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Home Federal Bancorp, Inc.
Form 10-Q
August 08, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 001-33795

HOME FEDERAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation
or organization)

68-0666697
(I.R.S. Employer
Identification Number)

(Address of principal executive offices)

83651
(Zip Code)

Registrant's telephone number, including
area code:

(208) 466-4634

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 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 No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: Common Stock, \$.01 par value per share, 15,117,416 shares outstanding as of August 3, 2012.

HOME FEDERAL BANCORP, INC.
FORM 10-Q
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Item 1. Financial Statements

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data) (Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 83,193	\$ 144,293
Investments available-for-sale, at fair value	443,025	399,877
Loans and leases receivable, net of allowance for loan and lease losses of \$12,620 and \$14,171	430,903	449,908
Accrued interest receivable	2,967	2,857
Federal Deposit Insurance Corporation ("FDIC") indemnification receivable, net	18,370	23,676
Bank owned life insurance	15,693	15,450
Real estate owned and other repossessed assets ("REO")	16,323	19,827
Federal Home Loan Bank ("FHLB") stock, at cost	17,717	17,717
Property and equipment, net	30,219	31,522
Core deposit intangible	2,790	3,086
Other assets	13,394	8,221
TOTAL ASSETS	\$ 1,074,594	\$ 1,116,434
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing demand	\$ 131,746	\$ 127,553
Interest-bearing demand	247,836	249,215
Money market	178,175	178,377
Savings	81,175	78,492
Certificates	228,833	272,462
Total deposit accounts	867,765	906,099
Advances by borrowers for taxes and insurance	845	358
Accrued interest payable	178	219
Repurchase agreements	4,742	4,913
Deferred compensation	5,995	5,871
Other liabilities	5,932	7,704
Total liabilities	885,457	925,164
STOCKHOLDERS' EQUITY		
Serial preferred stock, \$.01 par value; 10,000,000 authorized; issued and outstanding: none	--	--
Common stock, \$.01 par value; 90,000,000 authorized; issued and outstanding:	153	157
Jun. 30, 2012 - 17,512,197 issued; 15,255,366 outstanding		
Dec. 31, 2011 - 17,512,197 issued; 15,664,706 outstanding		

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Additional paid-in capital	139,623	143,280
Retained earnings	49,084	49,443
Unearned shares issued to employee stock ownership plan	(7,202)	(7,581)
Accumulated other comprehensive income	7,479	5,971
Total stockholders' equity	189,137	191,270
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,074,594	\$ 1,116,434

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data) (Unaudited)

	Three Months Ended June		Six Months Ended June 30,	
	2012	30, 2011	2012	2011
Interest income:				
Loans and leases	\$9,033	\$8,824	\$20,250	\$17,219
Investment securities	2,209	2,450	4,413	4,706
Other interest	71	118	141	252
Total interest income	11,313	11,392	24,804	22,177
Interest expense:				
Deposits	991	1,452	2,093	3,144
FHLB advances and other borrowings	16	547	37	1,105
Total interest expense	1,007	1,999	2,130	4,249
Net interest income	10,306	9,393	22,674	17,928
Provision for loan losses	(434)	2,811	(1,217)	5,811
Net interest income after provision for loan losses	10,740	6,582	23,891	12,117
Noninterest income:				
Service charges and fees	2,274	2,446	4,381	4,678
Gain on sale of loans	--	120	1	307
Gain on sale of securities	603	--	1,138	--
Gain on sale of fixed assets and REO	152	196	372	144
FDIC indemnification recovery (provision)	(411)	2,389	(1,230)	5,239
Accretion (impairment) of FDIC indemnification asset	(1,705)	355	(5,048)	1,004
Other	223	201	415	429
Total noninterest income	1,136	5,707	29	11,801
Noninterest expense:				
Compensation and benefits	6,175	6,780	12,312	13,961
Occupancy and equipment	1,514	1,518	3,077	3,395
Data processing	942	1,152	1,947	2,102
Advertising	223	173	377	435
Postage and supplies	247	298	553	647
Professional services	630	863	1,269	1,899
Insurance and taxes	561	716	1,082	1,742
Amortization of intangibles	144	176	296	362
Provision for REO	291	296	398	653
Other	379	451	755	950
Total noninterest expense	11,106	12,423	22,066	26,146
Income (loss) before income taxes	770	(134)	1,854	(2,228)
Income tax provision (benefit)	211	(56)	593	(948)

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Net income (loss)	\$559	\$(78)	\$1,261	\$(1,280)
Earnings (loss) per common share:				
Basic	\$0.04	\$(0.01)	\$0.09	\$(0.08)
Diluted	0.04	(0.01)	0.09	(0.08)
Weighted average number of shares outstanding:				
Basic	14,638,663	15,536,539	14,705,256	15,592,630
Diluted	14,638,663	15,536,539	14,705,256	15,592,630
Dividends declared per share:	\$0.055	\$0.055	\$0.11	\$0.11

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands) (Unaudited)

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2012	2011	2012	2011
Net income (loss)	\$559	\$(78)	\$1,261	\$(1,280)
Other comprehensive income:				
Change in unrealized holding gain on investments available-for-sale, net of taxes of \$1,013, \$1,861, \$1,406, and \$1,909, respectively	1,587	2,917	2,203	2,992
Adjustment for realized gains on sales of investments, net of taxes of (\$236), \$0, (\$445) and \$0, respectively	(368)	--	(695)	--
Other comprehensive income	1,219	2,917	1,508	2,992
Comprehensive income	\$1,778	\$2,839	\$2,769	\$1,712

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share data) (Unaudited)

	Common Stock Shares	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2012	15,664,706	\$ 157	\$ 143,280	\$ 49,443	\$ (7,581)	\$ 5,971	\$ 191,270
Restricted stock issued, net of forfeitures and redemption for taxes	37,929		(38)				(38)
ESOP shares committed to be released			10		379		389
Share-based compensation			473				473
Stock repurchase	(447,269)	(4)	(4,102)				(4,106)
Dividends paid (\$0.11 per share)				(1,620)			(1,620)
Net income				1,261			1,261
Other comprehensive income						1,508	1,508
Balance at June 30, 2012	15,255,366	\$ 153	\$ 139,623	\$ 49,084	\$ (7,202)	\$ 7,479	\$ 189,137

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$1,261	\$(1,280)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	1,539	1,189
Amortization of core deposit intangible	296	362
Impairment (accretion) of FDIC indemnification receivable	5,048	(1,004)
Net amortization of premiums and discounts on investments	2,765	2,983
Gain on sale of loans, net	(1)	(307)
Gain on sale of securities available-for-sale, net	(1,138)	--
Gain on sale of fixed assets and repossessed assets, net	(372)	(144)
ESOP shares committed to be released	389	620
Share based compensation expense	473	437
Provision for loan losses	(1,217)	5,811
Valuation provision on real estate and other property owned	398	653
Accrued deferred compensation expense, net	124	68
Net deferred loan fees	(936)	73
Deferred income tax (provision) benefit	(3,222)	26
Proceeds from sale of loans held for sale	1	10,777
Originations of loans held for sale	--	(7,730)
Net increase in cash surrender value of bank owned life insurance	(242)	(204)
Change in assets and liabilities:		
Interest receivable	(110)	134
Other assets	(2,251)	896
Interest payable	(41)	(120)
Other liabilities	(1,809)	(2,050)
Net cash provided from operating activities	955	11,190
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of securities available-for-sale	47,109	60,532
Proceeds from sales of securities available-for-sale	56,110	--
Purchase of securities available-for-sale	(145,524)	(54,672)
Reimbursement of loan losses under loss share agreement	442	15,289
Net decrease in loans	13,287	62,205
Proceeds from sales of fixed assets and repossessed assets	10,739	12,044
Purchases of property and equipment	(473)	(6,537)
Net cash provided from (used by) investing activities	(18,310)	88,861
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(38,334)	(96,143)
Net increase in advances by borrowers for taxes and insurance	487	172
Repayment of FHLB borrowings	--	(3,998)

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Net decrease in securities sold under obligation to repurchase	(172)	(2,949)
Proceeds from exercise of stock options	--	355
Repurchases of common stock	(4,106)	(6,067)
Dividends paid	(1,620)	(1,723)
Net cash used by financing activities	(43,745)	(110,353)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(61,100)	(10,302)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	144,293	212,246
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$83,193	\$201,944

(Continued)

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 (In thousands) (Unaudited)

	Six Months Ended June 30,	
	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest	\$2,171	\$4,369
Taxes	7,064	(110)
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of real estate owned and other assets in settlement of loans	\$7,917	\$13,495
Fair value adjustment to securities available-for-sale, net of taxes	1,508	2,988

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements presented in this report include the accounts of Home Federal Bancorp, Inc., a Maryland corporation (the “Company”), and its wholly-owned subsidiary, Home Federal Bank (the “Bank”), which is a state-chartered commercial bank headquartered in Nampa, Idaho. As used throughout this report, the term the “Company” refers to Home Federal Bancorp, Inc., and its consolidated subsidiary, unless the context otherwise requires.

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and are unaudited. All significant intercompany transactions and balances have been eliminated. In the opinion of the Company’s management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made. Operating results for the three and six month periods ended June 30, 2012, are not necessarily indicative of the results that may be expected for future periods.

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. 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 that occurred on May 31, 2011. 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 (for example, 2010) in this report applies to the Company’s fiscal year and not the calendar year, unless otherwise noted.

On July 30, 2010, the Bank entered into a purchase and assumption agreement with the FDIC to assume all of the deposits and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon (the “LibertyBank Acquisition”). In August 2009, the Bank entered into a purchase and assumption agreement with the FDIC to assume all of the deposits and certain assets of Community First Bank, headquartered in Prineville, Oregon (the “CFB Acquisition”). All of the loans purchased in the CFB Acquisition and the majority of loans and leases purchased in the LibertyBank Acquisition are included under the loss sharing agreements with the FDIC and are referred to as “covered loans.” Real estate owned and repossessed assets (“REO”) acquired in the CFB Acquisition and the LibertyBank Acquisition that are also included in the loss sharing agreements are referred to as “covered REO.” The covered loans and covered REO are collectively referred to as “covered assets.” Loans and foreclosed and repossessed assets not subject to loss sharing agreements with the FDIC are referred to as “noncovered loans” or “noncovered assets.”

Certain information and note disclosures normally included in the Company’s annual consolidated financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2011 (“2011 Form 10-K”), filed with the Securities and Exchange Commission (“SEC”) on December 14, 2011.

Certain reclassifications have been made to prior year’s financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported net income (loss) or equity.

Note 2 - Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income

on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. ASU 2011-12 did not have a significant impact on the Company's Consolidated Financial Statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and will be applied prospectively beginning in the period of adoption. The amendments change the wording used to describe requirements for measuring fair value under U.S. GAAP to be more consistent with IFRSs. The adoption of this guidance did not have a material effect on the Company's Operating Results or Financial Condition, but the additional disclosures are included in this Form 10-Q.

Note 3 - Earnings (Loss) Per Share

The Company has granted stock compensation awards with non-forfeitable dividend rights, which are considered participating securities. Accordingly, earnings (loss) per share ("EPS") is computed using the two-class method as required by ASC 260-10-45. Basic EPS is computed by dividing net income (or loss) allocated to common stock by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted EPS includes the dilutive effect of additional potential common shares from stock compensation awards, but excludes awards considered participating securities. ESOP shares are not considered outstanding for EPS until they are committed to be released. The following table presents the computation of basic and diluted EPS for the periods indicated (in thousands, except share and per share data):

	Three Months Ended June		Six Months Ended June 30,	
	2012	30, 2011	2012	2011
Net income (loss)	\$559	\$(78)	\$1,261	\$(1,280)
Allocated to participating securities	(4)	--	(11)	12
Net income (loss) allocated to common shareholders	\$555	\$(78)	\$1,250	\$(1,268)
Weighted average common shares outstanding, gross	15,531,981	16,510,383	15,588,611	16,567,798
Less: Average unearned ESOP shares	(749,210)	(823,472)	(758,941)	(837,349)
Less: Average participating securities	(144,108)	(150,372)	(124,414)	(137,819)
Weighted average common shares outstanding, net	14,638,663	15,536,539	14,705,256	15,592,630
Net effect of dilutive restricted stock	--	--	--	--
Weighted average shares and common stock equivalents	14,638,663	15,536,539	14,705,256	15,592,630
Income (loss) per common share:				
Basic	\$0.04	\$(0.01)	\$0.09	\$(0.08)
Diluted	0.04	(0.01)	0.09	(0.08)
Options excluded from the calculation due to their anti-dilutive effect on EPS	986,590	878,460	986,590	878,460

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Note 4 - Investment securities

Investment securities available-for-sale consisted of the following at the dates indicated (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total	
June 30, 2012						
Obligations of U.S. Government-sponsored enterprises ("GSE")	\$ 65,842	\$ 1,184	\$ --	\$ 67,026	15.1	%
Obligations of states and political subdivisions	35,625	1,614	(97)	37,142	8.4	
Mortgage-backed securities, GSE-issued	328,973	9,892	(308)	338,557	76.4	
Mortgage-backed securities, private label	334	--	(34)	300	0.1	
Total	\$ 430,774	\$ 12,690	\$ (439)	\$ 443,025	100.0	%
December 31, 2011						
Obligations of U.S. GSE	\$ 65,345	\$ 650	\$ (11)	\$ 65,984	16.5	%
Obligations of states and political subdivisions	20,850	992	(33)	21,809	5.4	
Corporate note, FDIC-guaranteed	1,005	2	--	1,007	0.3	
Mortgage-backed securities, GSE-issued	302,539	8,480	(253)	310,766	77.7	
Mortgage-backed securities, private label	357	--	(46)	311	0.1	
Total	\$ 390,096	\$ 10,124	\$ (343)	\$ 399,877	100.0	%

For the quarter ended June 30, 2012, proceeds from sales of securities available-for-sale amounted to \$30.4 million. Gross realized gains on these sales totaled \$603,000, partially offset by a tax provision of \$236,000. There were no gross realized losses during the period. For the six months ended June 30, 2012, proceeds from sales of securities available-for-sale were \$56.1 million. Gross realized gains on these sales totaled \$1.1 million, partially offset by a tax provision of \$445,000. There were no gross realized losses during the period. We did not sell any securities during the quarter or six months periods ended June 30, 2011.

The fair value of impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed for the periods indicated were as follows (in thousands):

	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or Longer Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2012						
Obligations of states and political subdivisions	\$8,954	\$(97)	\$--	\$--	\$8,954	\$(97)
	19,060	(308)	10	--	19,070	(308)

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Mortgage-backed securities, GSE-issued							
Mortgage-backed securities, private label	--	--	300	(34)	300	(34)	
Total	\$28,014	\$(405)	\$310	\$(34)	\$28,324	\$(439)	
December 31, 2011							
Obligations of U.S. GSE	\$1,739	\$(11)	\$--	\$--	\$1,739	\$(11)	
Obligations of states and political subdivisions	2,802	(33)	--	--	2,802	(33)	
Mortgage-backed securities, GSE-issued	38,732	(245)	4,010	(8)	42,742	(253)	
Mortgage-backed securities, private label	--	--	311	(46)	311	(46)	
Total	\$43,273	\$(289)	\$4,321	\$(54)	\$47,594	\$(343)	

Management has evaluated these securities and has determined that the decline in fair value is not other than temporary. These securities have contractual maturity dates and management believes it is probable that principal

and interest balances on these securities will be collected based on the performance, underwriting, credit support and vintage of the loans underlying the securities. However, continued deteriorating economic conditions may result in degradation in the performance of the loans underlying these securities in the future. The Company has the ability and intent to hold these securities for a reasonable period of time for a forecasted recovery of the amortized cost. The Company does not intend to sell these securities and it is not likely that the Company would be required to sell securities in an unrealized loss position before recovery of its cost basis.

The contractual maturities of investment securities available-for-sale are shown below (in thousands). Expected maturities may differ from the contractual maturities of such securities because borrowers have the right to prepay obligations without prepayment penalties.

	June 30, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ 13,453	\$ 13,481	\$ 13,418	\$ 13,455
Due after one year through five years	20,388	20,548	23,982	24,175
Due after five years through ten years	20,530	21,547	12,457	13,046
Due after ten years	47,096	48,592	37,343	38,124
Mortgage-backed securities	329,307	338,857	302,896	311,077
Total	\$ 430,774	\$ 443,025	\$ 390,096	\$ 399,877

As of June 30, 2012 and December 31, 2011, the Bank pledged investment securities for the following obligations (in thousands):

	June 30, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FHLB borrowing line of credit	\$ 28,403	\$ 30,684	\$ 33,782	\$ 36,460
Federal Reserve Bank	1,457	1,529	1,787	1,874
Repurchase agreements	5,888	6,207	7,458	7,858
Deposits of municipalities and public units	12,518	13,390	15,499	16,513
Total	\$ 48,266	\$ 51,810	\$ 58,526	\$ 62,705

Note 5 - Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized by collateral type as follows (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:				
One-to-four family residential	\$101,252	22.8 %	\$115,403	24.8 %
Multifamily residential	29,492	6.7	21,036	4.5
Commercial real estate	192,688	43.5	206,215	44.4
Total real estate	323,432	73.0	342,654	73.7
Real estate construction:				
One-to-four family residential	11,556	2.6	9,355	2.0
Commercial and land development	23,583	5.3	16,928	3.6
Total real estate construction	35,139	7.9	26,283	5.6
Consumer:				
Home equity	45,821	10.3	47,192	10.2
Automobile	856	0.2	946	0.2
Other consumer	4,095	0.9	4,580	1.0
Total consumer	50,772	11.4	52,718	11.4
Commercial business	32,819	7.4	40,953	8.8
Leases	1,113	0.3	2,159	0.5
Gross loans	443,275	100.0 %	464,767	100.0 %
Deferred loan costs (fees), net	248		(688)	
Allowance for loan losses	(12,620)		(14,171)	
Loans receivable, net	\$430,903		\$449,908	

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The following tables present loans at their recorded investment; therefore, the balances in the tables below may differ from the loan portfolio table above. Recorded investment includes the unpaid principal balance or the carrying amount of loans plus accrued interest less charge offs and net deferred loan fees. Accrued interest on loans was \$1.2 million and \$1.3 million as of June 30, 2012 and December 31, 2011, respectively.

Delinquent and nonaccrual loans. The following tables present the recorded investment in nonperforming loans and an aging of performing loans by class as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012						
	Nonperforming Loans			Loans	Loans	Loans Not Past Due	Total Loans
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Delinquent 30-59 Days	Delinquent 60-89 Days		
Noncovered loans							
Real estate:							
One-to-four family residential							
	\$ 3,805	\$ --	\$ 3,805	\$ --	\$ 187	\$ 85,677	\$ 89,669
Multifamily residential	854	--	854	--	--	23,391	24,245
Commercial real estate	9,342	--	9,342	317	--	129,677	139,336
Total real estate	14,001	--	14,001	317	187	238,745	253,250
Real estate construction:							
One-to-four family residential							
	633	--	633	--	--	10,923	11,556
Commercial real estate	608	--	608	--	--	16,037	16,645
Total real estate construction	1,241	--	1,241	--	--	26,960	28,201
Consumer:							
Home equity	725	--	725	114	24	33,334	34,197
Automobile	--	--	--	--	--	614	614
Other consumer	--	--	--	3	--	3,261	3,264
Total consumer	725	--	725	117	24	37,209	38,075
Commercial business	354	--	354	--	55	13,867	14,276
Leases	--	--	--	--	--	201	201
Total noncovered loans	16,321	--	16,321	434	266	316,982	334,003
Covered loans							
Real estate:							
One-to-four family residential							
	298	--	298	--	63	11,307	11,668
Multifamily residential	--	--	--	--	--	5,247	5,247
Commercial real estate	6,118	--	6,118	--	--	47,235	53,353

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Total real estate	6,416	--	6,416	--	63	63,789	70,268
Real estate construction:							
One-to-four family residential	--	--	--	--	--	--	--
Commercial real estate	272	--	272	--	--	6,666	6,938
Total real estate construction	272	--	272	--	--	6,666	6,938
Consumer:							
Home equity	111	--	111	101	--	11,563	11,775
Automobile	--	--	--	--	--	242	242
Other consumer	--	--	--	--	35	824	859
Total consumer	111	--	111	101	35	12,629	12,876
Commercial business	139	--	139	--	--	19,550	19,689
Leases	--	--	--	--	--	912	912
Total covered loans	6,938	--	6,938	101	98	103,546	110,683
Total gross loans	\$ 23,259	\$ --	\$ 23,259	\$ 535	\$ 364	\$ 420,528	\$ 444,686

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December 31, 2011

	Nonperforming Loans			Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total				
Noncovered loans							
Real estate:							
One-to-four family residential							
	\$ 5,446	\$ --	\$ 5,446	\$ 1,435	\$ 149	\$ 96,307	\$ 103,337
Multifamily residential	--	--	--	--	--	13,184	13,184
Commercial real estate	7,601	--	7,601	--	--	137,480	145,081
Total real estate	13,047	--	13,047	1,435	149	246,971	261,602
Real estate construction:							
One-to-four family residential							
	415	--	415	--	--	7,921	8,336
Commercial real estate	1,132	--	1,132	--	--	8,778	9,910
Total real estate construction	1,547	--	1,547	--	--	16,699	18,246
Consumer:							
Home equity	676	--	676	55	114	33,894	34,739
Automobile	--	--	--	--	--	665	665
Other consumer	2	--	2	6	8	3,620	3,636
Total consumer	678	--	678	61	122	38,179	39,040
Commercial business	422	--	422	--	--	5,796	6,218
Leases	--	--	--	--	--	257	257
Total noncovered loans	15,694	--	15,694	1,496	271	307,902	325,363
Covered loans							
Real estate:							
One-to-four family residential							
	753	--	753	--	--	11,416	12,169
Multifamily residential	1,372	--	1,372	--	--	6,480	7,852
Commercial real estate	5,934	--	5,934	--	--	55,200	61,134
Total real estate	8,059	--	8,059	--	--	73,096	81,155
Real estate construction:							
One-to-four family residential							
	666	--	666	--	--	353	1,019
Commercial real estate	1,341	--	1,341	311	--	5,366	7,018

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Total real estate construction	2,007	--	2,007	311	--	5,719	8,037
Consumer:							
Home equity	209	--	209	--	--	12,405	12,614
Automobile	--	--	--	--	--	281	281
Other consumer	5	--	5	--	--	973	978
Total consumer	214	--	214	--	--	13,659	13,873
Commercial business							
Commercial business	160	--	160	--	--	34,844	35,004
Leases	--	--	--	--	--	1,902	1,902
Total covered loans	10,440	--	10,440	311	--	129,220	139,971
Total gross loans	\$ 26,134	\$ --	\$ 26,134	\$ 1,807	\$ 271	\$ 437,122	\$ 465,334

Loan Classification. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Company uses the following definitions for risk classification ratings:

Watch: Loans that possess some reason for additional management oversight, such as correctable documentation deficiencies, recent financial setbacks, deteriorating financial position, industry concerns, and failure to perform on other borrowing obligations. Loans with this classification are to be monitored in an effort to correct deficiencies and upgrade the credit if warranted. At the time of this classification, they are not believed to expose the Company to significant risk.

Special Mention: Performing loans that have developed minor credit weaknesses since origination. Evidence of credit weakness include the primary source of repayment has deteriorated and no longer meets debt service requirements as defined in Company policy, the borrower may have a short track record and little depth of management, inadequate current financial information, marginal capitalization, and susceptibility to negative industry trends. The primary source of repayment remains viable but there is increasing reliance on collateral or guarantor support.

Substandard: A loan is considered substandard if it is inadequately protected by the current net worth, liquidity and paying capacity of the borrower or collateral pledged. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans 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.

Loss: This classification of loans includes loans that are considered uncollectible and of such little value that their continuance as an active asset is not warranted. This does not mean the loan has no salvage value, but is neither desirable nor practical to defer writing off this asset at this time. Once a determination has been made that a loss exists, the loss amount will be charged-off. As a result, generally, the Company will not report loan balances as "Loss."

Loans not meeting the criteria above are considered to be Pass rated loans. The Pass classification also includes homogenous loans (such as one-to-four family residential and consumer loans) unless the borrower experiences a delinquency or requests a modification, at which point the loan is graded as specified above.

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As of June 30, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by portfolio class is as follows (in thousands):

	June 30, 2012					Total Loans
	Pass	Watch	Special Mention	Substandard	Doubtful	
Noncovered loans						
Real estate:						
One-to-four family residential	\$84,757	\$40	\$--	\$4,872	\$--	\$89,669
Multifamily residential	22,192	--	1,002	1,051	--	24,245
Commercial real estate	90,705	3,780	18,096	26,755	--	139,336
Total real estate	197,654	3,820	19,098	32,678	--	253,250
Real estate construction:						
One-to-four family residential	9,982	941	--	633	--	11,556
Commercial real estate	15,319	718	--	608	--	16,645
Total real estate construction	25,301	1,659	--	1,241	--	28,201
Consumer:						
Home equity	33,338	134	--	725	--	34,197
Automobile	610	4	--	--	--	614
Other consumer	2,997	23	33	211	--	3,264
Total consumer	36,945	161	33	936	--	38,075
Commercial business	13,025	280	117	854	--	14,276
Leases	201	--	--	--	--	201
Total noncovered loans	273,126	5,920	19,248	35,709	--	334,003
Covered loans						
Real estate:						
One-to-four family residential	4,093	--	1,354	6,221	--	11,668
Multifamily residential	4,356	64	206	621	--	5,247
Commercial real estate	23,384	1,135	11,854	16,980	--	53,353
Total real estate	31,833	1,199	13,414	23,822	--	70,268
Real estate construction:						
One-to-four family residential	--	--	--	--	--	--
Commercial real estate	1,991	921	3,272	754	--	6,938
Total real estate construction	1,991	921	3,272	754	--	6,938
Consumer:						
Home equity	11,342	80	--	353	--	11,775
Automobile	237	5	--	--	--	242
Other consumer	836	8	--	15	--	859
Total consumer	12,415	93	--	368	--	12,876
Commercial business	14,283	867	650	3,889	--	19,689
Leases	912	--	--	--	--	912
Total covered loans	61,434	3,080	17,336	28,833	--	110,683

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Total gross loans	\$334,560	\$9,000	\$36,584	\$64,542	\$--	\$444,686
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	December 31, 2011					Total
	Pass	Watch	Special Mention	Substandard	Doubtful	Loans
Noncovered loans						
Real estate:						
One-to-four family residential	\$97,444	\$ 110	\$--	\$ 5,783	\$--	\$ 103,337
Multifamily residential	8,131	1,670	1,024	2,359	--	13,184
Commercial real estate	90,458	4,307	19,407	30,909	--	145,081
Total real estate	196,033	6,087	20,431	39,051	--	261,602
Real estate construction:						
One-to-four family residential	3,849	3,819	--	668	--	8,336
Commercial real estate	8,018	--	512	1,380	--	9,910
Total real estate construction	11,867	3,819	512	2,048	--	18,246
Consumer:						
Home equity	33,715	127	40	857	--	34,739
Automobile	660	5	--	--	--	665
Other consumer	3,248	64	41	283	--	3,636
Total consumer	37,623	196	81	1,140	--	39,040
Commercial business	5,163	304	329	422	--	6,218
Leases	257	--	--	--	--	257
Total noncovered loans	250,943	10,406	21,353	42,661	--	325,363
Covered loans						
Real estate:						
One-to-four family residential	4,196	347	1,573	6,053	--	12,169
Multifamily residential	5,118	976	169	1,589	--	7,852
Commercial real estate	24,134	1,672	11,812	23,516	--	61,134
Total real estate	33,448	2,995	13,554	31,158	--	81,155
Real estate construction:						
One-to-four family residential	230	--	--	789	--	1,019
Commercial real estate	1,760	102	2,705	2,451	--	7,018
Total real estate construction	1,990	102	2,705	3,240	--	8,037
Consumer:						
Home equity	11,713	138	--	763	--	12,614
Automobile	281	--	--	--	--	281
Other consumer	942	14	--	22	--	978
Total consumer	12,936	152	--	785	--	13,873
Commercial business	21,408	1,755	5,353	6,488	--	35,004
Leases	1,902	--	--	--	--	1,902
Total covered loans	71,684	5,004	21,612	41,671	--	139,971
Total gross loans	\$322,627	\$ 15,410	\$42,965	\$ 84,332	\$--	\$465,334

Impaired Loans. A loan is considered impaired when, based upon currently known information, it is deemed probable that the Company will be unable to collect all amounts due as scheduled according to the original terms of the agreement with the borrower. Additionally, all troubled debt restructurings (“TDRs”) are considered impaired.

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The following tables present loans deemed impaired by portfolio class as of June 30, 2012 and December 31, 2011, and during the three and six months ended June 30, 2012 and 2011 (in thousands):

	June 30, 2012		Allowance for Loan Losses Allocated	Average Recorded Investment	
	Unpaid Principal Balance	Recorded Investment		Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Noncovered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	\$3,816	\$3,065	\$--	\$3,814	\$4,094
Commercial real estate	4,910	4,823	--	4,869	4,051
Total real estate	8,726	7,888	--	8,682	8,145
Real estate construction:					
One-to-four family residential	340	283	--	162	365
Commercial real estate	434	302	--	151	101
Total real estate construction	774	585	--	313	466
Consumer:					
Home equity	778	449	--	742	699
Automobile	--	--	--	29	30
Other consumer	--	--	--	10	10
Total consumer	778	449	--	781	739
Commercial business	542	354	--	368	388
Total noncovered loans with no related allowance	10,820	9,276	--	10,145	9,738
With an allowance recorded:					
Real estate:					
One-to-four family residential	1,494	1,496	(422)	1,559	1,558
Multifamily residential	854	854	(202)	427	285
Commercial real estate	4,793	4,793	(402)	5,508	5,683
Total real estate	7,141	7,143	(1,026)	7,484	7,526
Real estate construction:					
One-to-four family residential	350	350	(111)	355	382
Commercial real estate	307	307	(60)	337	370
Total real estate construction	657	657	(171)	692	752
Home equity	292	292	(272)	295	298
Commercial business	--	--	--	--	--
Total noncovered loans with an allowance recorded	8,090	8,092	(1,469)	8,471	8,576

Covered loans

With no related allowance recorded:

Real estate:

One-to-four family residential	--	--	--	181	266
Commercial real estate	2,976	2,506	--	2,621	2,650
Total real estate	2,976	2,506	--	2,802	2,916
Commercial real estate construction	518	272	--	403	557
Home equity	437	111	--	160	176
Commercial business and leases	30	16	--	744	566
Total covered loans with no related allowance	3,961	2,905	--	4,112	4,218
Total impaired loans	\$22,871	\$20,273	\$(1,469)	\$22,728	\$22,532

At June 30, 2012, the unpaid principal balance for purposes of this table includes \$2.6 million that was partially charged-off but not forgiven.

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	December 31, 2011			Average Recorded Investment	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Noncovered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	\$5,147	\$4,654	\$--	\$1,675	\$1,337
Commercial real estate	2,651	2,415	--	2,380	2,339
Total real estate	7,798	7,069	--	4,055	3,676
Real estate construction:					
One-to-four family residential	196	139	--	--	--
Commercial real estate	1,959	631	--	1,690	1,360
Total real estate construction	2,155	770	--	1,690	1,690
Consumer:					
Home equity	1,010	614	--	145	103
Automobile	25	25	--	--	3
Other consumer	17	17	--	--	--
Total consumer	1,052	656	--	145	106
Commercial business	592	427	--	307	354
Total noncovered loans with no related allowance	11,597	8,922	--	6,197	5,496
With an allowance recorded:					
Real estate:					
One-to-four family residential	1,572	1,576	(359)	1,788	2,140
Commercial real estate	6,035	6,035	(737)	5,151	5,593
Total real estate	7,607	7,611	(1,096)	6,939	7,733
Real estate construction:					
One-to-four family residential	367	367	(105)	628	788
Commercial real estate	506	506	(99)	867	1,040
Total real estate construction	873	873	(204)	1,495	1,828
Home equity	303	303	(269)	128	129
Commercial business	--	--	--	566	639
Total noncovered loans with an allowance recorded	8,783	8,787	(1,569)	9,128	10,329
Covered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	663	436	--	399	330
Commercial real estate	3,279	2,708	--	7,381	7,028

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Total real estate	3,942	3,144	--	7,780	7,358
Commercial real estate construction	1,798	864	--	2,117	1,892
Consumer:					
Home equity	643	209	--	9	6
Consumer	4	4	--	--	--
Total consumer	647	213	--	9	6
Commercial business and leases	236	212	--	406	432
Total covered loans with no related allowance	6,623	4,433	--	10,312	9,689
Total impaired loans	\$27,003	\$22,142	\$(1,569)	\$25,637	\$25,513

At December 31, 2011, the unpaid principal balance for purposes of this table includes \$5.2 million that has been partially charged-off but not forgiven. Interest income recorded on impaired loans was immaterial during the three and six months ended June 30, 2012 and 2011.

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Allowance for Loan Losses. The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012					
	Allowance for Loan Losses			Recorded Investment		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality
Noncovered loans						
One-to-four family residential	\$422	\$ 1,088	\$ --	\$4,561	\$ 85,108	\$ --
Commercial real estate and multifamily	604	3,197	--	10,470	153,111	--
Real estate construction	171	669	--	1,242	26,959	--
Home equity	272	1,661	--	741	33,456	--
Consumer	--	114	--	--	2,076	1,802
Commercial business	--	660	--	354	13,922	--
Leases	--	47	--	--	201	--
Total noncovered	1,469	7,436	--	17,368	314,833	1,802
Covered loans						
One-to-four family residential	--	18	13	--	2,427	9,241
Commercial real estate and multifamily	--	806	34	2,506	22,576	33,518
Real estate construction	--	141	1,580	272	1,903	4,763
Home equity	--	218	399	111	4,709	6,955
Consumer	--	48	--	--	1,051	50
Commercial business	--	274	184	16	3,823	15,850
Leases	--	--	--	--	912	--
Total covered	--	1,505	2,210	2,905	37,401	70,377
Total	\$ 1,469	\$ 8,941	\$ 2,210	\$ 20,273	\$ 352,234	\$ 72,179
	December 31, 2011					
	Allowance for Loan Losses			Recorded Investment		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality
Noncovered loans						
One-to-four family residential	\$359	\$ 1,384	\$ --	\$6,230	\$ 97,107	\$ --
Commercial real estate and multifamily	737	4,443	--	8,450	149,815	--
Real estate construction	204	518	--	1,643	16,603	--
Home equity	269	1,757	--	917	33,822	--
Consumer	--	71	--	42	2,045	2,214

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Commercial business	--	141	--	427	5,791	--
Leases	--	64	--	--	257	--
Total noncovered	1,569	8,378	--	17,709	305,440	2,214
Covered loans						
One-to-four family residential	--	30	--	436	6,077	5,656
Commercial real estate and multifamily	--	1,026	--	2,708	21,918	44,360
Real estate construction	--	151	2,050	864	1,547	5,626
Home equity	--	277	--	209	5,250	7,155
Consumer	--	32	10	4	1,213	42
Commercial business	--	384	264	212	5,515	29,277
Leases	--	--	--	--	1,902	--
Total covered	--	1,900	2,324	4,433	43,422	92,116
Total	\$ 1,569	\$ 10,278	\$ 2,324	\$ 22,142	\$ 348,862	\$ 94,330

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Activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2012 and 2011 was as follows (in thousands):

	As of March 31, 2012	Provisions	Charge-Offs	Recoveries	As of June 30, 2012
Noncovered loans					
One-to-four family residential	\$1,664	\$54	\$ (213)	\$5	\$1,510
Commercial real estate and multifamily	4,086	(251)	(34)	--	3,801
Real estate construction	804	35	--	1	840
Home equity	2,047	6	(135)	15	1,933
Consumer	95	20	(5)	4	114
Commercial business	541	144	(25)	--	660
Leases	55	(8)	--	--	47
Total noncovered loans	9,292	--	(412)	25	8,905
Covered loans					
One-to-four family residential	30	2	(1)	--	31
Commercial real estate and multifamily	1,160	(167)	(265)	112	840
Real estate construction	2,085	(498)	(258)	392	1,721
Home equity	655	98	(136)	--	617
Consumer	49	80	(81)	--	48
Commercial business	468	51	(105)	44	458
Total covered loans	4,447	(434)	(846)	548	3,715
Total	\$13,739	\$(434)	\$(1,258)	\$573	\$12,620
	As of March 31, 2011	Provisions	Charge-Offs	Recoveries	As of June 30, 2011
Noncovered loans					
One-to-four family residential	\$2,116	\$(169)	\$(193)	\$69	\$1,823
Commercial real estate and multifamily	5,578	105	(582)	1	5,102
Real estate construction	1,028	113	(449)	191	883
Home equity	1,514	490	(704)	5	1,305
Consumer	94	(58)	(8)	--	28
Commercial business	637	(281)	(244)	138	250
Total noncovered loans	10,967	200	(2,180)	404	9,391
Covered loans					
One-to-four family residential	77	(2)	--	--	75
Commercial real estate and multifamily	2,055	963	(964)	59	2,113
Real estate construction	500	872	(758)	14	628
Home equity	--	240	(240)	--	--
Consumer	295	20	--	1	316
Commercial business	387	518	(46)	5	864
Total covered loans	3,314	2,611	(2,008)	79	3,996
Total	\$14,281	\$2,811	\$(4,188)	\$483	\$13,387

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Activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2012 and 2011 was as follows (in thousands):

	As of December 31, 2011	Provisions	Charge-Offs	Recoveries	As of June 30, 2012
Noncovered loans					
One-to-four family residential	\$1,743	\$459	\$ (706)	\$ 14	\$1,510
Commercial real estate and multifamily	5,180	(1,339)	(40)	--	3,801
Real estate construction	722	74	--	44	840
Home equity	2,026	189	(302)	20	1,933
Consumer	71	44	(14)	13	114
Commercial business	141	590	(71)	--	660
Leases	64	(17)	--	--	47
Total noncovered loans	9,947	--	(1,133)	91	8,905
Covered loans					
One-to-four family residential	30	16	(15)	--	31
Commercial real estate and multifamily	1,026	(1,121)	(305)	1,240	840
Real estate construction	2,201	(808)	(278)	606	1,721
Home equity	277	476	(136)	--	617
Consumer	42	103	(97)	--	48
Commercial business	648	117	(357)	50	458
Total covered loans	4,224	(1,217)	(1,188)	1,896	3,715
Total	\$14,171	\$(1,217)	\$ (2,321)	\$ 1,987	\$12,620

	As of December 31, 2010	Provisions	Charge-Offs	Recoveries	As of June 30, 2011
Noncovered loans					
One-to-four family residential	\$2,210	\$150	\$ (710)	\$ 173	\$1,823
Commercial real estate and multifamily	6,536	(555)	(910)	31	5,102
Real estate construction	957	326	(599)	199	883
Home equity	1,356	775	(887)	61	1,305
Consumer	54	(1)	(26)	1	28
Commercial business	851	(495)	(244)	138	250
Total noncovered loans	11,964	200	(3,376)	603	9,391
Covered loans					
One-to-four family residential	70	89	(85)	1	75
Commercial real estate and multifamily	2,010	2,074	(2,030)	59	2,113
Real estate construction	453	2,865	(3,223)	533	628
Home equity	421	(159)	(263)	1	--
Consumer	49	259	(3)	11	316
Commercial business	442	483	(70)	9	864

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Total covered loans	3,445	5,611	(5,674)	614	3,996
Total	\$15,409	\$5,811	\$ (9,050)	\$1,217	\$13,387

TDRs. The internal process used to assess whether a modification should be reported and accounted for as a TDR 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. The modification of the terms of such loans generally includes one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for the new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

TDRs totaled \$12.8 million and \$9.1 million at June 30, 2012 and December 31, 2011, respectively, and are included in the impaired loan disclosures below. Of these amounts, \$370,000 and \$620,000 were covered under loss sharing agreements with the FDIC at June 30, 2012 and December 31, 2011, respectively. The Company has allocated \$1.2 million of specific reserves to customers whose loan terms have been modified in TDRs at June 30, 2012, compared to \$1.1 million at December 31, 2011. There were no commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

Modifications to loans not accounted for as TDRs totaled \$1.1 million at June 30, 2012, of which \$430,000 was in the noncovered loan portfolio. These loans were not considered to be TDRs 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.

The following table presents TDRs at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012			December 31, 2011		
	Accrual Status	Nonaccrual Status	Total Modifications	Accrual Status	Nonaccrual Status	Total Modifications
Noncovered loans						
One-to-four family residential	\$ 1,461	\$ 957	\$ 2,418	\$ 241	\$ 1,549	\$ 1,790
Commercial real estate and multifamily	274	8,006	8,280	274	5,309	5,583
Real estate construction	--	1,100	1,100	6	428	434
Home equity	16	224	240	16	234	250
Commercial business and leases	--	353	353	--	395	395
Total noncovered	1,751	10,640	12,391	537	7,915	8,452
Covered loans						
Commercial real estate and multifamily	177	193	370	180	232	412
Real estate construction	--	--	--	--	208	208
Total covered	177	193	370	180	440	620
Total	\$ 1,928	\$ 10,833	\$ 12,761	\$ 717	\$ 8,355	\$ 9,072

During the three months ended March 31, 2012, there was one new TDR. The modification involved an extension of the loan term by twelve months and did not result in any charge-off or impairment. During the three months ended June 30, 2012, there were 13 new TDRs, nine of which involve one customer relationship. For those nine loans, which include \$897,000 of commercial and multifamily loans and \$384,000 of construction loans, the modifications involved extensions of the maturity dates by two years.

One modification on a \$3.4 million commercial real estate loan involved lowering the interest rate on the loan for three years. Two modifications for one-to-four family residential loans involved an extension of the maturity date, while the third one-to-four family residential loan was modified from a floating-rate to a fixed-rate loan. None of the loans modified during the quarter ended June 30, 2012 resulted in any charge-off, although there are specific impairments on two of the loans totaling \$290,000. The following table presents these new TDRs (dollars in thousands).

Three Months Ended June 30, 2012

Six Months Ended June 30, 2012

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	Number of Contracts	Pre- Modification Balance	Post- Modification Balance	Number of Contracts	Pre- Modification Balance	Post- Modification Balance
Noncovered loans						
One-to-four family residential	3	\$ 861	\$ 876	3	\$ 861	\$ 876
Commercial real estate and multifamily	3	4,322	4,322	3	4,322	4,322
Real estate construction	7	384	384	8	828	778
Total	13	\$ 5,567	\$ 5,582	14	\$ 6,011	\$ 5,976

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During the three months ended June 30, 2012, we recognized an \$18,000 partial charge-off on one TDR that had been modified during the twelve months ended June 30, 2012. Additionally, there were three loans which had been classified as TDRs during fiscal 2010 which were transferred into REO during the quarter June 30, 2012. A charge-off of \$34,000 was recognized on one of the loans, while the other two were transferred into REO at no additional loss.

The following table presents TDRs at June 30, 2012 and December 31, 2011 which were performing according to agreement (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Noncovered loans				
One- to four- family residential	12	\$ 1,595	9	\$ 1,428
Commercial real estate and multifamily	6	8,280	3	4,118
Real estate construction	10	986	3	344
Home equity	3	193	3	198
Commercial business and leases	1	353	--	--
Total noncovered	32	11,407	18	6,088
Covered loans				
Commercial real estate and multifamily	2	364	2	411
Total covered	2	364	2	411
Total	34	\$ 11,771	20	\$ 6,499

Purchased Credit Impaired Loans. The Bank has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. These loans are accounted for under ASC 310-30. At the acquisition date, management estimated the fair value of the acquired loan portfolios which represented the expected cash flows from the portfolio discounted at a market-based rate. Included in the estimate of fair value was a discount credit adjustment that reflected expected credit losses. In estimating the preliminary fair value, management calculated the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and estimated the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the “accretable yield”) is accreted into interest income over the life of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the credit risk in the acquired loan and lease portfolio at the acquisition date. The following table details activity of accretable yield (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance of accretable yield	\$26,320	\$28,809	\$28,915	\$31,727
Changes in accretable yield due to:				
Transfer from nonaccretable difference	1,076	--	4,732	--
Accretable yield recognized as interest income	(4,312)	(3,309)	(10,563)	(6,227)

Ending balance of accretable yield	\$23,084	\$25,500	\$23,084	\$25,500
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The carrying amount of loans for which income is not being recognized on loans individually accounted for under ASC 310-30 totaled \$4.4 million and \$7.7 million at June 30, 2012 and December 31, 2011, respectively, all of which were purchased in the CFB Acquisition. At June 30, 2012 and December 31, 2011, the allowance for losses on purchased credit impaired loans was \$2.2 million and \$2.3 million, respectively. The provision for loan losses and reductions in the allowance for purchased credit impaired loans was \$0 and \$481,000, respectively, during the quarter ended June 30, 2012, and \$335,000 and \$493,000, respectively, during the six months ended June 30, 2012.

Note 6 – Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities. The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

Impaired Loans. The fair value of impaired loans is generally based on recent appraisals if the loan is collateral-based or on a cash flow analysis if repayment of the loan is generally dependent on the cash flow of the borrower. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraisals on loans secured by one-to-four family residential properties 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 updated if the borrower requests a modification to their loan. On commercial real estate and multifamily 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 the Bank. The frequency of appraisal updates is based upon property type and market trends, with nearly all currently being reappraised semi-annually. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually adjustments to the sales price of the comparable properties, as deemed appropriate by the appraiser, based on the age, condition, location or general characteristics of the subject property. If the income approach is used by an appraiser, a discount rate or a "capitalization rate" is applied to estimated net operating income for the income producing property. This capitalization rate is applied to estimate the fair value of the property. Capitalization rates vary based on the type of property (e.g., office, warehouse, retail) and local market dynamics (e.g., population, employment, absorption or saturation of specific property types), among other factors.

Real Estate Owned (REO). Nonrecurring adjustments to certain commercial and residential real estate properties classified as REO are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. At least semi-annually, all REO is evaluated and the respective carrying balances are adjusted downward if warranted. Appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. These valuation techniques and adjustments are described in greater detail above under "Impaired Loans." Management will typically discount appraised values by 8.5%, which is based on historical experience to estimate selling costs, when

determining the fair value of REO.

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The following table summarizes the Company's financial assets that were measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2012				
Securities available-for-sale:				
Obligations of U.S. GSE	\$--	\$67,026	\$--	\$67,026
Obligations of states and political subdivisions	--	37,142	--	37,142
Mortgage-backed securities, GSE issued	--	338,557	--	338,557
Mortgage-backed securities, private label	--	300	--	300
December 31, 2011				
Securities available-for-sale:				
Obligations of U.S. GSE	\$--	\$65,984	\$--	\$65,984
Obligations of states and political subdivisions	--	21,809	--	21,809
Corporate note, FDIC-guaranteed	--	1,007	--	1,007
Mortgage-backed securities, GSE issued	--	310,766	--	310,766
Mortgage-backed securities, private label	--	311	--	311

Additionally, certain assets are measured at fair value on a non-recurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following table summarizes the Company's financial assets that were measured at fair value on a non-recurring basis at June 30, 2012 and December 31, 2011 (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2012				
Impaired loans:				
One-to-four family residential	\$--	\$--	\$3,271	\$3,271
Commercial and multifamily	--	--	7,495	7,495
Real estate construction	--	--	746	746
Home equity	--	--	145	145
Commercial business	--	--	18	18
Total impaired loans	--	--	11,675	11,675
REO:				
One-to-four family residential	--	--	1,540	1,540
Commercial and multifamily	--	--	5,245	5,245
Real estate construction	--	--	2,525	2,525
Total REO	--	--	9,310	9,310
Total impaired loans and REO at fair value	\$--	\$--	\$20,985	\$20,985
December 31, 2011				
Impaired loans:				
One-to-four family residential	\$--	\$--	\$2,926	\$2,926
Commercial and multifamily	--	--	7,684	7,684

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Real estate construction	--	--	1,401	1,401
Home equity	--	--	297	297
Commercial business	--	--	25	25
Total impaired loans	--	--	12,333	12,333
REO:				
One-to-four family residential	--	--	1,984	1,984
Commercial and multifamily	--	--	4,416	4,416
Real estate construction	--	--	4,551	4,551
Total REO	--	--	10,951	10,951
Total impaired loans and REO at fair value	\$--	\$--	\$23,284	\$23,284

At June 30, 2012, impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying amount of \$11.7 million, net of specific valuation allowances totaling \$1.5 million. At December 31, 2011, impaired loans at fair value had a carrying amount of \$12.3 million, net of specific allowances totaling \$1.6 million. Included in the value of impaired loans presented above at June 30, 2012 is \$5.1 million of loans that have been charged down to fair value. There was no net provision on noncovered loans during the quarter or six month period ended June 30, 2012, and during the quarter ended June 30, 2012, the specific valuation allowance on noncovered impaired loans required a reduction of \$166,000. During the same quarter one year ago, this specific valuation allowance on impaired loans also required a reduction of \$1.6 million. During the six months ended June 30, 2012, the specific valuation allowance on noncovered impaired loans required a reduction of \$100,000.

REO is recorded at estimated fair value less costs to sell had a carrying amount of \$9.3 million at June 30, 2012, which is comprised of the outstanding balance of \$9.3 million, with no valuation allowance. At December 31, 2011, REO measured at fair value less costs to sell had a carrying value of \$11.0 million, which is made up of the outstanding balance of \$11.0 million, with no valuation allowance. The provision for declines in the value of REO totaled \$291,000 and \$296,000 for the quarters ended June 30, 2012 and 2011, respectively, before offsetting amounts recoverable from the FDIC under loss sharing agreements. For the six months ended June 30, 2012 and 2011, these provisions for REO totaled \$398,000 and \$653,000, respectively.

The following table presents information as of June 30, 2012 about significant unobservable inputs related to the Company's material categories of Level 3 financial assets measured on a nonrecurring basis (in thousands):

	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted Average
Impaired loans- Commercial real estate and multifamily	\$ 7,495	Sales comparison approach	Adjustment for differences between the comparable sales	(12.2%) - 6.9 %	(3.6)%
		Income approach	Adjustment for differences in capitalization rates	7.50% - 10.00 %	9.1
Impaired loans- Construction	746	Sales comparison approach	Adjustment for differences between the comparable sales	(21.8%) - 77.0 %	8.4
REO- Commercial real estate	5,245	Sales comparison approach	Adjustment for differences between the comparable sales	(10.3%) - 12.7 %	0.1
		Income approach	Adjustment for differences in capitalization rates	8.00% - 9.75 %	9.1
REO- Construction	2,525	Sales comparison approach	Adjustment for differences between the comparable sales	(29.8%) - (4.7) %	(19.2)

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The estimated fair values of the Company's financial instruments that are reported at amortized cost in the Company's Consolidated Balance Sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value at June 30, 2012 and December 31, 2011 were as follows (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	\$83,193	\$83,193	\$144,293	\$144,293
Level 2 inputs:				
FHLB stock	17,717	n/a	17,717	n/a
Level 3 inputs:				
Loans receivable, net, excluding loans at fair value and leases	418,115	430,627	435,416	449,676
Accrued interest receivable	2,967	2,967	2,857	2,857
FDIC indemnification receivable, net	18,370	18,370	23,676	23,676
Financial liabilities:				
Level 1 inputs:				
Demand and savings deposits	638,932	638,932	633,637	633,637
Advances by borrowers for taxes and insurance	845	845	358	358
Accrued interest payable	178	178	219	219
Level 2 inputs:				
Certificates of deposit	228,833	232,571	272,462	276,822
Repurchase agreements	4,742	4,780	4,913	4,982

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents. The carrying amount approximates fair value.

FHLB Stock. The determination of fair value of FHLB stock was impractical due to restrictions on the transferability of the stock.

Loans Receivable. Fair values for all performing loans are estimated using a discounted cash flow analysis, utilizing interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. In addition, the fair value reflects the decrease in loan values as estimated in the allowance for loan losses calculation. Leases are excluded from the table above. The methods utilized to estimate the fair value of loans do not necessarily represent a liquidation price.

FDIC Indemnification Asset. Carrying value approximates fair value as the receivable is recorded at the net present value of estimated cash flows.

Accrued Interest Receivable. The carrying amount approximates fair value.

Deposits. The fair value of demand deposits, savings accounts and certain money market deposits is the amount

payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit are estimated using discounted cash flow analysis using the rates currently offered for deposits of similar remaining maturities.

Repurchase Agreements. The fair value of these borrowings is estimated by discounting the future cash flows using the current rate at which similar borrowings with similar remaining maturities could be made.

Advances by Borrowers for Taxes and Insurance. The carrying amount approximates fair value.

Accrued Interest Payable. The carrying amount approximates fair value.

Off-Balance Sheet Instruments. Fair values of off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrower's credit standing. The fair value of the fees at June 30, 2012 and December 31, 2011, were insignificant.

Note 7 –FDIC Indemnification Receivable

Activity in the FDIC indemnification receivable for the three months ended June 30, 2012 and 2011 was as follows (in thousands):

	Reimbursement Rate		Amount Receivable	Discount	Net Receivable
	80%	95%			
Balance at March 31, 2012	\$ 19,606	\$ 4,711	\$ 20,160	\$--	\$ 20,160
Payments from FDIC for losses on covered assets	(1,030)	402	(442)	--	(442)
Decrease in estimated losses	(1,699)	12	(1,348)	--	(1,348)
Balance at June 30, 2012	\$ 16,877	\$ 5,125	\$ 18,370	\$--	\$ 18,370
Balance at March 31, 2011	\$ 84,518	\$ 9,148	\$ 76,305	\$(1,788)	\$ 74,517
Payments from FDIC for losses on covered assets	(19,111)	--	(15,289)	--	(15,289)
Increase in estimated losses	(5,764)	3,333	(1,445)	--	(1,445)
Discount accretion	--	--	--	356	356
Balance at June 30, 2011	\$ 59,643	\$ 12,481	\$ 59,571	\$(1,432)	\$ 58,139

Activity in the FDIC indemnification receivable for the six months ended June 30, 2012 and 2011 was as follows (in thousands):

	Reimbursement Rate		Amount Receivable	Discount	Net Receivable
	80%	95%			
Balance at December 31, 2011	\$ 22,974	\$ 5,576	\$ 23,676	\$--	\$ 23,676
Payments from FDIC for losses on covered assets	(1,139)	(175)	(1,077)	--	(1,077)
Decrease in estimated losses	(4,958)	(276)	(4,229)	--	(4,229)
Balance at June 30, 2012	\$ 16,877	\$ 5,125	\$ 18,370	\$--	\$ 18,370
Balance at December 31, 2010	\$ 82,017	\$ 6,705	\$ 71,983	\$(2,437)	\$ 69,546
Payments from FDIC for losses on covered assets	(19,111)	--	(15,289)	--	(15,289)
Increase in estimated losses	(3,263)	5,776	2,877	--	2,877
Discount accretion	--	--	--	1,005	1,005
Balance at June 30, 2011	\$ 59,643	\$ 12,481	\$ 59,571	\$(1,432)	\$ 58,139

For estimated losses on covered assets purchased in the CFB Acquisition, amounts receivable from the FDIC have been estimated at 80% of losses on covered assets (acquired loans and REO) up to \$34.0 million. Reimbursable losses in excess of \$34.0 million have been estimated at 95% of the amount recoverable from the FDIC. For estimated losses on covered assets purchased in the LibertyBank Acquisition, amounts receivable from the FDIC have been estimated at 80% of losses on all covered assets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

This report 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;
 - our ability to attract and retain deposits;
 - further 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, 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 have acquired, including the Community First Bank and LibertyBank transactions described in this report, or may in the

future acquire from our merger and acquisition activities into our operations, our ability to retain clients and employees and our ability to realize related revenue synergies and cost savings within expected time frames, or at all, and any goodwill charges related thereto and costs or difficulties

relating to integration matters, including but not limited to customer and employee retention, which might be greater than expected;

- the possibility that the expected benefits from the FDIC-assisted 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 investment securities;
 - the inability of key third-party providers to perform their obligations to us;
- 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 Form 10-Q. 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 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 2012 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” refer to Home Federal Bancorp and its consolidated subsidiaries, unless the context otherwise requires.

Background and Overview

Home Federal Bancorp, Inc. is a Maryland corporation that serves as the holding company for Home Federal Bank (the “Bank”). The Company’s common stock is traded on the NASDAQ Global Select Market under the symbol “HOME” and is included in the U.S. Russell 2000® Index.

The Bank is a state-chartered, FDIC-insured commercial bank and is a community-oriented financial institution dedicated to serving the financial service needs of consumers and businesses within its market areas. The Bank’s primary business is attracting deposits from the general public and using these funds to originate loans. The Bank emphasizes the direct origination of commercial business loans, commercial real estate loans, construction and residential development loans, and consumer loans.

On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume nearly all of the deposits and certain other liabilities and acquire certain assets, including loans and real estate owned and other repossessed assets (“REO”) of Community First Bank, a full service commercial bank, headquartered in Prineville, Oregon (the “CFB Acquisition”). The loans and REO purchased are covered by loss sharing agreements between the FDIC and Home Federal Bank, which afford the Bank significant protection. Under the loss sharing agreements, Home Federal Bank will share in the losses and certain reimbursable expenses on assets covered under the agreement. The FDIC has agreed to reimburse Home Federal Bank for 80% of losses and certain reimbursable expenses on the first \$34.0 million of losses on assets covered under the agreements, and 95% of losses that exceed

that amount on covered assets.

On July 30, 2010, the Bank entered into a purchase and assumption agreement with the FDIC to assume all of the deposits and certain other liabilities and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon (the

“LibertyBank Acquisition”). Nearly all of the loans and REO purchased are covered by loss sharing agreements. The FDIC has agreed to reimburse Home Federal Bank for 80% of losses and certain reimbursable expenses on covered assets. The LibertyBank Acquisition has been incorporated prospectively in the Company’s financial statements and significantly increased the Company’s assets, income and expenses.

Nearly all of the loans and REO purchased in these acquisitions are subject to loss sharing agreements with the FDIC and are referred to herein as “covered loans” or “covered assets.” Loans and REO not subject to loss sharing agreements with the FDIC are referred to as “noncovered loans” or “noncovered assets.”

At June 30, 2012, Home Federal Bank had operations in three distinct market areas including Boise, Idaho, and surrounding communities, together known as the Treasure Valley region of southwestern Idaho, which we refer to as the Idaho Region. The CFB Acquisition resulted in the Bank’s entrance to the Tri-County Region of Central Oregon, including the counties of Crook, Deschutes and Jefferson. We refer to this market as the Central Oregon Region. In addition to deepening its presence in Central Oregon, as a result of the LibertyBank Acquisition, the Bank also operates in Lane, Josephine, Jackson, and Multnomah counties in Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon. We refer to these markets as our Western Oregon Region. At June 30, 2012, the Bank had 28 full-service branches and two commercial loan production offices located in Portland and Bend, Oregon.

The Company reported net income of \$559,000, or \$0.04 per diluted share, for the three months ended June 30, 2012, compared to a net loss of (\$78,000), or (\$0.01) per diluted share, for the same period a year ago. For the six months ended June 30, 2012, the Company reported net income of \$1.3 million, or \$0.09 per diluted share, compared to a net loss of (\$1.3 million), or (\$0.08) per diluted share, for the six months ended June 30, 2011. The Company’s return to profitability compared to the year-ago quarter was attributable to a reduction in operating expenses, gains on the sales of securities, and continued improvement in covered asset quality, which resulted in lower credit costs and higher yields on purchased loans in fiscal year 2012.

The following items summarize key activities of the Company during the quarter ended June 30, 2012:

- Net interest income before the provision for loan losses increased \$913,000 to \$10.3 million for the quarter ended June 30, 2012, when compared to the quarter ended June 30, 2011, due to a higher yield on purchased loans and a declining cost of funds. However, net interest income declined \$2.1 million compared to the linked quarter ended March 31, 2012, due to a decline in the yield on purchased loans in the current quarter;
- A negative provision for loan losses on loans purchased in the CFB Acquisition, net of the FDIC indemnification impairment related to the negative provision, increased income before income taxes by \$23,000 during the quarter ended June 30, 2012. A provision of \$422,000, net of the impact of the FDIC indemnification recovery, reduced income before income taxes during the same quarter in 2011 and included a provision of \$200,000 on noncovered originated loans in the quarter ended June 30, 2011. No provision for loan losses on noncovered originated loans was recorded during the quarter ended June 30, 2012;
- The provision for REO totaled \$291,000 in the current quarter compared to \$107,000 for the quarter ended March 31, 2012, and \$296,000 in the year-ago quarter. This provision is reported in noninterest expense;
 - Noninterest income during the quarter ended June 30, 2012, includes impairment of the FDIC indemnification asset for covered loans of \$1.7 million and an indemnification impairment of \$411,000 due to the negative provision for loan losses, both are a result of a reduction in estimated future losses on covered loans;
- Service charges and fee income declined \$172,000 to \$2.3 million for the quarter ended June 30, 2012, from the quarter ended June 30, 2011, due to lower overdraft fee income. Compared to the linked quarter, service charges and fee income increased \$167,000 due to higher income from the Bank’s merchant and investment services products and new deposit account service charges;
- During the quarter ended June 30, 2012, the Bank sold U.S. Treasury securities and recorded a pre-tax gain of \$603,000 compared to a gain of \$535,000 during the quarter ended March 31, 2012. No gains or losses were

recorded in the year ago quarter;

- Noninterest expense decreased by \$1.3 million during the quarter ended June 30, 2012, compared to the year-ago quarter but increased \$146,000 compared to the linked quarter due primarily to the increase in the provision for REO. Year to date, noninterest expenses declined \$4.1 million in 2012 compared to the six months ended June 30, 2011;
- Total assets decreased \$33.2 million during the quarter ended June 30, 2012, compared to March 31, 2012, and have declined \$41.8 million since December 31, 2011, as declines in cash and cash equivalents and loans offset reductions in deposits;
- Loans declined \$4.8 million during the quarter ended June 30, 2012, compared to March 31, 2012, and deposits declined \$31.0 million during that period;
- Noncovered nonperforming assets declined \$41,000 to \$23.0 million at June 30, 2012, compared to March 31, 2012. Total nonperforming assets decreased \$814,000 to \$39.6 million during the quarter; and
- The Company repurchased 441,669 shares during the quarter ended June 30, 2012, at an average cost of \$9.18 per share.

Critical Accounting Estimates and Related Accounting Policies

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements, and thus actual results could differ from the amounts reported and disclosed herein. Management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's consolidated financial statements. These policies relate to the determination of the allowance for loan losses (including the evaluation of impaired loans and the associated provision for loan losses), accounting for acquired loans and covered assets, the valuation of real estate owned, as well as deferred income taxes and the associated income tax expense.

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

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

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

that may arise as a result of changing economic conditions and other qualitative factors that may alter historical loss experience.

The allowance for loan losses is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries. Reductions in estimated or known losses may result in a reduction in the allowance for loan losses, which may be effected through a “negative” provision for loan losses. Provisions for losses on covered loans are recorded gross of recoverable

amounts from the FDIC under the loss sharing agreements. The recoverable portion of the provision for loan losses on covered loans is recorded in noninterest income as “FDIC indemnification recovery.”

The allowance for loan losses on noncovered originated loans consists of specific reserves allocated to individually reviewed loans and general reserves on all other noncovered originated loans. Commencing in April 2011, management changed its procedures for specific allowances on noncovered originated loans in process of foreclosure. Previously, the Bank would maintain a specific reserve on these noncovered impaired loans. Since April 2011, such deficiencies on loans in process of foreclosure are classified as “Loss” under our credit grading process and the loan balance is charged down, which removes the specific reserve previously recorded. A general allowance for loan losses is recorded on loans purchased in the CFB Acquisition that are not accounted for under Accounting Standard Codification Topic (“ASC”) 310-30. Loans purchased in the CFB Acquisition that are accounted for under ASC 310-30 are partially charged down if estimated losses exceed the fair value discount established on the acquisition date. The Company elected to apply the accounting methodology of ASC 310-30 to all loans purchased in the LibertyBank Acquisition, which is described in greater detail below under “Acquired Loans and Covered Assets.” As a result, an allowance for loans purchased in the LibertyBank Acquisition is established when the net present value of cash flows expected to be received for loans in each individual loan pool become impaired.

Acquired Loans and Covered Assets. Loans acquired in the CFB Acquisition were valued as of the acquisition date in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 141, Business Combinations. At the time of the CFB Acquisition, the Company applied SFAS No. 141, which was superseded by SFAS No. 141(R). The Company was not permitted to adopt SFAS No. 141(R) prior to its effective date, which was October 1, 2009, due to the Company’s fiscal year end. ASC 310-30 applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. Management also estimated the amount of credit losses that were expected to be realized for the loan portfolio primarily by estimating the liquidation value of collateral securing loans on non-accrual status or classified as substandard or doubtful. Loans purchased in the CFB Acquisition accounted for under ASC 310-30 were not aggregated into pools and are accounted for on a loan-by-loan basis. An allowance for loan losses was established for loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30.

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

The cash flows expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. Under ASC 310-30, the excess of the expected cash flows at acquisition over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference. Subsequent increases in cash flow over those expected at purchase date in excess of fair value are recorded as an adjustment to accretable difference on a prospective basis. Any subsequent decreases in cash flow over those expected

at purchase date are recognized by recording an allowance for loan losses. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the carrying amount.

Covered loans, and provisions for loan losses, charge offs and recoveries, are reported exclusive of the expected cash flow reimbursements expected from the FDIC. Covered REO is reported exclusive of expected reimbursement

cash flows from the FDIC. Upon transferring covered loan collateral to covered REO status, acquisition date fair value discounts on the related loan are also transferred to covered REO. Fair value adjustments on covered REO result in a reduction of the covered REO carrying amount and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss to the Bank charged against earnings. The Bank is reimbursed by the FDIC on losses and reimbursable expenses on covered assets purchased in the CFB Acquisition at a rate of 80% on the first \$34.0 million of losses and at a rate of 95% on losses thereafter. The Bank is reimbursed by the FDIC on losses and reimbursable expenses on covered assets purchased in the LibertyBank Acquisition at a rate of 80%.

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

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

Real Estate Owned. Real estate properties acquired through, or in lieu of, loan foreclosure that are not covered under a loss sharing agreement with the FDIC (noncovered REO) are initially recorded at fair value at the date of foreclosure minus estimated costs to sell. Covered REO was initially recorded at fair value as of the acquisition date.

Any valuation adjustments required at the time of foreclosure are charged to the allowance for loan losses. After foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs to sell. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are recognized in current operations. The valuation allowance is established based on our historical realization of losses and adjusted for current market values, which is primarily determined using recent appraisals provided by third-party appraisers.

Deferred Income Taxes. Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability approach as prescribed in ASC Topic 740, Income Taxes. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in an institution's income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available-for-sale. The effect on deferred taxes of a change in tax rates is recognized as income in the period that includes the enactment date. The primary differences between financial statement income and taxable income result from depreciation expense, purchase accounting adjustments, loan loss reserves, deferred compensation, mark to market adjustments on our available-for-sale securities, and dividends received from the FHLB of Seattle. Deferred income taxes do not include a liability for pre-1988 bad debt deductions allowed to thrift institutions that may be recaptured if the institution fails to qualify as a bank for income tax purposes in the future.

Comparison of Financial Condition at June 30, 2012 and December 31, 2011

During the six months ended June 30, 2012, total assets decreased \$41.8 million, or 3.7%, to \$1.1 billion at June 30, 2012 compared to December 31, 2011. The changes in total assets were primarily concentrated in the following asset categories (dollars in thousands):

	June 30, 2012	December 31, 2011	Increase/(Decrease) Amount	Percent
Cash and amounts due from depository institutions	\$ 83,193	\$ 144,293	\$ (61,100)	(42.3)%
Investments, at fair value	443,025	399,877	43,148	10.8
Loans receivable, net of allowance for loan losses	430,903	449,908	(19,005)	(4.2)

Cash and Amounts Due From Depository Institutions. The \$61.1 million decrease in cash and equivalents during the six months ended June 30, 2012, was due to the purchase of investment securities and payments on maturing certificates of deposit that were not renewed, reflecting our strategy of allowing higher cost certificates of deposit to decline, partially offset by proceeds received from a decrease in loans. We anticipate, subject to market conditions, that we will continue to invest excess cash in medium-term securities during the remainder of 2012, but will also conserve some liquidity in order to meet the demand of maturing certificates of deposit, prepare for the potential of rising interest rates, and to provide flexibility for potential acquisitions and repurchases of common stock.

Investments. Investments increased \$43.1 million during the six months ended June 30, 2012. Our purchases have generally given preference to short and medium-term securities in anticipation of rising interest rates and increases in loan demand in the next 18 to 24 months. Purchases of mortgage-backed securities issued by U.S. Government-sponsored enterprises totaled \$61.3 million during the quarter and had an estimated average yield and duration of 2.32% and 4.0 years, respectively. Purchases of securities issued by state and local political subdivisions and municipalities totaled \$9.6 million during the quarter and had an estimated average yield of 3.09%. Additionally, we have structured our investment portfolio to mitigate price sensitivity to protect capital if we need to sell significant amounts of securities in the future to increase liquidity. At June 30, 2012, the estimated effective duration of our investment portfolio was 2.1 years.

We continually analyze our investment portfolio to improve and optimize total return and were able to purchase and sell U.S. Treasury notes during the six months ended June 30, 2012, and recorded pre-tax gains of \$1.1 million during that period due to the price volatility and a strong rally in the bond market.

Loans. Loans and leases receivable, net, decreased by \$19.0 million, or 4.2%, during the six months ended June 30, 2012. One-to-four family residential loans decreased by \$14.2 million while commercial real estate loans declined by \$13.5 million. Commercial business loans decreased by \$8.1 million. Partially offsetting these decreases, multifamily residential loans increased \$8.5 million and construction loans increased \$8.9 million during the quarter. In March 2012, the Bank opened a loan production office in Portland, Oregon, and hired a construction loan officer to expand the Bank's builder finance commercial loan program in that market.

New loan production increased in the second quarter of fiscal year 2012 and the new construction loan production office in Portland has had a strong start. Nonetheless, payments on the residential loan portfolio and the loan and lease portfolio of the Bank's subsidiary, Commercial Equipment Lease Corporation, continue to cause a net reduction in outstanding loan balances since we no longer originate loans for those noncore portfolios. The economies in our

primary markets appear to have stabilized and are showing some signs of improvement; however, this improving outlook is still tenuous and future new loan production is still somewhat uncertain.

Allowance for Loan Losses and Asset Quality. The allowance for loan losses decreased to \$12.6 million at June 30, 2012, from \$14.2 million at December 31, 2011, as our loan portfolio continues to show signs of stabilization. At June 30, 2012, the allowance on originated, noncovered loans was \$8.9 million, compared to \$9.9 million at December 31, 2011. The allowance for loan losses on the originated noncovered loan portfolio was 2.67% of originated noncovered loans at June 30, 2012, with \$1.5 million of the \$8.9 million allowance for originated noncovered loan losses specifically-allocated to impaired loans. The allowance for noncovered loans decreased during the six months ended June 30, 2012, due to net charge-offs of \$1.0 million. However, these charge-offs did

not require an additional provision during the first six months of 2012 as impaired loans and general asset quality metrics have stabilized and the economy in the Boise market, where most of our noncovered loans are located, is showing signs of improvement over the past two quarters.

The allowance on covered loans purchased in the CFB Acquisition totaled \$1.4 million at June 30, 2012, down from \$1.7 million at December 31, 2011. Gross charge-offs of covered loans purchased in the CFB Acquisition totaled \$694,000 during the six months ended June 30, 2012; however, recoveries on covered loans purchased in the CFB Acquisition totaled \$1.9 million during the six months ended June 30, 2012, which resulted in net recoveries of \$1.2 million. A negative provision for loan losses of was recorded during the six months ended June 30, 2011, with most of the provision being offset in noninterest income as the FDIC indemnification provision.

An allowance of \$2.3 million was recorded on covered loans purchased in the LibertyBank Acquisition at June 30, 2012, which was a decrease of \$158,000 compared to December 31, 2011. Loans purchased in the LibertyBank Acquisition were aggregated at the time of acquisition into 22 pools and each pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. 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 certain individual pools were impaired at June 30, 2012, when compared to the original estimated cash flows for each pool.

Loans delinquent 30 to 89 days and still accruing interest totaled \$899,000 at June 30, 2012, compared to \$2.1 million at December 31, 2011, including \$199,000 and \$311,000, respectively, of covered loans in the Community First Bank loan portfolio. Noncovered nonperforming loans increased to \$16.3 million at June 30, 2012, compared to \$15.7 million at December 31, 2011, primarily due to the impairment of a single commercial real estate loan with a balance of \$3.4 million at June 30, 2012. After analysis, no specific allowance was required for this loan. Covered nonperforming loans decreased to \$6.9 million at June 30, 2012, compared to \$10.4 million at December 31, 2011. Nonperforming assets, which include nonperforming loans and REO, totaled \$39.6 million at June 30, 2012, compared to \$46.0 million at December 31, 2011. The following table summarizes nonperforming assets at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012			December 31, 2011			Year-to-Date Change	
	Covered Assets(1)	Noncovered Assets	Total	Covered Assets	Noncovered Assets	Total	Covered Assets	Noncovered Assets
Real estate construction	\$272	\$ 1,241	\$1,513	\$2,007	\$ 1,547	\$3,554	\$(1,735)	\$(306)
Commercial and multifamily real estate	6,118	10,196	16,314	7,306	7,601	14,907	(1,188)	2,595
One- to four-family residential	298	3,805	4,103	753	5,446	6,199	(455)	(1,641)
Other	250	1,079	1,329	374	1,100	1,474	(124)	(21)
Total nonperforming loans	6,938	16,321	23,259	10,440	15,694	26,134	(3,502)	627
REO and other repossessed assets	9,646	6,677	16,323	13,427	6,400	19,827	(3,781)	277
Total nonperforming assets	\$16,584	\$ 22,998	\$39,582	\$23,867	\$ 22,094	\$45,961	\$(7,283)	\$ 904

- (1) Nonperforming covered assets above include loans purchased in the CFB Acquisition, except for those nonperforming loans accounted for under ASC 310-30, and all covered REO and repossessed assets, including REO purchased in the LibertyBank Acquisition. Loans acquired in the LibertyBank Acquisition have been pooled and are not separately reported as nonperforming loans since each pool is the unit of account under ASC 310-30.

Certain loan modifications or restructurings are accounted TDRs. In general, the modification or restructuring of a debt is considered a TDR 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. TDRs totaled \$12.7 million and \$9.1 million at June 30, 2012 and December 31, 2011, respectively. All TDRs are considered to be impaired loans, but may not necessarily be placed on nonaccrual status.

REO and other repossessed assets decreased \$3.5 million to \$16.3 million at June 30, 2012, compared to \$19.8 million at December 31, 2011. At June 30, 2012, REO was comprised primarily of \$7.0 million of commercial real estate, \$6.3 million of land development and construction projects and \$3.0 million of one-to-four family residential properties.

FDIC Indemnification Receivable. The decrease in the FDIC indemnification receivable during the six months ended June 30, 2012, was due to the receipt of payments on previous loss claims made to the FDIC and due to the net reduction in estimated future losses on covered assets, which caused an impairment charge of \$5.0 million during the six months ended June 30, 2012. The impairment in the FDIC indemnification asset recognizes the decreased amount that the Company expects to collect from the FDIC under the terms of its loss sharing agreements due to lower expected losses on covered assets recognized in noninterest income. At June 30, 2012, the FDIC indemnification receivable for estimated losses on covered assets in the LibertyBank Acquisition totaled \$14.2 million, while the receivable for estimated losses on covered assets in the CFB Acquisition was \$4.2 million.

Deposits. Deposits decreased \$38.3 million to \$867.8 million during the six months ended June 30, 2012. Balances in certificates of deposit declined during the first half of the year by \$43.6 million to \$228.8 million while core deposits (defined as checking, savings and money market accounts) increased \$5.3 million between December 31, 2011 and June 30, 2012. Core deposits comprised 73.6% of total deposits at June 30, 2012 compared to 69.9% at December 31, 2011. The decrease in certificates of deposit was primarily attributable to the Bank's marketing strategy to compete less aggressively on time deposit interest rates to allow higher costing certificates of deposit to decline, in particular those acquired as part of the Liberty Bank Acquisition. Our retail team attempts to retain maturing certificate of deposit relationships that include a core deposit account. We are reluctant, however, to compete for high-rate single account certificate of deposit customers due to our strong liquidity position at June 30, 2012, and consequently expect a continued managed reduction in these accounts.

The following table details the composition of the deposit portfolio and changes in deposit balances as of the balance sheet dates presented (dollars in thousands):

	June 30, 2012	December 31, 2011	Increase/(Decrease)	
			Amount	Percent
Noninterest-bearing demand	\$ 131,746	\$ 127,553	\$ 4,193	3.3 %
Interest-bearing demand	247,836	249,215	(1,379)	(0.6)
Money market	178,175	178,377	(202)	(0.1)
Savings	81,175	78,492	2,683	3.4
Certificates of deposit	228,833	272,462	(43,629)	(16.0)
Total deposit accounts	\$ 867,765	\$ 906,099	\$ (38,334)	(4.2)%

Equity. Stockholders' equity decreased \$2.1 million, or 1.1%, to \$189.1 million at June 30, 2012, compared to \$191.3 million at December 31, 2011. The decrease in stockholders' equity was primarily due the repurchase of 447,269 shares at a total cost of \$4.1 million and dividends paid of \$1.6 million. These declines in net equity were partially offset by net income from operations of \$1.3 million and an increase in the unrealized gain on our securities of \$1.5 million. All other equity items increased \$824,000, net.

At June 30, 2012, the Company's total risk-based capital ratio was 40.05%; Tier 1 capital to risk-weighted assets ratio was 38.78%; and Tier 1 capital to average asset ratio was 15.99%. The Bank's total risk-based capital ratio was 33.23%; Tier 1 capital to risk-weighted assets ratio was 31.96%; and Tier 1 capital to average asset ratio was 13.45%. The Bank was categorized as "Well-Capitalized" at June 30, 2012 under the regulations of the FDIC.

Comparison of Operating Results for the Three Months Ended June 30, 2012 and 2011

Net income for the three months ended June 30, 2012, was \$559,000, or \$0.04 per diluted share, compared to a net loss of (\$78,000), or (\$0.01) per diluted share, for the same period last year. Net interest margin decreased to 4.17% during the quarter ended June 30, 2012, from 4.92% in the linked quarter, but increased from 3.23% during the quarter ended June 30, 2011. The linked quarter decline was primarily due to a reduction in accretable income on purchased

loans during the quarter ended June 30, 2012. The increase over the year-ago quarter was also the result of the increase in accretable yield during the quarter ended June 30, 2012, on purchased loans. Similarly, the Company's yield on earning assets decreased to 4.57% in the current quarter from 5.36% in the linked quarter, but was up from 3.92% during the quarter ended June 30, 2011, primarily due to the increase in accretable yield on purchased loans.

Net Interest Income. Net interest income before the provision for loan losses increased \$913,000, or 9.7%, to \$10.3 million for the quarter ended June 30, 2012, compared to \$9.4 million for the same quarter of the prior year. The increase was attributable to the incremental accretion income from loans purchased in the LibertyBank Acquisition, and specifically to income recorded on those loans above the contractual rate stated in the individual loan notes. The additional income stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income.

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

	Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011		
	Increase/(Decrease) Due to Rate	Volume	Total
Interest-earning assets:			
Loans receivable, net	\$ 2,122	\$ (1,907)	\$ 215
Loans held for sale	-	(6)	(6)
Interest-bearing deposits in other banks	10	(57)	(47)
Investment securities	(197)	(44)	(241)
Total net change in income on interest-earning assets	\$ 1,935	\$ (2,014)	(79)
Interest-bearing liabilities:			
Savings deposits	\$ (27)	\$ 4	(23)
Interest-bearing demand deposits	(42)	2	(40)
Money market accounts	(50)	4	(46)
Certificates of deposit	206	(558)	(352)
Total deposits	87	(548)	(461)
FHLB advances and other borrowings	(32)	(499)	(531)
Total net change in expense on interest-bearing liabilities	\$ 55	\$ (1,047)	(992)
Total increase in net interest income			\$ 913

Interest Income. Total interest income for the three months ended June 30, 2012, decreased \$79,000, to \$11.3 million, from \$11.4 million for the three months ended June 30, 2011. The decrease during the quarter was primarily attributable to a lower yield earned on investment securities and a lower average balance of interest earning assets, and was partially offset by a higher yield earned on loans due the LibertyBank Acquisition. The following table compares detailed average earning asset balances, associated yields, and resulting changes in interest income (dollars in thousands):

For the Three Months Ended June 30,					Increase/ (Decrease) in Interest
2012 Average	Yield	2011 Average	Yield		

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	Balance		Balance		Income
Loans receivable, net of deferred fees	\$443,699	8.14	% \$528,902	6.67	% \$215
Loans held for sale	--	--	551	4.57	(6)
Interest bearing deposits in other banks	102,785	0.28	182,376	0.26	(47)
Investment securities, available-for-sale	425,497	2.08	434,161	2.26	(241)
FHLB stock	17,717	--	17,717	--	--
Total interest-earning assets	\$989,698	4.57	% \$1,163,707	3.92	% \$(79)

The average yield on loans increased due to accretion of discounts on purchased loans in the LibertyBank Acquisition. Additionally, we did not realize any income on loans held for sale during the quarter ended June 30, 2012, as we ceased originating mortgage loans for sale in the secondary market earlier in 2012. Applications for mortgage loans are now submitted to a third party loan originator. Total interest-earning assets declined 14.95% in the three months ended June 30, 2012 compared to the same period in 2011 due to managed declines in certificates of deposit, which served to reduce interest-bearing deposits in banks, and the decline in loans receivable was due to prepayments and charge-offs in excess of new loan production as a result of weakness in the economy.

Interest Expense. Managed reduction in certificates of deposits combined with lower average interest-bearing core deposits resulted in a reduced cost of funds during the quarter ended June 30, 2012, compared to the same period in 2011. Additionally, the Bank paid off all outstanding borrowings with the FHLB in September 2011, which reduced interest expense on borrowings during the quarter ended June 30, 2012 compared to the same period in 2011. The cost of funds on interest-bearing liabilities for the quarter ended June 30, 2012 was 0.54% compared to 0.83% for the quarter ended June 30, 2011. We anticipate continued declines in certificates of deposit balances in the next quarter as maturities of these accounts continue. The following table details average balances, cost of funds and the change in interest expense (dollars in thousands):

	For the Three Months Ended June 30,				Increase/ (Decrease) in Interest Income
	2012 Average		2011 Average		
	Balance	Yield	Balance	Yield	
Savings deposits	\$81,228	0.08	% \$81,795	0.20	% \$(23)
Interest-bearing demand deposits	243,635	0.18	240,103	0.25	(40)
Money market deposits	180,584	0.22	176,247	0.33	(46)
Certificates of deposit	239,706	1.28	412,951	1.08	(352)
FHLB advances and other borrowings	4,726	1.35	53,486	4.09	(531)
Total interest-bearing liabilities	\$749,879	0.54	% \$964,582	0.83	% \$(992)

The decline in average certificates of deposits during the three months ended June 30, 2012 compared to the three months ended June 30, 2011, was due to maturities of certificates of deposit, primarily in the LibertyBank Acquisition deposit portfolio. Due to the significant amount of cash we received in the LibertyBank Acquisition, the current low interest rate environment, and weak loan demand from creditworthy borrowers, we reduced our rates on deposits during the fiscal year ended September 30, 2011, and have continued to reduce rates in fiscal year 2012, permitting certificates of deposit to decline. As noted earlier, we repaid all outstanding advances from the FHLB during the fiscal year ended September 30, 2011. At June 30, 2012, borrowings consisted of term retail repurchase agreements.

Provision for Loan Losses. A negative provision for loan losses of (\$434,000) was recorded during the quarter ended June 30, 2012, compared to a negative provision of (\$783,000) for the linked quarter ended March 31, 2012, and a provision of \$2.8 million for the same year-ago period. The negative provisions related to covered loans purchased in the CFB Acquisition and were primarily due to recoveries realized during the respective quarters and lower loan balances in that portfolio. Net of amounts recorded in noninterest income as FDIC indemnification recovery, the impact of the negative provision for loan losses increased income before taxes by \$23,000 during the quarter ended June 30, 2012. The "FDIC indemnification recovery" of (\$411,000) reported in noninterest income represents the amount of reduction of losses expected to be recovered by the Bank from the FDIC due to this negative provision.

Loans purchased in the LibertyBank Acquisition were aggregated into pools. If an individual pool performs better than management's original estimates, the Company may incur an increase in accretable yield in interest income, which is offset somewhat by impairment in the FDIC indemnification asset since loan losses are expected to be less

than previously estimated. If the estimated cash flows in a loan pool are less than management previously estimated, an allowance for loan losses may be recorded through a provision, which is offset somewhat by the amount expected to be recovered from the FDIC under the loss sharing agreements. During the quarter ended June 30, 2012, the Bank reversed impairments on certain loan pools purchased in the LibertyBank Acquisition for which provisions for loan losses had been taken in prior periods. These impairment reversals are deducted from the allowance for loan losses as charge-offs, and represent previously set aside reserves which are depleted as loans payoff or are charged off. We

did not recognize a provision for loan losses on certain pools of loans purchased in the LibertyBank Acquisition during the quarter ended June 30, 2012.

Stabilizing credit quality and an improving economy have reduced the likelihood of additional losses in the noncovered, originated loan portfolio at June 30, 2012. Therefore, we did not record a provision for noncovered, originated loans during the quarter ended June 30, 2012, compared to a provision of \$200,000 in the same 2011 period.

The following table details the impact of the provision for loan losses and the FDIC indemnification recovery on income before taxes (in thousands):

	For the Three Months Ended	
	2012	June 30, 2011
Provision for loan losses on:		
Noncovered originated loans	\$ --	\$ 200
Covered loans – CFB Acquisition	(434)	2,000
Covered loans – LibertyBank Acquisition	--	611
Total gross provision for loan losses	(434)	2,811
Less: FDIC indemnification recovery reported in noninterest income:		
Noncovered originated loans	--	--
Covered loans – CFB Acquisition	(411)	1,900
Covered loans – LibertyBank Acquisition	--	489
Total FDIC indemnification recovery	(411)	2,389
Net decrease (increase) to income before taxes:		
Noncovered originated loans	--	200
Covered loans – CFB Acquisition	(23)	100
Covered loans – LibertyBank Acquisition	--	122
Net decrease (increase) in income before income taxes	\$ (23)	\$ 422

While we believe the estimates and assumptions used in our determination of the adequacy of the allowance for loan losses 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 the Company's financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

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

	Three Months Ended		Increase/(Decrease)	
	June 30,		Amount	Percent
	2012	2011		

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Service charges and fees	\$2,274	\$2,446	\$(172)	(7.0)%
Gain on sale of loans	--	120	(120)	(100.0)
Gain on sale of securities AFS	603	--	603	n/a
Gain (loss) on sale of fixed assets and repossessed assets	152	196	(44)	22.4
FDIC indemnification (recovery)	(411)	2,389	(2,800)	(117.2)
Accretion (impairment) of FDIC indemnification asset	(1,705)	355	(2,060)	(580.3)
Other	223	201	22	10.9
Total noninterest income	\$1,136	\$5,707	\$(4,571)	(80.1)%

The following table presents noninterest income excluding the impact of FDIC indemnification items on all covered loans (in thousands):

	Three Months Ended	
	June 30,	
	2012	2011
Total noninterest income, as reported	\$ 1,136	\$ 5,707
Less: FDIC indemnification recovery (provision)	(411)	2,389
Accretion (impairment) of FDIC indemnification asset	(1,705)	355
Total noninterest income, excluding FDIC indemnification items	\$ 3,252	\$ 2,963

As noted earlier, the FDIC indemnification recovery (provision) represents the recovery of amounts expected from the FDIC under loss sharing agreements due to incremental provisions for loan losses in the current period or the impairment (reduction) in the expected amounts to be recovered from the FDIC due to a negative provision in the current period. Accretion (impairment) of the FDIC indemnification asset generally relates to the reduction in the amounts estimated to be received from the FDIC on pooled loans as a result of increases in cash flows.

Service charges and fee income decreased \$172,000 to \$2.3 million for the quarter ended June 30, 2012, compared to the quarter ended June 30, 2011. Compared to the year-ago quarter, overdraft fees were \$301,000 lower in the quarter ended June 30, 2012. The continued decline in overdraft fees was due to fewer “free checking” accounts and regulatory changes that were first implemented in July 2010. Subsequent guidance from bank regulatory agencies and the Company’s risk management practices have caused further reductions in overdraft fees as fewer clients qualify for participation in the Bank’s extended overdraft program.

Noninterest income includes pre-tax gains on sales of securities of \$603,000 during the quarter ended June 30, 2012, compared to none for the quarter ended June 30, 2011. These gains were realized on U.S. Treasury securities. The gain on sale of REO was \$116,000 during the quarter ended June 30, 2012, compared to a gain on sale of REO of \$152,000 during the same period a year earlier.

Noninterest Expense. Noninterest expense for the quarter ended June 30, 2012, decreased \$1.3 million or 10.6% to \$11.1 million compared to \$12.4 million for the quarter ended June 30, 2011, due to a significant reduction in personnel and integration costs as a result of the consolidation of operating systems of the acquired operations of LibertyBank and Community First Bank that was completed by the end of the first half of fiscal year 2011.

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

	Three Months Ended		Increase/(Decrease)	
	2012	2011	Amount	Percent
Compensation and benefits	\$ 6,175	\$ 6,780	\$ (605)	(8.9)%
Occupancy and equipment	1,514	1,518	(4)	(0.3)
Data processing	942	1,152	(210)	(18.2)
Advertising	223	173	50	28.9
Postage and supplies	247	298	(51)	(17.1)

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Professional services	630	863	(233)	(27.0)
Insurance and taxes	561	716	(155)	(21.6)
Amortization of intangibles	144	176	(32)	(18.2)
Provision for REO	291	296	(5)	(1.7)
Other	379	451	(72)	(16.0)
Total noninterest expense	\$ 11,106	\$ 12,423	\$ (1,317)	(10.6)%

Compensation and benefits expense decreased \$605,000 during the quarter ended June 30, 2012, compared to the year ago quarter due to branch closings and the consolidation of operations that occurred during calendar year 2011. On September 30, 2011, we merged our employee stock ownership (“ESOP”) and 401(k) plans into a single plan (“KSOP”) and refinanced the loans associated with the ESOP, which lowered the annual allocation of ESOP shares,

compared to previous years. Compensation expense related to the KSOP was \$186,000 during the quarter ended June 30, 2012, compared to \$400,000 in the year-ago quarter for ESOP and 401(k) plan expenses. Expense related to the ESOP is recorded based on the fair value of the Company's share price and, therefore, is subject to fluctuation in future periods. Data processing expenses were lower the three months ended June 30, 2012 compared to the same period in 2011 due to the integration of the LibertyBank core application system that was completed in March 2011, but secondary support applications continued to run online after the conversion for contingency planning purposes in the second quarter of 2011. Professional services were lower in the three months ended June 30, 2012 compared to same period in 2011 as a number of information technology projects were in process in 2011 that have now been completed.

Comparison of Operating Results for the Six Months Ended June 30, 2012 and 2011

Net income for the six months ended June 30, 2012, was \$1.3 million, or \$0.09 per diluted share, compared to a net loss of \$1.3 million, or \$0.08 per diluted share, for the same period last year. Net interest margin increased substantially to 4.54% during the six months ended June 30, 2012, compared to 3.02% during the same period a year earlier. The increase over the year-ago six months was primarily the result of the increase in accretable yield during the six months ended June 30, 2012, on purchased loans in addition to a reduction in the Company's cost of funds in 2012. The Company's yield on earning assets increased to 4.97% in the current six month period from 3.73% during the six months ended June 30, 2011, primarily due to the increase in accretable yield on purchased loans.

Net Interest Income. Net interest income before the provision for loan losses increased \$4.7 million, or 26.5%, to \$22.7 million for the six months ended June 30, 2012, compared to \$17.9 million for the same six months of the prior year. The increase was attributable to the incremental accretion income from loans purchased in the LibertyBank Acquisition as a result of an increase in estimated future cash flows, and specifically to income recorded on those loans above the contractual rate stated in the individual loan notes. The additional income stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income.

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

	Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011		
	Increase/(Decrease) Due to		
	Rate	Volume	Total
Interest-earning assets:			
Loans receivable, net	\$4,384	\$(1,336)	\$3,048
Loans held for sale	--	(17)	(17)
Interest-bearing deposits in other banks	(17)	(94)	(111)
Investment securities	(128)	(165)	(293)
Total net change in income on interest-earning assets	\$4,239	\$(1,612)	2,627
Interest-bearing liabilities:			
Savings deposits	\$(41)	\$--	(41)
Interest-bearing demand deposits	(135)	1	(134)
Money market accounts	(111)	1	(110)
Certificates of deposit	219	(985)	(766)
Total deposits	(68)	(983)	(1,051)
FHLB advances and other borrowings	(563)	(505)	(1,068)
Total net change in expense on interest-bearing liabilities	\$(631)	\$(1,488)	(2,119)
Total increase in net interest income			\$4,746

Interest Income. Total interest income for the six months ended June 30, 2012, increased \$2.6 million, to \$24.8 million, from \$22.2 million for the six months ended June 30, 2011. The increase during the first half of 2012 was primarily attributable to an increase in the yield earned on loans due the LibertyBank Acquisition, partially offset by a significant decrease in average earning asset balances.

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

	For the Six Months Ended June 30,				Increase/ (Decrease) in Interest Income
	2012		2011		
	Average Balance	Yield	Average Balance	Yield	
Loans receivable, net of deferred fees	\$449,289	9.01	% \$550,408	6.25	% \$3,048
Loans held for sale	--	--	766	4.32	(17)
Interest bearing deposits in other banks	113,560	0.25	186,923	0.27	(111)
Investment securities, available-for-sale	417,311	2.11	432,837	2.17	(293)
FHLB stock	17,717	--	17,717	--	--

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Total interest-earning assets	\$997,877	4.97	%	\$1,188,651	3.73	%	\$2,627
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The average yield on loans increased due to accretion of discounts on purchased loans in the LibertyBank Acquisition. There was no income on loans held for sale during the quarter ended June 30, 2012, as we ceased originating mortgage loans for sale in the secondary market in December 2011. Applications for mortgage loans are now submitted to a third party loan originator.

Interest Expense. Managed reduction in certificates of deposits combined with lower average interest-bearing core deposits resulted in a reduced cost of funds during the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Additionally, the Bank paid off all outstanding borrowings with the FHLB in September 2011, which reduced interest expense on borrowings during the six months ended June 30, 2012, compared to the

same period in 2011. The cost of funds on interest-bearing liabilities for the six months ended June 30, 2012 was 0.56% compared to 0.86% for the six months ended June 30, 2011. The following table details average balances, cost of funds and the change in interest expense (dollars in thousands):

	For the Six Months Ended June 30,				Decrease in Interest Expense
	2012		2011		
	Average Balance	Rate	Average Balance	Rate	
Savings deposits	\$80,752	0.09 %	\$79,588	0.20 %	\$(41)
Interest-bearing demand deposits	245,697	0.19	237,714	0.31	(134)
Money market deposits	180,435	0.24	174,699	0.38	(110)
Certificates of deposit	251,240	1.28	438,864	1.08	(766)
FHLB advances and other borrowings	4,755	1.56	55,382	3.99	(1,068)
Total interest-bearing liabilities	\$762,879	0.56 %	\$986,247	0.86 %	\$(2,119)

The decline in average certificates of deposits during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 was due to maturities of certificates of deposit, primarily in the LibertyBank Acquisition deposit portfolio. Due to the significant amount of cash we received in the LibertyBank Acquisition, the current low interest rate environment, and weak loan demand from creditworthy borrowers, we reduced our rates on deposits during the fiscal year ended September 30, 2011 and continuing into the period ended June 30, 2012, permitting certificates of deposit to decline. As noted earlier, we repaid all outstanding advances from the FHLB during the fiscal year ended September 30, 2011. At June 30, 2012, borrowings consisted of term retail repurchase agreements.

Provision for Loan Losses. A negative provision for loan losses of (\$1.2 million) was recorded during the six months ended June 30, 2012, compared to a provision of \$5.8 million for the same year-ago period. The negative provision related to covered loans purchased in the CFB Acquisition was primarily due to some large recoveries realized during the first six months of the year, which necessitated a negative provision of (\$1.6 million). However, a provision for loan losses on certain pools of loans purchased in the LibertyBank Acquisition totaled \$335,000 during the six months ended June 30, 2012. Net of amounts recorded in noninterest income as FDIC indemnification recovery, the impact of the provision for loan losses increased income before taxes by \$13,000 during the six months ended June 30, 2012. The FDIC indemnification provision of \$1.2 million reported in noninterest income represents the net reduction of losses expected to be recovered by the Bank from the FDIC due to the provision for loan losses.

The following table details the impact of the provision for loan losses and the FDIC indemnification recovery on income before taxes for the six months ended June 30, 2012 and 2011 (in thousands):

	For the Six Months Ended June 30,	
	2012	2011
Provision for loan losses on:		
Noncovered originated loans	\$ --	\$ 200
Covered loans – CFB Acquisition	(1,552)	5,000
Covered loans – LibertyBank Acquisition	335	611
Total gross provision for loan losses	(1,217)	5,811

Less: FDIC indemnification recovery reported in noninterest income:		
Noncovered originated loans	--	--
Covered loans – CFB Acquisition	(1,474)	4,750
Covered loans – LibertyBank Acquisition	244	489
Total FDIC indemnification recovery (provision)	(1,230)	5,239
Net decrease (increase) to income before taxes:		
Noncovered originated loans	--	200
Covered loans – CFB Acquisition	(78)	250
Covered loans – LibertyBank Acquisition	91	122
Net decrease in income before income taxes	\$ 13	\$ 572

Noninterest Income. Noninterest income for the six months ended June 30, 2012, was \$29,000, compared to \$11.8 million during the same period in the previous year. The significantly reduced amount in the current year was primarily due to the impairment of the FDIC indemnification asset, and the impact of the indemnification recovery related to the negative provision for loan losses which totaled \$5.0 million and \$1.2 million, respectively, during the first six months of 2012. The following table provides a detailed analysis of the changes in components of noninterest income (dollars in thousands):

	Six Months Ended		Increase/(Decrease)	
	2012	June 30, 2011	Amount	Percent
Service charges and fees	\$4,381	\$4,678	\$(297)	(6.3)%
Gain on sale of loans	1	307	(306)	(99.7)
Gain on sale of securities AFS	1,138	--	1,138	n/a
Gain on sale of fixed assets and repossessed assets	372	144	228	158.3
FDIC indemnification (recovery)	(1,230)	5,239	(6,469)	(123.5)
Accretion (impairment) of FDIC indemnification asset	(5,048)	1,004	(6,052)	(602.8)
Other	415	429	(14)	(3.3)
Total noninterest income	\$29	\$11,801	\$(11,772)	(99.8)%

The following table presents noninterest income excluding the impact of FDIC indemnification items on all covered loans (in thousands):

	Six Months Ended	
	2012	June 30, 2011
Total noninterest income, as reported	\$ 29	\$ 11,801
Less: FDIC indemnification recovery	(1,230)	5,239
Accretion (impairment) of FDIC indemnification asset	(5,048)	1,004
Total noninterest income, excluding FDIC indemnification items	\$ 6,307	\$ 5,558

Service charges and fee income decreased \$297,000 to \$4.4 million for the six months ended June 30, 2012, compared to \$4.7 million in the same period a year ago. Compared to the year-ago six month period, overdraft fees were \$566,000 lower in the six months ended June 30, 2012 due to fewer “free checking” accounts and regulatory changes that were first implemented in July 2010. Subsequent guidance from bank regulatory agencies and the Company’s risk management practices have caused further reductions in overdraft fees as fewer clients qualify for participation in the Bank’s extended overdraft program.

Noninterest income includes pre-tax gains on sales of securities of \$1.1 million during the six months ended June 30, 2012, compared to none for the six months ended June 30, 2011. These gains were realized on U.S. Treasury securities that were purchased during the first half of 2012 and the sales were executed as a result of the strong rally in the bond market in 2012. The gain on sale of fixed assets and REO was \$372,000 and \$144,000 during the six months ended June 30, 2012 and 2011, respectively.

Noninterest Expense. Noninterest expense for the six months ended June 30, 2012, decreased \$4.1 million or 15.6% to \$22.1 million compared to \$26.2 million for the six months ended June 30, 2011, due to a significant reduction in personnel and integration costs as a result of the consolidation of operating systems of the acquired operations of

LibertyBank and Community First Bank that was completed during the later part of the first half of fiscal year 2011.

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

	Six Months Ended June 30,		Decrease	
	2012	2011	Amount	Percent
Compensation and benefits	\$ 12,312	\$ 13,961	\$ (1,649)	(11.8)%
Occupancy and equipment	3,077	3,395	(318)	(9.4)
Data processing	1,947	2,102	(155)	(7.4)
Advertising	377	435	(58)	(13.3)
Postage and supplies	553	647	(94)	(14.5)
Professional services	1,269	1,899	(630)	(33.2)
Insurance and taxes	1,082	1,742	(660)	(37.9)
Amortization of intangibles	296	362	(66)	(18.2)
Provision for REO	398	653	(255)	(39.1)
Other	755	950	(195)	(20.5)
Total noninterest expense	\$ 22,066	\$ 26,146	\$ (4,080)	(15.6)%

Compensation and benefits expense decreased \$1.6 million during the six months ended June 30, 2012, compared to the same year ago period due to branch closings and the consolidation of operations that occurred during calendar year 2011. Compensation expense related to the KSOP was \$389,000 during the six months ended June 30, 2012, compared to \$824,000 in the year ago period for ESOP and 401(k) expense. The reduced expense in 2012 was a result of the merger of the ESOP and the 401(k) plan.

Occupancy and equipment expense was lower in 2012 due to branch closures that occurred in late 2011. Professional services declined in 2012 compared to 2011 as a result of a number of information technology integration projects that were in process in the first half of 2011 that have since been completed. Insurance and taxes declined in 2012 due to a change in the assessment base for deposit insurance premiums. FDIC insurance premium assessments totaled \$486,000 during the first half of 2012 compared to \$719,000 in 2011. Property taxes were also lower in 2012 due to lower REO balances and fewer branches in 2012, as well as the timing of accruals for property taxes.

Liquidity, Commitments and Capital Resources

Liquidity. We actively analyze and manage liquidity with the objectives of maintaining an adequate level of liquidity and to ensure the availability of sufficient cash flows to support loan growth, fund deposit withdrawals, fund operations and satisfy other financial commitments. See the “Consolidated Statements of Cash Flows” contained in Item 1 - Financial Statements, included herein.

The primary sources of funds are customer deposits, loan repayments, sales and maturities of investments and, to a lesser extent, FHLB borrowings. These sources of funds are used to make loans, purchase investments and fund continuing operations. While maturities and the scheduled amortization of loans are generally predictable sources of funds, deposit flows and loan prepayments are greatly influenced by the level of interest rates, economic conditions and competition. The Company’s liquidity ratio (defined as the sum of cash and cash equivalents and investments available-for-sale divided by total assets) was 49.0% at June 30, 2012, compared to 48.7% at December 31, 2011. This high level of liquidity is primarily attributable to the LibertyBank Acquisition, as the Company received \$313.9 million from the FDIC in connection with this acquisition and assumed \$59.2 million of cash held by LibertyBank on the acquisition date. Funds obtained from the acquisition of LibertyBank in the fourth quarter of the fiscal year ended September 30, 2010 have been invested primarily in securities since the acquisition date. We will continue to invest excess cash in medium-term securities, but will also conserve some cash in order to meet the demand of maturing certificates of deposit, prepare for the potential of rising interest rates, and to provide flexibility for potential acquisitions or repurchases of common stock.

At June 30, 2012, certificates of deposit totaled \$228.8 million, or 26.4% of total deposits, including \$117.1 million that are scheduled to mature within the next twelve months from June 30, 2012. We believe our current liquidity position and anticipated operating results are sufficient to fund known, existing commitments and activity levels.

At June 30, 2012, the Bank maintained a borrowing facility with the FHLB of Seattle equal to 40% of total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At June 30, 2012, the Bank was in compliance with the collateral requirements and \$100.0 million of the line of credit was available. Despite the fact no borrowings were outstanding June 30, 2012, the Bank from time to time can be highly dependent on the FHLB of Seattle to provide the primary source of wholesale funding for immediate liquidity and borrowing needs. The failure of the FHLB of Seattle or the FHLB system in general, may materially impair the Company’s ability to meet our growth plans or to meet short and long-term liquidity demands.

Off-Balance Sheet Arrangements. The Bank is party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of the Bank’s customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the Consolidated Balance Sheets. The Bank’s maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Because some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The same credit policies are used in making commitments as are used for on-balance sheet instruments. Collateral is required in instances where deemed necessary.

Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed, for home equity, commercial and consumer lines of credit.

Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily used to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

In connection with certain asset sales, the Bank typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against loss. These representations and warranties are most applicable to the residential mortgages sold in the secondary market. The Bank believes that the

potential for significant loss under these arrangements is remote. However, past performance may not be representative of future performance on sold loans and the Bank may experience material losses in the future.

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of June 30, 2012 (in thousands):

	Contract or Notional Amount
Commitments to extend credit:	
Fixed rate	\$ 10,669
Adjustable rate	4,113
Undisbursed balance of loans closed	8,824
Unused lines of credit	63,990
Commercial letters of credit	1,182
Total	\$ 88,778

Capital. Consistent with the Bank's goal to operate a sound and profitable financial organization, efforts are ongoing to actively seek to maintain a "well capitalized" institution in accordance with regulatory standards. The Company's consolidated capital ratios at June 30, 2012, were as follows: Tier 1 capital 15.99%; Tier 1 (core) risk-based capital 38.78%; and total risk-based capital 40.05%. The applicable regulatory capital requirements to be considered well capitalized are 5%, 6% and 10%, respectively. The Bank's regulatory capital ratios at June 30, 2012, were as follows: Tier 1 capital 13.45%; Tier 1 (core) risk-based capital 31.96%; and total risk-based capital 33.23%. As of June 30, 2012, the Bank exceeded all regulatory capital requirements and had a consolidated tangible capital ratio of 14.42%.

Cyber Risks

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

Information security risks for financial institutions such as Home Federal Bank have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Those parties also may attempt to fraudulently induce

employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our retail and commercial banking services businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smart phones, tablets, and other mobile devices that are beyond our control systems. Although we believe we have effective information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Home Federal Bank's or our customers' confidential,

proprietary and other information, or otherwise disrupt our business operations. We have purchased property and cyber insurance to mitigate the financial impact of such events; however, losses could exceed our coverage limits and the impact to our reputation as a result of a material breach could significantly impair our ability to maintain client relationships and conduct business.

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's Board of Directors has established an asset and liability management policy to guide management in maximizing net interest spread by managing the differences in terms between interest-earning assets and interest-bearing liabilities while maintaining acceptable levels of liquidity, capital adequacy, interest rate sensitivity, credit risk and profitability. The Asset/Liability Management Committee, consisting of certain members of senior management, communicate, coordinate and manage asset/liability positions consistent with the business plan and Board-approved policies, as well as to price savings and lending products, and to develop new products.

One of the Bank's primary financial objectives is to generate ongoing profitability. The Bank's profitability depends primarily on its net interest income, which is the difference between the income it receives on its loan and investment portfolio and its cost of funds, which consists of interest paid on deposits and borrowings. The rates the Company earns on assets and pays on liabilities generally are established contractually for a period of time. Market interest rates change over time. The Bank's loans generally have longer maturities than its deposits. Accordingly, the Company's results of operations, like those of other financial institutions, are affected by changes in interest rates and the interest rate sensitivity of assets and liabilities. The Bank measures its interest rate sensitivity on a quarterly basis using an internal model.

In recent years, the Company has primarily utilized the following strategies in its efforts to manage interest rate risk:

- § Reduced our reliance on long-term, fixed-rate one-to-four family residential loans by originating nearly all of these loans for sale in the secondary market or through referrals to third party origination brokers and subsequently ceasing originations of these loans in December 2011;
 - § Increased originations of adjustable-rate commercial and commercial real estate loans;
 - § Acquisitions of banking operations with a higher mix of commercial loans than our organic portfolio; and,
- § Reduced our reliance on higher-rate certificates of deposit and FHLB borrowings by focusing on core deposit growth, including checking and savings accounts that are less-sensitive to interest rate changes and have longer average lives than certificates of deposit.

At June 30, 2012, the Company had no off-balance sheet derivative financial instruments, and the Bank did not maintain a trading account for any class of financial instruments or engage in hedging activities or purchase high risk derivative instruments. Furthermore, the Company is not subject to foreign currency exchange rate risk or commodity price risk.

There has not been any material change in the market risk disclosures contained in the Company's 2011 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer, and other members of the Company's management team as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2012, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. A number of internal control procedures were, however, modified during the quarter in conjunction with the Bank's internal control

testing, ongoing operational changes and the integration of the application systems of acquired businesses. These controls also relate to the accounting and reporting for acquired loans, which is highly subjective and requires significant estimation of future events. The Company also continued to implement control enhancements to remediate findings and deficiencies identified by its internal auditor and independent registered public accounting firm.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent every error or instance of fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2011 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information about repurchases of common stock made by the Company during the quarter ended June 30, 2012:

Period of Repurchase	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program
April 1 – April 30, 2012	--	\$ --	--	504,269
May 1 – May 31, 2012	369,757	9.16	369,757	816,032
June 1 – June 30, 2012	71,912	9.25	71,912	744,120

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- 2.1 Purchase and Assumption Agreement for Community First Bank Transaction (1)
- 2.2 Purchase and Assumption Agreement for LibertyBank Transaction (2)
- 3.1 Articles of Incorporation of the Registrant (3)
- 3.2 Amended and Restated Bylaws of the Registrant (3)
- 10.1 Amended Employment Agreement entered into by Home Federal Bancorp, Inc. with Len E. Williams (4)
- 10.2 Amended Severance Agreement with Eric S. Nadeau (4)
- 10.3 Amended Severance Agreement with R. Shane Correa (4)
- 10.4 Amended Severance Agreement with Cindy L. Bateman (4)
- 10.5 Form of Home Federal Bank Employee Severance Compensation Plan (5)
- 10.6 Form of Director Indexed Retirement Agreement entered into by Home Federal Savings and Loan Association of Nampa with each of its Directors (3)
- 10.7 Form of Director Deferred Incentive Agreement entered into by Home Federal Savings and Loan Association of Nampa with each of its Directors (3)
- 10.8 Form of Executive Deferred Incentive Agreement, and amendment thereto, entered into by Home Federal Savings and Loan Association of Nampa with Daniel L. Stevens, Robert A. Schoelkoph, and Lynn A. Sander (3)
- 10.9 Form of Amended and Restated Salary Continuation Agreement entered into by Home Federal Savings and Loan Association of Nampa with Daniel L. Stevens (3)
- 10.10 Amended and Restated Salary Continuation Agreement entered into by Home Federal Bank with Len E. Williams (4)
- 10.11 Amended and Restated Salary Continuation Agreement entered into by Home Federal Bank with Eric S. Nadeau (4)
- 10.12 Amended and Restated Salary Continuation Agreement entered into by Home Federal Bank with R. Shane Correa (6)
- 10.13 2005 Stock Option and Incentive Plan approved by stockholders on June 23, 2005 and Form of Incentive Stock Option Agreement and Non-Qualified Stock Option Agreement (7)
- 10.14 2005 Recognition and Retention Plan approved by stockholders on June 23, 2005 and Form of Award Agreement (7)
- 10.15 Director Retirement Plan entered into by Home Federal Bank with each of its Independent Directors (8)
- 10.16 Transition Agreement with Daniel L. Stevens (9)
- 10.17 2008 Equity Incentive Plan (10)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act *
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act *
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act *
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Operations; (3) Consolidated Statements of Comprehensive Income (Loss); (4) Consolidated Statements of Stockholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Selected Notes to Consolidated Financial Statements. (11)

(1) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated August 7, 2009

(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated July 30, 2010

(3) Filed as an exhibit to the Registrant's Registration Statement on Form 8-K dated April 2, 2012

(4) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011

(5) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008

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- (6) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2011
 - (7) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (333-127858)
 - (8) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated October 21, 2005
 - (9) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated August 21, 2006
 - (10) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (333-157540)
- (11) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Home Federal Bancorp, Inc.

Date: August 8, 2012

/s/ Len E. Williams
Len E. Williams
President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2012

/s/ Eric S. Nadeau
Eric S. Nadeau
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

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