Home Federal Bancorp, Inc.
Form 10-K
March 17, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended December 31, 2013
or

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

Commission File Number: 001-33795

HOME FEDERAL BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	68-0666697
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 12th Avenue South, Nampa, Idaho	83651
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(208) 466-4634
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, par value $.01 per share	Nasdaq Global Select Market
(Title of Each Class)	(Name of Each Exchange on Which Registered)
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	Yes [ ]	No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	Yes [ ]	No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	Yes [X]	No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes [X]	No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	[ ]	

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

Large accelerated filer	[ ]	Accelerated filer	[X]	Non-accelerated filer	[ ]	Smaller reporting company	[ ]

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

As of March 5, 2014, there were 14,829,224 shares of the registrant's common stock outstanding. The aggregate market value of the voting stock held by nonaffiliates of the registrant based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Global Select Market on June 30, 2013, was approximately $177,890,000 (13,963,133 shares at $12.74 per share).

DOCUMENTS INCORPORATED BY REFERENCE

Part III - Portions of the Registrant's definitive Proxy Statement for its 2014 Annual Meeting of Stockholders.

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2013 ANNUAL REPORT ON FORM 10-K
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Forward-Looking Statements and "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995

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

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

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

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- changes in general economic conditions, either nationally or in our market areas;
- changes in the levels of general interest rates, and the relative differences between short-term and long-term interest rates, deposit interest rates, our net interest margin and funding sources;
- 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 Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiary by the Federal Deposit Insurance Corporation (FDIC) and the Idaho Department of Finance or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings and could increase our deposit premiums;
- legislative or regulatory changes, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and its implementing regulations that adversely affect our business, as well as changes in regulatory policies and principles or the interpretation of regulatory capital or other rules, including as a result of Basel III;
- our ability to attract and retain deposits;
- increases in premiums for deposit insurance;
- our ability to control operating costs and expenses;
- the use of estimates in determining the fair value of certain of our assets or cash flows on purchased credit impaired loans, which estimates may prove to be incorrect and result in significant declines in valuation;
- 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;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and saving habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common stock;
- adverse changes in the securities markets and the value of our investments;
- the inability of key third-party providers to perform their obligations to us;
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- changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and
- the pending merger between the Company and Cascade Bancorp (Cascade) will not be consummated.

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

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Any of the forward-looking statements that we make in this report and in other public statements 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 2014 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, operating results and stock price.

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

PART I.

Item 1. Business

Organization

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

As part of the Conversion, a total of 9,384,000 new shares of the Company were sold in the offering at $10 per share. Proceeds from the offering totaled $87.8 million, net of offering costs of approximately $5.9 million. The Company contributed $48.0 million or approximately 50% of the net proceeds to the Bank in the form of a capital contribution.

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

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

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

Merger Agreements with Banner Corporation and Cascade Bancorp. On October 23, 2013, the Company announced the signing of a definitive merger agreement (Cascade Agreement) with Cascade Bancorp (Cascade). Under the terms of the Cascade Agreement, Cascade will acquire the Company, subject to regulatory approval, approval by the stockholders of the Company and Cascade, and other customary conditions of closing. Previously, on September 24, 2013, the Company entered into a merger agreement (Banner Agreement) with Banner Corporation (Banner). The Company terminated the Banner Agreement on October 23, 2013, and paid a termination fee of $3.0 million to Banner during the fourth quarter of 2013. The Banner Agreement was terminated pursuant to its terms because the Company's Board of Directors determined the Cascade offer was a Superior Proposal, as defined in the Banner Agreement. The merger with Cascade is expected to close in the second quarter of 2014.

Pursuant to the terms and subject to the conditions of the Cascade Agreement, the transaction provides for the payment to Company shareholders of (i) $120.8 million in cash (subject to adjustment based on shareholders' equity of the Company and other adjustments described in the Cascade Agreement) and (ii) 24,309,066 shares of Cascade common stock (subject to adjustment described in the Cascade Agreement). All "in-the-money" stock options of the Company outstanding immediately prior to the effective time of the merger will be canceled in exchange for a cash payment as provided in the Cascade Agreement. Each award of the Company's common stock subject to a vesting or lapse restriction under an equity compensation plan will be canceled and converted into the right to receive its

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proportionate share of the merger consideration. As soon as practicable after the consummation of the merger, the Bank will merge with and into Bank of the Cascades, an Oregon state chartered bank and the wholly-owned subsidiary of Cascade, with Bank of the Cascades surviving the merger.

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

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

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

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

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

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20% of the Net Loss Amount, which is the sum of all loss amounts on covered assets less the sum of all recovery amounts realized. This amount is not yet known;

- 25% of the asset premium (discount). This amount is ($7.5) million; and
- 3.5% of the total covered assets under the loss share agreements. This amount is $10.1 million.

The Company has estimated the minimum level of losses to avoid a true-up provision payment to the FDIC to be $46.7 million. At December 31, 2013, the Company accrued $778,000 as an estimate of the true-up provision obligation.

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Business Activities

The Company’s primary business activity is the ownership of the outstanding common stock of the Bank. The Company neither owns nor leases any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate management fees, as required by applicable law and regulations. At December 31, 2013, the Company had no significant assets, other than $11.4 million of cash and cash equivalents, $5.0 million of mortgage-backed securities and all of the outstanding shares of the Bank, and had no significant liabilities.

The Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. The Bank’s deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund. The Bank has been a member of the Federal Home Loan Bank (FHLB) System since 1937. Home Federal Bank’s primary regulators are the FDIC and the Department as a result to its conversion to a state-chartered non-member bank in 2011.

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

At December 31, 2013, the Company had total assets of $1.0 billion, net loans of $407.5 million, deposit accounts of $818.5 million and stockholders’ equity of $169.0 million.

Operating Lines

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

Market Area

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

At December 31, 2013, the Bank operated through 24 full-service branches and three commercial loan production offices. Those branches are noted in the table under “Item 2. Properties.”

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

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

The Treasure Valley has enjoyed strong population growth over the last ten years, which led to an increase in residential community developments. Historically, the unemployment rate has been lower than the national rate. The recent

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recession led to significant deterioration in residential home sales, caused acceleration in unemployment in the Treasure Valley from 2008 through 2010. These weak economic conditions created an over-supply of speculative construction and land development projects. During the build-up of residential construction, commercial real estate construction also accelerated and subsequently many speculative commercial construction projects became vacant, which contributed to falling property values. During 2012, the unemployment rate in the Boise-Nampa MSA fell quickly and residential and commercial construction activity increased significantly, particularly in Meridian, Idaho. This unemployment rate remained low throughout 2013. As a result, general real estate values are rising after nearly two years of annual declines and the labor market has grown to levels near its pre-recession peak and property values improved during 2013. See "Risk Factors" under Item 1A of this Annual Report on Form 10-K.

Central Oregon Region. Within Central Oregon, Home Federal Bank operates in Deschutes, Crook and Jefferson counties. Central Oregon has become a year-round destination resort for visitors and tourists worldwide offering premiere skiing, golfing, fishing, hiking, museums, biking, kayaking, festivals and world-class destination resorts. The largest communities in the Central Oregon Region are Bend, Redmond and Prineville. The population of the Bend MSA is approximately 162,000 people.

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

Central Oregon experienced rapid population growth and significant new construction occurred between 2003 and 2007 as the region's natural beauty and resorts gained greater renown; however, this growth has slowed significantly over the last five years. Commercial and residential real estate values increased rapidly prior to 2008 as construction of retail centers and new residential developments maintained pace with population growth. The median home price in Bend and Redmond rose 70% between April 2005 and April 2007 when values peaked. However, the economic slowdown that started in 2008 reduced spending on vacations and tourism traffic in the region, resulting in very high unemployment in many Central Oregon communities. Additionally, commercial real estate vacancies in the region rose quickly and the median home prices in September 2011 had fallen approximately 50% from their peak. The Bend economy improved in 2013 and while unemployment in this region remains significantly above the national average, home values increased rapidly during 2013.

Western Oregon Region. A benefit from the LibertyBank Acquisition was the expansion of our markets into the communities of Eugene, Springfield, Medford and Grants Pass, Oregon. Eugene is Oregon's second largest city with a population of more than 158,000 people. Manufacturing, retail trade and healthcare and social assistance make up nearly 40% of total employment in Lane County. Since the University of Oregon and a Federal courthouse are located there, government employment helps add stability to Lane County's economy. While unemployment in Lane County has not been as severe as in Central Oregon, it has trended above national unemployment rates.

Medford, a city of approximately 76,000 people in the southern Oregon county of Jackson, has healthcare as the largest employment industry, along with Lithia Motors and specialty food retailer Harry & David. Nearby Grants Pass, Oregon in Josephine County, is a city of approximately 35,000 people. The Rogue River serves as a primary source for tourism in both of these counties. The combined metropolitan areas of Medford and Grants Pass total approximately 290,000 people.

Operating Strategy

The goal of management's operating strategy is to enhance the Company's franchise value and increase earnings through acquisitions and organic growth in our banking operations, especially by lending to small to medium-sized businesses, while maintaining the community-oriented client service and sales focus that has characterized our success to date. In order to be successful in this objective and increase stockholder value, we have committed to the following strategies:

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

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Market and Product Expansion Through Acquisitions. In order to enhance our ability to deliver products and services in our existing markets and to expand into surrounding markets, we sought and executed select acquisition opportunities within the intermountain region between Salt Lake City and the Cascade Mountains. We consummated FDIC-assisted transactions in August 2009 and July 2010 that increased our assets by $881.0 million, based on the fair value of assets purchased on the acquisition dates.

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

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

Competition

We face intense competition in originating loans and in attracting deposits within our targeted geographic markets. We compete by leveraging our full-service delivery capability comprised of 24 convenient branch locations, three commercial loan production offices, a network of automated teller machines, a call center and Internet banking, and by consistently delivering high-quality, individualized service to our clients that result in a high level of client satisfaction. Our key large-bank competitors are Wells Fargo, U.S. Bank, Chase, Key Bank and Washington Federal. These competitors control approximately 60% of the deposit market within our footprint. Community bank competitors include Intermountain Community Bank, Bank of the Cascades, Washington Trust Bank and Pacific Continental Bank. Aside from these traditional competitors, credit unions, insurance companies and brokerage firms are an increasingly competing challenge for consumer deposit relationships.

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

Subsidiaries and Other Activities

Home Federal Bank is the only subsidiary of Home Federal Bancorp. At December 31, 2013, the Bank had one active wholly-owned subsidiary of its own, Commercial Equipment Lease Corporation, which the Bank acquired through the LibertyBank Acquisition. The Bank also acquired a subsidiary through the CFB Acquisition, Community First Real Estate LLC, which owned three of our branches in Central Oregon and has no significant business activity. The Bank had three inactive subsidiaries, Idaho Home Service Corporation, Liberty Funding Inc. and Liberty Insurance Services, Inc. that had no business activities and were dissolved in September 2012.

Personnel

At December 31, 2013 we had 276 full-time equivalent employees compared to 302 at December 31, 2012. The reduction in personnel during fiscal year 2013 was primarily due to branch closures in February 2013. Our employees are not represented by any collective bargaining group. We believe our relationship with our employees is good.

Corporate Information

Our principal executive offices are located at 500 12th Avenue South, Nampa, Idaho, 83651. Our telephone number is (208) 466-4634. We maintain a website with the address www.myhomefed.com/ir. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor’s own Internet access charges, we make available free of charge through our website our Annual Report

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on Form 10-K, Proxy Statements, quarterly reports on Form 10-QT or Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission (SEC). We have also posted our code of ethics and board committee charters on this site.

Lending Activities

General. Prior to 2006, our principal lending activity consisted of the origination of loans secured by first mortgages on owner-occupied, one-to-four family residences and loans for the construction of one-to-four family residences. In 2004, we started with significant focus on commercial and small business loans; however, a substantial portion of our loan portfolio is currently secured by real estate, either as primary or secondary collateral. At December 31, 2013, real estate loans comprised 66.9% of our loan portfolio with 40.4% of gross loans secured by commercial real estate. We also originate consumer loans, with an emphasis on home equity loans and lines of credit.

At December 31, 2013, the maximum amount of credit that we could have extended to any one borrower and the borrower’s related entities under applicable regulations was $23.2 million, although by internal policy we generally limit our exposure within a single borrower relationship to $12.0 million. The Senior Management Loan Committee, which includes executive management including the Bank's CEO, Chief Credit Officer, and Senior Credit Officers, will approve loans once the aggregate borrowing relationship exposure exceeds $5.0 million. The Bank does not have a Board-level loan committee; however, if a single borrower relationship exceeds $12.0 million, the Senior Management Loan Committee must get approval from the Board of Directors. Additionally, the Board of Directors receives minutes of the activities of the Senior Management Loan Committee.

Based on outstanding principal balance, our largest single borrower relationship at December 31, 2013, included two commercial real estate loans on retail shopping centers totaling $11.5 million. The second largest lending relationship at that date totaled $8.0 million consisting of three loans including two equipment term notes and an operating line of credit (the operating line of credit was an additional $1.4 million commitment, with no balance outstanding at December 31, 2013). The third largest lending relationship at that date was a term loan and operating line of credit totaling $7.5 million. The fourth largest lending relationship at that date was $7.3 million and included a land loan and two term loans to a residential real estate developer. Our fifth largest borrower relationship at that date totaled $7.3 million consisting of six commercial real estate loans on office/warehouse and medical office buildings. The sixth largest lending relationship at that date was comprised of three commercial real estate loans on assisted living facilities totaling $7.1 million.

All but one of the relationships (totaling $8.0 million to a not-for-profit corporation), including those made to corporations, have personal guarantees in place as an additional source of repayment. The $8.0 million loan relationship includes two term loans subject to an 80% guarantee by the U.S. Department of Agriculture (USDA). The additional line of credit commitment of $1.4 million to that not-for-profit corporation is not subject to the USDA guarantee. All of the loans are substantially secured by property or assets in our primary market area and 80% of losses on $11.5 million of these loans are covered by the FDIC under a purchase and assumption agreement with loss sharing.

At December 31, 2013, the largest lending relationship not covered by the loss sharing agreements totaled $8.0 million consisting of three loans including two term equipment notes and an operating line of credit. The second largest non-covered lending relationship of a $7.5 million is a commercial loan to a private utility water company. The third largest non-covered lending relationship at that date was $7.3 million comprised of a land loan and two term loans to a residential real estate developer.

One-to-four Family Residential Real Estate Lending. We historically originated both fixed-rate loans and adjustable-rate loans in our residential lending program. Generally, these loans were originated to meet the requirements of Fannie Mae and Freddie Mac for sale in the secondary market to investors. We generally underwrote our one-to-four family loans based on the applicant's employment, debt to income levels, credit history and the appraised value of the subject property. Generally, we lent up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans. In situations where we granted a loan with a loan-to-value ratio in excess of 80%, we generally required private mortgage insurance in order to reduce our exposure to 80% or less. Properties securing our one-to-four family loans are generally appraised by independent fee appraisers who have been approved by us. We required our borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount equal to the regulatory maximum. Beginning in December 2011, we ceased the origination of one-to-four family loans for sale in the secondary market.

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Rather, we refer nearly all of residential mortgage loan applications to a third party originator that underwrites and closes the mortgage funding for the Bank’s clients.

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

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

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

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

Commercial and Multifamily Real Estate Lending. Multifamily and commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by multifamily or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. At December 31, 2013, $97.6 million, or 23.4%, of our loan portfolio was comprised of loans secured by nonowner-occupied commercial real estate loans, including $80.6 million in our noncovered loan portfolio. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation, we generally require and obtain personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports.

We target individual multifamily and commercial real estate loans to small and mid-size owner occupants and investors between $500,000 and $2.0 million; however, by internal policy as of December 31, 2013, we can originate loans to one borrower up to $12.0 million. Commercial real estate loans are primarily secured by office and warehouse space, professional buildings, retail sites, multifamily residential buildings, industrial facilities and restaurants located in our primary market areas.

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

The maximum loan-to-value ratio for commercial and multifamily real estate loans is generally 75% - 80% on purchases and refinances, depending on the property type of the collateral. We require appraisals of all properties securing commercial and multifamily real estate loans. Appraisals are performed by independent appraisers designated by us or by our staff appraiser. We require our commercial and multifamily real estate loan borrowers with outstanding balances in excess of $250,000 to submit annual financial statements and rent rolls on the subject property. We also inspect the subject property at least every three to five years if the loan balance exceeds $250,000, and annually if the loan balance exceeds $1.0 million. We generally require a minimum pro forma debt coverage ratio of 1.25 times for loans secured by commercial and multifamily properties.

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

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

At December 31, 2013, the largest component of the consumer loan portfolio consisted of home equity loans and lines of credit. Home equity loans are made for, among other purposes, the improvement of residential properties, debt consolidation and education expenses. The majority of these loans are secured by a first or second mortgage on residential property. The maximum loan-to-value ratio is 80%, when taking into account both the balance of the home equity loan and the first mortgage loan. Home equity lines of credit allow for a ten-year draw period, plus an additional ten year repayment period, and the interest rate is tied to the prime rate as published in The Wall Street Journal, and may include a margin.

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

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property, which we may or may not hold. In addition, we do not have private mortgage insurance coverage for these loans. We do not actively participate in wholesale or brokered home equity loan origination.

Commercial Business Lending. As part of our strategic plan, we are focusing on originating commercial business loans including lines of credit, term loans and letters of credit. These loans are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Loan terms vary from one to seven years. The interest rates on such loans are generally floating rates indexed to The Wall Street Journal prime rate plus a margin.

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

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

A small portion of our commercial business loans ($4.4 million at December 31, 2013) were purchased from the FDIC in connection with the CFB and LibertyBank Acquisitions. All of the purchased commercial business loans in these acquisitions are covered under loss sharing agreements with the FDIC.

Commercial business loans include equipment finance agreements for the purchase of personal property, business equipment and titled vehicles and construction equipment. Generally these agreements have terms of 60 months or less and the lessee is granted title to the collateral at the end of the term. All of these financing agreements were assets of CELC, the operations of which were assumed by the Bank in the LibertyBank Acquisition, and nearly all of them are covered under a loss share agreement with the FDIC. Equipment finance agreements included in commercial business loans totaled $1.0 million at December 31, 2013, net of purchase accounting adjustments. CELC also originated leases on personal property and business assets under terms similar to those collateralized by the financing agreements described above, however, at the end of the lease term, the collateral is returned to CELC and subsequently sold through a nationwide network of brokers. Leases totaled only $112,000 at December 31, 2013, net of purchase accounting adjustments, as compared to $583,000 at December 31, 2012. Most of the leases outstanding at December 31, 2013, were covered under a loss sharing agreement with the FDIC. Currently, no new leases or commercial loans are being originated by CELC.

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

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

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value of the residual interest in the equipment, we will recognize a loss reflecting the difference. We review the lease residuals for potential impairment monthly.

Loan Portfolio Analysis. We refer to loans and leases subject to the loss sharing agreements with the FDIC as “covered loans.” All loans purchased in the CFB Acquisition were covered loans. Consumer loans not secured by real estate that were purchased in the LibertyBank Acquisition are not subject to the loss sharing agreements. These loans totaled $1.1 million at December 31, 2013. All other loans and leases purchased in the LibertyBank Acquisition are covered loans. When appropriate within this Annual Report on Form 10-K, we segregate covered loans from our noncovered loan portfolio, since we are afforded significant protection from credit losses on covered loans due to the loss sharing agreements.

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

	December 31,				September 30,					
	2013		2012		2011		2010		2009	
	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:										
One-to-four family residential	$6,284	10.4 %	$8,173	9.1 %	$15,467	10.0 %	$20,445	7.6 %	$8,537	6.8 %
Multifamily residential	2,382	3.9	3,325	3.7	8,787	5.7	10,286	3.8	6,270	5.0
Commercial real estate	34,825	57.7	48,579	54.3	60,779	39.2	83,794	31.1	61,601	48.7
Total real estate	43,491	72.0	60,077	67.1	85,033	54.9	114,525	42.5	76,408	60.5
Real estate construction:										
One-to-four family residential	—	—	—	—	950	0.6	16,884	6.3	3,128	2.5
Multifamily residential	—	—	—	—	—	—	1,018	0.4	1,521	1.2
Commercial and land development	3,339	5.5	5,417	6.1	9,573	6.2	13,246	4.9	17,230	13.6
Total real estate construction	3,339	5.5	5,417	6.1	10,523	6.8	31,148	11.6	21,879	17.3
Consumer:										
Home equity	8,379	13.9	10,279	11.5	13,765	8.9	16,124	6.0	6,728	5.3
Automobile	101	0.2	210	0.2	302	0.2	683	0.3	1,188	0.9
Other consumer	554	0.9	762	0.9	1,099	0.7	1,434	0.5	1,850	1.5
Total consumer	9,034	15.0	11,251	12.6	15,166	9.8	18,241	6.8	9,766	7.7
Commercial business	4,378	7.3	12,265	13.7	41,737	26.9	99,045	36.7	18,312	14.5
Leases	86	0.1	434	0.5	2,538	1.6	6,592	2.4	—	—
Gross loans	60,328	99.9 %	89,444	100.0 %	154,997	100.0 %	269,551	100.0 %	126,365	100.0 %
Allowance for loan losses	(2,296)		(3,917)		(5,140)		(3,527)		(16,812)	
Loans receivable, net	$58,032		$85,527		$149,857		$266,024		$109,553	

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

	December 31,				September 30,					
	2013		2012		2011		2010		2009	
	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:										
One-to-four family residential	$68,755	16.5 %	$87,833	20.8 %	$125,640	26.0 %	$157,574	24.7 %	$178,311	33.0 %
Multifamily residential	41,819	10.0	34,377	8.1	18,418	3.8	20,759	3.3	16,286	3.0
Commercial	168,294	40.4	185,132	43.8	205,929	42.6	228,643	35.9	213,471	39.5
Total real estate	278,868	66.9	307,342	72.7	349,987	72.4	406,976	63.9	408,068	75.5
Real estate construction:										
One-to-four family residential	26,567	6.4	13,016	3.1	9,054	1.9	24,707	3.9	10,871	2.0
Multifamily residential	3,769	0.9	520	0.1	111	—	2,657	0.4	10,417	2.0
Commercial and land development	30,688	7.4	25,391	6.0	16,174	3.3	21,190	3.3	27,144	5.0
Total real estate construction	61,024	14.7	38,927	9.2	25,339	5.2	48,554	7.6	48,432	9.0
Consumer:										
Home equity	37,506	9.0	41,793	9.9	48,901	10.1	56,745	8.9	53,368	9.9
Automobile	928	0.2	966	0.2	980	0.2	1,466	0.2	2,364	0.4
Other consumer	2,941	0.7	4,012	1.1	5,473	1.2	8,279	1.3	3,734	0.7
Total consumer	41,375	9.9	46,771	11.2	55,354	11.5	66,490	10.4	59,466	11.0
Commercial business	35,264	8.5	28,666	6.8	49,777	10.3	108,051	17.0	24,256	4.5
Leases	112	—	583	0.1	2,821	0.6	6,999	1.1	—	—
Gross loans	416,643	100.0%	422,289	100.0%	483,278	100.0%	637,070	100.0%	540,222	100.0%
Deferred loan costs (fees), net	(146)		85		(700)		(628)		(858)	
Allowance for loan losses	(9,046)		(12,528)		(14,365)		(15,432)		(28,735)	
Loans receivable, net	$407,451		$409,846		$468,213		$621,010		$510,629	

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The previous table reflects the declines in loan balances since the acquisitions as loans receivable, net, totaled $407.5 million at December 31, 2013, compared to $621.0 million at September 30, 2010. Beginning with the recession in in 2008 and continuing through the relatively weak economic conditions that persist currently, we have had limited organic lending opportunities. Additionally, we ceased originating one-to-four family loans for our portfolio in 2006. The decline in one-to-four family loans from $178.3 million at September 30, 2009, to $68.8 million at December 31, 2013, contributed significantly to the overall decline in net loans between these periods. Commercial business loans and leases declined primarily due to our decision to wind-down the operations of CELC shortly after the LibertyBank Acquisition, which resulted in a decline in the loans and leases of CELC from $59.5 million on July 30, 2010, the date of the LibertyBank Acquisition, to $1.0 million in remaining principal balance at December 31, 2013. Lastly, the loan portfolios purchased in the acquisitions included a significant number of impaired and nonaccrual loans, which have since been written down, charged-off, or the collateral has been repossessed, which has also contributed to the overall decline in loan balances since the acquisition dates.

Loans by Contractual Maturity. The following table sets forth certain information at December 31, 2013, regarding the dollar amount of loans maturing based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments (in thousands). Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within One Year	After One Year Through Five Years	After Five Years	Total
Real estate:				
One-to-four family residential	$24,241	$11,032	$33,482	$68,755
Multifamily residential	3,277	29,078	9,464	41,819
Commercial	17,266	118,477	32,551	168,294
Total real estate	44,784	158,587	75,497	278,868
Real estate construction:				
One-to-four family residential	26,068	499	—	26,567
Multifamily residential	3,769	—	—	3,769
Commercial and land development	24,426	4,738	1,524	30,688
Total real estate construction	54,263	5,237	1,524	61,024
Consumer:				
Home equity	30,191	1,373	5,942	37,506
Automobile	52	698	178	928
Other consumer	1,466	711	764	2,941
Total consumer	31,709	2,782	6,884	41,375
Commercial business	8,745	20,299	6,220	35,264
Leases	102	10	—	112
Gross loans	$139,603	$186,915	$90,125	$416,643

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The following table sets forth the dollar amount of all loans maturing more than one year after December 31, 2013, which have fixed interest rates and have floating or adjustable interest rates (in thousands):

	Floating or Adjustable Rate	Fixed Rate	Total
Real estate:			
One-to-four family residential	$1,512	$43,002	$44,514
Multifamily residential	26,219	12,323	38,542
Commercial	120,759	30,269	151,028
Total real estate	148,490	85,594	234,084
Real estate construction:			
One-to-four family residential	—	499	499
Commercial and land development	—	6,262	6,262
Total real estate construction	—	6,761	6,761
Consumer:			
Home equity	29	7,286	7,315
Automobile	—	876	876
Other consumer	—	1,475	1,475
Total consumer	29	9,637	9,666
Commercial business	11,660	14,859	26,519
Leases	—	10	10
Gross loans	$160,179	$116,861	$277,040

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

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

Loan Originations, Servicing, Purchases and Sales. During the year ended December 31, 2013, our total loan originations were $84.2 million, which did not include any loans originated for sale. Accordingly, we did not originate or sell any first lien residential mortgages during the year ended December 31, 2013.

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

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

Asset Quality

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

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

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

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

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

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

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Delinquent Loans. The following table shows our delinquent loans by the type of loan and number of days delinquent as of December 31, 2013, that were still accruing interest (dollars in thousands):

	Noncovered Loans Delinquent For:				Covered Loans Delinquent for 30 Days or More [(1)]	
	30-89 Days		90 Days or More			
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
One-to-four family residential real estate	10	$692	—	$—	—	$—
One-to-four family residential construction	1	499	—	—	—	—
Consumer:						
Home equity	4	101	—	—	—	—
Other consumer	4	11	—	—	—	—
Total consumer	8	112	—	—	—	—
Commercial business	—	—	—	—	1	17
Total	19	$1,303	—	$—	1	$17

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

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

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

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

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

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

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

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

Troubled debt restructurings totaled $8.6 million and $11.8 million at December 31, 2013 and 2012, respectively, with noncovered loans representing $7.7 million and $11.5 million of those amounts, respectively. Modifications to loans not accounted for as troubled debt restructurings totaled $108,000 at December 31, 2013, including $46,000 of modifications for noncovered loans. These loans were not considered to be troubled debt restructurings because the borrower was not under financial difficulty at the time of the modification or extension. Extensions are made at market rates as evidenced by comparison to newly originated loans of generally comparable credit quality and structure.

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

When we classify problem assets as either substandard or doubtful, we may establish a specific allowance in an amount we deem prudent. Specific allowance amounts are approved by Senior Management and the lending team to address the risk specifically or we may allow the loss to be addressed in the general allowance. The doubtful category is generally a short-term interim step prior to charge off. Members of the Classified Asset Committee include the Bank's Chief

Credit Officer and Commercial Banking Team Leaders, as well as the Bank's internal loan review director and other members of management in our Credit Administration department. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated as special mention. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the FDIC, the Department and the Federal Reserve which can order the establishment of additional loss allowances. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but require additional management oversight or possess minor credit weakness are designated by us as either "watch" or "special mention", respectively.

In connection with the filing of periodic reports with the FDIC and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our loans, as of December 31, 2013, we had classified loans of $20.3 million, net of purchase accounting adjustments, with $10.6 million in the noncovered loan portfolio. The aggregate amounts of classified loans at the dates indicated were as follows (in thousands):

	December 31, 2013			2012		
	Covered	Noncovered	Total	Covered	Noncovered	Total
Classified loans:						
Substandard	$9,750	$10,598	$20,348	$22,444	$29,006	$51,450
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	$9,750	$10,598	$20,348	$22,444	$29,006	$51,450

The total amount of noncovered classified assets (the loans in the table above plus REO) represented 6.96% of total stockholders' equity and 1.17% of total assets as of December 31, 2013.

Potential Problem Loans. Potential problem loans are loans that do not yet meet the criteria for placement on non-accrual status, but known information about possible credit problems of the borrowers causes management to have doubts as to the ability of the borrowers to comply with present loan repayment terms. This may result in the future inclusion of such loans in the non-accrual loan category. As of December 31, 2013, the aggregate amount of potential problem loans was $10.5 million, which is comprised of loans that were rated "Substandard" under the Bank's risk grading process that are included in the classified loan table above but were not on non-accrual status. Noncovered loans included in that amount were $6.6 million at December 31, 2013. The $6.6 million balance of noncovered potential problem loans is primarily comprised of $6.3 million in loans secured by commercial real estate and $303,000 of various other loan types.

Real Estate Owned and Other Repossessed Assets (REO). Real estate and other assets we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as REO until it is sold. When the property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus foreclosure costs, or the fair market value of the property less selling costs. Other repossessed collateral, including autos, are also recorded at fair value, less costs to sell. As of December 31, 2013, we had $4.8 million in REO with $3.6 million subject to the loss share agreements with the FDIC.

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

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The following table bifurcates our nonperforming assets into covered and noncovered as of December 31, 2013 and 2012 (in thousands):

	December 31, 2013			2012		
	Covered Assets [(1)]	Noncovered Assets	Total	Covered Assets [(1)]	Noncovered Assets	Total
Nonperforming loans:						
Real estate construction	$219	$656	$875	$248	$811	$1,059
Commercial and multifamily residential real estate	1,941	875	2,816	4,108	4,552	8,660
One-to-four family residential	232	2,000	2,232	338	3,240	3,578
Other	1	544	545	95	994	1,089
Total nonperforming loans	2,393	4,075	6,468	4,789	9,597	14,386
REO and other repossessed assets	3,597	1,159	4,756	6,111	4,275	10,386
Total nonperforming assets	$5,990	$5,234	$11,224	$10,900	$13,872	$24,772

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

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

	December 31, 2013 [(1)]	2012	September 30, 2011	2010	2009
Loans accounted for on a nonaccrual basis:					
Real estate:					
One-to-four family residential	$2,233	$3,578	$5,554	$4,328	$10,617
Multifamily residential	993	825	1,393	3,052	1,753
Commercial	1,824	7,835	12,814	15,839	10,750
Total real estate	5,050	12,238	19,761	23,219	23,120
Real estate construction	875	1,059	3,599	8,829	11,611
Consumer	344	738	483	1,371	544
Commercial business and leases	199	351	719	1,259	3,217
Total nonaccrual loans	6,468	14,386	24,562	34,678	38,492
Accruing loans with are contractually past due 90 days or more	—	—	—	344	—
Total of nonaccrual and 90 days past due loans	6,468	14,386	24,562	35,022	38,492
Repossessed assets	30	97	143	382	412
Real estate owned	4,726	10,289	23,295	30,099	17,979
Total nonperforming assets	$11,224	$24,772	$48,000	$65,503	$56,883
Nonperforming covered assets included above	$5,990	$10,900	$27,780	$45,836	$34,224
Nonperforming noncovered assets included above	5,234	13,872	20,220	19,667	22,659
Nonperforming noncovered loans as a percent	1.14 %	2.88 %	3.94 %	2.64 %	2.93 %

of noncovered loans					
Troubled debt restructurings	$8,595	$11,825	$7,011	$10,110	$4,700
Interest forgone on nonaccrual loans (2)	826	1,989	1,729	2,820	1,366

(1) Includes $2.3 million and $315,000 of noncovered TDRs and covered TDRs, respectively, classified as nonaccrual at December 31, 2013, as compared to $6.0 and $164,000 of noncovered TDRs and covered TDRs, respectively, classified as nonaccrual at December 31, 2012.

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

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

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

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

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

Management believes the allowance for loan losses as of December 31, 2013, and the fair value adjustments under ASC 310-30 represent our best estimate of probable incurred losses inherent in our loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provision that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination. The preliminary estimated fair values of loans purchased in the LibertyBank Acquisition were highly subjective. The amount that we ultimately realize on these assets could differ materially from the carrying value reflected in our financial statements, based upon the timing and amount of collections on the acquired loans in future periods. Changes to the preliminary estimated fair values of assets purchased in the LibertyBank Acquisition may occur in subsequent periods up to one year from the date of acquisition.

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

	December 31, 2013			2012			September 30, 2011			2010			2009
	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balance	Allowance by Loan Category	Percent of Loans to Total	Loan Balan
Noncovered loans:													
Real estate:													
One-to-four family residential	$62,471	$830	17.5 %	$79,660	$1,403	23.9 %	$110,173	$1,396	33.6 %	$137,128	$3,165	37.3 %	$169
Commercial and multifamily	172,906	3,215	48.5	167,605	3,776	50.4	154,781	5,003	47.1	155,322	5,188	42.3	161,8
Total real estate	235,377	4,045	66.0	247,265	5,179	74.3	264,954	6,399	80.7	292,450	8,353	79.6	331,6
Real estate construction	57,685	923	16.2	33,510	966	10.1	14,816	898	4.5	17,406	1,427	4.7	26,55
Consumer	32,341	1,203	9.1	35,519	1,798	10.7	40,188	1,641	12.3	48,249	1,655	13.1	49,70
Commercial business	30,886	572	8.7	16,401	637	4.9	8,040	211	2.4	9,006	470	2.5	5,943
Leases	26	7	—	150	31	—	283	76	0.1	408	—	0.1	—
Total noncovered loans	356,315	6,750	100.0%	332,845	8,611	100.0%	328,281	9,225	100.0%	367,519	11,905	100.0%	413,8
Covered loans (1):													
Real estate	19,517	1,316		24,336	2,156		32,480	1,674		41,284	2,311		60,41
Real estate construction	627	114		2,105	474		3,961	2,569		6,940	448		14,41
Consumer	4,451	415		5,358	559		7,079	371		8,311	248		9,766
Commercial business	2,280	451		3,832	728		9,792	526		9,910	520		15,55
Covered loans with allowance	26,875	2,296		35,631	3,917		53,312	5,140		66,445	3,527		100,1
Covered loans with no allowance (2)	33,453	—		53,813	—		101,685	—		203,106	—		26,22
Total covered loans	60,328	2,296		89,444	3,917		154,997	5,140		269,551	3,527		126,3
	$416,643	$9,046		$422,289	$12,528		$483,278	$14,365		$637,070	$15,432		$540

Total gross loans

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

(2) No allowance was recorded on covered loans purchased in the LibertyBank Acquisition or on loans purchased in the CFB Acquisition that were individually accounted for under ASC 310-30 at December, 31, 2013 and 2012 or September 30, 2011, 2010 or 2009, as loan balances are reported at the net present value of estimated cash flows and no impairment subsequent to the acquisition date has been incurred in excess of original estimated cash flows as of those dates.

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

	Years Ended December 31,		Three Months Ended December 31,	Years Ended September 30,		
	2013	2012	2011	2011	2010	2009
Noncovered loans:						
Allowance at beginning of period	$8,611	$9,947	$9,225	$11,905	$11,923	$4,579
Provisions for loan losses	(2,046)	—	—	1,122	9,250	16,085
Recoveries:						
Real estate	75	180	43	432	64	122
Real estate construction	262	52	1,087	604	104	15
Consumer	188	82	38	126	17	100
Commercial business	2	12	—	142	113	1
Total recoveries	527	326	1,168	1,304	298	238
Charge-offs:						
Real estate	(218)	(985)	(366)	(2,401)	(7,494)	(2,490)
Real estate construction	(18)	—	(3)	(668)	(653)	(4,452)
Consumer	(98)	(582)	(77)	(1,734)	(1,216)	(1,843)
Commercial business	(8)	(95)	—	(303)	(203)	(194)
Total charge-offs	(342)	(1,662)	(446)	(5,106)	(9,566)	(8,979)
Net recoveries (charge-offs)	185	(1,336)	722	(3,802)	(9,268)	(8,741)
Allowance at end of period	$6,750	$8,611	$9,947	$9,225	$11,905	$11,923
Allowance for loan losses on noncovered loans as a percentage of noncovered loans	1.89%	2.59%	3.06%	2.81%	3.24%	2.88%
Allowance for loan losses on noncovered loans as a percentage of nonperforming noncovered loans	165.64	89.73	63.38	71.26	122.74	101.19
Net (recoveries) charge-offs on noncovered loans as a percentage of average noncovered loans outstanding during the period	(0.05)	0.40	(0.88)	1.09	2.51	1.82

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

	Years Ended December 31,		Three Months Ended December 31,	Years Ended September 30,		
	2013	2012	2011	2011	2010	2009
Covered loans:						
Allowance at beginning of period	$3,917	$4,224	$5,140	$3,527	$16,812	$—
Provisions for loan losses	(440)	(1,765)	(474)	10,274	1,050	—
Addition to allowance due to acquisitions	—	—	—	—	—	16,812
Adjustment in preliminary estimated losses	—	—	—	—	(9,210)	—
Recoveries:						
Real estate	108	2,071	2	176	16	—
Real estate construction	954	944	66	792	—	—
Consumer	56	—	—	24	—	—
Commercial business	110	105	4	376	—	—
Total recoveries	1,228	3,120	72	1,368	16	—
Charge-offs:						
Real estate	(1,851)	(319)	(224)	(3,667)	(1,865)	—
Real estate construction	(134)	(298)	(80)	(5,056)	(2,117)	—
Consumer	(26)	(522)	(129)	(404)	(312)	—
Commercial business	(398)	(523)	(81)	(902)	(847)	—
Total charge-offs	(2,409)	(1,662)	(514)	(10,029)	(5,141)	—
Net (charge-offs) recoveries	(1,181)	1,458	(442)	(8,661)	(5,125)	—
Allowance at end of period	$2,296	$3,917	$4,224	$5,140	$3,527	$16,812

Investment Activities

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

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

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

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

	December 31,				September 30,	
	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
Obligations of U.S. Government Sponsored Enterprises (GSE)	$50,545	$49,205	$56,179	$57,660	$81,751	$82,303
Obligations of states and political subdivisions	41,924	40,428	38,932	40,890	14,855	15,605
U.S. Treasury bonds	9,606	8,104	—	—	—	—
Corporate note, FDIC-guaranteed	—	—	—	—	1,008	1,011
Mortgage-backed securities:						
Fannie Mae	202,695	197,638	194,416	200,118	127,773	132,022
Freddie Mac	63,692	64,239	76,845	79,688	95,757	99,577
Ginnie Mae	27,824	28,294	37,634	38,954	46,108	46,896
Veterans Administration	2,461	2,509	2,795	2,912	3,127	3,108
Private label	236	231	287	283	369	325
Total	$398,983	$390,648	$407,088	$420,505	$370,748	$380,847

At December 31, 2013, we believe that it is more likely than not that the Company has the ability and intent to hold the securities with a fair value less than amortized cost until their value has recovered to amortized cost.

We received a significant balance of cash due to liabilities assumed in the LibertyBank Acquisition exceeding the book value of assets purchased. We have purchased a significant amount of investment securities since the LibertyBank Acquisition to invest this excess liquidity, with most of those purchases being comprised of mortgage-backed securities issued and guaranteed by U.S. Government-sponsored enterprises. We also purchased some obligations of state and local political subdivisions, but we were selective in our purchases, focusing on highly-rated and well-covered issues with strong cash flow coverage and revenue support. We have focused on mortgage-backed securities and other securities with medium-term durations to ensure the cash flow and liquidity remains strong to assist with strategic initiatives, such as acquisitions, and to protect our interest income against rising interest rates. To that end, we have targeted an average effective duration for our securities portfolio of 4.5 years. At December 31, 2013, we estimate the effective duration of our portfolio to be 4.7 years. The Company reduced purchases of investments in the second half of 2013 due to the pending merger with Cascade.

The table below sets forth information regarding the amortized cost, weighted average yields and maturities or periods to repricing of our investment portfolio at December 31, 2013 (dollars in thousands), without giving effect to contractual or estimated prepayments on mortgage-backed securities:

	Amounts Due or Repricing Within:									
	One Year or Less		Over One Year Through Five Years		Over Five Years Through Ten Years		Over Ten Years		Total	
	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)
Available-for-sale:										
Obligations of U.S. Government Sponsored Enterprises (GSE)	$9,883	1.26 %	$3,515	2.66 %	$9,960	2.27 %	$27,187	2.36 %	$50,545	2.15 %
Obligations of states and political subdivisions	—	—	727	2.80	13,736	3.09	27,461	3.15	41,924	3.12
U.S. Treasury bonds	—	—	—	—	—	—	9,606	3.15	9,606	3.15
Mortgage-backed securities, GSE-issued	11,742	2.30	14,711	2.49	190,838	2.34	79,381	2.75	296,672	2.46
Mortgage-backed securities, private label	236	2.33	—	—	—	—	—	—	236	2.33
Total	$21,861	1.83 %	$18,953	2.53 %	$214,534	2.38 %	$143,635	2.57 %	$398,983	2.51 %

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

The following table sets forth certain information with respect to each issuer of securities, without regard to type of security, which had an aggregate book value in excess of 10% of our total equity at December 31, 2013 (in thousands):

	Amortized Cost	Fair Value
Available-for-sale:		
Fannie Mae	$207,686	$202,622
Freddie Mac	64,700	65,250
Ginnie Mae	27,824	28,294
U.S. Small Business Administration	41,030	39,573

Federal Home Loan Bank Stock. As a member of the FHLB of Seattle, the Bank is required to own its capital stock. The amount of stock the Bank holds is based on percentages specified by the FHLB of Seattle on outstanding advances. The redemption of any excess stock the Bank holds is at the discretion of the FHLB of Seattle. At December 31, 2013, the carrying value of FHLB stock was $16.8 million.

In 2008, the FHLB announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator, and that it would suspend dividends and the repurchase and redemption of outstanding common stock. As a result, the FHLB did not pay a dividend from the fourth quarter of 2008 until the fourth quarter of 2013, when they resumed paying dividends due to their improving financial condition. Additionally in 2012, they resumed redeeming a portion of their stock from member banks which had excess holdings. During the year ended December 31, 2012, they redeemed $316,000 of stock from us, and during the year ended December 31, 2013, they redeemed an additional $630,000.

Bank-Owned Life Insurance. We have purchased bank-owned life insurance policies (BOLI) to offset employee benefit costs. At December 31, 2013, we had a $15.8 million investment in general account life insurance contracts. The potential death benefits as of December 31, 2013 were $31.1 million. The policies have been issued by seven insurance companies. All of the insurance companies that issued the policies in the Bank’s BOLI portfolio had investment grade ratings by Standard & Poor’s and A.M. Best at December 31, 2013, and all of these carriers have very high Comdex composite scores at December 31, 2013.

Deposit Activities and Other Sources of Funds

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

Changes in our deposit composition reflect our strategy to reduce reliance on certificates of deposit. Interest-bearing and noninterest-bearing checking, savings and money market accounts, which we collectively refer to as “core deposits”, comprised 79.4% of our total deposits at December 31, 2013. We believe core deposits have greater stability and higher profitability than certificates of deposit. We rely on marketing activities, convenience, customer service and the availability of a broad range of competitively priced deposit products and services to attract and retain customer deposits.

Deposits. With the exception of our Health Savings Accounts, which totaled $25.0 million at December 31, 2013, substantially all of our depositors are residents and businesses located in the states of Idaho and Oregon. Deposits are attracted from within our market areas through the offering of a broad selection of deposit instruments, including checking accounts, money market deposit accounts, savings accounts and certificates of deposit with a variety of rates and terms to maturity. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors.

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

	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
Balance at beginning of period	$850,888	$906,099	$959,509	$1,189,662
Net decrease in deposits before interest credited	(35,357)	(59,022)	(54,622)	(236,944)
Interest credited	2,920	3,811	1,212	6,791
Net increase (decrease) in deposits	(32,437)	(55,211)	(53,410)	(230,153)
Balance at end of period	$818,451	$850,888	$906,099	$959,509

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

	December 31,		September 30,
	2013	2012	2011
0.00-0.99%	$95,889	$112,215	$130,183
1.00-1.99	23,753	29,262	62,009
2.00-2.99	18,317	32,774	69,288
3.00-3.99	30,198	33,038	35,773
4.00 and above	282	1,953	13,046
Total	$168,439	$209,242	$310,299

Time Deposits by Maturity. The following table sets forth the amount and maturities of time deposits at December 31, 2013 (in thousands):

	One Year or Less	After One Year Through Two Years	After Two Years Through Three Years	After Three Years Through Four Years	After Four Years Through Five Years	After Five Years	Total
0.00-0.99%	$72,377	$12,172	$6,449	$3,479	$1,412	$—	$95,889
1.00-1.99	1,178	5,757	11,209	5,376	42	191	23,753
2.00-2.99	1,958	15,977	382	—	—	—	18,317
3.00-3.99	21,356	8,827	4	—	—	11	30,198
4.00 and above	215	50	—	10	7	—	282
Total	$97,084	$42,783	$18,044	$8,865	$1,461	$202	$168,439

The following table sets forth information concerning our time deposits and other deposits at December 31, 2013 (dollars in thousands):

Weighted Average Interest Rate		Original Term	Category	Amount	Percentage of Total Deposits	
—	%	n/a	Noninterest-bearing demand deposits	$160,602	19.6	%
0.09		n/a	Interest-bearing demand deposits	220,255	26.9	
0.11		n/a	Money market accounts	158,364	19.3	
0.07		n/a	Health savings accounts	25,016	3.1	
0.03		n/a	Savings deposits	85,775	10.5	
			Certificates of deposit:			
0.94	%	1-11 months	Fixed term, fixed rate	97,084	11.9	
1.95		12-23 months	Fixed term, fixed rate	42,783	5.2	
1.12		24-35 months	Fixed term, fixed rate	18,044	2.2	
0.97		36-47 months	Fixed term, fixed rate	8,865	1.1	
0.43		48-60 months	Fixed term, fixed rate	1,461	0.2	
1.56		Over 60 months	Fixed term, fixed rate	202	—	
			Total certificates of deposit	168,439	20.6	
			Total deposits	$818,451	100.0	%

Jumbo Certificates. Jumbo certificates of deposit are certificates in amounts of $100,000 or more. We experienced a $15.1 million decrease in jumbo certificates from December 31, 2012 to December 31, 2013, primarily due to the significant maturities of higher-rate certificates of deposit assumed in the LibertyBank Acquisition and our pricing decisions intended to reduce these deposits. The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of December 31, 2013 (in thousands):

Maturity Period	Certificates of Deposit of $100,000 or More
Three months or less	$6,909
Over three months through six months	5,088
Over six months through twelve months	17,855
Over twelve months	29,029
Balance at end of period	$58,881

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

	December 31, 2013					2012					September 30, 2011				
	Amount	Percent of Total		Increase/ (Decrease)		Amount	Percent of Total		Increase/ (Decrease)		Amount	Percent of Total		Increase	
Demand deposits	$380,857	46.5	%	$13,633		$367,224	43.2	%	$(2,131	)	$369,355	38.5	%	$27,501	
Money market accounts	158,364	19.3		(8,838	)	167,202	19.7		(9,981	)	177,183	18.5		(3,271	)
Health savings accounts	25,016	3.1		1,197		23,819	2.8		787		23,032	2.4		792	
Savings deposits	85,775	10.5		2,374		83,401	9.8		3,761		79,640	8.3		10,561	

Fixed-rate certificates maturing:									
Within one year	97,084	11.9	(10,277)	107,361	12.6	(86,462)	193,823	20.2	(175,947)
After one year, but within two years	42,783	5.2	(2,462)	45,245	5.3	2,464	42,781	4.5	(79,525)
After two years, but within five years	28,370	3.5	(28,015)	56,385	6.6	(17,097)	73,482	7.6	(9,016)
After five years	202	—	(49)	251	—	38	213	—	(1,248)
Total	$818,451	100.0 %	$(32,437)	$850,888	100.0 %	$(108,621)	$959,509	100.0 %	$(230,153)

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

As a member of the FHLB, we are required to own its capital stock. Advances are made individually under various terms pursuant to several different credit programs, each with its own interest rate and range of maturities. We maintain a committed credit facility with the FHLB that provides for immediately available advances up to an aggregate of 40% of the Bank's total assets. In September 2011, we repaid all outstanding borrowings with the FHLB (approximately $48.3 million) before the scheduled maturity dates due to our excess liquidity position. We incurred a prepayment penalty of $2.0 million, however, the repayment has reduced and should continue to reduce interest expense in future periods. Our FHLB borrowing capacity was $79.9 million, at December 31, 2013, which was collateralized by our FHLB stock and through a blanket pledge on our first lien one-to-four family residential real estate and multifamily loan portfolios and our securities portfolio. The Bank can increase its borrowing capacity by offering additional loans as collateral.

Other borrowings include securities sold under obligations to repurchase, also known as repurchase agreements. We originate repurchase agreements directly with our commercial and retail customers and collateralize these borrowings with securities issued by U.S. Government-sponsored enterprises. While we had some repurchase agreements during 2013, we did not have any at December 31, 2013.

At December 31, 2013, we also had access to the Federal Reserve Bank of San Francisco's discount window. No funds were drawn on this facility at December 31, 2013. Additionally, we had a $25.0 million line of credit with a third-party bank, however, no funds were drawn on this line at December 31, 2013.

HOW WE ARE REGULATED

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

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

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

- The Consumer Financial Protection Bureau (CFPB), an independent consumer compliance regulatory agency within the Federal Reserve has been established. The CFPB is empowered to exercise broad regulatory, supervisory and enforcement authority over financial institutions with total assets of over $10 billion with respect to both new and existing consumer financial protection laws. Financial institutions with assets of less than $10 billion, like Home Federal Bank, will continue to be subject to supervision and enforcement by their primary federal banking regulator with respect to federal consumer financial protection laws. The CFPB also has authority to promulgate new consumer financial protection regulations and amend existing consumer financial protection regulations;

- The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries;
- The prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011;
- Deposit insurance is permanently increased to $250,000 and unlimited deposit insurance for noninterest-bearing transaction accounts was extended through December 31, 2013;

- The deposit insurance assessment base for FDIC insurance is the depository institution's average consolidated total assets less the average tangible equity during the assessment period; and
- The minimum reserve ratio of the FDIC's Deposit Insurance Fund (DIF) increased to 1.35 percent of estimated annual insured deposits or the comparable percentage of the assessment base; however, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion. Pursuant to the Dodd-Frank Act, the FDIC recently issued a rule setting a designated reserve ratio at 2.0% of insured deposits.

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

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

Regulation and Supervision of Home Federal Bank

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

Insurance of Accounts and Regulation by the FDIC. The DIF of the FDIC insures deposit accounts in Home Federal Bank up to $250,000 per separately insured depositor. Noninterest bearing transaction accounts had unlimited coverage through December 31, 2013. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. Our deposit insurance premiums for the year ended December 31, 2013, were $598,000. Those premiums have increased in recent years as a result of recent strains on the FDIC's DIF due to the cost of large bank failures and increase in the number of troubled banks.

As a result of a decline in the reserve ratio (the ratio of the net worth of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution’s assessment rate as of September 30, 2009, with a uniform increase of three basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash, or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 13, 2013, as applicable. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. Home Federal Bank's prepaid assessment no longer had a balance at December 31, 2013.

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

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

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

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

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

At December 31, 2013, Home Federal Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FDIC. For additional information on capital requirements, see Note 15 of the Notes to the Consolidated Financial Statements contained in Item 8, Financial Statements and Supplemental Data.

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

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

The FDIC currently measures an institution's capital using a leverage limit together with certain risk-based ratios. The FDIC's minimum leverage capital requirement for a bank to be considered adequately capitalized specifies a minimum ratio of Tier 1 capital to average total assets of 4%. At December 31, 2013, Home Federal Bank had a Tier 1 leverage capital ratio of 14.58%. The FDIC retains the right to require a particular institution to maintain a higher capital level based on an institution's particular risk profile.

FDIC regulations also establish a measure of capital adequacy based on ratios of qualifying capital to risk-weighted assets. Assets are placed in one of four categories and given a percentage weight based on the relative risk of the category. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the four categories. Under the guidelines, the ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets must be at least 8%, and the ratio of Tier 1 capital to risk-weighted assets must be at least 4%. In evaluating the adequacy of a bank's capital, the FDIC may also consider other factors that may affect the bank's financial condition. Such factors may include interest rate risk exposure, liquidity, funding and market risks, the quality and level of earnings, concentration of credit risk, risks arising from nontraditional activities, loan and investment quality, the effectiveness of loan and investment policies, and management's ability to monitor and control financial operating risks. At December 31, 2013, Home Federal Bank had a Tier 1 risk-based capital ratio of 32.37%, and a total risk-based capital ratio of 33.63%.

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

FDIC may determine that the minimum adequate amount of capital for the bank is greater than the minimum standards established in the regulation.

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

New Capital Rules. In June 2012, the Federal Reserve, FDIC and the Office of the Comptroller of the Currency approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to Home Federal Bancorp and Home Federal Bank. The proposed rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to various documents released by the Basel Committee on Banking Supervision. In July 2013, the FDIC issued interim final new capital rules applicable to smaller banking organizations. Community banking organizations, including the Company and the Bank, will begin transition to the new rules on January 1, 2015, whereas a new capital conservation buffer and deductions from common equity capital phase in from January 1, 2016, through January 1, 2019, and most deductions from common equity tier 1 capital will phase in from January 1, 2015, through January 1, 2019.

The following is a summary of the major changes from the current general risk-based capital rule:

- higher minimum capital requirements, including a new common equity tier 1 capital ratio of 4.5% and criteria instruments must meet in order to be considered common equity tier 1 capital; a tier 1 capital ratio of 6.0%; the retention of a total capital ratio of 8.0%; and a minimum leverage ratio of 4.0%;
- stricter eligibility criteria for regulatory capital instruments;
- restrictions on the payment of capital distributions, including dividends, and certain discretionary bonus payments to executive officers, if the organization does not hold a capital conservation buffer of greater than 2.5% composed of common equity tier 1 capital above its minimum risk-based capital requirements, or if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter;
- replacement of the external credit ratings approach to standards of creditworthiness with a simplified supervisory formula approach, implementing the requirements of Section 939A of the Dodd-Frank Act;
- stricter limitations on the extent to which mortgage servicing assets, deferred tax assets and significant investments in unconsolidated financial institutions may be included in common equity tier 1 capital and the risk weight to be assigned to any amounts of such assets not deducted; and
- increased risk weights for past-due loans, certain commercial real estate loans and some equity exposures, and selected other changes in risk weights and credit conversion factors.

The implementation of Basel III is not expected to have a material impact on the Company's or the Bank's capital ratios.

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

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

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

- Total reported loans for construction, land development and other land represent 100% or more of the bank's capital; or
- Total commercial real estate loans (as defined in the guidance) represent 300% or more of the bank's total capital or the outstanding balance of the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

The guidance provides that the strength of an institution's lending and risk management practices with respect to such concentrations will be taken into account in supervisory guidance on evaluation of capital adequacy. As of December 31, 2013, Home Federal Bank's aggregate total for construction, land and land development loans was 40.42% of the Bank's total regulatory capital. In addition, at December 31, 2013, Home Federal Bank's commercial real estate loans totaled 111.48% of the Bank's total regulatory capital.

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

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

Federal Reserve System. The Federal Reserve Board requires that all depository institutions maintain reserves on transaction accounts or nonpersonal time deposits. These reserves may be in the form of cash or noninterest-bearing deposits with the regional Federal Reserve Bank. NOW accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to Regulation D reserve requirements, as are any nonpersonal time deposits at a bank. At December 31, 2013, the Bank's deposits with the Federal Reserve Bank and vault cash exceeded its reserve requirements.

Federal Home Loan Bank System. Home Federal Bank is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the board of directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. Although we had FHLB advances outstanding during nearly all of fiscal year 2011, by September 30, 2011, Home Federal Bank had paid off all $48.3 million of outstanding advances from the FHLB of Seattle under the available credit facility. This credit facility as of December 31, 2013 is $79.9 million, which is limited to available collateral. See the section entitled “Business – Deposit Activities and Other Sources of Funds – Borrowings.”

As a member, Home Federal Bank is required to purchase and maintain stock in the FHLB of Seattle. At December 31, 2013, Home Federal Bank had $16.8 million in FHLB stock, which was in compliance with this requirement.

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

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

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

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

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

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

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

Regulation and Supervision of Home Federal Bancorp

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

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

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

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

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

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

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

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

Dividends. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses its view that although there are no specific regulations restricting dividend payments by bank holding companies other than state corporate laws, a bank holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company's net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company's capital needs, asset quality, and overall financial condition. The Federal Reserve policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Home Federal Bancorp is under no such restriction. Additionally, while the Company was not profitable in fiscal years 2011 and 2013, the Company had sufficient excess capital above the levels to be considered "Well Capitalized" under regulatory guidance, and the Company continued to pay dividends to shareholders during those periods.

Capital Requirements. The Federal Reserve has established capital adequacy guidelines for bank holding companies that generally parallel the capital requirements of the FDIC for the Bank. The Federal Reserve regulations provide that capital standards will be applied on a consolidated basis in the case of a bank holding company with $500 million or more in total consolidated assets. The guidelines require that a company's total risk-based capital must equal 8% of risk-weighted assets and one half of the 8% (4%) must consist of Tier 1 (core) capital. As of December 31, 2013, Home Federal Bancorp's total risk-based capital was 37.18% of risk-weighted assets and its Tier 1 (core) capital was 35.92% of risk-weighted assets.

Stock Repurchases. A bank holding company, except for certain "well-capitalized" and highly rated bank holding companies, is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve. We did not repurchase any shares during the year ended December 31, 2013, nor do we have authorization to repurchase any additional shares as of that date. However we repurchased 1,251,943 shares of our common stock during the year ended December 31, 2012.

Volcker Rule. In December 2013, five federal agencies adopted a final regulation implementing the Volcker Rule provision of the Dodd-Frank Act (the Volcker Rule). The Volcker Rule places limits on the trading activity of insured depository institutions and entities affiliated with a depository institution, subject to certain exceptions. The trading activity includes a purchase or sale as principal of a security, derivative, commodity future or option on any such instrument in order to benefit from short-term price movements or to realize short-term profits. The Volcker Rule exempts specified U.S. Government, agency and/or municipal obligations, and it excepts trading conducted in certain capacities, including as a broker or other agent, through a deferred compensation or pension plan, as a fiduciary on behalf of customers, to satisfy a debt previously contracted, repurchase and securities lending agreements and risk-mitigating hedging activities.

The Volcker Rule also prohibits a banking entity from having an ownership interest in, or certain relationships with, a hedge fund or private equity fund, with a number of exceptions. Included among those prohibited investments are certain collateralized debt obligations (CDOs) collateralized by trust preferred securities (TruPS). While the five regulatory agencies issued an Interim Final Rule on January 14, 2014, granting relief from the prohibition against holding certain CDOs secured by TruPS issued by bank or thrift holding companies, the relief does not extend to CDOs collateralized by TruPS issued by insurance companies. The Bank does not engage in any of the trading activity or own any of the types of funds regulated by the Volcker Rule.

TAXATION

Federal Taxation

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

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

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

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

Net Operating Loss Carryovers. At December 31, 2013, the Company had no net operating loss carryforwards or carrybacks for federal income tax purposes.

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

State Taxation

Home Federal Bancorp and Home Federal Bank are subject to the general corporate tax provisions of the states of Oregon and Idaho. State corporate income taxes are generally determined under federal tax law with some modifications. Taxable income is taxed at a rate of 7.4% and 6.6% in Idaho and Oregon, respectively. These taxes are reduced by certain credits, primarily the Idaho investment tax credit in the case of Home Federal Bank.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age as of December 31, 2013	Position Company	Bank
Len E. Williams	55	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer
Eric S. Nadeau	43	Executive Vice President, Treasurer, Secretary, and Chief Financial Officer	Executive Vice President, Treasurer, Secretary, and Chief Financial Officer
R. Shane Correa	48		Executive Vice President, Chief Banking Officer
Cindy L. Bateman	52		Executive Vice President, Chief Credit Officer
Mark C. Johnson	57		President, Western Oregon Region

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

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

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

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

Cindy L. Bateman is Executive Vice President and Chief Credit Officer of Home Federal Bank. Ms. Bateman joined Home Federal Bank in March 2007. Ms. Bateman was previously employed by Key Bank from 2002 until 2007 having served as Senior Vice President and District Business Leader. Having started her career with First Security Bank of Idaho in 1983 in the Management Training program, she has held various leadership positions in Credit Administration and Commercial and Business Banking in Idaho, Southern California and Seattle. Ms. Bateman holds a B.B.A. in Finance from Idaho State University and an M.B.A. from the University of Washington. She serves on the Board of Trustees for the Idaho Shakespeare Festival and has served as Treasurer and President. In addition, she and formerly served as the President of Financial Women International, Chair of the FWI Foundation, Board Director for Youth Eastside Services, Small Business Committee member for the Boise Chamber of Commerce, with involvement on event planning committees for the Better Business Bureau Intergrity Counts! Event, the Business Enrichment Series in partnership with Northwest Nazarene University and the St. Luke's Women in Business Awards.

Mark C. Johnson is President of the Western Oregon Region of Home Federal Bank. Mr. Johnson joined Home Federal Bank as President-Western Oregon Region on November 17, 2010 and assumed an expanded leadership role for company-wide commercial banking and treasury management activities in October, 2011. With over 35 years of experience in commercial banking, primarily in Western Oregon, he previously served as Senior Vice President of Sterling Savings Bank from 2003 to 2010 in the roles of Commercial Banking Director, Regional Commercial Banking Director and Corporate Banking Team Leader. He also worked at Wells Fargo Bank and US Bank in various production and leadership positions. Johnson received his Bachelor of Arts degree in business administration from Western State Colorado University, and is active in the local community including the Eugene Chamber of Commerce Finance Committee, United Way of Lane County Campaign Cabinet and Financial Services Committee, and Downtown Athletic Club advisory board. In addition, he was previously active in leadership positions in Junior Achievement of Western Oregon, the National Kidney Foundation of Oregon and Washington, and served as a founding director of Emerald Valley Youth Track Club.

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Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fluctuating interest rates can adversely affect our profitability.

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

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively as our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our

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balance sheet or projected operating results. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2013, we had $35.3 million or 8.5% of total loans in commercial business loans. Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Commercial business lending involves risks that are different from those associated with residential and commercial real estate lending. Collateral securing commercial loans may depreciate over time, be difficult to appraise and fluctuate in value. In addition, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect the amounts due from its customers. Accordingly, we make our commercial loans primarily based on the historical and expected cash flow of the borrower and secondarily on underlying collateral provided by the borrower.

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

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

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- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

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

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

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

The fair value of REO may decline.

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

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

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

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

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

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

While some of the provisions of the Dodd-Frank Act have been implemented, many still have not. Additional changes in our regulation and oversight, whether in the form of new laws, rules or regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

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

In June 2012, the Federal Reserve, FDIC and the Office of the Comptroller of the Currency proposed rules that would substantially amend the regulatory risk-based capital rules applicable to Home Federal Bancorp and Home Federal. In July 2013, the FDIC issued interim final new capital rules applicable to smaller banking organizations. Community banking organizations including the Company and the Bank will begin transitioning to the new rules on January 1, 2015. These rules are discussed in Item 1 above under "Regulation and Supervision of Home Federal Bank".

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

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

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

Liquidity is essential to our business and the inability to obtain adequate funding may negatively affect growth and, consequently, our earnings capability and capital levels. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits and advances from the FHLB of Seattle, the Federal Reserve Bank of San Francisco (FRB) and other borrowings to fund our operations. Our access to funding sources in amounts adequate to finance our activities on terms which are acceptable could be impaired by factors that affect us specifically or the financial services industry or economy in general. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the deterioration in credit markets. Factors that could detrimentally

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impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the Idaho or Oregon markets where our loans are concentrated or adverse regulatory action against us.

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

Our litigation-related costs might continue to increase.

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

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

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

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

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

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

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

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

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

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

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

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

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

In connection with the CFB and LibertyBank Acquisitions, Home Federal Bank entered in to shared-loss agreements with the FDIC that significantly reduces the Bank's credit loss exposure. Losses on covered assets in the CFB Acquisition are indemnified by the FDIC at the rate of 80% on the first $34 million of losses and at a rate of 95% after that. Losses on covered assets in the LibertyBank Acquisition are indemnified by the FDIC at a rate of 80%. The loss sharing agreements will expire five years after the acquisition date for non-single family covered assets and ten years after the acquisitions date for single-family covered assets. After the expiration of the loss sharing agreements, the

Company will not be indemnified for losses and related expenses on covered assets. At December 31, 2013, nearly all of the assets remaining in the covered asset portfolios qualify as non-single family covered assets. Therefore, most of our covered assets will no longer be indemnified after September 2014 for assets purchased in the CFB Acquisition and September 2015 for assets purchased in the LibertyBank Acquisition.

The purchase and assumption agreements and the shared-loss agreements for the CFB and LibertyBank Acquisitions have specific, detailed and cumbersome compliance, servicing, notification and reporting requirements. Our failure to comply with the terms of the agreements or to properly service the loans and REO under the requirements of the loss sharing agreements may cause individual loans or large pools of loans to lose eligibility for loss share payments from the FDIC. This could result in material losses that are currently not anticipated. In addition, in September 2020,

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approximately ten years following the LibertyBank Acquisition date, the Bank is required to make a payment to the FDIC in the event that losses on covered assets under the loss sharing agreements have been less than the intrinsic loss estimate, which was determined by the FDIC prior to the LibertyBank Acquisition, based on a formula in the agreement. Under the formula, the Bank has estimated the minimum level of losses to avoid a true-up provision payment to the FDIC to be $46.7 million. The maximum amount of the true-up provision is $4.7 million, if there are no losses in the covered loan portfolio. At December 31, 2013, the Bank accrued $778,000 as an estimate of the true-up provision obligation, however, there can be no assurance that additional accruals will not be required in future periods that will negatively affect earnings.

Changes in accounting standards may affect our performance.

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

The pendency of the proposed merger with Cascade and the related diversion of our management’s attention from the operation of our business may adversely affect our business and results of operations.

As described in our Current Report on Form 8-K filed with the SEC on October 23, 2013, and the registration statement on Form S-4, filed by Cascade with the SEC on December 16, 2013, as amended, we entered into the Cascade Agreement which, subject to shareholder approval and various other conditions, would result in our being acquired by Cascade. Our management and Board of Directors have devoted and will continue to devote a significant amount of time and attention to the proposed merger. In addition, in connection with the proposed merger, we have incurred and will continue to incur expenses, which could prove to be significant. Our business and our operating and financial results may be materially adversely affected by the diversion of management’s time and attention and the expenses incurred in connection with the proposed merger.

If the proposed merger is not completed and we are not otherwise acquired, we may consider other strategic alternatives which are subject to risks and uncertainties.

If the proposed merger is not completed, our Board of Directors will review and consider various alternatives available to us, including, among others, continuing as a public company with no material changes to our business or capital structure. These alternative transactions or initiatives may involve various additional risks to our business, including, among others, distraction of our management team and associated expenses as described above in connection with the proposed merger. In addition, our ability to consummate any alternative transaction or execute any alternative initiative could be subject to various uncertainties. All of the foregoing could adversely affect our operations or financial condition

The failure to complete the merger with Cascade could negatively impact our business.

There is no assurance that the merger with Cascade or any other transaction will occur or that the conditions to the Merger will be satisfied in a timely manner or at all. Further, there is no assurance that any event, change or other circumstances that could give rise to the termination of the Cascade Agreement will not occur. If the proposed merger or a similar transaction is not completed, the share price of our common stock may drop to the extent that the current market price of our common stock reflects an assumption that a transaction will be completed. In addition, under circumstances defined in the Cascade Agreement, we may be required to pay a termination fee of up to approximately $8.0 million. Certain costs associated with the merger are already incurred or may be payable even if the merger is not completed. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. There can be no assurance that our business, these relationships or our financial condition will not be negatively impacted, as compared to the condition prior to the announcement of the merger, if the merger is not consummated.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

At December 31, 2013, we conducted business from 24 full-service banking offices. 15 of the locations are owned, five locations are leased and four locations are owned with the land being leased. At December 31, 2013, the net book value of our investment in properties and equipment was $25.9 million. The net book value of the data processing and computer equipment utilized by us at December 31, 2012 was $2.3 million.

The following table sets forth certain information relating to our offices as of December 31, 2013:

Location	Leased or Owned	Lease Expiration Date	Square Footage
ADMINISTRATIVE OFFICES:			
Main Administration (1) 500 12th Ave S Nampa, ID 83651	Owned	n/a	35,514
Western Oregon Administration 78 Centennial Loop Eugene, OR 97401	Leased	February 2014	10,000
Portland Loan Production Office 10121 SE Sunnyside, Suites G and H Clackamas, OR 97015	Leased	May 2014	600
Bend Mill Quarter Loan Production Office 606 NW Arizona Ave Bend, OR 97701	Owned	n/a	6,500
Salt Lake City Loan Production Office 11650 South State St, Suites 318, 319 and 320 Draper, UT 84020	Leased	May 2014	480
BRANCH OFFICES:			
Ustick Marketplace 3630 N Eagle Rd Boise, ID 83713	Owned	n/a	3,500
Parkcenter 871 E Parkcenter Blvd Boise, ID 83706	Owned	n/a	5,500
Downtown Boise 800 W State St Boise, ID 83703	Leased	June 2014	8,250
Karcher 1820 Caldwell Blvd Nampa, ID 83651	Owned	n/a	4,900
Caldwell 923 Dearborn Caldwell, ID 83605	Owned	n/a	5,844
Meridian 55 E Franklin Rd Meridian, ID 83642	Owned	n/a	5,000
Silverstone 3405 E Overland Rd Meridian, ID 83642	Owned	n/a	20,000

Mountain Home 400 N 3rd E Mountain Home, ID 83647	Owned	n/a	3,600
Eagle 100 E Riverside Dr Eagle, ID 83616	Owned	n/a	5,500
Emmett 250 S Washington Ave Emmett, ID 83617	Owned	n/a	3,600
Bend West 200 SW Century Dr Bend, OR 97702	Building Owned Land Leased	December 2016	3,600

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Bend Greenwood 671 NE Greenwood Bend, OR 97701	Leased	November 2015	2,600
Bend Downtown 805 NW Bond St Bend, OR 97701	Leased	February 2016	5,128
Redmond 821 SW 6th St Redmond, OR 97756	Owned	n/a	7,800
Prineville 555 NW Third Prineville, OR 97754	Owned	n/a	12,860
Madras 1150 SE Hwy 97 Madras, OR 97741	Owned	n/a	4,500
Eugene Coburg 1585 Coburg Rd Eugene, OR 97401	Owned	n/a	3,993
Eugene West 3540 West 11th Ave Eugene, OR 97402	Building Owned Land Leased	March 2017	3,822
Eugene Downtown 899 Pearl Street Eugene, OR 97401	Owned	n/a	16,140
Eugene Santa Clara 25 Division Ave Eugene, OR 97404	Building Owned Land Leased	March 2019	3,993
Springfield Gateway 1008 Harlow Rd Springfield, OR 97501	Leased	February 2017	5,191
Medford North 1000 Biddle Rd Medford, OR 97504	Building Owned Land Leased	February 2026	3,950
Grants Pass Downtown 660 SE 7th St Grants Pass, OR 97526	Leased	January 2015	2,464

(1) Includes a full-service branch.

Item 3. Legal Proceedings

From time to time we are involved as a plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of such litigation, nor do we expect any material impact on our financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II.

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

Home Federal Bancorp's common stock is currently listed on the NASDAQ Global Market under the symbol "HOME," and there is an established market for such common stock. As of March 5, 2014, there were approximately 803 stockholders of record, excluding persons or entities that hold stock in nominee or "street name" accounts with brokers.

The following table sets forth the high and low closing prices for the Company's common stock, as reported by The NASDAQ Stock Market LLC, and cash dividends paid for each quarter during the years ended December 31, 2013 and 2012:

Period	High	Low	Cash Dividends Paid
Year Ended December 31, 2013			
Quarter ended December 31, 2013	$15.59	$12.20	$0.060
Quarter ended September 30, 2013	14.55	11.97	0.060
Quarter ended June 30, 2013	13.34	11.60	0.060
Quarter ended March 31, 2013	13.96	11.06	0.060
Year Ended December 31, 2012			
Quarter ended December 31, 2012	$12.43	$10.33	$0.180
Quarter ended September 30, 2012	11.44	9.67	0.060
Quarter ended June 30, 2012	10.50	8.82	0.055
Quarter ended March 31, 2012	11.18	9.46	0.055

Dividends

The Company has paid quarterly cash dividends since the quarter ended June 30, 2005. In addition to a dividend of $0.06 per share, the Company declared a special dividend of $0.12 per share during the quarter ended December 31, 2012. We did not pay a special dividend during twelve months ended December 31, 2013. The dividend rate and the continued payment of dividends depends on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced in the future.

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

Equity Compensation Plan Information

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

Issuer Purchases of Equity Securities

There were no purchases of common stock by the Company during the year ended December 31, 2013. On October 26, 2012 the Company announced a stock repurchase of up to 725,000 shares of its outstanding common stock, inclusive of all remaining shares from previously announced repurchase plans. As of the expiration date of the repurchase announcement, September 30, 2013, 83,430 shares had been purchased under this stock repurchase plan and the authorization to repurchase the remaining 641,570 shares expired.

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Performance Graph

The following graph compares the cumulative total stockholder return on the Company's common stock with the cumulative total return on the Russell 2000 Index and the SNL Bank Index. The graph assumes that total return includes the reinvestment of all dividends, and that the value of the investment in Home Federal Bancorp's common stock and each index was $100 on December 31, 2008. Historical stock prices are not necessarily indicative of future stock performance.

	As of December 31,					
Index	2008	2009	2010	2011	2012	2013
Home Federal Bancorp, Inc.	100.00	126.93	119.06	103.05	127.26	155.38
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
SNL Bank Index	100.00	98.97	110.90	85.88	115.90	159.12

Item 6. Selected Financial Data

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

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	December 31, 2013	2012	September 30, 2011	2010	2009
FINANCIAL CONDITION DATA:	(In thousands)				
Total assets	$1,002,374	$1,048,620	$1,177,228	$1,482,861	$827,899
Investment securities, available-for-sale	390,648	420,505	380,847	275,180	169,320
Loans receivable, net (1)	407,451	409,846	468,213	621,010	510,629
Loans held for sale	—	—	2,088	5,135	862
Total deposits	818,451	850,888	959,509	1,189,662	514,858
FHLB advances and other borrowings	—	4,775	4,892	67,622	84,737
Stockholders’ equity	168,998	179,785	194,654	205,088	209,665
OTHER DATA:					
Number of:					
Real estate loans outstanding	2,323	2,950	3,594	3,425	2,404
Deposit accounts	72,150	77,035	95,515	107,344	97,893
Full service offices	24	28	33	37	23

	Years Ended December 31, 2013	2012	Three Months Ended December 31, 2011	Years Ended September 30, 2011	2010	2009
OPERATING DATA:	(In thousands, except per share data)					
Interest and dividend income	$45,063	$49,149	$15,566	$51,067	$37,534	$35,827
Interest expense	2,939	3,882	1,233	9,068	10,355	11,977
Net interest income	42,124	45,267	14,333	41,999	27,179	23,850
Provision for loan losses	(2,486)	(1,765)	(474)	11,396	10,300	16,085
Net interest income after provision for loan losses	44,610	47,032	14,807	30,603	16,879	7,765
Noninterest income	1,049	(655)	(1,630)	15,045	16,679	9,291
Noninterest expense	44,329	43,514	11,016	53,509	40,843	28,971
Income (loss) before income taxes	1,330	2,863	2,161	(7,861)	(7,285)	(11,915)
Income tax expense (benefit)	1,585	1,061	785	(3,232)	(2,889)	(4,750)
Income (loss) before extraordinary item	(255)	1,802	1,376	(4,629)	(4,396)	(7,165)
Extraordinary item:						
Gain on acquisitions, net of tax	—	—	—	—	305	15,291
Net income (loss)	$(255)	$1,802	$1,376	$(4,629)	$(4,091)	$8,126
Earnings (loss) per share (EPS):						
Basic EPS before extraordinary item	$(0.02)	$0.12	$0.09	$(0.30)	$(0.28)	$(0.46)
Basic EPS of extraordinary item	—	—	—	—	0.02	0.97
Basic EPS after extraordinary item	(0.02)	0.12	0.09	(0.30)	(0.26)	0.51
Diluted EPS before extraordinary item	(0.02)	0.12	0.09	(0.30)	(0.28)	(0.46)
Diluted EPS of extraordinary item	—	—	—	—	0.02	0.97
Diluted EPS after extraordinary item	(0.02)	0.12	0.09	(0.30)	(0.26)	0.51
Dividends declared per share:	0.24	0.35	0.055	0.22	0.22	0.22

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

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	At or For the Years Ended December 31,		At or For the Three Months Ended December 31,	At or For the Years Ended September 30,		
	2013	2012	2011	2011	2010	2009
KEY FINANCIAL RATIOS:						
Performance Ratios:						
Return on average assets [1]	(0.02)%	0.17%	0.48%	(0.35)%	(0.40)%	1.12%
Return on average equity [2]	(0.15)	0.95	2.85	(2.29)	(1.85)	4.01
Dividend payout ratio [3]	1,307.65	45.45	59.50	(74.03)	(84.33)	42.53
Equity-to-assets ratio [4]	16.86	17.12	17.13	15.11	21.87	27.98
Interest rate spread [5]	4.33	4.47	5.40	3.35	2.70	2.69
Net interest margin [6]	4.45	4.59	5.54	3.51	3.09	3.50
Efficiency ratio [7]	102.68	97.54	83.34	93.80	93.13	87.42
Noninterest income/operating revenue [8]	2.43	(1.47)	(12.84)	26.37	38.03	28.03
Average interest-earning assets to average interest-bearing liabilities	138.62	132.68	129.54	121.51	133.44	146.02
Noninterest expense as a percent of average total assets	4.32	4.03	3.86	4.00	4.03	4.00
Capital Ratios [9]:						
Tier 1 capital (leverage) to average assets	14.58%	13.77%	12.44%	11.54%	10.12%	19.61%
Tier 1 capital to risk-weighted assets	32.37	33.26	32.40	30.78	27.63	33.57
Total capital to risk-weighted assets	33.63	34.53	33.67	32.05	28.88	34.89
Asset Quality Ratios:						
Nonperforming noncovered loans as a percentage of noncovered loans	1.14%	2.88%	4.83%	3.94%	2.64%	2.93%
Nonperforming assets as a percentage of total assets, including covered assets	1.12	2.36	2.29	4.08	4.42	6.87
Allowance for loan losses on noncovered loans as a percentage of noncovered loans	1.89	2.59	3.06	2.81	3.24	2.88
Allowance for loan losses on noncovered loans as a percentage of nonperforming noncovered loans	165.64	89.73	63.38	71.26	122.74	101.19
Net charge-offs (recoveries) on noncovered loans as a percentage of average noncovered loans outstanding during the period	(0.05)	0.40	(0.88)	1.09	2.51	1.82

(1) Net income divided by average total assets.

(2) Net income divided by average equity.
(3) Dividends paid to stockholders, excluding shares held by Home Federal MHC, divided by net income.
(4) Average equity divided by average total assets.
(5) Difference between weighted average yield on interest-earning assets and weighted average rate on interest-bearing liabilities.
(6) Net interest margin, otherwise known as net yield on interest-earning assets, is calculated as net interest income divided by average interest-earning assets.
(7) Noninterest expense divided by the sum of net interest income and noninterest income.
(8) Operating revenue is defined as the sum of net interest income and noninterest income.
(9) The capital ratios presented here are for Home Federal Bank, and not the Company.

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

GENERAL

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

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

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

We entered into two purchase and assumption agreements with the FDIC to purchase certain assets and assume certain liabilities of Community First Bank, Prineville, Oregon, and LibertyBank, Eugene, Oregon, on August 7, 2009, and July 30, 2010, respectively. The acquisitions increased our total assets by $880 million, based on the fair value of assets purchased on the acquisition dates. These acquisitions have been reported on a prospective basis in the accompanying financial statements. Nearly all loans, leases and real estate owned acquired in both FDIC-assisted transactions are covered under FDIC loss sharing agreements which significantly reduce the Company’s credit loss exposure. We refer to these assets as “covered assets.” Loans and REO in the Bank’s organic operations and purchased assets not included in the loss sharing agreements are referred to as “noncovered assets.” We expect to recover 80% of losses and certain expenses associated with the covered assets of Community First Bank on the first $34 million of losses. After that, we expect to recover 95% of losses and expenses on those covered assets. We expect to recover 80% of losses and certain expenses associated with the covered assets of LibertyBank. The loss sharing agreements for covered assets that are non-single family loans and REO expire five years from the acquisition date, which will be in September 2014 for covered assets in the CFB Acquisition and September 2015 for the LibertyBank Acquisition. The loss sharing agreements provide indemnification for losses on single-family loans and REO for a period of 10 years from the acquisition date. After the expiration of the loss sharing agreements, we will no longer be protected against credit losses through FDIC indemnification.

OVERVIEW

After a year of stablization, fiscal year 2013, became a year of tremendous change for the Company. The year began with the closing of four branches located in Grants Pass, Medford and Bend, Oregon in February 2013. We determined these branches were least likely to provide profitable returns in the long-term and decided to close them and transition clients to our nearest branch upon closure. However, we opened a builder finance loan production office near Salt Lake City in 2013, which came on the heals of a new Portland loan production office in 2012 . These new offices were opened in response to a reviving residential construction environment and in recognition of the talent in our Builder Finance Team. We recognize the higher inherent risk in construction loans, but believe we have strong underwriting criteria and credit administration procedures as loan approval and construction site inspections are performed by our Credit Administration Team, which is not compensated based on loan production. Construction loans increased $22.1 million during 2013.

The most significant transaction in 2013 was the execution of a merger agreement with Cascade Bancorp (Cascade), whereby Cascade will acquire the Company and the Bank will be merged into Cascade's subsidiary, Bank of the Cascades. The Company previously entered into a merger agreement (Banner Agreement) with Banner Corporation (Banner) that included a 30-day "go shop" period, during which the Company could consider other acquisition proposals and if a proposal was determined by the Company's board of directors to be a Superior Proposal (as defined in the Banner Agreement), the termination fee under the Banner Agreement was reduced. Cascade submitted a Superior

Proposal and the Company's board of directors terminated the Banner Agreement and executed the Cascade Agreement. The termination fee under the Banner Agreement was $3.0 million. We believe the merger with Cascade will be consummated in the second quarter of 2014.

Asset quality continued to improve during 2013 as nonperforming loans declined $7.9 million to $6.5 million at December 31, 2013, compared to $14.4 million at December 31, 2012. REO also declined $5.6 million during that period to $4.8 million at December 31, 2013. We also experienced declining delinquencies and fewer classified and criticized loans during 2013, which we believe provides momentum for continued improvement in asset quality in 2014. As a result of improved asset quality, we recorded a reverse provision for loan losses on noncovered loans in 2013.

In addition to the events discussed above, the following list summarizes additional key strategic initiatives undertaken by management and factors affecting the Company's performance during 2013:

- We continued to execute our strategy of reducing reliance on high-cost certificates of deposit and borrowings as core deposits (defined as interest-bearing and noninterest-bearing checking, savings and money market accounts) increased to 79.4% of total deposits at December 31, 2013, compared to 75.4% at December 31, 2012;
- Nonperforming assets decreased $13.5 million from December 31, 2012 to December 31, 2013, and nonperforming noncovered loans declined to 1.14% of noncovered loans at December 31, 2013, compared to 2.88% at December 31, 2012;
- Economic conditions in our primary markets improved as unemployment, bankruptcies and foreclosures generally declined during 2013 and real estate values improved significantly;
- Noninterest expenses declined $0.8 million during the year ended December 31, 2013 compared to the year ended December 31, 2012, but merger-related expenses totaled $3.7 million in 2013, masking continued improvement in operating efficiency;
- The Company maintained its strong capital position with a total risk-based capital ratio of 37.18% and a Tier-1capital ratio of 16.12% at December 31, 2013; and
- The Company continued paying quarterly dividends during 2013, paying $0.24 per share in regular dividends.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

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

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

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

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

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

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

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

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

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

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

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

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

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

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2013 AND 2012

Total assets decreased $46.2 million, or 4.4%, since December 31, 2012 to $1.0 billion at December 31, 2013. Total liabilities decreased $35.5 million, or 4.1%, to $833.4 million at December 31, 2013. These decreases were primarily a result of the maturity and repayment of certificates of deposit and the decline of investments during the period.

Assets. The decrease in total assets was primarily concentrated in the following asset categories (dollars in thousands):

	December 31,		Decrease	
	2013	2012	Amount	Percent
Cash and amounts due from depository institutions	$107,000	$115,529	$(8,529)	(7.4)%
Investments available-for-sale, at fair value	390,648	420,505	(29,857)	(7.1)
Loans receivable, net of allowance for loan losses	407,451	409,846	(2,395)	(0.6)
Real estate owned and other repossessed assets	4,756	10,386	(5,630)	(54.2)
FDIC indemnification receivable, net	4,914	10,846	(5,932)	(54.7)

Cash and Amounts Due From Depository Institutions. The $8.5 million decrease in cash and equivalents to $107.0 million at December 31, 2013 from $115.5 million at December 31, 2012, was primarily due to maturing certificates of deposit that were not renewed, reflecting our strategy of allowing higher cost certificates of deposit to decline. We anticipate, subject to market conditions, that we will maintain higher than average liquidity in order to meet the demand of maturing certificates of deposit, prepare for the potential of rising interest rates.

Investments. Investments decreased $29.9 million, or 7.1% to $390.6 million at December 31, 2013 from $420.5 million at December 31, 2012. Our purchases of investments in 2012 and 2013, have focused on high-quality investments with an average life, of approximately 4.0 to 5.5 years. We have given preference to medium-term securities in anticipation of rising interest rates and increases in loan demand. Additionally, we believe our strategy mitigates price sensitivity to protect capital if we need to sell significant amounts of securities in the future to increase liquidity. We estimate the effective duration of our investment portfolio to be 4.7 years at December 31, 2013, compared to 3.0 years at December 31, 2012. This increase was primarily due to the purchase of a long-term U.S. Treasury bond during 2013.

We continually analyze our investment portfolio to improve and optimize total return. During the year ended December 31, 2013, we were able to purchase and sell U.S. Treasury bonds and certain mortgage-backed securities, recording pre-tax gains of $485,000 due to price volatility and a rally in the bond market in the first half of 2013. Long-term rates rose significantly during the second half of 2013 but we did not purchase investments due to the pending merger with Cascade.

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Nearly all of Company's mortgage-backed securities are issued by U.S. Government-sponsored enterprises, Fannie Mae, Freddie Mac and Ginnie Mae. At December 31, 2013, we held one private label security with a fair value of $231,000 which carried a Moody's rating of Ba3. Management has reviewed the delinquency status, credit support and collateral coverage of the loans pooled in this security and has concluded it was not other-than-temporarily impaired at December 31, 2013.

Loans and Leases. Loans and leases receivable, net, decreased $2.4 million to $407.5 million at December 31, 2013, from $409.8 million at December 31, 2012, as strong originations in 2013 were nearly offset by a reduction of covered loans and leases and the continued decline of our one-to-four family residential loan portfolio. Additionally, the workout and foreclosure on nonperforming loans as well as loan charge-offs reduced outstanding loan balances. Covered loans and leases totaled $60.3 million at December 31, 2013, compared to $89.4 million at December 31, 2012.

Real estate construction loans increased $22.1 million, or 56.8%, between December 31, 2013 and 2012. All categories of real estate construction increased: one-to-four family residential construction ($13.6 million), multifamily residential construction ($3.2 million) and commercial and land development ($5.3 million). The entire construction increase was in our noncovered portfolio, as covered real estate construction actually decreased $2.1 million between these periods. As noted earlier, construction of single family residences increased in both 2012 and 2013, and we opened a construction loan production office in Portland, Oregon, in 2012 and another construction loan production office in Salt Lake City in early 2013. Construction loan growth for the Idaho Region was very strong, also.

Commercial business loans increased $6.6 million, or 23.0% to $35.3 million at December 31, 2013 from $28.7 million at December 31, 2012. Partially offsetting this increase, loans and leases in CELC continued to decline, and totaled $1.0 million at December 31, 2013, compared to $5.0 million at December 31, 2012. We have been winding down the operations of CELC since the LibertyBank acquisition and anticipate these balances will be substantially paid off by December 31, 2014.

Real estate loans declined $28.5 million, or 9.3% during the year ended December 31, 2013 to $278.9 million from $307.3 million at December 31, 2012. One-to-four family residential loans declined $19.1 million, or (21.7)% between December 31, 2012 and December 31, 2013. The reduction of one-to-four family residential loans is consistent with our strategy to reduce the portfolio's concentration in those loans in favor of increasing the mix of commercial and commercial real estate loans in order to improve interest rate sensitivity and net interest margin. We began selling nearly all new one-to-four family loan originations in the secondary market in 2006. The sale of one-to-four family residential real estate loans to investors in the secondary market in connection with our mortgage banking activities required us to make representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, we may have an obligation to repurchase the assets or indemnify the purchaser against loss. We believe that the potential for significant loss under these arrangements is remote due to our underwriting standards. However, past performance may not be representative of future performance on sold loans and we may experience losses in the future. We recorded losses totaling $76,000 in connection with these arrangements during the year ended December 31, 2013, while $148,000 was recognized during 2012. In addition to the decline in one-to-four family real estate loans, commercial real estate declined $16.8 million, or 9.1%, during 2013. Partially offsetting these decreases however, multifamily residential loans increased $7.4 million, or 21.6%, during the year ended December 31, 2013.

Home equity loans declined $4.3 million to $37.5 million at December 31, 2013 from $41.8 million at December 31, 2012 as consumer spending improved over 2012, but households did not borrow to fund expenditures. Additionally, while home values began to rise again in 2013, we believe many homeowners still have negative equity, or insufficient equity, in their homes to support additional borrowings. All other loans, net, increased by $1.7 million during the year ended December 31, 2013.

Allowance for Loan Losses. The allowance for loan losses decreased to $9.0 million at December 31, 2013, from $12.5 million at December 31, 2012, as the quality of our loan portfolio continues to show improvement and we realized significant recoveries in our covered loan portfolios in 2013. The allowance for loan losses on the noncovered loan portfolio was 1.89% of noncovered loans at December 31, 2013, with only $232,000 of the $6.8 million allowance for losses on noncovered loans specifically allocated to impaired noncovered loans. At December 31, 2013, we had an allowance of $6.8 million on noncovered loans, an allowance of $820,000 on covered loans purchased in the CFB Acquisition and an allowance of $1.5 million on loan pools purchased in the LibertyBank Acquisition.

Loans delinquent 30 to 89 days and still accruing interest totaled $1.3 million at December 31, 2013, compared to $809,000 at December 31, 2012. Nonperforming assets, which include nonaccrual loans and REO, declined significantly to $11.2 million at December 31, 2013, compared to $24.8 million at December 31, 2012. Nonperforming noncovered loans totaled $4.1 million at December 31, 2013, compared to $9.6 million at December 31, 2012. Total nonperforming loans declined $7.9 million during the year ended December 31, 2013.

Loans classified by us as "Watch" and "Special Mention", which are early indications of deterioration in creditworthiness, declined to $26.2 million at December 31, 2013, compared to $44.0 million at December 31, 2012. Noncovered loans criticized as "Watch" and "Special Mention" declined to $21.6 million at December 31, 2013, compared to $25.6 million at December 31, 2012. Noncovered loans classified as "Substandard" declined to $10.6 million at December 31, 2013, compared to $29.0 million at December 31, 2012.

Net recoveries on noncovered loans totaled $185,000 during the year ended December 31, 2013, while net charge-offs on covered loans totaled $1.5 million during the year ended December 31, 2013. See “Asset Quality” on page 17 of this Form 10-K for additional discussion on our nonperforming loans, the loss sharing agreements and our estimate of losses under these agreements and our allowance for loan losses, including the allocation of the allowance for loan losses on page 23. While we realized net charge offs of $143,000 in our real estate loan portfolio, we recognized a net negative provision for loan losses on that portfolio class during fiscal year 2013 due to lower outstanding balances in 2013, fewer nonaccrual and substandard loans, and an improvement in the economic outlook in our Idaho Region, which resulted in higher property values for residential and commercial real estate.

FDIC Indemnification Asset. As part of the purchase and assumption agreements for the acquisitions, we entered into loss sharing agreements with the FDIC. These agreements cover realized losses and certain related expenses on covered assets purchased from the FDIC in the CFB Acquisition and the LibertyBank Acquisition. The decrease in the FDIC indemnification receivable to $4.9 million at December 31, 2013 compared to $10.8 million at December 31, 2012, was due to the receipt of payments on loss claims made to the FDIC and due to the net reduction in estimated future losses on covered assets, which caused impairment charges of $8.4 million during the year ended December 31, 2013, and $10.9 million during the year ended December 31, 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 December 31, 2013, the FDIC indemnification receivable for estimated losses on covered assets in the LibertyBank Acquisition totaled $2.4 million, while the receivable for estimated losses on covered assets in the CFB Acquisition was $2.5 million.

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

Bank Owned Life Insurance. The value of bank owned life insurance decreased $187,000 to $15.8 million at December 31, 2013 from $15.9 million at December 31, 2012, due to the payout of a death benefit related to a former director of the Company. The policy premiums are invested in insurance companies which each have a rating of at least ‘A’ by Standard & Poor’s and A.M. Best. We continue to monitor the financial performance, capital levels and financial ratings of the companies that have issued the Bank’s “general account” life insurance policies. We received

$161,000 from insurance proceeds during the year ended December 31, 2013.

Real Estate and Other Property Owned (REO). REO declined $5.6 million to $4.8 million at December 31, 2013 from $10.4 million at December 31, 2012 due to the sale of foreclosed assets during that period. Covered REO totaled $3.6 million at December 31, 2013, compared to $6.1 million at December 31, 2012. Noncovered REO totaled $1.2 million at December 31, 2013, compared to $4.3 million at December 31, 2012.

Deferred Taxes. As of December 31, 2013, the net deferred tax asset balance was $16.8 million compared to $9.0 million at December 31, 2012. The $7.8 million difference is primarily due to the change in the unrealized gain/loss on available-for-sale securities, which went from a deferred tax liability of $5.2 million at December 31, 2012 to a

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deferred tax asset of $3.2 million at December 31, 2013. Other than this $8.5 million increase, all other items, net, decreased $651,000 since December 31, 2012.

Deposits. Deposits decreased $32.4 million, or 3.8%, to $818.5 million at December 31, 2013, from $850.9 million at December 31, 2012 primarily due to the managed reduction of higher-rate certificates of deposit, partially offset by an increase in core deposits. The following table details the changes in total deposit accounts (dollars in thousands):

	December 31,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Noninterest-bearing demand	$160,602	$142,207	$18,395	12.9 %
Interest-bearing demand	220,255	225,017	(4,762)	(2.1)
Money market	158,364	167,202	(8,838)	(5.3)
Health savings accounts	25,016	23,819	1,197	5.0
Savings	85,775	83,401	2,374	2.8
Certificates of deposit	168,439	209,242	(40,803)	(19.5)
Total deposit accounts	$818,451	$850,888	$(32,437)	(3.8)%

Certificates of deposit comprised the majority of the deposit liabilities assumed in the LibertyBank Acquisition. Since we received a significant balance of cash in connection with the LibertyBank Acquisition, we executed a managed reduction in certificates of deposit. As a result, certificates of deposit declined $40.8 million to $168.4 million at December 31, 2013. We also reduced the rates offered on our core deposit accounts during 2013. Despite these actions, core deposit balances increased by $8.4 million between these periods.

Our deposit portfolio includes a concentration of low-cost health savings accounts. Health savings accounts totaled $25.0 million and $23.8 million at December 31, 2013 and 2012, respectively. Most of these accounts are originated through third-party relationships throughout the United States that refer to the bank entities that wish to offer health savings accounts as a benefit to their employees. Changes in tax law, government health care mandates or the structure of health savings accounts could cause the balances to be withdrawn.

Borrowings. We did not have borrowed funds outstanding at December 31, 2013. At December 31, 2012, our $4.8 million in borrowings were comprised of retail repurchase agreements that were collateralized by various investment securities. These matured and were not renewed by December 31, 2013.

Equity. Stockholders' equity decreased $10.8 million to $169.0 million at December 31, 2013, from $179.8 million at December 31, 2012. The primary reason for the decrease was our available-for-sale securities going from an unrealized gain, net of tax of $8.2 million at December 31, 2012 to a unrealized loss, net of tax of $(5.1) million at December 31, 2013. Additionally, during 2013, we paid $3.3 million in dividends and experienced a net loss of $(255,000). Partially offset these decreases, we received $3.7 million of proceeds from the exercise of stock options. All other categories of equity, net, increased $2.4 million during the year ended December 31, 2013. We did not repurchase any shares of our common stock during 2013; however, during the year ended December 31, 2012, we repurchased 1,251,943 shares at a total cost of $12.3 million. Our book value per share (common stockholders' equity divided by outstanding common shares) was $11.39 at December 31, 2013.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

General. For the year ended December 31, 2013, we experienced a net loss of $(255,000), or $(0.02) per diluted share, compared to net income of $1.8 million, or $0.12 per diluted share, for the year ended December 31, 2012. The net loss for the year ended December 31, 2013 included $3.7 million of pre-tax charges related to our pending merger and a tax provision, due to the non-deductibility of some of those expenses.

Net Interest Income. Net interest income decreased $3.1 million, or 6.9%, to $42.1 million for the year ended December 31, 2013, from $45.3 million for the year ended December 31, 2012. Total interest and dividend income decreased $4.1 million, while this was partially offset by a $943,000 decrease in interest expense. Net interest margin decreased to 4.45% during the year ended December 31, 2013 from 4.59% during the year ended December 31, 2012.

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

	Year Ended December 31, 2013 Compared to December 31, 2012 Increase/(Decrease) Due to		
	Rate	Volume	Total
Interest-earning assets:			
Loans receivable, net	$(3,138)	$(2,488)	$(5,626)
Interest-bearing deposits in other banks	13	(19)	(6)
Investment securities	1,636	(98)	1,538
Federal Home Loan Bank stock	—	8	8
Total net change in income on interest-earning assets	$(1,489)	$(2,597)	(4,086)
Interest-bearing liabilities:			
Savings deposits	$(26)	$4	(22)
Interest-bearing demand deposits	(80)	16	(64)
Money market accounts	(110)	(25)	(135)
Certificates of deposit	(98)	(572)	(670)
Total deposits	(314)	(577)	(891)
FHLB advances	(3)	(49)	(52)
Total net change in expense on interest-bearing liabilities	$(317)	$(626)	(943)
Total increase in net interest income			$(3,143)

Interest and Dividend Income. Total interest and dividend income for the year ended December 31, 2013, decreased $4.1 million, or 8.3%, to $45.1 million, from $49.1 million for the year ended December 31, 2012. The decrease during the period was primarily attributable to a decrease in the balance of loans purchased in the acquisitions. Average interest-earning assets decreased $39.5 million to $946.1 million during the year ended December 31, 2013 from $985.6 million during the year ended December 31, 2012 due to the decline in the loan portfolio. This decline in average interest-earning assets was further exacerbated by a decrease in the yield on earning assets to 4.76% during 2013 as compared to 4.99% in 2012.

Net interest margin is significantly enhanced by accretable income on purchased loans from the acquisitions. This additional income stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. Each quarter the Company analyzes the cash flow assumptions on loan pools purchased in the LibertyBank Acquisition and, at least semi-annually, the Company updates loss estimates, prepayment speeds and other variables when analyzing cash flows. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. As a result, income from loan pools can be volatile from quarter to quarter. During the year ended December 31, 2013, the Company experienced significant prepayments and recoveries on pooled loans, which resulted in accretion gains.

The Company’s net interest income and net interest margin continue to be reduced by an unfavorable interest-earning asset mix that is weighted heavily toward cash and securities (56.7% of average interest earning assets during the year ended December 31, 2013). This excess liquidity is primarily the result of the cash received in the LibertyBank Acquisition, continues to adversely affect our asset yields as the weak lending and investing environment has limited our opportunities to invest this excess liquidity in higher yielding assets. While we expect accretable yield will continue to be a significant component of loan income over the next several quarters, we believe the underlying net interest margin will continue to perform below optimal levels due to the unfavorable asset mix. Additionally, as the acquired loan pools decline in balance, the impact of accretable yield is diminished. As a result, the Company expects net interest margin to decline in 2014 as accretable yield declines compared to previous years.

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The following table compares average earning asset balances, associated yields, and resulting changes in interest and dividend income for the years ended December 31, 2013 and 2012 (dollars in thousands):

	Years Ended December 31,						
	2013			2012			Increase/ (Decrease) in Interest and Dividend Income
	Average Balance	Yield		Average Balance	Yield		
Loans receivable, net of deferred fees	$409,614	8.41	%	$440,199	9.10	%	$(5,626)
Interest bearing deposits in other banks	94,486	0.24		98,658	0.23		(6)
Investment securities, available-for-sale	424,866	2.45		429,044	2.07		1,538
FHLB stock	17,138	0.05		17,665	—		8
Total interest-earning assets	$946,104	4.76	%	$985,566	4.99	%	$(4,086)

Interest Expense. Interest expense decreased $943,000, or 24.3% to $2.9 million for the year ended December 31, 2013, compared to $3.9 million for the year ended December 31, 2012. Average interest-bearing liabilities decreased $60.3 million between these periods to $682.5 million, and our cost of funds decreased to 0.43% for the year ended December 31, 2013, compared to 0.52% for the year ended December 31, 2012.

The $47.6 million decline in average certificates of deposits during the year ended December 31, 2013, was due to the current interest rate environment and tepid loan demand from creditworthy borrowers, which reduced the need for additional funding; therefore, continued to reduce rates throughout the last two years, permitting certificates of deposit to decline.

The following table details average balances, cost of funds and the change in interest expense for the years ended December 31, 2013 and 2012 (dollars in thousands):

	Years Ended December 31,						
	2013			2012			Decrease in Interest Expense
	Average Balance	Rate		Average Balance	Rate		
Interest-bearing demand deposits	$248,299	0.15	%	$245,991	0.18	%	$(64)
Savings deposits	86,253	0.04		80,922	0.07		(22)
Money market deposits	159,677	0.14		176,885	0.20		(134)
Certificates of deposit	186,618	1.23		234,236	1.27		(671)
Other borrowings	1,681	1.13		4,754	1.49		(52)
Total interest-bearing liabilities	$682,528	0.43	%	$742,788	0.52	%	$(943)

Approximately $97.1 million of certificates of deposit are scheduled to mature during 2014.

Provision for Loan Losses. A negative provision for loan losses of $(2.5) million was recorded in connection with our analysis of losses in the loan portfolio for the year ended December 31, 2013, compared to a negative provision for loan losses of $(1.8) million for the year ended December 31, 2012. Of the $(2.5) million reverse provision during 2013, $(2.0) million was on our noncovered loan portfolio, while $(440,000) was on our covered loans. Improving credit quality and an improving economy have reduced the likelihood of additional losses in both portfolios at December 31, 2013. These factors, in addition to net recoveries on previously charged-off loans and a smaller loan portfolio resulted in a net reverse provision for loan losses in 2013.

Loans purchased in the LibertyBank Acquisition were aggregated into pools. If an individual pool performs better than management's original estimates, the Company may incur an increase in accretable yield in interest income, which is offset somewhat by impairment in the FDIC indemnification asset since loan losses are expected to be less than previously estimated. If the estimated cash flows in a loan pool are less than management previously estimated, an allowance for loan losses may be recorded through a provision, which is offset somewhat by the amount expected to be recovered from the FDIC under the loss sharing agreements. During the year ended December 31, 2013, we recognized $327,000 in impairments on certain loan pools purchased in the LibertyBank Acquisition. These impairments were partially offset by an indemnification recovery of $238,000. During the year ended December 31, 2012, these impairments totaled $829,000, which were partially offset by an indemnification recovery of $657,000.

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We consider the allowance for loans losses at December 31, 2013, to be our best estimate of probable incurred losses inherent in the loan portfolio as of that date based on the assessment of the above-mentioned factors affecting the loan portfolio. While we believe the estimates and assumptions used in the determination of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provision that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Noninterest Income. Noninterest income increased $1.7 million, to $1.0 million for the year ended December 31, 2013 from $(655,000) for the year ended December 31, 2012. The FDIC indemnification recovery represents the recovery of amounts expected from the FDIC under loss sharing agreements due to incremental provisions for loan losses in the current period or the impairment (reduction) in the expected amounts to be recovered from the FDIC due to a negative provision in the current period. Impairment of the FDIC indemnification asset generally relates to the reduction in the amounts estimated to be received from the FDIC on pooled loans as a result of increases in cash flows. The impairment of the FDIC indemnification asset was $2.4 million higher in 2012, while the FDIC indemnification recovery was an additional $1.3 million higher that year. Both had an unfavorable impact on noninterest income in 2012. Excluding the impact of the FDIC indemnification asset entries, noninterest income declined $2.1 million during the year ended December 31, 2013, as compared to the fiscal year ended December 31, 2012 primarily due to the $1.5 million decline in gains on sales of securities.

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

	Years Ended December 31,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Service charges and fees	$8,226	$8,653	$(427)	(4.9)%
Gain on sale of securities	485	1,971	(1,486)	(75.4)
Increase in cash surrender value of life insurance	466	488	(22)	(4.5)
FDIC indemnification recovery	(464)	(1,807)	1,343	(74.3)
Impairment of FDIC indemnification asset	(8,410)	(10,856)	2,446	(22.5)
Other	746	896	(150)	(16.7)
Total noninterest income	$1,049	$(655)	$1,704	(260.2)%

Service charges and fee income decreased $427,000 to $8.2 million for the year ended December 31, 2013, compared to the year ended December 31, 2012. Compared to the prior year, overdraft fees were $334,000 lower in the year ended December 31, 2013. The continued decline in overdraft fees was due to fewer “free checking” accounts and regulatory changes that were first implemented in July 2010. Subsequent guidance from bank regulatory agencies and the Company's risk management practices have caused further reductions in overdraft fees as fewer clients qualify for participation in our extended overdraft program, which further exacerbates the decline in fee income. Fee income other than overdraft fees declined by $93,000, net during the year ended December 31, 2013 compared to the prior year.

Noninterest income includes pre-tax gains on sales of investments of $485,000 during the year ended December 31, 2013, compared to $2.0 million for the year ended December 31, 2012. Most of the gains during 2012 were realized on U.S. Treasury bonds that were purchased during the first half of 2012 and sold during the strong rally in the bond market later in 2012. As interest rates rose during the latter half of 2013, we had fewer opportunities to sell securities for a gain.

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Noninterest Expense. Noninterest expense increased $815,000, or 1.9%, to $44.3 million for the year ended December 31, 2013, compared to $43.5 million for the year ended December 31, 2012. The following table provides a detailed analysis of the changes in components of noninterest expense (dollars in thousands):

	Years Ended December 31,		Decrease	
	2013	2012	Amount	Percent
Compensation and benefits	$24,032	$24,054	$(22)	(0.1)%
Occupancy and equipment	5,386	6,176	(790)	(12.8)
Data processing	3,571	3,945	(374)	(9.5)
Advertising	550	776	(226)	(29.1)
Postage and supplies	803	987	(184)	(18.6)
Professional services	2,670	2,351	319	13.6
Insurance and taxes	1,642	2,158	(516)	(23.9)
Amortization of intangibles	461	564	(103)	(18.3)
Provision for REO	795	736	59	8.0
Merger termination fee	2,954	—	2,954	100.0
Other	1,465	1,767	(302)	(17.1)
Total noninterest expense	$44,329	$43,514	$815	1.9 %

On October 23, 2013, the Company announced the signing of a definitive merger agreement and the termination of a previously announced merger agreement. In conjunction with that announcement, we incurred a merger termination fee of $3.0 million. Additionally, we incurred several merger-related expenses totaling $745,000, which is the primary reason for the $319,000 increase in professional services. Excluding these two categories, noninterest expense decreased $2.5 million.

Occupancy and equipment expense was $790,000 lower in 2013 due to branch closures that occurred in early 2013. Insurance and taxes expense declined by $516,000 as we had fewer branches and a significant decline in REO properties. All other expenses, net, decreased by $1.2 million, which was spread over several categories as we realized operating efficiencies as a result of branch closures and stabilization in operations since the acquisitions.

Income Tax Provision. Due to the non-deductibility of certain merger-related expenses, the income tax provision from continuing operations was $1.6 million despite pre-tax income from operations of $1.3 million. This equates to an effective rate of 119.17%. For the year ended December 31, 2012, we had an income tax provision of $785,000 based on pre-tax income of $2.2 million.

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

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

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

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

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

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

Net interest margin was significantly enhanced by accretable income on purchased loans from the acquisitions. However, the Company's net interest income and net interest margin continued to be reduced by an unfavorable interest-earning asset mix that was weighted heavily toward cash and securities (55.6% of interest earning assets at December 31, 2012).

The following table compares average earning asset balances, associated yields, and resulting changes in interest and dividend income for the years ended December 31, 2012 and September 30, 2011 (dollars in thousands):

	Year Ended December 31, 2012		September 30, 2011		Increase/ (Decrease) in Interest and Dividend Income
	Average Balance	Yield	Average Balance	Yield	
Loans receivable, net of deferred fees	$440,199	9.10%	$552,111	7.59%	$(1,867)
Loans held for sale	—	—	1,808	4.13	(56)
Interest bearing deposits in other banks	98,658	0.23	226,246	0.26	(348)

Investment securities, available-for-sale	429,044	2.07		399,300	2.13		353
FHLB stock	17,665	—		17,717	—		—
Total interest-earning assets	$985,566	4.99	%	$1,197,182	4.27	%	$(1,918)

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

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penalty of $2.0 million. However, the prepayment decreased interest expense by an estimated $2.2 million between these periods.

The decline in average certificates of deposits during the year ended December 31, 2012, compared to the year ended September 30, 2011, was due to maturities of certificates of deposit, primarily in the LibertyBank Acquisition deposit portfolio.

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

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

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

During the year ended December 31, 2012, we recognized $829,000 in impairments on certain loan pools purchased in the LibertyBank Acquisition. These impairments were partially offset by an indemnification recovery of $657,000. We recognized provisions for loan losses on certain pools of loans purchased in the LibertyBank Acquisition of $2.3 million during the year ended September 30, 2011, which was partially offset by an indemnification recovery of $1.9 million.

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

Noninterest Income. Noninterest income decreased $15.7 million, to $(655,000) for the year ended December 31, 2012 from $15.0 million for the year ended September 30, 2011. The impairment of the FDIC indemnification asset was higher in 2012 due to higher expected cash flows from loans purchased in the LibertyBank Acquisition. As noted earlier, increases in estimated cash flows increased interest on loans through the higher accretable yield on purchased loans. A $2.0 million prepayment penalty on FHLB borrowings reduced noninterest income for fiscal year 2011. Excluding the impact of the FDIC indemnification asset and the prepayment penalty, noninterest income declined $720,000 during the year ended December 31, 2012, as compared to the fiscal year ended September 30, 2011.

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

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

Service charges and fee income decreased $1.2 million to $8.7 million for the year ended December 31, 2012, compared to the year ended September 30, 2011. Compared to the comparable year, overdraft fees were $1.4 million lower in the year ended December 31, 2012. The continued decline in overdraft fees was due to fewer “free checking” accounts and regulatory changes that were first implemented in July 2010. The elimination of "free checking" accounts and the implementation of a new checking account with minimum balance requirements in order to avoid a monthly service charge helped to otherwise increase fee income by $142,000 during 2012 compared to the year ended September 30, 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS/COST

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

	Years Ended December 31,							Three Months Ended December 31,				Year Ende
	2013				2012				2011				2011
	Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost		Average Balance
Interest-earning assets:													
Total loans [1]	$409,614	$34,432	8.41	%	$440,199	$40,058	9.10	%	$469,947	$13,365	11.38	%	$552,111
Loans held for sale	—	—	—		—	—	—		1,012	9	3.67		1,808
Interest bearing deposits in other banks	94,486	224	0.24		98,658	230	0.23		143,610	100	0.28		226,246
Investment securities	424,866	10,399	2.45		429,044	8,861	2.07		402,134	2,092	2.08		399,300
FHLB stock	17,138	8	0.05		17,665	—	—		17,717	—	—		17,717
Total interest-earning assets	946,104	45,063	4.76		985,566	49,149	4.99		1,034,420	15,566	6.02		1,197,182
Noninterest-earning assets	79,807				93,493				108,135				139,050
Total average assets	$1,025,911				$1,079,059				$1,142,555				$1,336,23
Interest-bearing liabilities:													
Savings deposits	$86,253	35	0.04		$80,922	57	0.07		$79,192	28	0.14		$77,948
Interest-bearing demand deposits	248,299	367	0.15		245,991	431	0.18		247,967	138	0.22		236,599
Money market accounts	159,677	217	0.14		176,885	352	0.20		178,418	141	0.32		176,331
Certificates of deposit	186,618	2,301	1.23		234,236	2,971	1.27		288,082	905	1.26		437,996
Total deposit accounts	680,847	2,920	0.43		738,034	3,811	0.52		793,659	1,212	0.61		928,874
Borrowed funds	1,681	19	1.13		4,754	71	1.49		4,893	21	1.72		56,415
Total interest-bearing liabilities	682,528	2,939	0.43		742,788	3,882	0.52		798,552	1,233	0.62		985,289
Noninterest-bearing liabilities	168,359				147,187				150,571				149,016
	850,887				889,975				949,123				1,134,305

Total average liabilities				
Average equity	175,024	189,084	193,432	201,927
Total average liabilities and stockholders' equity	$1,025,911	$1,079,059	$1,142,555	$1,336,23
Net interest income	$42,124	$45,267	$14,333	
Interest rate spread	4.33 %	4.47 %	5.40 %	
Net interest margin (2)	4.45 %	4.59 %	5.54 %	
Ratio of average interest-earning assets to average interest-bearing liabilities	138.62%	132.68%	129.54%	

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

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

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

	At December 31,	Years Ended December 31,		Three Month Period Ended December 31,	Year Ended September 30,
	2013	2013	2012	2011	2011
Weighted average yield on:					
Loans receivable	4.76 %	8.41 %	9.10 %	11.38 %	7.59 %
Loans held for sale	—	—	—	3.67	4.13
Interest bearing deposits in other banks	0.25	0.24	0.23	0.28	0.26
Investment securities, available-for-sale	2.51	2.45	2.07	2.08	2.13
Federal Home Loan Bank stock	0.10	0.05	—	—	—
Total interest-earning assets	3.25	4.76	4.99	6.02	4.27
Weighted average rate paid on:					
Interest-bearing demand deposits	0.09	0.15	0.18	0.22	0.34
Money market accounts	0.11	0.14	0.20	0.32	0.45
Health savings deposits	0.07	0.09	0.12	0.19	0.30
Savings deposits	0.03	0.04	0.07	0.14	0.22
Certificates of deposit	1.22	1.23	1.27	1.26	1.15
Total interest-bearing deposits	0.38	0.43	0.52	0.61	0.73
Federal Home Loan Bank advances	—	—	—	—	4.35
Repurchase agreements	—	1.13	1.49	1.72	1.56
Total interest-bearing liabilities	0.38	0.43	0.52	0.62	0.92
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	2.87	4.33	4.47	5.40	3.35
Net interest margin (net interest income as a percentage of average interest-earning assets)	n/a	4.45	4.59	5.54	3.51

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RATE/VOLUME ANALYSIS

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

	Year Ended December 31, 2013 Compared to Year Ended December 31, 2012 Increase (Decrease) Due to			Year Ended December 31, 2012 Compared to Year Ended September 30, 2011 Increase (Decrease) Due to			Three Months Ended December 31, 2012 Compared to Three Month Period Ended December 31, 2011 Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total	Rate	Volume	Total
Interest-earning assets:									
Loans receivable, net	$(3,138)	$(2,488)	$(5,626)	$945	$(6,860)	$(5,915)	$9,799	$(5,729)	$4,070
Loans held for sale	—	—	—	—	(36)	(36)	(9)	(33)	(42)
Interest-bearing deposits in other banks	13	(19)	(6)	(20)	(217)	(237)	17	(129)	(112)
Investment securities	1,636	(98)	1,538	(272)	219	(53)	25	382	407
FHLB stock	—	8	8	—	—	—	—	—	—
Total net change in income on interest-earning assets	$(1,489)	$(2,597)	(4,086)	$653	$(6,894)	(6,241)	$9,832	$(5,509)	4,323
Interest-bearing liabilities:									
Savings deposits	$(26)	$4	(22)	$(81)	$2	(79)	$(45)	$6	(39)
Interest-bearing demand deposits	(80)	16	(64)	(229)	13	(216)	(169)	20	(149)
Money market accounts	(110)	(25)	(135)	(309)	—	(309)	(138)	4	(134)
Certificates of deposit	(98)	(572)	(670)	533	(1,855)	(1,322)	41	(773)	(732)
Total deposits	(314)	(577)	(891)	(86)	(1,840)	(1,926)	(2,629)	2,218	(1,054)
FHLB advances	(3)	(49)	(52)	(78)	(1,485)	(1,563)	(28)	(615)	(643)
Total net change in expense on interest-bearing liabilities	$(317)	$(626)	(943)	$(164)	$(3,325)	(3,489)	$(2,657)	$1,603	(1,697)
Total (decrease) increase in net interest income			$(3,143)			$(2,752)			$6,020

ASSET AND LIABILITY MANAGEMENT AND MARKET RISK

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

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

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

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

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

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

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

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

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

When interest rates rise, we generally do not have to raise interest rates proportionately on less rate sensitive accounts to retain these deposits. These assumptions are based upon an analysis of our customer base, competitive factors and historical experience. The following table shows the change in our net portfolio value at December 31, 2013, that would occur upon an immediate change in interest rates based on our assumptions, but without giving effect to any steps that we might take to counteract that change (dollars in thousands). Given the relatively low level of market interest rates, a calculation for a decrease of greater than 100 basis points has not been prepared. The net portfolio value is calculated based upon the present value of the discounted cash flows from assets and liabilities. The difference between the present value of assets and liabilities is the net portfolio value and represents the market value of equity for the given interest rate scenario. Net portfolio value is useful for determining, on a market value basis, how much equity changes in response to various interest rate scenarios. Large changes in net portfolio value reflect increased interest rate sensitivity and generally more volatile earnings streams.

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	Net Portfolio Value (NPV)			Net Portfolio as Percentage of Portfolio Value of Assets		
Basis Point Change in Rates	Amount	$ Change (1)	% Change	NPV Ratio (2)	% Change (3)	Asset Market Value
+300	$151,152	$(39,999)	(20.93)%	16.39%	(2.71)%	$922,221
+200	162,535	(28,616)	(14.97)	17.15	(1.95)	947,545
+100	175,125	(16,026)	(8.38)	17.99	(1.11)	973,680
Base	191,151	—	—	19.10	—	1,000,781
-100	205,529	14,378	7.52	19.98	0.88	1,028,523

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

The following table illustrates the change in net interest income at December 31, 2013, that would occur in the event of an immediate change in interest rates, but without giving effect to any steps that might be taken to counter the effect of that change in interest rates (dollars in thousands). This table does not consider the impact of accretable yield on purchased loans but instead presents net interest income using interest income on loans based on the underlying loan rate:

Basis Point	Net Interest Income		
Change in Rates	Amount	$ Change (1)	% Change
+300	$28,681	$831	2.98%
+200	28,347	497	1.78
+100	27,865	15	0.05
Base	27,850	—	—
-100	27,409	(441)	(1.58)

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

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

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

LIQUIDITY AND COMMITMENTS

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

Our primary sources of funds are from client deposits, loan repayments, maturing investments and advances from the Federal Home Loan Bank of Seattle. These funds, together with retained earnings and equity, are used to make loans, purchase investments and other assets, and fund continuing operations. While maturities and the scheduled amortization of loans and investments are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by the level of interest rates, economic conditions and competition. We use our sources of funds primarily

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to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain our portfolio of investments. Alternatively, we may also liquidate assets to meet our funding needs.

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

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

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

Certificates of deposit scheduled to mature in one year or less at December 31, 2013, totaled $97.1 million, which represented 57.6% of our certificates of deposit portfolio at December 31, 2013. Management’s policy is to generally maintain deposit rates at levels that are competitive with other local financial institutions. Historically, the Bank has been able to retain a significant amount of deposits as they mature. However, since loan demand has slowed and we currently have very high liquidity levels, we have been reluctant to offer rates in excess of wholesale borrowing costs. This has resulted in expected deposit runoff as customers are moving their maturing balances to competitors at a higher pace than the Bank has historically experienced. Nonetheless, we believe the Company has adequate resources to fund all loan commitments through FHLB advances, loan repayments, maturing investment securities, and the sale of mortgage loans in the secondary markets. We had the ability at December 31, 2013, to borrow an additional $79.9 million from the Federal Home Loan Bank of Seattle. We are also approved at the Discount Window of the Federal Reserve Bank of San Francisco and could use that facility as a funding source to meet commitments and for liquidity purposes. Additionally, we maintain a $25.0 million line of credit with a third-party bank. There were no funds drawn on this line of credit at December 31, 2013.

We had no borrowed funds from the FHLB at December 31, 2013; however, we are dependent on the FHLB of Seattle to provide the primary source of wholesale funding for immediate liquidity and borrowing needs. The failure of the FHLB of Seattle or the FHLB system in general may materially impair our ability to meet our growth plans or to meet short and long term liquidity demands. However, our mortgage backed securities are marketable and could be sold to obtain cash to meet liquidity demands should our access to FHLB funding be impaired.

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CONTRACTUAL OBLIGATIONS

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

At December 31, 2013, scheduled maturities of contractual obligations were as follows (in thousands):

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years	Total
Certificates of deposit	$97,084	$60,827	$10,326	$202	$168,439
Deferred compensation (1)	383	905	1,120	4,096	6,504
Operating leases	802	1,277	617	1,789	4,485
Total contractual obligations	$98,269	$63,009	$12,063	$6,087	$179,428

(1) Disclosed at the December 31, 2013 present value of estimated payments assuming all future vesting conditions are met.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of December 31, 2013 (in thousands):

	Contract or Notional Amount
Commitments to originate loans:	
Fixed rate	$9,990
Adjustable rate	24,002
Undisbursed balance of loans	21,672
Unused lines of credit	65,200
Commercial letters of credit	687
Total	$121,551

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CAPITAL

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a "well capitalized" institution in accordance with regulatory standards. Home Federal Bank's total equity capital was $148.7 million at December 31, 2013 or 14.98%, of total assets on that date. As of December 31, 2013, we exceeded all regulatory capital requirements. See "How We Are Regulated – Regulation and Supervision of Home Federal Bank – Capital Requirements" and Note 15 to the Consolidated Financial Statements under Item 8 to this Annual Report on Form 10-K.

The following table discloses the regulatory capital ratios for the Company and the Bank at December 31, 2013 and 2012:

	Home Federal Bancorp				Home Federal Bank			
Capital Ratios	Ratio		Minimum for Capital Adequacy Purposes (1)		Ratio		"Well Capitalized" Minimum Ratio (1)	
December 31, 2013:								
Tier 1 capital (leverage) to average assets	16.12	%	4.00	%	14.58	%	5.00	%
Tier 1 capital to risk-weighted assets	35.92		4.00		32.37		6.00	
Total capital to risk-weighted assets	37.18		8.00		33.63		10.00	
December 31, 2012:								
Tier 1 capital (leverage) to average assets	15.36	%	4.00	%	13.77	%	5.00	%
Tier 1 capital to risk-weighted assets	37.30		4.00		33.26		6.00	
Total capital to risk-weighted assets	38.57		8.00		34.53		10.00	

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

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

The Company's total consolidated capital was $169.0 million and $179.8 million at December 31, 2013 and 2012, respectively. The Company's total capital, excluding its investment in the Bank was $20.3 million and $23.1 million as of December 31, 2013 and 2012, respectively, as Home Federal Bancorp retained some of the capital raised in the Conversion and did not inject all of the capital raised into the Bank. This additional capital is held primarily in cash and highly liquid mortgage-backed securities.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and related financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

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

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of noninterest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in dollar value of the collateral

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securing loans that we have made. Our management is unable to determine the extent, if any, to which properties securing loans have appreciated in dollar value due to inflation.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

CYBER RISKS

As a financial institution that serves over 100,000 clients through 24 branches the Internet and other distribution channels, we depend on our ability, and the abilities of several third party vendors, to process, record and monitor a large number of customer transactions on a continuous basis. As our customer base and locations have expanded through acquisition and organic growth, and as customer, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure have been, and must continue to be, safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

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

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

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information in response to this Item is set forth under the caption "Asset and Liability Management and Market Risk" in Item 7 of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Home Federal Bancorp, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This process includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. Management's assessment was based on criteria described in the 1992 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

The Company's internal control over financial reporting as of December 31, 2013 has been audited by Crowe Horwath LLP, the Company's independent registered public accounting firm who audits the Company's consolidated financial statements.

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

Dated: March 17, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Home Federal Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, statements of comprehensive income (loss), statements of stockholders' equity and statements of cash flows for the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Federal Bancorp, Inc. and Subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012, the three months ended

December 31, 2011 and the year ended September 30, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Home Federal Bancorp, Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio
March 17, 2014

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY	December 31,	
CONSOLIDATED BALANCE SHEETS	2013	2012
(In thousands, except share data)		
ASSETS		
Cash and equivalents	$107,000	$115,529
Investments available-for-sale, at fair value	390,648	420,505
FHLB stock, at cost	16,771	17,401
Loans receivable, net of allowance for loan losses of $9,046 and $12,528	407,451	409,846
Accrued interest receivable	2,764	2,776
Property and equipment, net	25,943	29,057
Bank owned life insurance	15,751	15,938
Real estate owned and other repossessed assets	4,756	10,386
FDIC indemnification receivable, net	4,914	10,846
Core deposit intangible	2,062	2,523
Deferred tax assets, net	16,844	9,022
Other assets	7,470	4,791
TOTAL ASSETS	$1,002,374	$1,048,620
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing demand	$160,602	$142,207
Interest-bearing demand	245,271	248,836
Money market	158,364	167,202
Savings	85,775	83,401
Certificates	168,439	209,242
Total deposit accounts	818,451	850,888
Advances by borrowers for taxes and insurance	383	490
Accrued interest payable	122	167
Deferred compensation	6,504	6,149
Repurchase agreements	—	4,775
Other liabilities	7,916	6,366
Total liabilities	833,376	868,835
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:	148	145
Dec. 31, 2013 - 17,852,778 issued; 14,832,757 outstanding		
Dec. 31, 2012 - 17,512,997 issued; 14,453,399 outstanding		
Additional paid-in capital	137,252	131,934
Retained earnings	42,752	46,337
Unearned shares issued to employee stock ownership plan	(6,065)	(6,823)
Accumulated other comprehensive income (loss)	(5,089)	8,192
Total stockholders' equity	168,998	179,785
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,002,374	$1,048,620

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except share and per share data)	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
Interest and dividend income:				
Loans and leases	$34,432	$40,058	$13,374	$41,981
Investments	10,399	8,861	2,092	8,508
Other interest and dividends	232	230	100	578
Total interest and dividend income	45,063	49,149	15,566	51,067
Interest expense:				
Deposits	2,920	3,811	1,212	6,791
FHLB advances and repurchase agreements	19	71	21	2,277
Total interest expense	2,939	3,882	1,233	9,068
Net interest income	42,124	45,267	14,333	41,999
Provision for loan losses	(2,486)	(1,765)	(474)	11,396
Net interest income after provision for loan losses	44,610	47,032	14,807	30,603
Noninterest income:				
Service charges and fees	8,226	8,653	2,246	9,823
Gain on sale of loans	—	1	181	849
Gain on sale of securities ($485 of gains during the year ended December 31, 2013, are comprised of accumulated other comprehensive income reclassifications)	485	1,971	590	607
Increase in cash surrender value of BOLI	466	488	102	412
FDIC indemnification recovery (provision)	(464)	(1,807)	(515)	9,313
Impairment of FDIC indemnification asset	(8,410)	(10,856)	(4,667)	(4,989)
Prepayment penalty on FHLB advances	—	—	—	(2,007)
Other	746	895	433	1,037
Total noninterest income	1,049	(655)	(1,630)	15,045
Noninterest expense:				
Compensation and benefits	24,032	24,054	5,866	28,135
Occupancy and equipment	5,386	6,176	1,477	6,897
Data processing	3,571	3,945	1,023	4,243
Advertising	550	776	145	1,122
Postage and supplies	803	987	287	1,252
Professional services	2,670	2,351	535	3,204
Insurance and taxes	1,642	2,158	708	3,294
Amortization of intangibles	461	564	160	725
Provision for REO	795	736	482	1,414
Merger termination fee	2,954	—	—	—
Other	1,465	1,767	333	3,223
Total noninterest expense	44,329	43,514	11,016	53,509
Income (loss) before income taxes	1,330	2,863	2,161	(7,861)
Income tax provision (benefit)	1,585	1,061	785	(3,232)
Net income (loss)	$(255)	$1,802	$1,376	$(4,629)
Earnings (loss) per common share				
Basic	$(0.02)	$0.12	$0.09	$(0.30)

Diluted	(0.02)	0.12	0.09	(0.30)
Weighted average number of shares outstanding:				
Basic	13,822,263	14,292,815	14,991,807	15,511,545
Diluted	13,822,263	14,297,987	14,991,807	15,511,545
Dividends declared per share:	$0.24	$0.35	$0.055	$0.22

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (In thousands)	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
Comprehensive income (loss)				
Net income (loss)	$(255)	$1,802	$1,376	$(4,629)
Other comprehensive income (loss):				
Change in unrealized holding gain (loss) on securities available-for-sale, net of taxes of ($8,283), $2,183, $106 and $1,647, respectively	(12,985)	3,424	166	2,582
Adjustment for realized gains, net of taxes of $(189), $(768), $(230) and $(236), respectively	(296)	(1,203)	(360)	(371)
Other comprehensive income (loss)	(13,281)	2,221	(194)	2,211
Comprehensive income (loss)	$(13,536)	$4,023	$1,182	$(2,418)

See accompanying notes.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance at October 1, 2010	16,687,561	$167	$152,682	$56,942	$(8,657)	$ 3,954	$205,088
Restricted stock issued, net of forfeitures	26,566	—					—
Repurchased restricted stock to pay taxes	(397)	—					—
ESOP shares committed to be released			190		1,042		1,232
Exercise of stock options	51,886	1	541				542
Share-based compensation			855				855
Stock repurchase	(708,182)	(7)	(7,413)				(7,420)
Dividends paid ($0.22 per share)				(3,427)			(3,427)
Tax adjustments for equity comp. plans			202				202
Net loss				(4,629)			(4,629)
Other comprehensive income						2,211	2,211
Balance at September 30, 2011	16,057,434	161	147,057	48,886	(7,615)	6,165	194,654
Restricted stock issued, net of forfeitures	(2,597)	—					—
ESOP shares committed to be released			1		34		35
Share-based compensation			126				126
Stock repurchase	(390,131)	(4)	(3,905)				(3,909)
Dividends paid ($0.055 per share)				(819)			(819)
Tax adjustments for equity comp. plans			1				1
Net income				1,376			1,376
Other comprehensive income (loss)						(194)	(194)
Balance at December 31, 2011	15,664,706	157	143,280	49,443	(7,581)	5,971	191,270
Restricted stock issued, net of forfeitures	43,394	—					—
Repurchased restricted stock to pay taxes	(3,558)	—	(37)				(37)
ESOP shares committed to be released			53		758		811
Exercise of stock options	800	1	8				9
Share-based compensation			1,009				1,009
Stock repurchase	(1,251,943)	(13)	(12,330)				(12,343)
Dividends paid ($0.35 per share)				(4,908)			(4,908)

Tax adjustments for equity comp. plans			(49)				(49)
Net income				1,802			1,802
Other comprehensive income						2,221	2,221
Balance at December 31, 2012	14,453,399	145	131,934	46,337	(6,823)	8,192	179,785
Restricted stock issued, net of forfeitures	45,457	—					—
Repurchased restricted stock to pay taxes	(5,880)	—	(73)				(73)
ESOP shares committed to be released			265		758		1,023
Exercise of stock options	339,781	3	3,688				3,691
Share-based compensation			1,266				1,266
Dividends paid ($0.24 per share)				(3,330)			(3,330)
Tax adjustments for equity comp. plans			172				172
Net loss				(255)			(255)
Other comprehensive income (loss)						(13,281)	(13,281)
Balance at December 31, 2013	14,832,757	$148	$137,252	$42,752	$(6,065)	$ (5,089)	$168,998

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$(255)	$1,802	$1,376	$(4,629)
Adjustments to reconcile net income (loss) to cash provided from operating activities:				
Depreciation and amortization	2,762	3,022	767	2,476
Amortization of core deposit intangible	461	564	160	725
Impairment of FDIC indemnification receivable	8,410	10,856	4,667	4,989
Net amortization of premiums and discounts on investments	2,765	5,746	1,916	5,718
Gain on sale of investments available-for-sale (AFS)	(485)	(1,971)	(590)	(607)
Gain on insurance proceeds	(161)	—	—	—
Gain on sale of fixed assets and repossessed assets, net of indemnification	(360)	(533)	(328)	(479)
ESOP shares committed to be released	1,023	811	35	1,232
Share based compensation expense	1,266	1,009	126	855
Provision for loan losses	(2,486)	(1,765)	(474)	11,396
Valuation allowance on real estate and other property owned	795	736	482	1,414
Accrued deferred compensation expense, net of distributions	355	278	74	214
Net deferred loan fees (costs)	231	(773)	(11)	37
Deferred income tax provision (benefit)	651	(3,917)	(2,510)	(7,400)
Net gain on sale of loans	—	(1)	(181)	(849)
Proceeds from sale of loans held for sale	—	1	4,930	31,089
Originations of loans held for sale	—	—	(2,662)	(27,194)
Net increase in value of bank owned life insurance	(466)	(488)	(102)	(412)
Change in assets and liabilities:				
Interest receivable	12	80	(57)	(106)
Other assets	(3,484)	(2,500)	2,980	(2,381)
Interest payable	(45)	(52)	(30)	(382)
Other liabilities	1,716	(1,103)	(3,089)	51
Net cash provided from operating activities	12,705	11,802	7,479	15,757
CASH FLOWS FROM INVESTING ACTIVITIES:				
Principal repayments, maturities and calls of investments AFS	97,454	108,980	44,905	119,701
Proceeds from sales of investments AFS	19,493	100,808	27,423	28,172
Purchase of investments AFS	(111,124)	(230,554)	(93,002)	(255,139)
Proceeds from redemption of FHLB stock	630	316	—	—
Reimbursement (payment) of loan losses under loss share agreements	(1,104)	2,290	5,063	35,009
Net decrease in loans	1,628	40,830	14,974	120,263
Loans purchased	—	(8,289)	—	—
Proceeds from sales of fixed assets and repossessed assets	8,324	18,353	8,488	25,367
Purchases of property and equipment	(318)	(803)	(179)	(8,309)
Purchases of bank-owned life insurance	—	—	(2,500)	—
Proceeds from death benefit under BOLI	814	—	—	—
Net cash provided from investing activities	15,797	31,931	5,172	65,064

(continues on next page)

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

	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net decrease in deposits	(32,437)	(55,211)	(53,410)	(230,153)
Net (decrease) increase in advances by borrowers for taxes and insurance	(107)	132	(975)	(3,325)
Repayment of FHLB advances	—	—	—	(58,852)
Net (decrease) increase in repurchase agreements	(4,775)	(139)	21	(3,878)
Repurchased restricted stock to pay taxes	(73)	(37)	—	—
Proceeds from exercise of stock options	3,691	9	—	542
Repurchases of common stock	—	(12,343)	(3,909)	(7,420)
Dividends paid	(3,330)	(4,908)	(819)	(3,427)
Net cash used by financing activities	(37,031)	(72,497)	(59,092)	(306,513)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,529)	(28,764)	(46,441)	(225,692)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	115,529	144,293	190,734	416,426
CASH AND CASH EQUIVALENTS, END OF PERIOD	$107,000	$115,529	$144,293	$190,734
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest	$2,984	$3,934	$1,263	$9,450
Income taxes	1,740	8,349	3,800	159
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition of real estate and other assets in settlement of loans	$3,014	$10,038	$3,881	$21,214
Transfer of branch facility to other real estate owned	641	—	—	—
Fair value adjustment to investments AFS, net of taxes	(13,281)	2,221	(194)	2,211

See accompanying notes.

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

Note 1 – Summary of Significant Accounting Policies

Nature of Business and Reorganization. Home Federal Bancorp, Inc. (the Company), was formed as the new stock holding company for Home Federal Bank (the Bank) in connection with the Company's conversion from a mutual holding company structure to a stock holding company structure, which was completed on December 19, 2007 (Conversion). Prior to the completion of the Conversion, the Bank was the subsidiary of Home Federal Bancorp, Inc., a federally-chartered stock mid-tier holding company (old Home Federal Bancorp), which was a subsidiary of Home Federal MHC, a federally-chartered mutual holding company. The Bank formed Home Federal MHC in December 2004. As a result of the Conversion, Home Federal MHC and old Home Federal Bancorp ceased to exist and were replaced by the Company as the successor to old Home Federal Bancorp.

The Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. On May 31, 2011, the Bank converted from a federal savings bank to an Idaho-chartered commercial bank and the Company reorganized as a bank holding company from a federally-chartered savings and loan holding company. The Bank 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 in its market areas: Boise, Idaho, and the surrounding area known as the Treasure Valley region of southwestern Idaho, which includes Ada, Canyon, Elmore, and Gem counties; the Tri-County Region of Central Oregon including the counties of Deschutes, Crook and Jefferson; and Western Oregon including Lane, Josephine, Jackson, & Multnomah counties. The Company operates 24 full-service banking offices, three loan production offices and two administrative locations and provides its customers with Internet and mobile banking services.

Until recently, Home Federal Bank had five wholly-owned subsidiaries. Three of them were dissolved in September 2012: Idaho Home Service Corporation, Liberty Funding Inc. and Liberty Insurance Services, Inc. Prior to the dissolutions, all three were inactive. Commercial Equipment Lease Corporation (CELC) was purchased in connection with the July 30, 2010, acquisition of LibertyBank in Eugene, Oregon, and specializes in commercial leasing activities. Community First Real Estate, LLC, was purchased in connection with the August 7, 2009, acquisition of Community First Bank in Prineville, Oregon. See Note 2 for additional information regarding these acquisitions.

Change in Year End. In January 2012, the Company changed its fiscal year end from September 30 to December 31, effective January 1, 2012. As a result, the Company's prior year comprises the twelve months ended December 31, 2012. The fiscal year end previous to this ended September 30, 2011. Consequently, the Company filed a transition report on Form 10-QT for the three months ended December 31, 2011. Disclosures and narrative related to that transition period are included in this Form 10-K.

Pending Merger With Cascade Bancorp. On October 23, 2013, the Company announced the signing of a definitive merger agreement (Cascade Agreement) with Cascade Bancorp (Cascade). Under the terms of the Cascade Agreement, Cascade will acquire the Company, subject to regulatory approval, approval by the stockholders of the Company and Cascade, and other customary conditions of closing. Previously, on September 24, 2013, the Company entered into a merger agreement (Banner Agreement) with Banner Corporation (Banner). The Company terminated the Banner Agreement on October 23, 2013, and paid a termination fee of $3.0 million to Banner during the fourth quarter of 2013, which is shown separately in the Consolidated Statements of Operations. The Banner Agreement was terminated pursuant to its terms because the Company's Board of Directors determined the Cascade offer was a Superior Proposal, as defined in the Banner Agreement.

Principles of Consolidation. The consolidated financial statements of the Company include the accounts of the Company, the Bank and the Bank's wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates. To prepare financial statements in conformity with U.S. generally accepted accounting principles management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses (including the evaluation of impaired loans and the associated provision for loan losses),

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accounting for acquired loans and covered assets (see Note 2), the valuation of noncovered real estate owned, as well as deferred income taxes and the associated income tax expense.

Management believes that the allowance for loan losses reflects the best estimate of probable incurred losses inherent in the loan portfolio at the balance sheet dates presented and that the valuation of real estate and other repossessed assets (REO) and computation of deferred taxes are proper. While management uses currently available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Cash Flows. Cash and cash equivalents include cash, deposits with other financial institutions with original maturities of less than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

The Company is required to maintain an average reserve balance with the Federal Reserve Bank, or maintain such reserve in cash on hand. The amount of this required reserve balance was $1.9 million and $1.8 million at December 31, 2013 and 2012, respectively.

Investments. Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized gains and losses reported in other comprehensive income, net of taxes. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Federal Home Loan Bank (FHLB) Stock. As a member of the FHLB of Seattle, the Bank is required to maintain a minimum level of investment in capital stock of the FHLB based on specific percentages of its outstanding FHLB advances, total assets and mortgages. The Bank's investment in FHLB of Seattle stock is carried at par value ($100 per share), which reasonably approximates its fair value. The Bank may request redemption at par value of any stock in excess of the amount the Bank is required to hold. FHLB stock is subject to restrictions as to purchase, sale, and redemption.

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Consumer loans are typically charged off no later than 120 days past due. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Purchased Loans. In connection with the acquisitions discussed in Note 2, the Bank purchased loans of failed banks, some of which possessed evidence of credit deterioration on the date of acquisition. These purchased loans were originally recorded at fair value on the date of acquisition. Nearly all of the loans purchased in these acquisitions were subject to shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC); such loans are referred to as "covered loans".

Loans purchased in the CFB Acquisition were accounted for under Statement of Accounting Standard No. 141, which has since been superseded by ASC 805, and under the guidance of ASC 310-30. An allowance for loan losses was recorded on loans purchased in the CFB Acquisition that did not show evidence of credit deterioration on the acquisition date. Loans purchased in the CFB Acquisition that are accounted for under ASC 310-30 were not aggregated into pools of loans but are accounted for individually.

The LibertyBank Acquisition was accounted for under ASC 805 and all related purchased loans are accounted for under ASC 310-30. Such purchased loans are aggregated into pools of loans based on common risk characteristics such as credit risk and loan type. The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the pool’s contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged off.

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. Valuation deficiencies on noncovered originated loans in process of foreclosure are treated as “Loss” under the Bank’s credit grading process and the loan balance is reduced to the estimated net recoverable value, which removes the specific reserve previously recorded. The Bank records a general allowance on loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30. Loans purchased in the CFB Acquisition that are accounted for under ASC 310-30 are partially charged down to the estimated net recoverable value if estimated losses exceed the fair value discount established on the acquisition date. Lastly, an allowance for loans purchased in the LibertyBank Acquisition is established when the net present value of cash flows expected to be received for loans in the acquired loan pools become impaired.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, or if the loan is a troubled debt restructuring. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Loans accounted for under ASC

310-30 are not considered impaired loans. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Nonhomogeneous loans, such as commercial and multifamily, construction and commercial business loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is

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reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and one-to-four family residential real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted primarily by current economic factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the last three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

- Real Estate: Real estate loans include loans secured by one-to-four family residential, multifamily residential, and commercial real estate properties. The Bank historically originated both fixed-rate loans and adjustable-rate loans in our residential lending program. Generally, these loans were originated to meet the requirements of Fannie Mae and Freddie Mac for sale in the secondary market to investors. The Bank generally underwrote our one-to-four family loans based on the applicant's employment, debt to income levels, credit history and the appraised value of the subject property, and the Bank would lend up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans. In situations where the Bank granted a loan with a loan-to-value ratio in excess of 80%, the borrower was generally required to purchase private mortgage insurance in order to reduce the exposure to 80% or less of the collateral value. The Bank required borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount equal to the regulatory maximum. Beginning in December 2011, the Bank ceased the origination of one-to-four family loans for sale in the secondary market. Rather, the Bank refers nearly all of residential mortgage loan applications to a third party originator that underwrites and closes the mortgage funding for the Bank's clients.

Multifamily and commercial real estate loans typically have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by multifamily or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. The Bank generally requires loan guarantees from financially-capable parties based upon the review of personal financial statements. If the borrower is a corporation, the Bank generally requires personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports. Commercial real estate loans are primarily secured by office and warehouse space, professional buildings, retail sites, multifamily residential buildings, industrial facilities and restaurants located in our primary market areas. The maximum loan-to-value ratio for commercial and multifamily real estate loans is generally 75% for both purchases and refinances. The Bank obtains appraisals of all properties securing commercial and multifamily real estate loans from independent fee appraisers approved by the Bank.

- Real Estate Construction: All builder/borrower loans are underwritten to the same standards as other commercial loan credits, requiring liquid working capital, sufficient net worth and established cash reserves to carry projects through construction completion and sale of the project. The maximum loan-to-value ratio on both pre-sold and speculative projects is generally 80%. The Bank originates construction and site development loans to contractors and builders primarily to finance the construction of single-family homes and subdivisions, which homes typically have an average price ranging from $150,000 to $400,000. Loans to finance the construction of single-family homes and subdivisions are generally offered to experienced builders in the Bank's primary market areas, in addition to a couple of outlying areas. The maximum loan-to-value limit applicable to construction and site development loans is 80% and 70%, respectively, of the appraised market value upon completion of the project. Maturity dates for residential construction loans are largely a

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function of the estimated construction period of the project, and generally do not exceed 36 months for residential subdivision development loans.

- Consumer Loans: Consumer loans, including home equity loans and lines of credit, savings account loans, automobile loans, recreational vehicle loans and personal unsecured loans entail greater risk than do residential first-lien mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles, and in second-lien loans such as home equity lines of credit in markets where residential property values have declined significantly since fiscal year 2007. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment when allowed by law. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. Home equity loans and lines of credit have greater credit risk than one-to-four family residential mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property.

- Commercial Business Loans: Commercial business loans include lines of credit and term loans and are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Commercial business loans typically have shorter terms to maturity than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. The Bank focuses on small- to medium-sized, privately-held companies with local or regional businesses that operate in the Bank's market area. The Bank's commercial business lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of the credit analysis, as repayment of commercial business loans is generally dependent on the cash flows of the borrower. Generally, personal guarantees are required on commercial business loans. Commercial business loans also include equipment finance agreements for the purchase of personal property, business equipment and titled vehicles and construction equipment. Generally these agreements have terms of 60 months or less and the lessee is granted title to the collateral at the end of the term.

- Leases: The Company also has leases on personal property and business assets. At the end of the lease term, the collateral is returned to CELC and the Bank, at which point the collateral is sold through a nationwide network of brokers. These leases entail many of the same types of risks as the Bank's commercial business loans. As with commercial business loans, the collateral securing leases may depreciate over time, may be difficult to appraise and may fluctuate in value. The Bank relies on the lessee's continuing financial stability, rather than the value of the leased equipment, for the repayment of all required amounts under lease loans. In the event of a default on a lease, it is unlikely that the proceeds from the sale of the leased equipment will be sufficient to satisfy the outstanding unpaid amounts under the terms of the loan.

The allowance for loan losses on covered loans are reported gross of amounts to be recovered from the FDIC. The provision for loan losses is also recorded gross of amounts recoverable from the FDIC. The amount of the provision for loan losses on covered loans that is expected to be recovered from the FDIC is recorded as an increase to the FDIC indemnification asset with a corresponding increase in noninterest income as FDIC indemnification recovery. If amounts are recovered on previous charge off covered loans, the Company may record a reverse provision for loan losses, which results in a decrease to the FDIC indemnification asset and a decrease in noninterest income as FDIC indemnification provision.

Concentrations of Credit Risk. The Bank accepts deposits and grants credit primarily within the Treasure Valley region of southwestern Idaho, the tri-county region of central Oregon, and western Oregon. The Bank grants consumer, residential, commercial, and construction real estate loans, and is not dependent on any industry or group of clients. The Bank has a diversified loan portfolio, however, a substantial portion of its loans are real estate-related. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area. The Bank also regularly monitors real-estate related loans that include terms that may give rise to a concentration of credit risk, including high loan-to-value loans and interest-only construction loans.

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Transfers of Financial Assets. Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets. Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. The carrying amount of REO was \$4.8 million and \$10.4 million at December 31, 2013 and 2012, respectively. Covered REO totaled \$3.6 million and \$6.1 million at December 31, 2013 and 2012, respectively.

Property and Equipment. Properties and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements, whichever is less. Depreciation and amortization are generally computed using the straight-line method for financial statement purposes over the following estimated useful lives and lease periods:

Buildings and leasehold improvements	15-40 years
Furniture, equipment and automobiles	3-12 years

The normal costs of maintenance and repairs are charged to expense as incurred.

Bank Owned Life Insurance. The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

FDIC Indemnification Asset. Under the terms of the loss sharing agreements with the FDIC, which is a significant component of the acquisitions discussed in Note 2, the FDIC will absorb most of the losses and certain related expenses and share in loss recoveries on loans, leases and REO covered under the loss share agreements. The FDIC indemnification asset is measured separately from each of the covered asset categories. The indemnification asset represents the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit adjustment estimated for each covered asset and the loss sharing percentages. These cash flows are discounted at a market-based rate to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The FDIC indemnification asset will be reduced as losses are recognized on covered assets and loss sharing payments are received from the FDIC. Realized losses in excess of acquisition date estimates will increase the FDIC indemnification asset and the indemnifiable loss recovery is recorded in noninterest income. Conversely, if realized losses are less than acquisition date estimates, the FDIC indemnification asset will be reduced by a charge to earnings and is included with accretion (impairment) of FDIC indemnification asset in noninterest income.

Intangible Assets. Intangible assets acquired in a purchase business combination with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Intangible assets on the Company's Consolidated Balance Sheets consist of a core deposit intangible asset arising from whole bank acquisitions. The core deposit intangible is initially measured at fair value and then is amortized on an accelerated method over the estimated useful life, which has been estimated to be 10 years. The original amount of core deposit intangibles was \$4.1 million, with a balance at December 31, 2013, of \$2.1 million.

The following table shows estimated amortization expense (in thousands):

	Amount

Fiscal years ended December 31,	
2014	$377
2015	308
2016	280
2017	306
2018	306
Thereafter	485
Total	$2,062

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Income Taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company analyzed its tax positions, including the permanent and temporary differences as well as the major components of income and expense, and determined that it had no uncertain tax positions that would rise to the level of having a material effect on its Consolidated Financial Statements at December 31, 2013 and 2012.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of equity.

Advertising Costs. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2013 and 2012, the three months ended December 31, 2011, and the year ended September 30, 2011, was $550,000, $776,000, $145,000 and $1.1 million respectively.

Stock-Based Compensation. Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Retirement Plans. Employee 401(k) plan expense equals the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Employee Stock Ownership Plan. The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest.

Earnings Per Share. Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Loss Contingencies. Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments. While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial services operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications. 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 or equity.

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

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

Note 2 – Acquisitions

On August 7, 2009, the Bank entered into an agreement with the FDIC and acquired certain assets and assumed certain liabilities of Community First Bank, a full service community bank that was formerly headquartered in Prineville, Oregon. The CFB Acquisition consisted of assets with a preliminary estimated fair value of $189.8 million and liabilities with a preliminary estimated fair value of $174.5 million on the acquisition date. Through the CFB Acquisition, the Bank acquired a wholly-owned subsidiary, Community First Real Estate LLC, which owned three of the Bank's full-service banking offices in Central Oregon.

On July 30, 2010, the Bank entered into an agreement with the FDIC and acquired certain assets and assumed certain liabilities of LibertyBank, a full service community bank that was formerly headquartered in Eugene, Oregon (the LibertyBank Acquisition). The LibertyBank Acquisition consisted of assets with a preliminary estimated fair value of $690.6 million and liabilities with a preliminary estimated fair value of $688.6 million on the acquisition date. Through the LibertyBank Acquisition, the Bank acquired three wholly-owned subsidiaries, two of which were inactive with no business activities and were dissolved in September 2012. The third subsidiary was CELC, which engages in the business of equipment lease financing. Leases are generally for terms of five years or less. Equipment financing agreements, or financing leases, are reported as commercial loans in the Company's balance sheet. Other leases are included in loans, but reported separately in the accompanying footnotes.

In addition to the assets purchased and liabilities assumed in both acquisitions, the Bank and the FDIC entered into shared-loss agreements. These agreements cover realized losses and certain expenses on nearly all of the loans (covered loans) and foreclosed real estate purchased in the acquisitions (together covered assets). Under the shared-loss agreements associated with the CFB Acquisition, the FDIC will reimburse the Bank for 80% of the first $34.0 million of realized losses and reimbursable expenses on covered assets and 95% on realized losses and reimbursable expenses that exceed $34.0 million on covered assets. The FDIC will reimburse the Bank for 80% of the losses and reimbursable expenses on covered assets from the LibertyBank Acquisition. Consumer loans purchased in the LibertyBank Acquisition that were not secured by real estate (such as automobile and deposit secured loans) are excluded from the loss sharing agreements. The FDIC shares in any recoveries on covered assets at the same rates as the loss sharing provisions.

Reimbursable losses covered by the shared-loss agreements include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by the Bank. The shared-loss agreements and recovery provisions for one-to-four family loans is in effect for 10 years from the acquisition dates. For all other covered loans and leases, the shared-loss agreements and related recovery provisions are in effect for five years and eight years, respectively. The reimbursable losses from the FDIC are based on the book value of the relevant loans and foreclosed assets as determined by the FDIC as of the dates of the acquisitions. The expected reimbursements under the loss sharing agreements were recorded as the FDIC indemnification asset at their estimated fair value on the acquisition date.

The FDIC indemnification asset is measured separately from each of the covered asset categories. The indemnification asset represents the present value of the estimated cash payments expected to be received from the FDIC for losses on covered assets based on the credit adjustment estimated for each covered asset and the loss sharing percentages. These cash flows are discounted at a market-based rate to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The discount applied to the FDIC indemnification asset was between 6.25% and 7.00% during the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011.

In September 2020, approximately 10 years following the LibertyBank Acquisition date, the Bank is required to make a payment to the FDIC in the event that losses on covered assets under the shared-loss agreements related to the LibertyBank Acquisition have been less than the intrinsic loss estimate, which was determined by the FDIC prior to the LibertyBank Acquisition. The Company has estimated the minimum level of losses to avoid a true-up provision payment to the FDIC to be $46.7 million. The maximum amount of the true-up provision is $4.7 million, if there are no losses in the covered loan portfolio. At December 31, 2013 and 2012, the Company accrued $702,000 and $528,000, respectively, as the estimated true-up provision based on realized losses since the date of the LibertyBank Acquisition. The loss sharing agreements under the CFB Acquisition does not require the Company to make a true-up payment.

Note 3 – 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:

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

Impaired Loans. The measurement 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. Impaired loans carried at the fair value of the collateral are considered to be measured at fair value. 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. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust

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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. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. 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 loans.

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.

The following table summarizes the Company’s financial assets that were measured at fair value on a recurring basis at December 31, 2013 and 2012, 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
December 31, 2013				
Investments available-for-sale:				
Obligations of U.S. GSE	$—	$49,205	$—	$49,205
Obligations of states and political subdivisions	—	40,428	—	40,428
U.S. Treasury bonds	8,104	—	—	8,104
Mortgage-backed securities, GSE issued	—	292,680	—	292,680
Mortgage-backed securities, private label	—	231	—	231
December 31, 2012				
Investments available-for-sale:				
Obligations of U.S. GSE	$—	$57,660	$—	$57,660
Obligations of states and political subdivisions	—	40,890	—	40,890
Mortgage-backed securities, GSE issued	—	321,672	—	321,672
Mortgage-backed securities, private label	—	283	—	283

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2013 and 2012.

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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 December 31, 2013 and 2012 (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2013				
Impaired loans:				
One-to-four family residential	$—	$—	$1,952	$1,952
Commercial and multifamily	—	—	1,324	1,324
Real estate construction	—	—	289	289
Home equity	—	—	109	109
Total impaired loans	—	—	3,674	3,674
REO:				
Commercial and multifamily	—	—	370	370
Real estate construction	—	—	910	910
Total REO	—	—	1,280	1,280
Total impaired loans and REO at fair value	$—	$—	$4,954	$4,954
December 31, 2012				
Impaired loans:				
One-to-four family residential	$—	$—	$2,802	$2,802
Commercial and multifamily	—	—	3,359	3,359
Real estate construction	—	—	429	429
Home equity	—	—	173	173
Total impaired loans	—	—	6,763	6,763
REO:				
One-to-four family residential	—	—	307	307
Commercial and multifamily	—	—	5,513	5,513
Real estate construction	—	—	2,950	2,950
Total REO	—	—	8,770	8,770
Total impaired loans and REO at fair value	$—	$—	$15,533	$15,533

At December 31, 2013, impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying amount of $3.7 million, net of specific valuation allowances totaling $232,000. At December 31, 2012, impaired loans at fair value had a carrying amount of $6.8 million, net of specific allowances totaling $792,000. Included in the value of impaired loans presented above at December 31, 2013 is $2.2 million of loans that have been charged down to fair value, and $4.8 million at December 31, 2012. Provisions for loan losses associated with impaired loans carried at fair value was immaterial during the years ended December 31, 2013 and 2012.

REO is recorded at estimated fair value less costs to sell and had a carrying amount of $1.3 million at December 31, 2013, which is comprised of the outstanding balance of $1.3 million, with no valuation allowance. At December 31, 2012, REO measured at fair value less costs to sell had a carrying value of $8.8 million, which is made up of the outstanding balance of $8.8 million, with no valuation allowance. The provision for declines in the value of REO totaled $795,000, $736,000, $482,000 and $1.4 million for the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011, respectively, before offsetting amounts recoverable from the FDIC under loss sharing agreements. The provisions for the declines in the value of REO includes impairment on REO measured at fair value and REO properties sold during the periods.

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The following tables present information as of December 31, 2013 and 2012 about significant unobservable inputs related to the Company's material categories of Level 3 financial assets measured on a nonrecurring basis (in thousands):

	December 31, 2013					
	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted Average	
Impaired loans- Commercial real estate and multifamily	$1,324	Sales comparison approach	Adjustment for differences between the comparable sales	(9.4%) - 15.9%	1.7	%
		Income approach	Adjustment for differences in capitalization rates	7.00% - 9.00%	7.8	
Impaired loans- Construction	289	Sales comparison approach	Adjustment for differences between the comparable sales	(8.1%) - 6.6%	(1.3	)
REO- Commercial real estate	370	Sales comparison approach	Adjustment for differences between the comparable sales	(6.2%) - 5.8%	(0.5	)
REO- Construction	910	Sales comparison approach	Adjustment for differences between the comparable sales	(7.6%) - 63.6%	18.1	

	December 31, 2012					
	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted Average	
Impaired loans- Commercial real estate and multifamily	$3,359	Sales comparison approach	Adjustment for differences between the comparable sales	(14.8%) - 8.8%	(4.4	)%
		Income approach	Adjustment for differences in capitalization rates	9.00% - 10.00%	9.2	
Impaired loans- Construction	429	Sales comparison approach	Adjustment for differences between the comparable sales	1.9% - 12.7%	7.0	
REO- Commercial real estate	5,513	Sales comparison approach	Adjustment for differences between the comparable sales	(15.2%) - 18.5%	(1.2	)
		Income approach	Adjustment for differences in capitalization rates	8.00% - 8.75%	8.4	
REO- Construction	2,950	Sales comparison approach	Adjustment for differences between the comparable sales	(39.3%) - 20.8%	(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 December 31, 2013 and 2012, were as follows (in thousands):

	December 31, 2013		2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	$107,000	$107,000	$115,529	$115,529
Accrued interest on U.S. Treasury bond	37	37	—	—
Level 2 inputs:				
Accrued interest receivable on other investments	1,612	1,612	1,676	1,676
Level 3 inputs:				
Loans receivable, net, excluding loans at fair value and leases	403,665	404,134	402,500	412,032
Accrued interest receivable on loans	1,115	1,115	1,100	1,100
FDIC indemnification receivable, net	4,914	3,379	10,846	3,893
Financial liabilities:				
Level 1 inputs:				
Demand and savings deposits	$650,012	$650,012	$641,646	$641,646
Advances by borrowers for taxes and insurance	383	383	490	490
Level 2 inputs:				
Certificates of deposit	168,439	169,913	209,242	212,436
Accrued interest payable	122	122	167	167
Repurchase agreements	—	—	4,775	4,790

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 and are classified as Level 1.

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 resulting in a Level 3 classification. 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. Fair value is estimated using the net present value of estimated cash flows resulting in a Level 3 classification.

Accrued Interest Receivable. The carrying amount approximates fair value resulting in a Level 2 and 3 classification.

Deposits. The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date resulting in a Level 1 classification. 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 resulting in a Level 2 classification.

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 resulting in a Level 2 classification.

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Advances by Borrowers for Taxes and Insurance. The carrying amount approximates fair value as it is the amount payable on the reporting date resulting in a Level 1 classification.

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 December 31, 2013 and 2012 were insignificant.

Note 4 – Investments

The Company's investment policies are designed to provide and maintain adequate liquidity and to generate favorable rates of return without incurring undue interest rate or credit risk, and generally limit investments to mortgage-backed securities, securities issued by U.S. Government-sponsored enterprises (GSE), U.S. Treasury bonds and municipal bonds. Investments available-for-sale consisted of the following at December 31, 2013 and 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
December 31, 2013					
Obligations of U.S. GSE	$50,545	$248	$(1,588)	$49,205	12.6 %
Obligations of states and political subdivisions	41,924	396	(1,892)	40,428	10.3
U.S. Treasury bonds	9,606	—	(1,502)	8,104	2.1
Mortgage-backed securities, GSE-issued	296,672	4,634	(8,626)	292,680	74.9
Mortgage-backed securities, private label	236	—	(5)	231	0.1
Total	$398,983	$5,278	$(13,613)	$390,648	100.0 %
December 31, 2012					
Obligations of U.S. GSE	$56,179	$1,481	$—	$57,660	13.7 %
Obligations of states and political subdivisions	38,932	2,009	(51)	40,890	9.7
Mortgage-backed securities, GSE-issued	311,690	10,116	(134)	321,672	76.5
Mortgage-backed securities, private label	287	—	(4)	283	0.1
Total	$407,088	$13,606	$(189)	$420,505	100.0 %

For the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011, proceeds from sales of investments available-for-sale amounted to $19.5 million, $100.8 million, $27.4 million and $28.2 million, respectively. Gross realized gains from sales of securities available-for-sale for the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011 were $518,000, $2.0 million, $590,000 and $607,000, respectively. There were no realized losses from sales of securities available-for-sale for any period presented. However, $33,000 of losses were recognized during the year ended December 31, 2013 due to calls of securities prior to maturity. All gain and losses were included in other noninterest income on the Consolidated Statements of Operations.

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The fair value of investments with unrealized losses, the amount of unrealized losses and the length of time these unrealized losses existed as of December 31, 2013 and 2012, were as follows (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
Obligations of U.S. GSE	$30,834	$(1,588)	$—	$—	$30,834	$(1,588)
Obligations of states and political subdivisions	28,048	(1,892)	—	—	28,048	(1,892)
U.S. Treasury bonds	8,104	(1,502)	—	—	8,104	(1,502)
Mortgage-backed securities, GSE-issued	144,754	(7,523)	11,894	(1,103)	156,648	(8,626)
Mortgage-backed securities, private label	—	—	231	(5)	231	(5)
Total	$211,740	$(12,505)	$12,125	$(1,108)	$223,865	$(13,613)
December 31, 2012						
Obligations of states and political subdivisions	$6,117	$(51)	$—	$—	$6,117	$(51)
Mortgage-backed securities, GSE-issued	20,461	(131)	114	(3)	20,575	(134)
Mortgage-backed securities, private label	—	—	283	(4)	283	(4)
Total	$26,578	$(182)	$397	$(7)	$26,975	$(189)

Management has evaluated these investments and has determined that the decline in the value is not other than temporary and not related to the underlying credit quality of the issuers or an industry specific event. The declines in value are on investments that have contractual maturity dates and future principal payments that will be sufficient to recover the current amortized cost of the investments. The Company does not have the intent to sell these investments and it is likely that it will not be required to sell these investments before their anticipated recovery.

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

	December 31, 2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$3,998	$4,017	$14,136	$14,206
Due after one year through five years	4,833	5,003	7,051	7,280
Due after five years through ten years	23,832	23,564	20,719	21,908
Due after ten years	69,412	65,153	53,205	55,156
Mortgage-backed securities	296,908	292,911	311,977	321,955
Total	$398,983	$390,648	$407,088	$420,505

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As of December 31, 2013 and 2012, the Bank pledged investment securities for the following obligations (in thousands):

	December 31, 2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FHLB advances	$15,828	$16,983	$23,482	$25,397
Federal Reserve Bank	726	755	1,166	1,222
Repurchase agreements	5,066	5,263	4,607	4,855
Deposits of municipalities and public units	6,968	7,459	9,871	10,573
Total	$28,588	$30,460	$39,126	$42,047

At December 31, 2013, our holdings of investments of any one issuer in an amount (at fair value) greater than 10% of stockholders' equity were Fannie Mae ($202.6 million), Freddie Mac ($65.3 million), Ginnie Mae ($28.3 million) and the U.S. Small Business Administration ($39.6 million).

Note 5 – Loans and Leases Receivable and the Allowance for Loan Losses

Loans and leases receivable are summarized as follows at December 31, 2013 and 2012 (dollars in thousands):

	December 31, 2013		2012	
	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:				
One-to-four family residential	$68,755	16.5 %	$87,833	20.8 %
Multifamily residential	41,819	10.0	34,377	8.1
Commercial	168,294	40.4	185,132	43.8
Total real estate	278,868	66.9	307,342	72.7
Real estate construction:				
One-to-four family residential	26,567	6.4	13,016	3.1
Multifamily residential	3,769	0.9	520	0.1
Commercial and land development	30,688	7.4	25,391	6.0
Total real estate construction	61,024	14.7	38,927	9.2
Consumer:				
Home equity	37,506	9.0	41,793	9.9
Automobile	928	0.2	966	0.2
Other consumer	2,941	0.7	4,012	1.1
Total consumer	41,375	9.9	46,771	11.2
Commercial business	35,264	8.5	28,666	6.8
Leases	112	—	583	0.1
Gross loans and leases	416,643	100.0 %	422,289	100.0 %
Deferred loan costs (fees), net	(146)		85	
Allowance for loan losses	(9,046)		(12,528)	
Loans and leases receivable, net	$407,451		$409,846	

The majority of residential mortgage loans are pledged as collateral for potential FHLB advances (see Note 9).

The following tables present loans at their recorded investment. Recorded investment includes the unpaid principal balance, net of purchase adjustments, plus accrued interest less charge offs and net deferred loan fees. Accrued interest on loans was approximately $1.1 million at both December 31, 2013 and 2012.

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The following table presents the recorded investment in nonperforming loans and an aging of performing loans by class as of December 31, 2013 and 2012 (in thousands):

	December 31, 2013						
	Nonperforming Loans						
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
Noncovered loans							
Real estate:							
One-to-four family residential	$1,998	$—	$1,998	$ 420	$ 274	$59,827	$62,519
Multifamily residential	765	—	765	—	—	39,493	40,258
Commercial real estate	111	—	111	—		133,312	133,423
Total real estate	2,874	—	2,874	420	274	232,632	236,200
Real estate construction:							
One-to-four family residential	528	—	528	504	—	25,445	26,477
Multifamily residential	—	—	—	—	—	3,772	3,772
Commercial real estate	128	—	128	—	—	27,149	27,277
Total real estate construction	656	—	656	504	—	56,366	57,526
Consumer:							
Home equity	342	—	342	40	62	28,878	29,322
Automobile	1	—	1	—	—	826	827
Other consumer	3	—	3	11	—	2,402	2,416
Total consumer	346	—	346	51	62	32,106	32,565
Commercial business	199	—	199	—	—	30,719	30,918
Total noncovered loans	4,075	—	4,075	975	336	351,823	357,209
Covered loans							
Real estate:							
One-to-four family residential	233	—	233	—	—	6,054	6,287
Multifamily residential	228	—	228	—	—	2,153	2,381
Commercial real estate	1,713	—	1,713	—		33,160	34,873
Total real estate	2,174	—	2,174	—	—	41,367	43,541
Commercial real estate construction	219	—	219	—	—	3,127	3,346
Consumer:							
Home equity	—	—	—	—	—	8,394	8,394
Automobile	—	—	—	—	—	101	101
Other consumer	—	—	—	—	—	556	556
Total consumer	—	—	—	—	—	9,051	9,051
Commercial business	—	—	—	17	—	4,448	4,465
Total covered loans	2,393	—	2,393	17	—	57,993	60,403
Total gross loans	$6,468	$—	$6,468	$ 992	$ 336	$409,816	$417,612

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	December 31, 2012 Nonperforming Loans						
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
Noncovered loans							
Real estate:							
One-to-four family residential	$3,240	$—	$3,240	$ 498	$ 217	$75,741	$79,696
Multifamily residential	825	—	825	—	—	30,228	31,053
Commercial real estate	3,727	—	3,727	—		132,825	136,552
Total real estate	7,792	—	7,792	498	217	238,794	247,301
Real estate construction:							
One-to-four family residential	593	—	593	—	—	12,423	13,016
Multifamily residential	—	—	—	—	—	520	520
Commercial real estate	218	—	218	—	—	19,756	19,974
Total real estate construction	811	—	811	—	—	32,699	33,510
Consumer:							
Home equity	643	—	643	31	7	30,979	31,660
Automobile	—	—	—	—	3	752	755
Other consumer	—	—	—	13	—	3,257	3,270
Total consumer	643	—	643	44	10	34,988	35,685
Commercial business	351	—	351	—	—	17,183	17,534
Total noncovered loans	9,597	—	9,597	542	227	323,664	334,030
Covered loans							
Real estate:							
One-to-four family residential	338	—	338	—	—	7,835	8,173
Multifamily residential	—	—	—	—	—	3,325	3,325
Commercial real estate	4,108	—	4,108	—	—	44,471	48,579
Total real estate	4,446	—	4,446	—	—	55,631	60,077
Commercial real estate construction	248	—	248	—	—	5,169	5,417
Consumer:							
Home equity	85	—	85	30	—	10,164	10,279
Automobile	—	—	—	—	—	210	210
Other consumer	10	—	10	5	5	742	762
Total consumer	95	—	95	35	5	11,116	11,251
Commercial business	—	—	—	—	—	12,699	12,699
Total covered loans	4,789	—	4,789	35	5	84,615	89,444
Total gross loans	$14,386	$—	$14,386	$ 577	$ 232	$408,279	$423,474

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. A loan is categorized as watch if it possesses 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 are categorized as special mention. 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.

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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, however, 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.”

Pass. Loans not meeting the criteria above are considered to be pass rated loans. The pass classification includes non-rated and homogeneous 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.

As of December 31, 2013 and 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	December 31, 2013					
	Pass	Watch	Special Mention	Substandard	Doubtful	Total Loans
Noncovered loans						
Real estate:						
One-to-four family residential	$60,345	$60	$—	$2,114	$—	$62,519
Multifamily residential	39,339	20	45	854	—	40,258
Commercial real estate	109,190	8,837	9,004	6,392	—	133,423
Total real estate	208,874	8,917	9,049	9,360	—	236,200
Real estate construction:						
One-to-four family residential	25,118	831	—	528	—	26,477
Multifamily residential	3,772	—	—	—	—	3,772
Commercial real estate	27,149	—	—	128	—	27,277
Total real estate construction	56,039	831	—	656	—	57,526
Consumer:						
Home equity	28,907	73	—	342	—	29,322
Automobile	826	—	—	1	—	827
Other consumer	2,406	—	7	3	—	2,416
Total consumer	32,139	73	7	346	—	32,565
Commercial business	27,991	1,201	1,490	236	—	30,918
Total noncovered loans	325,043	11,022	10,546	10,598	—	357,209
Covered loans						
Real estate:						
One-to-four family residential	3,093	—	148	3,046	—	6,287
Multifamily residential	1,806	184	—	391	—	2,381
Commercial real estate	26,140	898	1,978	5,857	—	34,873
Total real estate	31,039	1,082	2,126	9,294	—	43,541
Commercial real estate construction	3,127	—	—	219	—	3,346
Consumer:						
Home equity	8,269	3	—	122	—	8,394

Automobile	92	9	—	—	—	101
Other consumer	522	34	—	—	—	556
Total consumer	8,883	46	—	122	—	9,051
Commercial business	2,939	723	688	115	—	4,465
Total covered loans	45,988	1,851	2,814	9,750	—	60,403
Total gross loans	$371,031	$12,873	$13,360	$20,348	$—	$417,612

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	December 31, 2012					
	Pass	Watch	Special Mention	Substandard	Doubtful	Total Loans
Noncovered loans						
Real estate:						
One-to-four family residential	$74,974	$603	$—	$4,119	$—	$79,696
Multifamily residential	30,073	—	39	941	—	31,053
Commercial real estate	91,684	11,477	11,456	21,935	—	136,552
Total real estate	196,731	12,080	11,495	26,995	—	247,301
Real estate construction:						
One-to-four family residential	11,771	594	—	651	—	13,016
Multifamily residential	520	—	—	—	—	520
Commercial real estate	19,365	391	—	218	—	19,974
Total real estate construction	31,656	985	—	869	—	33,510
Consumer:						
Home equity	30,901	116	—	643	—	31,660
Automobile	755	—	—	—	—	755
Other consumer	3,159	26	21	64	—	3,270
Total consumer	34,815	142	21	707	—	35,685
Commercial business	16,249	675	175	435	—	17,534
Total noncovered loans	279,451	13,882	11,691	29,006	—	334,030
Covered loans						
Real estate:						
One-to-four family residential	3,494	151	—	4,528	—	8,173
Multifamily residential	2,617	205	—	503	—	3,325
Commercial real estate	22,272	10,302	1,813	14,192	—	48,579
Total real estate	28,383	10,658	1,813	19,223	—	60,077
Commercial real estate construction	849	3,939	—	629	—	5,417
Consumer:						
Home equity	10,024	109	—	146	—	10,279
Automobile	210	—	—	—	—	210
Other consumer	725	12	—	25	—	762
Total consumer	10,959	121	—	171	—	11,251
Commercial business	8,361	742	1,175	2,421	—	12,699
Total covered loans	48,552	15,460	2,988	22,444	—	89,444
Total gross loans	$328,003	$29,342	$14,679	$51,450	$—	$423,474

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. The following table summarizes impaired loans at December 31, 2013 and 2012 (in thousands):

	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
Impaired loans with related specific allowance	$1,701	$2,917	$8,787	$6,617
Impaired loans with no related allowance	9,706	15,090	13,355	10,825
Total impaired loans	$11,407	$18,007	$22,142	$17,442

Specific allowance on impaired loans	$232	$792	$1,569	$1,360
Average balance of impaired loans	15,000	21,153	19,796	23,495

As of December 31, 2013 and 2012, no loans contractually past due 90 days or more were accruing interest. Nonaccrual loans totaled $6.5 million and $14.4 million at December 31, 2013 and 2012, respectively. Interest income recognized

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on nonaccrual loans during the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011 was immaterial.

The following table presents loans deemed impaired by class of loans as of and during the year ended December 31, 2013 (in thousands):

	December 31, 2013			Average Recorded Investment Year Ended December 31, 2013
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	
Noncovered loans				
With no related allowance recorded:				
Real estate:				
One-to-four family residential	$3,706	$3,227	$—	$3,320
Commercial real estate	3,923	3,928	—	5,610
Total real estate	7,629	7,155	—	8,930
Real estate construction:				
One-to-four family residential	297	292	—	290
Commercial real estate	127	128	—	170
Total real estate construction	424	420	—	460
Consumer:				
Home equity	419	317	—	350
Automobile	6	6	—	—
Other consumer	3	3	—	—
Total consumer	428	326	—	350
Commercial business	207	207	—	280
Total noncovered loans with no related allowance	8,688	8,108	—	10,020
With an allowance recorded:				
Real estate:				
One-to-four family residential	588	588	(91)	940
Multifamily residential	765	765	(55)	800
Commercial real estate	—	—	—	170
Total real estate	1,353	1,353	(146)	1,910
Real estate construction:				
One-to-four family residential	235	235	(47)	310
Commercial real estate	—	—	—	10
Total real estate construction	235	235	(47)	320
Home equity	113	113	(39)	200
Total noncovered loans with an allowance recorded	1,701	1,701	(232)	2,430
Covered loans				
With no related allowance recorded:				
Real estate:				
One-to-four family residential	331	333	—	90
Multifamily residential	228	229	—	60
Commercial real estate	1,067	783	—	2,110
Total real estate	1,626	1,345	—	2,260

Commercial real estate construction	490	219	—	230
Home equity	415	34	—	60
Total covered loans with no related allowance	2,531	1,598	—	2,550
Total impaired loans	$12,920	$11,407	$(232)	$15,000

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The following table presents loans deemed impaired by class of loans as of and during the year ended December 31, 2012 (in thousands):

	December 31, 2012			Average Recorded Investment
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Year Ended December 31, 2012
Noncovered loans				
With no related allowance recorded:				
Real estate:				
One-to-four family residential	$4,259	$3,620	$—	$3,923
Commercial real estate	7,403	7,316	—	4,881
Total real estate	11,662	10,936	—	8,804
Real estate construction:				
One-to-four family residential	317	259	—	325
Commercial real estate	146	146	—	121
Total real estate construction	463	405	—	446
Consumer:				
Home equity	758	434	—	591
Automobile	—	—	—	18
Other consumer	—	—	—	6
Total consumer	758	434	—	615
Commercial business	360	361	—	379
Total noncovered loans with no related allowance	13,243	12,136	—	10,244
With an allowance recorded:				
Real estate:				
One-to-four family residential	1,057	1,057	(309)	1,393
Multifamily residential	825	825	(114)	504
Commercial real estate	347	347	(41)	4,363
Total real estate	2,229	2,229	(464)	6,260
Real estate construction:				
One-to-four family residential	392	392	(145)	388
Commercial real estate	72	72	(12)	256
Total real estate construction	464	464	(157)	644
Home equity	224	224	(171)	280
Total noncovered loans with an allowance recorded	2,917	2,917	(792)	7,184
Covered loans				
With no related allowance recorded:				
Real estate:				
One-to-four family residential	63	63	—	185
Commercial real estate	3,027	2,548	—	2,622
Total real estate	3,090	2,611	—	2,807
Commercial real estate construction	508	248	—	434
Home equity	633	85	—	144
Commercial business and leases	10	10	—	340
Total covered loans with no related allowance	4,241	2,954	—	3,725
Total impaired loans	$20,401	$18,007	$(792)	$21,153

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The following tables 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 December 31, 2013 and 2012 (in thousands):

	December 31, 2013					
	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						
Real estate	$146	$3,899	$—	$8,508	$227,692	$—
Construction	47	876	—	655	56,871	—
Consumer	39	1,164	—	439	31,056	1,070
Commercial business	—	579	—	207	30,711	—
Total noncovered	232	6,518	—	9,809	346,330	1,070
Covered loans						
Real estate	—	706	610	1,345	18,247	23,949
Construction	—	69	45	219	408	2,719
Consumer	—	114	301	34	4,417	4,600
Commercial business	—	96	355	—	2,280	2,185
Total covered	—	985	1,311	1,598	25,352	33,453
Total	$232	$7,503	$1,311	$11,407	$371,682	$34,523

	December 31, 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						
Real estate	$464	$4,715	$—	$13,165	$234,136	$—
Construction	157	809	—	869	32,641	—
Consumer	171	1,627	—	658	33,437	1,590
Commercial business	—	668	—	361	17,173	—
Total noncovered	792	7,819	—	15,053	317,387	1,590
Covered loans						
Real estate	—	704	1,452	2,611	21,725	35,741
Construction	—	179	295	248	1,857	3,312
Consumer	—	281	278	85	5,263	5,893
Commercial business	—	169	559	10	3,832	8,867
Total covered	—	1,333	2,584	2,954	32,677	53,813
Total	$792	$9,152	$2,584	$18,007	$350,064	$55,403

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Activity in the allowance for loan losses for the year ended December 31, 2013 was as follows (in thousands):

	As of December 31, 2012	Provisions	Charge-Offs	Recoveries	As of December 31, 2013
Noncovered loans					
Real estate	$5,179	$(991)	$(218)	$75	$4,045
Construction	966	(287)	(18)	262	923
Consumer	1,798	(685)	(98)	188	1,203
Commercial business	668	(83)	(8)	2	579
Total noncovered loans	8,611	(2,046)	(342)	527	6,750
Covered loans					
Real estate	2,156	903	(1,851)	108	1,316
Construction	474	(1,180)	(134)	954	114
Consumer	559	(174)	(26)	56	415
Commercial business	728	11	(398)	110	451
Total covered loans	3,917	(440)	(2,409)	1,228	2,296
Total	$12,528	$(2,486)	$(2,751)	$1,755	$9,046

Activity in the allowance for loan losses for the year ended December 31, 2012 was as follows (in thousands):

	As of December 31, 2011	Provisions	Charge-Offs	Recoveries	As of December 31, 2012
Noncovered loans					
Real estate	$6,923	$(939)	$(985)	$180	$5,179
Construction	722	192	—	52	966
Consumer	2,097	201	(582)	82	1,798
Commercial business	205	546	(95)	12	668
Total noncovered loans	9,947	—	(1,662)	326	8,611
Covered loans					
Real estate	1,056	(652)	(319)	2,071	2,156
Construction	2,201	(2,373)	(298)	944	474
Consumer	319	762	(522)	—	559
Commercial business	648	498	(523)	105	728
Total covered loans	4,224	(1,765)	(1,662)	3,120	3,917
Total	$14,171	$(1,765)	$(3,324)	$3,446	$12,528

Activity in the allowance for loan losses for the three months ended December 31, 2011 was as follows (in thousands):

	As of September 30, 2011	Provisions	Charge-Offs	Recoveries	As of December 31, 2011
Noncovered loans					
Real estate	$6,399	$847	$(366)	$43	$6,923
Construction	898	(1,260)	(3)	1,087	722
Consumer	1,641	495	(77)	38	2,097
Commercial business	287	(82)	—	—	205
Total noncovered loans	9,225	—	(446)	1,168	9,947
Covered loans					
Real estate	1,674	(396)	(224)	2	1,056

Construction	2,569	(354)	(80)	66	2,201
Consumer	371	77	(129)	—	319
Commercial business	526	199	(81)	4	648
Total covered loans	5,140	(474)	(514)	72	4,224
Total	$14,365	$(474)	$(960)	$1,240	$14,171

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Activity in the allowance for loan losses for the year ended September 30, 2011 was as follows (in thousands):

	As of September 30, 2010	Provisions	Charge-Offs	Recoveries	As of September 30, 2011
Noncovered loans					
Real estate	$8,353	$15	$(2,401)	$432	$6,399
Construction	1,427	(465)	(668)	604	898
Consumer	1,655	1,594	(1,734)	126	1,641
Commercial business	470	(22)	(303)	142	287
Total noncovered loans	11,905	1,122	(5,106)	1,304	9,225
Covered loans					
Real estate	2,311	2,854	(3,667)	176	1,674
Construction	448	6,385	(5,056)	792	2,569
Consumer	248	503	(404)	24	371
Commercial business	520	532	(902)	376	526
Total covered loans	3,527	10,274	(10,029)	1,368	5,140
Total	$15,432	$11,396	$(15,135)	$2,672	$14,365

Troubled Debt Restructurings. The internal process used to assess whether a modification should be reported and accounted for as a troubled debt restructuring (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 $8.6 million and $11.8 million at December 31, 2013 and 2012, respectively, and are included in the impaired loan disclosures in this footnote. Of these amounts, $848,000 and $338,000 were covered under loss sharing agreements with the FDIC at December 31, 2013 and 2012, respectively. The Company has allocated $232,000 of specific reserves to customers whose loan terms have been modified in TDRs at December 31, 2013, compared to $676,000 at December 31, 2012. 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 $108,000 at December 31, 2013, of which $46,000 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.

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The following table presents TDRs at December 31, 2013 and 2012 (in thousands):

	December 31, 2013 Accrual Status	Nonaccrual Status	Total Modifications	2012 Accrual Status	Nonaccrual Status	Total Modifications
Noncovered loans						
Real estate:						
One-to-four family residential	$1,514	$602	$ 2,116	$1,436	$732	$ 2,168
Multifamily residential	—	765	765	—	825	825
Commercial real estate	3,813	27	3,840	3,936	3,315	7,251
Total real estate	5,327	1,394	6,721	5,372	4,872	10,244
Real estate construction:						
One-to-four family residential	—	516	516	59	571	630
Commercial and land development	—	128	128	—	124	124
Total real estate construction	—	644	644	59	695	754
Consumer:						
Home equity	58	113	171	15	159	174
Automobile	4	—	4	—	—	—
Total consumer	62	113	175	15	159	174
Commercial business	8	199	207	10	305	315
Total noncovered TDRs	5,397	2,350	7,747	5,456	6,031	11,487
Covered loans						
Real estate:						
One-to-four family residential	331	—	331	—	—	—
Commercial real estate	169	185	354	174	164	338
Total real estate	500	185	685	174	164	338
Commercial and land development	—	129	129	—	—	—
Home equity	34	—	34	—	—	—
Total covered TDRs	534	314	848	174	164	338
Total TDRs	$5,931	$2,664	$ 8,595	$5,630	$6,195	$ 11,825

During the year ended December 31, 2013, there were nine new TDRs with a pre-modification and post-modification balance of $878,000. In three instances, the modification involved a reduction of the stated interest rate of the loan. In five instances, the modification involved an extension of a maturity date, and in one instance, the interest rate was changed from variable to fixed and lowered. One of the modifications resulted in a partial charge-off of $21,000. During the year ended December 31, 2013, we did not incur a payment default on a loan that had been modified within twelve months of that date. A default on a TDR results in either a transfer to nonaccrual status or a charge-off. However, during the year ended December 31, 2013 we did experience a charge-off of $122,000 on a loan that had been modified in 2011.

During the first quarter of 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 second quarter of 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. No charge-offs were recognized on those TDRs, although there were specific impairments on two of the loans totaling $290,000. There were no new TDRs during the remainder of 2012. During the year ended December 31, 2013, we did not experience any charge-offs on loans that had been modified in during 2012.

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The following table presents new TDRs during the years ended December 31, 2013 and 2012 (dollars in thousands):

	During the Years Ended December 31,					
	2013			2012		
	Number of Contracts	Pre-Modification Balance	Post-Modification Balance	Number of Contracts	Pre-Modification Balance	Post-Modification Balance
Noncovered loans						
Real estate:						
One-to-four family residential	3	$ 432	$ 432	3	$ 861	$ 876
Commercial real estate	1	185	185	3	4,322	4,322
Total real estate	4	617	617	6	5,183	5,198
Commercial real estate construction	2	206	206	8	828	778
Consumer:						
Home equity	1	36	36	—	—	—
Automobile	1	5	5	—	—	—
Total consumer	2	41	41	—	—	—
Commercial business	1	14	14	—	—	—
Total	9	$ 878	$ 878	14	$ 6,011	$ 5,976

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The following table presents TDRs at December 31, 2013 and 2012 which were performing according to agreement (dollars in thousands):

	December 31, 2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Noncovered loans				
Real estate:				
One-to-four family residential	11	$1,924	10	$1,955
Multifamily residential	1	765	1	825
Commercial real estate	3	3,840	4	7,251
Total real estate	15	6,529	15	10,031
Real estate construction:				
One-to-four family residential	4	516	5	629
Commercial and land development	6	128	5	124
Total real estate construction	10	644	10	753
Consumer:				
Home equity	3	171	3	175
Automobile	1	4	—	—
Total consumer	4	175	3	175
Commercial business	2	207	2	315
Total noncovered	31	7,555	30	11,274
Covered loans				
Real estate:				
One-to-four family residential	1	331	—	—
Commercial real estate	2	354	2	338
Total real estate	3	685	2	338
Commercial and land development	1	129	—	—
Home equity	1	34	—	—
Total covered	5	848	2	338
Total	36	$8,403	32	$11,612

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. 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 (undiscounted contractual cash flows) and estimated the amount and timing of undiscounted expected principal and interest payments (undiscounted expected cash flows). The amount by which the undiscounted expected cash flows exceed the estimated fair value (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.

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The following table details activity of accretable yield for the periods shown (in thousands):

	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
Beginning balance of accretable yield	$15,004	$28,915	$31,860	$35,163
Changes in accretable yield due to:				
Transfer from nonaccretable difference	6,738	6,624	4,844	16,505
Accretable yield recognized as interest income	(14,832)	(20,535)	(7,789)	(19,808)
Ending balance of accretable yield	$6,910	$15,004	$28,915	$31,860

On July 30, 2010, the Bank consummated the LibertyBank Acquisition. At the acquisition date, management estimated the fair value of the acquired loan portfolio, to be $190.2 million, which represents the expected cash flows from the portfolio discounted at a market-based rate and includes leases with a preliminary estimated fair value of $7.4 million. After detailed review by management and competent independent third parties, loans acquired in the LibertyBank Acquisition that were placed on nonaccrual status, designated as troubled debt restructurings prior to the acquisition, graded substandard or doubtful or exhibited other evidence of credit impairment since origination were grouped into 11 pools based on loan type, collateral and credit risk characteristics. The Company accounts for these loans with specifically-identified credit deficiencies under ASC 310-30. The preliminary estimated fair value of purchased loans with specifically-identified credit deficiencies in the LibertyBank Acquisition was $40.7 million on the date of acquisition.

All remaining loans purchased in the LibertyBank Acquisition were grouped into 11 pools with common risk characteristics, including loan type and collateral. These loans were then evaluated to determine estimated fair value as of the acquisition date. Although no specific credit deficiencies are specifically identifiable, management believes there is an element of risk as to whether all contractual cash flows will be eventually received. Factors that were considered included the poor economic environment both nationally and locally as well as the unfavorable real estate market particularly in Oregon and the Pacific Northwest. In addition, these loans were acquired from a failed financial institution which implies poor, or at least questionable, underwriting. Based on management's preliminary estimate of fair value, each of these pools was assigned a discount credit adjustment that reflects expected credit losses. The Company applies ASC 310-30 accounting by analogy to these loans. Leases are excluded from the application of ASC 310-30.

In calculating expected cash flows, management made several assumptions regarding prepayments, collateral cash flows, the timing of defaults and the loss severity of defaults. Voluntary prepayment rates were applied to the principal balances. Other factors considered in determining the preliminary estimated fair value of acquired loans included loan level estimated cash flows, type of loan and related collateral, risk classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing and current discount rates.

The following table summarizes information regarding loans purchased in the LibertyBank Acquisition and accounted for under ASC 310-30 as of the July 30, 2010 acquisition date (in thousands):

Face value of loans at acquisition	$259,140
Acquisition date estimate of future cash flows to be collected	$228,147
Less: Preliminary estimated fair value	190,189
Acquisition date estimate of accretable yield	$37,958
Acquisition date contractual cash flows	$346,336
Less: Acquisition date estimate of future cash flows to be collected	228,147
Acquisition date nonaccretable difference	$118,188

The carrying amount of loans for which income is not being recognized on loans individually accounted for under ASC 310-30 totaled $1.8 million and $2.0 million at December 31, 2013 and 2012, respectively, which were purchased in the CFB Acquisition. The carrying amount of purchased credit impaired loans acquired in the CFB Acquisition totaled $2.0 million and $2.4 million at December 31, 2013 and 2012, respectively. At December 31, 2013, purchased credit impaired loans acquired in the LibertyBank Acquisition totaled $32.0 million.

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The allowance for loan losses on loans accounted for under ASC 310-30 was $1.3 million and $2.7 million at December 31, 2013 and 2012, respectively. The provision for loan losses on loans accounted for under ASC 310-30 was $327,000, $829,000, $399,000, and $3.0 million, during the years ended December 31, 2013 and 2012, the three months ended December 31, 2011, and the year ended September 30, 2011, respectively. Reductions in the allowance for loan losses on loans accounted for under ASC 310-30 due to increases in estimated cash flows totaled $1.6 million, $586,000, $15,000 and $864,000 during the years ended December 31, 2013 and 2012, the three months ended December 31, 2011, and the year ended September 30, 2011, respectively.

Pursuant to the terms of the loss sharing agreements with the FDIC, the FDIC is obligated to reimburse the Company for a significant portion of losses on covered loans. See Note 2 for additional information on the loss sharing agreements. Net covered loans at the carrying value totaled $58.0 million and $85.5 million at December 31, 2013 and 2012, respectively.

Note 6 - FDIC Indemnification Receivable

Activity in the FDIC indemnification receivable for the years ended December 31, 2013 and 2012, the three months ended December 31, 2011 and the year ended September 30, 2011 was as follows (in thousands):

	Years Ended December 31,		Three Months Ended December 31,	Year Ended September 30,
	2013	2012	2011	2011
Beginning balance	$10,846	$23,676	$33,863	$64,574
Amounts paid to (received from) the FDIC	1,104	(2,290)	(5,063)	(35,009)
FDIC indemnification recovery (provision)	(464)	(1,807)	(515)	9,313
Impairment of the FDIC indemnification asset	(8,410)	(10,856)	(4,667)	(4,989)
Net increase (decrease) in estimated losses	1,838	2,123	58	(26)
Ending balance	$4,914	$10,846	$23,676	$33,863

For 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 the LibertyBank Acquisition, amounts receivable from the FDIC have been estimated at 80% of losses on all covered assets. The discount rate applied to estimated future cash flows was between 6.25% and 7.00%.

Note 7 – Property and Equipment

Property and equipment at December 31, 2013 and 2012 are summarized as follows (in thousands):

	December 31,	
	2013	2012
Land	$6,980	$7,112
Buildings and leasehold improvements	22,592	23,094
Furniture and equipment	16,610	