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.

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

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.

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,
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	33,0
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	56,2
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,
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

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,		September 30,			
	2012		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

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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

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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

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

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 sh