utilized by merchants and merchant processors also expose us to risk of loss that is beyond our control.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our role in the financial services industry, our plans to continue to implement our Internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our clients when and how they want to be served, the outsourcing of some of our business operations, and the continued uncertain economic environment. As a result, cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for Home Federal Bank. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management and Market Risk" of this Annual Report on Form 10-K is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Home Federal Bancorp, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed 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.

This process includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (ii) 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 (iii) 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, and can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. Management's assessment was based on criteria described in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

The Company's internal control over financial reporting as of December 31, 2012 has been audited by Crowe Horwath LLP, the Company's independent registered public accounting firm who audits the Company's consolidated financial statements.

/s/ Len E. Williams	/s/ Eric S. Nadeau
Len E. Williams	Eric S. Nadeau
President and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer

Dated: March 14, 2013

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Home Federal Bancorp, Inc. and Subsidiary
Nampa, Idaho

We have audited the accompanying consolidated balance sheets of Home Federal Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2012 and September 30, 2011, and the related consolidated statements of operations, statements of comprehensive income (loss), changes in stockholders' equity and cash flows for the year ended December 31, 2012, the three months ended December 31, 2011 and the years ended September 30, 2011 and 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, 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's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. 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 U.S. 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Federal Bancorp, Inc. and Subsidiary as of December 31, 2012 and September 30, 2011, and the results of its operations and its cash flows for the year ended December 31, 2012, the three months ended December 31, 2011 and the years ended September 30, 2011 and 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Home Federal Bancorp, Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio
March 14, 2013

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS	December 31, 2012	September 30, 2011
(In thousands, except share data)		
ASSETS		
Cash and equivalents	$115,529	$190,734
Investments available-for-sale, at fair value	420,505	380,847
FHLB stock, at cost	17,401	17,717
Loans and leases receivable, net of allowance for loan and lease losses of $12,528 and $14,365	409,846	468,213
Loans held for sale	—	2,088
Accrued interest receivable	2,776	2,800
Property and equipment, net	29,057	32,743
Bank owned life insurance	15,938	12,848
Real estate owned and other repossessed assets	10,386	23,438
FDIC indemnification receivable, net	10,846	33,863
Core deposit intangible	2,523	3,246
Other assets	13,813	8,691
TOTAL ASSETS	$1,048,620	$1,177,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing demand	$142,207	$141,040
Interest-bearing demand	248,836	251,347
Money market	167,202	177,183
Savings	83,401	79,640
Certificates	209,242	310,299
Total deposit accounts	850,888	959,509
Advances by borrowers for taxes and insurance	490	1,333
Accrued interest payable	167	249
Deferred compensation	6,149	5,797
Repurchase agreements	4,775	4,892
Other liabilities	6,366	10,794
Total liabilities	868,835	982,574
STOCKHOLDERS' EQUITY		
Serial preferred stock, $.01 par value; 10,000,000 authorized; issued and outstanding: none	—	—
Common stock, $.01 par value; 90,000,000 authorized; issued and outstanding:	145	161
Dec. 31, 2012 - 17,512,997 issued; 14,453,399 outstanding		
Sep. 30, 2011 - 17,512,197 issued; 16,057,434 outstanding		
Additional paid-in capital	131,934	147,057
Retained earnings	46,337	48,886
Unearned shares issued to employee stock ownership plan	(6,823)	(7,615)
Accumulated other comprehensive income	8,192	6,165
Total stockholders' equity	179,785	194,654
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,048,620	$1,177,228

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year Ended December 31,	Three Months Ended December 31,	Years Ended September 30,	
	2012	2011	2011	2010
Interest and dividend income:				
Loans and leases	$40,058	$13,374	$41,981	$30,739
Securities	8,861	2,092	8,508	6,467
Other interest and dividends	230	100	578	328
Total interest and dividend income	49,149	15,566	51,067	37,534
Interest expense:				
Deposits	3,811	1,212	6,791	7,202
FHLB advances and borrowed funds	71	21	2,277	3,153
Total interest expense	3,882	1,233	9,068	10,355
Net interest income	45,267	14,333	41,999	27,179
Provision for loan losses	(1,765)	(474)	11,396	10,300
Net interest income after provision for loan losses	47,032	14,807	30,603	16,879
Noninterest income:				
Service charges and fees	8,653	2,246	9,823	9,157
Gain on sale of loans	1	181	849	648
Gain on sale of securities	1,971	590	607	98
Increase in cash surrender value of BOLI	488	102	412	423
FDIC indemnification recovery (provision)	(1,807)	(515)	9,313	1,276
Bargain purchase gain	—	—	—	3,209
Accretion (impairment) of FDIC indemnification asset	(10,856)	(4,667)	(4,989)	1,428
Prepayment penalty on borrowings	—	—	(2,007)	—
Other	895	433	1,037	440
Total noninterest income	(655)	(1,630)	15,045	16,679
Noninterest expense:				
Compensation and benefits	24,054	5,866	28,135	20,562
Occupancy and equipment	6,176	1,477	6,897	4,693
Data processing	3,945	1,023	4,243	3,742
Advertising	776	145	1,122	1,223
Postage and supplies	987	287	1,252	848
Professional services	2,351	535	3,204	2,411
Insurance and taxes	2,158	708	3,294	2,213
Amortization of intangibles	564	160	725	136
Provision for REO	736	482		