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px"> 4.57% $1,163,707 3.92% $(79)

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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 Balance	Yield		2011 Average 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

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

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 June 30,		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)

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 Average Balance	Yield	2011 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	--	--

Total interest-earning assets	$997,877	4.97	%	$1,188,651	3.73	%	$2,627

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,				
	2012		2011		Decrease in
	Average Balance	Rate	Average Balance	Rate	Interest Expense
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

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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 June 30,		Increase/(Decrease)	
	2012	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 June 30,	
	2012	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.

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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

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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,

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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

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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

(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)

EXHIBIT INDEX

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