

Home Federal Bancorp, Inc. of Louisiana  
Form 10-Q  
November 14, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2011  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35019

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

Louisiana  
(State or other jurisdiction of incorporation or organization)

02-0815311  
(IRS Employer Identification No.)

624 Market Street, Shreveport, Louisiana  
(Address of principal executive offices)

71101  
(Zip Code)

(318) 222-1145  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes   
No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

(Do not check if a smaller reporting company)

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

Shares of common stock, par value \$.01 per share, outstanding as of November 14, 2011: The registrant had 3,051,881 shares of common stock outstanding.

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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(Unaudited)September 30, 2011  
June 30, 2011  
(In Thousands, Except Share Data)

## ASSETS

|                                                                                                                                                               |           |                |           |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------------|-----------|----------------|
| Cash and Cash Equivalents (Includes Interest-Bearing Deposits with Other Banks of \$1,065 and \$6,422 for September 30, 2011 and June 30, 2011, Respectively) | \$        | 8,330          | \$        | 9,599          |
| Securities Available-for-Sale                                                                                                                                 |           | 80,845         |           | 75,039         |
| Securities Held-to-Maturity                                                                                                                                   |           | 5,495          |           | 5,725          |
| Loans Held-for-Sale                                                                                                                                           |           | 9,166          |           | 6,653          |
| Loans Receivable, Net of Allowance for Loan Losses of \$928 and \$842, Respectively                                                                           |           | 128,102        |           | 125,371        |
| Accrued Interest Receivable                                                                                                                                   |           | 729            |           | 801            |
| Premises and Equipment, Net                                                                                                                                   |           | 4,966          |           | 3,937          |
| Bank Owned Life Insurance                                                                                                                                     |           | 5,694          |           | 5,639          |
| Other Assets                                                                                                                                                  |           | 521            |           | 556            |
| <b>Total Assets</b>                                                                                                                                           | <b>\$</b> | <b>243,848</b> | <b>\$</b> | <b>233,320</b> |

## LIABILITIES AND STOCKHOLDERS' EQUITY

## LIABILITIES

|                                                 |    |                |    |                |
|-------------------------------------------------|----|----------------|----|----------------|
| Deposits                                        | \$ | 166,375        | \$ | 153,616        |
| Advances from Borrowers for Taxes and Insurance |    | 276            |    | 235            |
| Advances from Federal Home Loan Bank of Dallas  |    | 22,959         |    | 26,891         |
| Other Accrued Expenses and Liabilities          |    | 1,334          |    | 960            |
| Deferred Tax Liability                          |    | 596            |    | 435            |
| <b>Total Liabilities</b>                        |    | <b>191,540</b> |    | <b>182,137</b> |

## STOCKHOLDERS' EQUITY

|                                                        |  |        |   |        |
|--------------------------------------------------------|--|--------|---|--------|
| Preferred Stock – 10,000,000 Shares of \$.01 Par Value |  |        |   |        |
| Authorized; None Issued and Outstanding                |  | --     |   | --     |
| Common Stock – 40,000,000 Shares of \$.01 Par Value    |  |        |   |        |
| Authorized; 3,051,881 Shares and 3,045,829 Shares      |  |        |   |        |
| Issued and Outstanding at September 30, 2011 and       |  |        |   |        |
| June 30, 2010, Respectively                            |  | 32     |   | 32     |
| Additional Paid-in Capital                             |  | 30,957 |   | 30,880 |
| Treasury Stock, at Cost – none at September 30, 2011   |  |        |   |        |
| and June 30, 2011                                      |  | --     |   | --     |
| Unearned ESOP Stock                                    |  | (1,878 | ) | (1,907 |
| Unearned RRP Trust Stock                               |  | (21    | ) | (29    |
| Retained Earnings                                      |  | 21,400 |   | 20,781 |
| Accumulated Other Comprehensive Income                 |  | 1,818  |   | 1,426  |

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|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Total Stockholders' Equity                 | 52,308    | 51,183    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$243,848 | \$233,320 |

See accompanying notes to consolidated financial statements.

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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

|                                                        | For The Three Months Ended<br>September 30, |          |
|--------------------------------------------------------|---------------------------------------------|----------|
|                                                        | 2011                                        | 2010     |
|                                                        | (In Thousands, Except Per Share Data)       |          |
| <b>INTEREST INCOME</b>                                 |                                             |          |
| Loans, Including Fees                                  | \$ 2,262                                    | \$ 1,798 |
| Investment Securities                                  | 64                                          | 12       |
| Mortgage-Backed Securities                             | 542                                         | 723      |
| Other Interest-Earning Assets                          | 6                                           | 4        |
| Total Interest Income                                  | 2,874                                       | 2,537    |
| <b>INTEREST EXPENSE</b>                                |                                             |          |
| Deposits                                               | 621                                         | 574      |
| Federal Home Loan Bank Borrowings                      | 177                                         | 257      |
| Total Interest Expense                                 | 798                                         | 831      |
| Net Interest Income                                    | 2,076                                       | 1,706    |
| <b>PROVISION FOR LOAN LOSSES</b>                       |                                             |          |
| Net Interest Income after<br>Provision for Loan Losses | 1,990                                       | 1,634    |
| <b>NON-INTEREST INCOME</b>                             |                                             |          |
| Gain on Sale of Loans                                  | 593                                         | 579      |
| Gain on Sale of Investments                            | 203                                         | 229      |
| Income on Bank Owned Life Insurance                    | 56                                          | --       |
| Other Income                                           | 92                                          | 26       |
| Total Non-Interest Income                              | 944                                         | 834      |
| <b>NON-INTEREST EXPENSE</b>                            |                                             |          |
| Compensation and Benefits                              | 1,121                                       | 1,017    |
| Occupancy and Equipment                                | 196                                         | 124      |
| Data Processing                                        | 76                                          | 36       |
| Audit and Examination Fees                             | 50                                          | 61       |
| Franchise and Bank Shares Tax                          | 95                                          | 31       |
| Advertising                                            | 60                                          | 19       |
| Legal Fees                                             | 76                                          | 31       |
| Loan and Collection                                    | 31                                          | 34       |
| Deposit Insurance Premium                              | 25                                          | 28       |
| Other Expense                                          | 123                                         | 109      |
| Total Non-Interest Expense                             | 1,853                                       | 1,490    |
| Income Before Income Taxes                             | 1,081                                       | 978      |
| <b>PROVISION FOR INCOME TAX EXPENSE</b>                |                                             |          |
| Net Income                                             | \$ 802                                      | \$ 646   |

EARNINGS PER COMMON SHARE(1):

|                    |    |      |    |      |
|--------------------|----|------|----|------|
| Basic              | \$ | 0.28 | \$ | 0.22 |
| Diluted            | \$ | 0.28 | \$ | 0.22 |
| DIVIDENDS DECLARED | \$ | 0.06 | \$ | 0.06 |

(1) Prior period earnings per share were adjusted for comparability using the conversion ratio of 0.9110 due to completion of second step offering on December 22, 2010.

See accompanying notes to consolidated financial statements.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
 (Unaudited)

|                                                                                                 | Common<br>Stock | Additional<br>Paid-in<br>Capital | Unearned<br>ESOP<br>Stock | Unearned<br>RRP<br>Trust<br>Stock | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|-------------------------------------------------------------------------------------------------|-----------------|----------------------------------|---------------------------|-----------------------------------|----------------------|-------------------|-------------------------------------------------|----------------------------------|
| (In Thousands)                                                                                  |                 |                                  |                           |                                   |                      |                   |                                                 |                                  |
| BALANCE – June<br>30, 2010                                                                      | \$ 14           | \$ 13,655                        | \$ (826 )                 | \$ (145 )                         | \$ 20,665            | \$ (2,094 )       | \$ 2,096                                        | \$ 33,365                        |
| Net Income                                                                                      | --              | --                               | --                        | --                                | 646                  | --                | --                                              | 646                              |
| Other<br>Comprehensive<br>Income:                                                               |                 |                                  |                           |                                   |                      |                   |                                                 |                                  |
| Changes in<br>Unrealized Gain<br>on Securities<br>Available-<br>for-Sale, Net of<br>Tax Effects | --              | --                               | --                        | --                                | --                   | --                | (269 )                                          | (269 )                           |
| RRP Shares Earned                                                                               | --              | --                               | --                        | 116                               | --                   | --                | --                                              | 116                              |
| Stock Options<br>Vested                                                                         | --              | 8                                | --                        | --                                | --                   | --                | --                                              | 8                                |
| ESOP<br>Compensation<br>Earned                                                                  | --              | (3 )                             | 14                        | --                                | --                   | --                | --                                              | 11                               |
| Dividends Declared                                                                              | --              | --                               | --                        | --                                | (72 )                | --                | --                                              | (72 )                            |
| Acquisition<br>Treasury Stock                                                                   | --              | --                               | --                        | --                                | --                   | (46 )             | --                                              | (46 )                            |
| BALANCE –<br>September 30, 2010                                                                 | \$ 14           | \$ 13,660                        | \$ (812 )                 | \$ (29 )                          | \$ 21,239            | \$ (2,140 )       | \$ 1,827                                        | \$ 33,759                        |
| BALANCE – June<br>30, 2011                                                                      | \$ 32           | \$ 30,880                        | \$ (1,907 )               | \$ (29 )                          | \$ 20,781            | \$ --             | \$ 1,426                                        | \$ 51,183                        |
| Common Stock<br>Issuance                                                                        |                 | 66                               |                           |                                   |                      |                   |                                                 | 66                               |



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|                                                                                 |       |           |             |          |           |       |          |           |
|---------------------------------------------------------------------------------|-------|-----------|-------------|----------|-----------|-------|----------|-----------|
| Net Income                                                                      | --    | --        | --          | --       | 802       | --    | --       | 802       |
| Other Comprehensive Loss:                                                       |       |           |             |          |           |       |          |           |
| Changes in Unrealized Gain on Securities Available-for-Sale, Net of Tax Effects | --    | --        | --          | --       | --        | --    | 392      | 392       |
| RRP Shares Earned                                                               | --    | --        | --          | 8        | --        | --    | --       | 8         |
| Stock Options Vested                                                            | --    | 3         | --          | --       | --        | --    | --       | 3         |
| ESOP Compensation Earned                                                        | --    | 8         | 29          | --       | --        | --    | --       | 37        |
| Dividends Declared                                                              | --    | --        | --          | --       | (183 )    | --    | --       | (183 )    |
| BALANCE –                                                                       |       |           |             |          |           |       |          |           |
| September 30, 2011                                                              | \$ 32 | \$ 30,957 | \$ (1,878 ) | \$ (21 ) | \$ 21,400 | \$ -- | \$ 1,818 | \$ 52,308 |

See accompanying notes to consolidated financial statements.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|                                                                                               | Three Months Ended<br>September 30,<br>2011                  2010<br>(In Thousands) |           |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                   |                                                                                     |           |
| Net Income                                                                                    | \$802                                                                               | \$646     |
| Adjustments to Reconcile Net Income to Net<br>Cash (Used in) Provided by Operating Activities |                                                                                     |           |
| Net Amortization and Accretion on Securities                                                  | 23                                                                                  | (73 )     |
| Gain on Sale of Securities                                                                    | (203 )                                                                              | (229 )    |
| Gain on Sale of Loans                                                                         | (593 )                                                                              | (579 )    |
| Amortization of Deferred Loan Fees                                                            | (42 )                                                                               | (27 )     |
| Depreciation of Premises and Equipment                                                        | 53                                                                                  | 42        |
| ESOP Expense                                                                                  | 37                                                                                  | 12        |
| Stock Option Expense                                                                          | 3                                                                                   | 8         |
| Recognition and Retention Plan Expense                                                        | 2                                                                                   | 14        |
| Deferred Income Tax                                                                           | (41 )                                                                               | (27 )     |
| Provision for Loan Losses                                                                     | 86                                                                                  | 72        |
| Changes in Assets and Liabilities:                                                            |                                                                                     |           |
| Loans Held-for-Sale – Originations and Purchases                                              | (31,163 )                                                                           | (40,721 ) |
| Loans Held-for-Sale – Sale and Principal Repayments                                           | 29,242                                                                              | 47,318    |
| Accrued Interest Receivable                                                                   | 72                                                                                  | 31        |
| Other Operating Assets                                                                        | 36                                                                                  | (194 )    |
| Other Operating Liabilities                                                                   | 381                                                                                 | 381       |
| Net Cash (Used in) Provided by Operating Activities                                           | (1,305 )                                                                            | 6,674     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                   |                                                                                     |           |
| Loan Originations and Purchases, Net of Principal Collections                                 | (2,835 )                                                                            | (6,606 )  |
| Deferred Loan Fees Collected                                                                  | 61                                                                                  | 36        |
| Acquisition of Premises and Equipment                                                         | (1,082 )                                                                            | (294 )    |
| Activity in Available-for-Sale Securities:                                                    |                                                                                     |           |
| Proceeds from Sales of Securities                                                             | 29,170                                                                              | 4,732     |
| Principal Payments on Mortgage-Backed Securities                                              | 3,056                                                                               | 3,338     |
| Purchases of Securities                                                                       | (37,260 )                                                                           | --        |
| Activity in Held-to-Maturity Securities:                                                      |                                                                                     |           |
| Redemption Proceeds                                                                           | --                                                                                  | 274       |
| Principal Payments on Mortgage-Backed Securities                                              | 233                                                                                 | 34        |
| Purchases of Securities                                                                       | (1 )                                                                                | (3 )      |
| Increase in cash surrender value on Bank Owned Life Insurance                                 | (56 )                                                                               | --        |
| Net Cash (Used in) Provided by Investing Activities                                           | \$(8,714 )                                                                          | \$1,511   |

See accompanying notes to consolidated financial statements.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
(Unaudited)

|                                                                          | Three Months Ended<br>September 30,<br>2011                  2010<br>(In Thousands) |                 |
|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-----------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |                                                                                     |                 |
| Net Increase in Deposits                                                 | \$12,759                                                                            | \$11,166        |
| Repayments of Advances from Federal Home Loan Bank                       | (3,933 )                                                                            | (3,512 )        |
| Net Decrease in Mortgage-Escrow Funds                                    | 41                                                                                  | 88              |
| Dividends Paid                                                           | (183 )                                                                              | (73 )           |
| Acquisition of Treasury Stock                                            |                                                                                     | (46 )           |
| Gross Proceeds from Stock Issuance                                       | 66                                                                                  | --              |
| Net Cash Provided by Financing Activities                                | 8,750                                                                               | 7,623           |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>              | <b>(1,269 )</b>                                                                     | <b>15,808</b>   |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>                   | <b>9,599</b>                                                                        | <b>8,837</b>    |
| <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>                         | <b>\$8,330</b>                                                                      | <b>\$24,645</b> |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION</b>                               |                                                                                     |                 |
| Interest Paid on Deposits and Borrowed Funds                             | \$802                                                                               | \$822           |
| Income Taxes Paid                                                        | 307                                                                                 | 40              |
| Market Value Adjustment for Gain (Loss) on Securities Available-for-Sale | 594                                                                                 | (409 )          |

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Home Federal Bancorp, Inc. of Louisiana (the “Company”) and its subsidiary, Home Federal Bank (“Home Federal Bank” or the “Bank”). These consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three month period ended September 30, 2011, is not necessarily indicative of the results which may be expected for the fiscal year ending June 30, 2012.

The Company follows accounting standards set by the Financial Accounting Standards Board (the “FASB”). The FASB sets generally accepted accounting principles (“GAAP”) that we follow to ensure we consistently report our financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the “Codification” or the “ASC”).

In accordance with the subsequent events topic of the ASC, the Company evaluates events and transactions that occur after the balance sheet date for potential recognition in the financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the financial statements as of September 30, 2011. In preparing these financial statements, the Company evaluated the events and transactions that occurred through the date these financial statements were issued.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Statements of Financial Condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses.

Nature of Operations

On December 22, 2010, Home Federal Bank, completed its second step conversion and reorganization from the mutual holding company form of organization to the fully public stock holding structure and formed Home Federal Bancorp, Inc. of Louisiana, a Louisiana corporation to serve as the stock holding company for the Bank. In connection with the conversion and reorganization, the Company sold 1,945,220 shares of its common stock in a subscription and community offering and syndicated community offering at a price of \$10.00 per share. The Company also issued approximately 1,100,609 shares of common stock and cash in lieu of fractional shares in exchange for shares of the former holding company, other than shares held by Home Federal Mutual Holding Company of Louisiana and treasury stock, which were cancelled. The Company received net proceeds of \$18.0 million, after offering expenses. The Bank is a federally chartered, stock savings and loan association and is subject to federal regulation by the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. Services are provided to its customers by four full-service banking offices and one agency office, which are

located in Caddo and Bossier Parishes, Louisiana. The area served by the Bank is primarily the Shreveport-Bossier City metropolitan area; however, loan and deposit customers are found dispersed in a wider geographical area covering much of northwest Louisiana. As of September 30, 2011, the Bank had one wholly-owned subsidiary, Metro Financial Services, Inc., which is currently inactive.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

Securities

The Company classifies its debt and equity investment securities into one of three categories: held-to-maturity, available-for-sale, or trading. Investments in nonmarketable equity securities and debt securities, in which the Company has the positive intent and ability to hold to maturity, are classified as held-to-maturity and carried at amortized cost. Investments in debt securities that are not classified as held-to-maturity and marketable equity securities that have readily determinable fair values are classified as either trading or available-for-sale securities. Securities that are acquired and held principally for the purpose of selling in the near term are classified as trading securities. Investments in securities not classified as trading or held-to-maturity are classified as available-for-sale.

Trading account and available-for-sale securities are carried at fair value. Unrealized holding gains and losses on trading securities are included in earnings while net unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans receivable are stated at unpaid principal balances, less allowances for loan losses and unamortized deferred loan fees. Net nonrefundable fees (loan origination fees, commitment fees, discount points) and costs associated with lending activities are being deferred and subsequently amortized into income as an adjustment of yield on the related interest earning assets using the interest method. Interest income on contractual loans receivable is recognized on the accrual method. Unearned discount on property improvement and automobile loans is deferred and amortized on the interest method over the life of the loan.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying



HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Accounting Policies (continued)

Allowance for Loan Losses (continued)

collateral and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information or events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. When a loan is impaired, the measurement of such impairment is based upon the present value of expected future cash flows or the fair value of the collateral of the loan. If the present value of expected future cash flows or fair value of the collateral is less than the recorded investment in the loan, the Bank will recognize the impairment by creating a valuation allowance with a corresponding charge against earnings.

An allowance is also established for uncollectible interest on loans classified as substandard. Loans are classified as substandard and placed on non-accrual status when they are in excess of ninety days delinquent. The allowance is established by a charge to interest income equal to all interest previously accrued and income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, the loan is returned to accrual status.

It should be understood that estimates of future loan losses involve an exercise of judgment. While it is possible that in particular periods, the Company may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the accompanying statements of condition is adequate to absorb possible losses in the existing loan portfolio.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are transferred to other real estate owned at the lower of cost or current fair value minus estimated cost to sell as of the date of foreclosure. Cost is defined as the lower of the fair value of the property or the recorded investment in the loan. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Income Taxes

The Company and its wholly-owned subsidiary file a consolidated Federal income tax return on a fiscal year basis. Each entity will pay its pro-rata share of income taxes in accordance with a written tax-sharing agreement.

The Company accounts for income taxes on the asset and liability method. Deferred tax assets and liabilities are recorded based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Summary of Accounting Policies (continued)

## Income Taxes (continued)

realized. Current taxes are measured by applying the provisions of enacted tax laws to taxable income to determine the amount of taxes receivable or payable.

While the Bank is exempt from Louisiana income tax, it is subject to the Louisiana Ad Valorem Tax, commonly referred to as the Louisiana Shares Tax, which is based on stockholders' equity and net income.

## Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the Consolidated Statements of Financial Condition, such items, along with net income, are components of comprehensive income.

## 2. Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

| Securities Available-for-Sale              | Amortized<br>Cost | September 30, 2011           |                               | Fair<br>Value   |
|--------------------------------------------|-------------------|------------------------------|-------------------------------|-----------------|
|                                            |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                 |
|                                            |                   | (In Thousands)               |                               |                 |
| <b>Debt Securities</b>                     |                   |                              |                               |                 |
| FHLMC Mortgage-Backed Certificates         | \$1,598           | \$130                        | \$--                          | \$1,728         |
| FNMA Mortgage-Backed Certificates          | 30,243            | 2,685                        | --                            | 32,928          |
| GNMA Mortgage-Backed Certificates          | 34,254            | 1                            | 145                           | 34,110          |
| FFCB Notes                                 | 3,038             | 7                            | --                            | 3,045           |
| FHMC Notes                                 | 4,589             | 40                           | --                            | 4,629           |
| FNDB Notes                                 | 3,077             | 21                           | --                            | 3,098           |
| <b>Total Debt Securities</b>               | <b>76,799</b>     | <b>2,884</b>                 | <b>145</b>                    | <b>79,538</b>   |
| <b>Equity Securities</b>                   |                   |                              |                               |                 |
| 176,612 Shares, AMF ARM Fund               | 1,291             | 16                           | --                            | 1,307           |
| <b>Total Securities Available-for-Sale</b> | <b>\$78,090</b>   | <b>\$2,900</b>               | <b>\$145</b>                  | <b>\$80,845</b> |
| <b>Securities Held-to-Maturity</b>         |                   |                              |                               |                 |
| <b>Debt Securities</b>                     |                   |                              |                               |                 |

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|                                                         |         |       |      |         |
|---------------------------------------------------------|---------|-------|------|---------|
| GNMA Mortgage-Backed Certificates                       | \$135   | \$20  | \$-- | \$155   |
| FNMA Mortgage-Backed Certificates                       | 3,768   | 207   | --   | 3,975   |
| FHLMC Mortgage-Backed Certificates                      | 21      | 1     | --   | 22      |
|                                                         |         |       |      |         |
| Total Debt Securities                                   | 3,924   | 228   | --   | 4,152   |
| Equity Securities (Non-Marketable)                      |         |       |      |         |
| 630 Shares – First National Bankers<br>Bankshares, Inc. | 250     | --    | --   | 250     |
| 13,207 Shares – Federal Home Loan Bank                  | 1,321   | --    | --   | 1,321   |
|                                                         |         |       |      |         |
| Total Equity Securities                                 | 1,571   | --    | --   | 1,571   |
|                                                         |         |       |      |         |
| Total Securities Held-to-Maturity                       | \$5,495 | \$228 | \$-- | \$5,723 |

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. Securities (continued)

| Securities Available-for-Sale                           | Amortized<br>Cost | June 30, 2011                |                               | Fair<br>Value   |
|---------------------------------------------------------|-------------------|------------------------------|-------------------------------|-----------------|
|                                                         |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                 |
| (In Thousands)                                          |                   |                              |                               |                 |
| <b>Debt Securities</b>                                  |                   |                              |                               |                 |
| FHLMC Mortgage-Backed Certificates                      | \$ 1,904          | \$ 103                       | \$--                          | \$ 2,007        |
| FNMA Mortgage-Backed Certificates                       | 32,806            | 1,832                        | --                            | 34,638          |
| GNMA Mortgage-Backed Certificates                       | 104               | 1                            | --                            | 105             |
| Government Agency Notes                                 | 36,774            | 207                          | --                            | 36,981          |
| <b>Total Debt Securities</b>                            | <b>71,588</b>     | <b>2,143</b>                 | <b>--</b>                     | <b>73,731</b>   |
| <b>Equity Securities</b>                                |                   |                              |                               |                 |
| 176,612 Shares, AMF ARM Fund                            | 1,291             | 17                           | --                            | 1,308           |
| <b>Total Securities Available-for-Sale</b>              | <b>\$72,879</b>   | <b>\$2,160</b>               | <b>\$--</b>                   | <b>\$75,039</b> |
| <b>Securities Held-to-Maturity</b>                      |                   |                              |                               |                 |
| <b>Debt Securities</b>                                  |                   |                              |                               |                 |
| GNMA Mortgage-Backed Certificates                       | \$ 145            | \$ 22                        | \$--                          | \$ 167          |
| FNMA Mortgage-Backed Certificates                       | 3,988             | 2                            | 112                           | 3,878           |
| FHLMC Mortgage-Backed Certificates                      | 22                | 1                            | --                            | 23              |
| <b>Total Debt Securities</b>                            | <b>4,155</b>      | <b>25</b>                    | <b>112</b>                    | <b>4,068</b>    |
| <b>Equity Securities (Non-Marketable)</b>               |                   |                              |                               |                 |
| 13,195 Shares – Federal Home Loan Bank                  | 1,320             | --                           | --                            | 1,320           |
| 630 Shares – First National Bankers<br>Bankshares, Inc. | 250               | --                           | --                            | 250             |
| <b>Total Equity Securities</b>                          | <b>1,570</b>      | <b>--</b>                    | <b>--</b>                     | <b>1,570</b>    |
| <b>Total Securities Held-to- Maturity</b>               | <b>\$5,725</b>    | <b>\$25</b>                  | <b>\$112</b>                  | <b>\$5,638</b>  |

The amortized cost and fair value of debt securities by contractual maturity at September 30, 2011, follows:

|                         | Available-for-Sale |               | Held-to-Maturity  |               |
|-------------------------|--------------------|---------------|-------------------|---------------|
|                         | Amortized<br>Cost  | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| (In Thousands)          |                    |               |                   |               |
| Within One Year or Less | \$--               | \$--          | \$--              | \$--          |

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|                              |          |          |         |         |
|------------------------------|----------|----------|---------|---------|
| One through Five Years       | 10,704   | 10,772   | 21      | 22      |
| After Five through Ten Years | 578      | 593      | 108     | 118     |
| Over Ten Years               | 65,517   | 68,173   | 3,795   | 4,012   |
| Total                        | \$76,799 | \$79,538 | \$3,924 | \$4,152 |

For the three months ended September 30, 2011, proceeds from the sale of securities available-for-sale amounted to \$29.2 million. Gross realized gains amounted to \$203,000 for the three months ended September 30, 2011.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. Securities (continued)

The following tables show information pertaining to gross unrealized losses on securities available-for-sale and held-to-maturity at September 30, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position. There were no unrealized losses on securities available-for-sale at June 30, 2011, and there were no unrealized losses on securities held-to-maturity at September 30, 2011.

|                                     | September 30, 2011                                       |               |                                                     |               |
|-------------------------------------|----------------------------------------------------------|---------------|-----------------------------------------------------|---------------|
|                                     | Less than Twelve Months<br>Gross<br>Unrealized<br>Losses | Fair<br>Value | Over Twelve Months<br>Gross<br>Unrealized<br>Losses | Fair<br>Value |
| (In Thousands)                      |                                                          |               |                                                     |               |
| Securities Available-for-Sale:      |                                                          |               |                                                     |               |
| <b>Debt Securities</b>              |                                                          |               |                                                     |               |
| Mortgage-Backed Securities          | \$145                                                    | \$34,007      | \$--                                                | \$--          |
| Federal Agency Notes                | --                                                       | --            | --                                                  | --            |
| Marketable Equity Securities        | --                                                       | --            | --                                                  | --            |
| Total Securities Available-for-Sale | \$145                                                    | \$34,007      | \$--                                                | \$--          |

|                                   | June 30, 2011                                            |               |                                                     |               |
|-----------------------------------|----------------------------------------------------------|---------------|-----------------------------------------------------|---------------|
|                                   | Less than Twelve Months<br>Gross<br>Unrealized<br>Losses | Fair<br>Value | Over Twelve Months<br>Gross<br>Unrealized<br>Losses | Fair<br>Value |
| (In Thousands)                    |                                                          |               |                                                     |               |
| Securities Held-To-Maturity:      |                                                          |               |                                                     |               |
| <b>Debt Securities</b>            |                                                          |               |                                                     |               |
| Mortgage-Backed Securities        | \$112                                                    | \$3,816       | \$-                                                 | \$-           |
| Marketable Equity Securities      | -                                                        | -             | -                                                   | -             |
| Total Securities Held-To-Maturity | \$112                                                    | \$3,816       | \$-                                                 | \$-           |

The Company's investment in equity securities consists primarily of FHLB stock, a \$1.3 million (book value) investment in an adjustable-rate mortgage fund (referred to as the ARM Fund) and shares of First National Bankers Bankshares, Inc. ("FNBB"). The fair value of the ARM Fund has traditionally correlated with the interest rate environment. At September 30, 2011, the unrealized gain on this investment was \$16,000. Management monitors its investment portfolio to determine whether any investment securities which have unrealized losses should be considered other than temporarily impaired.

At September 30, 2011, securities with a carrying value of \$2.9 million were pledged to secure public deposits, and securities and mortgage loans with a carrying value of \$65.6 million were pledged to secure FHLB advances.



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Loans Receivable

Loans receivable at September 30, 2011 and 2010 are summarized as follows:

|                                           | 2011           | 2010      |
|-------------------------------------------|----------------|-----------|
|                                           | (In Thousands) |           |
| Loans Secured by Mortgages on Real Estate |                |           |
| One-to-Four Family Residential            | \$ 46,189      | \$ 38,812 |
| Commercial                                | 32,970         | 16,480    |
| Multi-Family Residential                  | 8,309          | 9,484     |
| Land                                      | 12,135         | 11,259    |
| Construction                              | 11,784         | 7,572     |
| Equity and Second Mortgage                | 1,341          | 2,061     |
| Equity Lines of Credit                    | 5,693          | 4,319     |
| Total Mortgage Loans                      | 118,421        | 89,987    |
| Commercial Loans                          | 10,404         | 10,024    |
| Consumer Loans                            |                |           |
| Loans on Savings Accounts                 | 334            | 365       |
| Automobile and Other Consumer Loans       | 167            | 42        |
| Total Consumer and Other Loans            | 501            | 407       |
| Total Loans                               | 129,326        | 100,418   |
| Less: Allowance for Loan Losses           | (928 )         | (561 )    |
| Unamortized Loan Fees                     | (296 )         | (277 )    |
| Net Loans Receivable                      | \$ 128,102     | \$ 99,580 |

|                             | 2011           | 2010   |
|-----------------------------|----------------|--------|
|                             | (In Thousands) |        |
| Balance - Beginning of Year | \$ 842         | \$ 489 |
| Provision for Loan Losses   | 86             | 72     |
| Loan Charge-Offs            | -              | -      |
| Balance - End of Year       | \$ 928         | \$ 561 |

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Loans Receivable (continued)

Credit Quality Indicators

The Company segregates loans into risk categories based on the pertinent 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 according to credit risk. Loans classified as substandard or identified as special mention are reviewed quarterly by management to evaluate the level of deterioration, improvement, and impairment, if any, as well as assign the appropriate risk category.

Loans excluded from the scope of the quarterly review process above are generally identified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification and the need to allocate reserves or charge-off. The Company uses the following definitions for risk ratings:

Special Mention - Loans identified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - This classification includes those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be possible in the future, it is not practical or desirable to defer writing off these basically worthless loans. Accordingly, these loans are charged-off before period end.



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The following table presents the grading of loans, segregated by class of loans, as of September 30, 2011:

|                            | Pass           | Special<br>Mention | Substandard | Doubtful | Total     |
|----------------------------|----------------|--------------------|-------------|----------|-----------|
|                            | (In Thousands) |                    |             |          |           |
| Real Estate Loans:         |                |                    |             |          |           |
| One-to-Four                |                |                    |             |          |           |
| Family Residential         | \$ 46,100      | \$ -               | \$ 89       | \$ -     | \$ 46,189 |
| Commercial                 | 32,970         | -                  | -           | -        | 32,970    |
| Multi-Family Residential   | 8,309          | -                  | -           | -        | 8,309     |
| Land                       | 12,135         | -                  | -           | -        | 12,135    |
| Construction               | 11,784         | -                  | -           | -        | 11,784    |
| Equity and Second Mortgage | 1,341          | -                  | -           | -        | 1,341     |
| Equity Lines of Credit     | 5,693          | -                  | -           | -        | 5,693     |
| Commercial Loans           | 10,404         | -                  | -           | -        | 10,404    |
| Consumer Loans             | 501            | -                  | -           | -        | 501       |
|                            | \$             |                    |             |          | \$        |
| Total                      | 129,237        | \$ -               | 89          | \$ -     | 129,326   |

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when contractually due. Loans that experience insignificant payment delays or payment shortfalls are generally not classified as impaired. On a case-by-case basis, management determines the significance of payment delays and payment shortfalls, taking into consideration all of the circumstances related to the loan, including: the length of the payment 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.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

An aging analysis of past due loans, segregated by class of loans, as of September 30, 2011, are as follows:

|                    | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>Than<br>90 Days | Total Past<br>Due<br>(In Thousands) | Current    | Total<br>Loans<br>Receivable | Recorded<br>Investment<br>><br>90 Days<br>and<br>Accruing |
|--------------------|---------------------------|---------------------------|----------------------------|-------------------------------------|------------|------------------------------|-----------------------------------------------------------|
| Real Estate Loans: |                           |                           |                            |                                     |            |                              |                                                           |
| One-to-Four        |                           |                           |                            |                                     |            |                              |                                                           |
| Family             |                           |                           |                            |                                     |            |                              |                                                           |
| Residential        | \$ 1,923                  | \$ 661                    | \$ 219                     | \$ 2,803                            | \$ 43,386  | \$ 46,189                    | \$ 204                                                    |
| Commercial         | -                         | -                         | -                          | -                                   | 32,970     | 32,970                       | -                                                         |
| Multi-Family       |                           |                           |                            |                                     |            |                              |                                                           |
| Residential        | -                         | -                         | -                          | -                                   | 8,309      | 8,309                        | -                                                         |
| Land               | -                         | -                         | -                          | -                                   | 12,135     | 12,135                       | -                                                         |
| Construction       | -                         | -                         | -                          | -                                   | 11,784     | 11,784                       | -                                                         |
| Equity and Second  |                           |                           |                            |                                     |            |                              |                                                           |
| Mortgage           | -                         | -                         | -                          | -                                   | 1,341      | 1,341                        | -                                                         |
| Equity Lines of    |                           |                           |                            |                                     |            |                              |                                                           |
| Credit             | -                         | -                         | -                          | -                                   | 5,693      | 5,693                        | -                                                         |
| Commercial Loans   | -                         | -                         | -                          | -                                   | 10,404     | 10,404                       | -                                                         |
| Consumer Loans     | -                         | -                         | -                          | -                                   | 501        | 501                          | -                                                         |
| Total              | \$ 1,923                  | \$ 661                    | \$ 219                     | \$ 2,803                            | \$ 126,523 | \$ 129,326                   | \$ 204                                                    |

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. There were no troubled debt restructurings as of September 30, 2011 or 2010.

The allowance for loan losses and recorded investment in loans for the year ended September 30, 2011, was as follows:

|                            | Real Estate Loans |            |              |        |              | Other | Commercial<br>Loans | Consumer<br>Loans | Total  |
|----------------------------|-------------------|------------|--------------|--------|--------------|-------|---------------------|-------------------|--------|
|                            | Residential       | Commercial | Multi-Family | Land   | Construction |       |                     |                   |        |
| (In Thousands)             |                   |            |              |        |              |       |                     |                   |        |
| Allowance for loan losses: |                   |            |              |        |              |       |                     |                   |        |
| Beginning                  |                   |            |              |        |              |       |                     |                   |        |
| Balances                   | \$ 110            | \$ 125     | \$ 140       | \$ 150 | \$ 130       | \$ -  | \$ 175              | \$ 12             | \$ 842 |
| Charge-Offs                | -                 | -          | -            | -      | -            | -     | -                   | -                 | -      |
| Recoveries                 | -                 | -          | -            | -      | -            | -     | -                   | -                 | -      |
| Current                    | -                 | 15         | 30           | 21     | -            | -     | 20                  | -                 | 86     |

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|                  |           |           |          |           |           |          |           |        |            |
|------------------|-----------|-----------|----------|-----------|-----------|----------|-----------|--------|------------|
| Provision        |           |           |          |           |           |          |           |        |            |
| Ending           |           |           |          |           |           |          |           |        |            |
| Balances         | \$ 110    | \$ 140    | \$ 170   | \$ 171    | \$ 130    | \$ -     | \$ 195    | \$ 12  | \$ 928     |
| Evaluated for    |           |           |          |           |           |          |           |        |            |
| Impairment:      |           |           |          |           |           |          |           |        |            |
| Individually     | -         | -         | -        | -         | -         | -        | -         | -      | -          |
| Collectively     | 110       | 140       | 170      | 171       | 130       | -        | 195       | 12     | 928        |
| Loans            |           |           |          |           |           |          |           |        |            |
| Receivable:      |           |           |          |           |           |          |           |        |            |
| Ending           |           |           |          |           |           |          |           |        |            |
| Balances – Total | \$ 46,189 | \$ 32,970 | \$ 8,309 | \$ 12,135 | \$ 11,784 | \$ 7,034 | \$ 10,404 | \$ 501 | \$ 129,326 |
| Ending           |           |           |          |           |           |          |           |        |            |
| Balances         |           |           |          |           |           |          |           |        |            |
| Evaluated for    |           |           |          |           |           |          |           |        |            |
| Impairment:      |           |           |          |           |           |          |           |        |            |
| Individually     | 15        | -         | -        | -         | -         | -        | -         | -      | 15         |
| Collectively     | \$ 46,174 | \$ 32,970 | \$ 8,309 | \$ 12,135 | \$ 11,784 | \$ 7,034 | \$ 10,404 | \$ 501 | \$ 129,311 |

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The following table presents loans individually evaluated for impairment, segregated by class of loans, as of September 30, 2011:

|                            | Unpaid<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment |
|----------------------------|--------------------------------|------------------------------------------------|---------------------------------------------|---------------------------------|----------------------|-----------------------------------|
|                            | (In Thousands)                 |                                                |                                             |                                 |                      |                                   |
| Real Estate Loans:         |                                |                                                |                                             |                                 |                      |                                   |
| One-to-Four                |                                |                                                |                                             |                                 |                      |                                   |
| Family Residential         | \$ 15                          | \$ 15                                          | \$ -                                        | \$ 15                           | \$ -                 | \$ 15                             |
| Commercial                 | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Multi-Family Residential   | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Land                       | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Construction               | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Equity and Second Mortgage | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Equity Lines of Credit     | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Commercial Loans           | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Consumer Loans             | -                              | -                                              | -                                           | -                               | -                    | -                                 |
| Total                      | \$ 15                          | \$ 15                                          | \$ -                                        | \$ 15                           | \$ -                 | \$ 15                             |

The Bank has no commitments to loan additional funds to borrowers whose loans were previously in non-accrual status.

Non-accruing loans at September 30, 2011, segregated by class of loans, were as follows:

|                            | (In Thousands) |
|----------------------------|----------------|
| Real Estate Loans:         |                |
| One-to-Four                |                |
| Family Residential         | \$ 15          |
| Commercial                 | -              |
| Multi-Family Residential   | -              |
| Land                       | -              |
| Construction               | -              |
| Equity and Second Mortgage | -              |

|                        |       |
|------------------------|-------|
| Equity Lines of Credit | -     |
| Commercial Loans       | -     |
| Consumer Loans         | -     |
| Total                  | \$ 15 |



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. Earnings Per Share

Basic earnings per common share are computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common share equivalents that would arise from the exercise of dilutive securities. Prior period share amounts were adjusted for comparability using the conversion ratio of 0.9110 due to completion of second step offering on December 22, 2010. Earnings per share for the three months ended September 30, 2011 and 2010 were calculated as follows:

|                                                                         | Three Months Ended<br>September 30, 2011 |         | Three Months Ended<br>September 30, 2010 |         |
|-------------------------------------------------------------------------|------------------------------------------|---------|------------------------------------------|---------|
|                                                                         | Basic                                    | Diluted | Basic                                    | Diluted |
|                                                                         | (In Thousands, Except Share Data)        |         |                                          |         |
| Net income (loss)                                                       | \$ 802                                   | \$ 802  | \$646                                    | \$ 646  |
| Weighted average shares outstanding                                     | 2,859                                    | 2,859   | 2,965                                    | 2,965   |
| Effect of unvested common stock awards                                  | --                                       | 28      | --                                       | --      |
| Adjusted weighted average shares used in earnings per share computation | 2,859                                    | 2,887   | 2,965                                    | 2,965   |
| Earnings (loss) per share                                               | \$0.28                                   | \$0.28  | \$0.22                                   | \$0.22  |

For the three months ended September 30, 2011 and 2010, there were outstanding options to purchase 152,816 and 158,868 shares, respectively, at a weighted average exercise price of \$10.83 per share. For the quarter ended September 30, 2011, 27,974 options were included in the computation of diluted earnings per share.

## 5. Recognition and Retention Plan

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Recognition and Retention Plan and Trust Agreement (the "Recognition Plan") as an incentive to retain personnel of experience and ability in key positions. The aggregate number of shares of the Company's common stock subject to award under the Recognition Plan totaled 63,547 shares (as adjusted). As the shares were acquired for the Recognition Plan, the purchase price of these shares was recorded as a contra equity account. As the shares are distributed, the contra equity account is reduced. During the three months ended September 30, 2011, 561 shares vested and were released from the Recognition Plan Trust and 2,247 shares remained in the Recognition Plan Trust at September 30, 2011.

Recognition Plan shares are earned by recipients at a rate of 20% of the aggregate number of shares covered by the Recognition Plan award over five years. Generally, if the employment of an employee or service as a non-employee director is terminated prior to the fifth anniversary of the date of grant of Recognition Plan share award, the recipient shall forfeit the right to any shares subject to the award that have not been earned. In the case of death or disability of the recipient or a change in control of the Company, the Recognition Plan awards will be vested and shall be distributed as soon as practicable thereafter.

The present cost associated with the Recognition Plan is based on a share price of \$10.93 (as adjusted), which represent the market price of the Company's stock on August 19, 2010, the date on which the Recognition Plan shares were granted, as adjusted for the exchange ratio of 0.9110 on December 22, 2010. The cost is recognized over the five year vesting period.

## 6. Stock Option Plan

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Stock Option Plan (the "Option Plan") for the benefit of directors, officers, and other key employees. The aggregate number of shares of common stock reserved for issuance under the Option Plan totaled 158,868 (as adjusted). Both incentive stock options and non-qualified stock options may be granted under the Option Plan.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Stock Option Plan (continued)

On August 18, 2005, the Company granted 158,868 (as adjusted) options to directors and employees. Under the Option Plan, the exercise price of each option cannot be less than the fair market value of the underlying common stock as of the date of the option grant, which was \$10.82 (as adjusted), and the maximum term is ten years. On August 19, 2010, 21,616 options, which had been forfeited, were granted at an exercise price of \$10.93 per share. Incentive stock options and non-qualified stock options granted under the Option Plan become vested and exercisable at a rate of 20% per year over five years, commencing one year from the date of the grant, with an additional 20% vesting on each successive anniversary of the date the option was granted. No vesting shall occur after an employee's employment or service as a director is terminated. As of September 30, 2011, 2,121 stock options were available for future grant. In the event of the death or disability of an employee or director or change in control of the Company, the unvested options shall become vested and exercisable. The Company accounts for the Option Plan under the guidance of FASB ASC Topic 718, Compensation – Stock Compensation.

7. Fair Value of Financial Instruments

The following disclosure is made in accordance with the requirements of ASC 825, Financial Instruments. Financial instruments are defined as cash and contractual rights and obligations that require settlement, directly or indirectly, in cash. In cases where quoted market prices are not available, fair values have been estimated using the present value of future cash flows or other valuation techniques. The results of these techniques are highly sensitive to the assumptions used, such as those concerning appropriate discount rates and estimates of future cash flows, which require considerable judgment. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current settlement of the underlying financial instruments.

ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. These disclosures should not be interpreted as representing an aggregate measure of the underlying value of the Company.

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

**Cash and Cash Equivalents**

The carrying amount approximates the fair value of cash and cash equivalents.

**Securities to be Held-to-Maturity and Available-for-Sale**

Fair values for investment securities, including mortgage-backed securities, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying values of restricted or non-marketable equity securities approximate their fair values. The carrying amount of accrued investment income approximates its fair value.

**Mortgage Loans Held-for-Sale**

Because these loans are normally disposed of within ninety days of origination, their carrying value closely approximates the fair value of such loans.

**Loans Receivable**

For variable-rate loans that re-price frequently and with no significant changes in credit risk, fair value approximates the carrying value. Fair values for other loans are estimated using the discounted value of expected future cash flows. Interest rates used are those being offered currently for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. Fair Value of Financial Instruments (continued)

## Deposit Liabilities

The fair values for demand deposit accounts are, by definition, equal to the amount payable on demand at the reporting date, that is, their carrying amounts. Fair values for other deposit accounts are estimated using the discounted value of expected future cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

## Advances from Federal Home Loan Bank

The carrying amount of short-term borrowings approximates their fair value. The fair value of long-term debt is estimated using discounted cash flow analyses based on current incremental borrowing rates for similar borrowing arrangements.

## Off-Balance Sheet Credit-Related Instruments

Fair values for outstanding mortgage loan commitments to lend are based on fees currently charged to enter into similar agreements, taking into account the remaining term of the agreements, customer credit quality, and changes in lending rates.

The fair value of interest rate floors and caps contained in some loan servicing agreements and variable rate mortgage loan contracts are considered immaterial within the context of fair value disclosure requirements. Accordingly, no fair value estimate is provided for these instruments.

The carrying amount and estimated fair values of the Bank's financial instruments were as follows:

|                                   | September 30, 2011 |                      | June 30, 2011  |                      |
|-----------------------------------|--------------------|----------------------|----------------|----------------------|
|                                   | Carrying Value     | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| (In Thousands)                    |                    |                      |                |                      |
| <b>Financial Assets</b>           |                    |                      |                |                      |
| Cash and Cash Equivalents         | \$8,330            | \$8,330              | \$9,599        | \$9,599              |
| Securities Available-for-Sale     | 80,845             | 80,845               | 75,039         | 75,039               |
| Securities to be Held-to-Maturity | 5,495              | 5,723                | 5,725          | 5,638                |
| Loans Held-for-Sale               | 9,166              | 9,166                | 6,653          | 6,653                |
| Loans Receivable                  | 128,102            | 141,548              | 125,371        | 138,168              |
| <b>Financial Liabilities</b>      |                    |                      |                |                      |
| Deposits                          | 166,375            | 171,034              | 153,616        | 157,840              |
| Advances from FHLB                | 22,959             | 23,763               | 26,891         | 27,826               |
| <b>Off-Balance Sheet Items</b>    |                    |                      |                |                      |
| Mortgage Loan Commitments         | 163                | 163                  | 189            | 189                  |

The estimated fair values presented above could be materially different than net realizable value and are only indicative of the individual financial instrument's fair value. Accordingly, these estimates should not be considered an indication of the fair value of the Bank taken as a whole.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Fair Value Accounting

On July 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurement, now codified in FASB ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 affirms a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 was issued to establish a uniform definition of fair value. The definition of fair value is market-based as opposed to company-specific, and includes the following:

- § Defines fair value as the price that would be received to sell an asset or paid to transfer a liability, in either case, through an orderly transaction between market participants at a measurement date and establishes a framework for measuring fair value;
- § Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;
- § Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique;
- § Eliminates large position discounts for financial instruments quoted in active markets and requires consideration of the company's creditworthiness when valuing liabilities; and

§ Expands disclosures about instrument that are measured at fair value.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy favors the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- § Level 1 – Fair value is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Company can participate.
- § Level 2 – Fair value is based upon (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- § Level 3 – Fair value is based upon inputs that are unobservable for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances, which include the Company's own data. The Company's own data used to develop unobservable inputs are adjusted if information indicates that market participants would use different assumptions.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.





## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. Fair Value Accounting (continued)

Fair values of assets and liabilities measured on a recurring basis at September 30, 2011 and June 30, 2011 are as follows:

| September 30, 2011                 | Fair Value Measurements Using:                                          |                                                                          | Total            |
|------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------|
|                                    | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2)<br>(In Thousands) |                  |
| Available-for-Sale                 |                                                                         |                                                                          |                  |
| Debt Securities                    |                                                                         |                                                                          |                  |
| FHLMC Mortgage-Backed Certificates | \$ --                                                                   | \$ 1,728                                                                 | \$ 1,728         |
| FNMA Mortgage-Backed Certificates  | --                                                                      | 32,928                                                                   | 32,928           |
| GNMA Mortgage-Backed Certificates  | --                                                                      | 34,110                                                                   | 34,110           |
| Federal Agency Notes               | --                                                                      | 10,772                                                                   | 10,772           |
| Equity Securities                  |                                                                         |                                                                          |                  |
| ARM Fund                           | 1,307                                                                   | --                                                                       | 1,307            |
| <b>Total</b>                       | <b>\$ 1,307</b>                                                         | <b>\$ 79,538</b>                                                         | <b>\$ 80,845</b> |

| June 30, 2011                      | Fair Value Measurements Using:                                          |                                                                          | Total            |
|------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------|
|                                    | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2)<br>(In Thousands) |                  |
| Available-for-Sale                 |                                                                         |                                                                          |                  |
| Debt Securities                    |                                                                         |                                                                          |                  |
| FHLMC Mortgage-Backed Certificates | \$ --                                                                   | \$ 2,007                                                                 | \$ 2,007         |
| FBNA Mortgage-Backed Certificates  | --                                                                      | 34,638                                                                   | 34,638           |
| GNMA Mortgage-Backed Certificates  | --                                                                      | 105                                                                      | 105              |
| Government Agency Notes            | --                                                                      | 36,981                                                                   | 36,981           |
| Equity Securities                  |                                                                         |                                                                          |                  |
| ARM Fund                           | 1,308                                                                   | --                                                                       | 1,308            |
| <b>Total</b>                       | <b>\$ 1,308</b>                                                         | <b>\$ 73,731</b>                                                         | <b>\$ 75,039</b> |



HOME FEDERAL BANCORP, INC. OF LOUISIANA

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company's results of operations are primarily dependent on the results of the Bank, which became a wholly owned subsidiary upon completion of the second-step conversion and reorganization on December 22, 2010. Prior thereto, the Bank was in the mutual holding company form of organization. The Bank's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses and loan sale activities. Non-interest expense principally consists of compensation and employee benefits, office occupancy and equipment expense, data processing and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial conditions and results of operations.

Critical Accounting Policies

**Allowance for Loan Losses.** The Company has identified the calculation of the allowance for loan losses as a critical accounting policy, due to the higher degree of judgment and complexity than its other significant accounting policies. Provisions for loan losses are based upon management's periodic valuation and assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors in order to maintain the allowance for loan losses at a level believed by management to represent all known and inherent losses in the portfolio that are both probable and reasonably estimable. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change.

**Income Taxes.** Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and gives current recognition to changes in tax rates and laws. The realization of our deferred tax assets principally depends upon our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors. We may adjust our deferred tax asset balances if our judgments change.

Discussion of Financial Condition Changes from June 30, 2011 to September 30, 2011

At September 30, 2011, total assets amounted to \$243.8 million compared to \$233.3 million at June 30, 2011, an increase of approximately \$10.5 million, or 4.5%. This increase was primarily due to an increase in investment securities of \$5.6 million, or 6.9%, an increase in loans receivable, net, of \$2.7 million, or 2.2%, and an increase in loans held for sale of \$2.5 million or 37.8%. The increase in loans held for sale at quarter end reflects an increase in residential mortgage loan originations during the quarter ended September 30, 2011.

The increase in loans was primarily due to the origination of new loans by the mortgage lending department. Construction loans also increased principally as a result of one hotel development on which we are the lead lender and have sold a participation interest. The increase in securities was primarily due to new security acquisitions of \$37.3 million, partially offset by normal principal paydowns and sales amounting to \$32.3 million and a increase in the fair value of securities of \$594,000. In August 2011, after the Federal Open Market Committee announced that it anticipated economic conditions, including low rates of resource utilization and a subdued outlook for inflation over the medium term, are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013, we discontinued our interest rate risk laddering strategy and invested in long-term, higher yielding mortgage backed securities with a structured adjustable rate note.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

Discussion of Financial Condition Changes from June 30, 2011 to September 30, 2011 (continued)

At September 30, 2011, the Company had \$89,000 of non-performing assets, or 0.04% of total assets at such date, compared to \$114,000 or 0.05% of total assets at June 30, 2011. Approximately \$75,000 of our non-performing assets at September 30, 2011 consisted of one loan purchased from a mortgage originator from which we historically purchased loans secured by single-family housing primarily located in predominantly rural areas of Texas and to a lesser extent, Tennessee, Arkansas, Alabama, Louisiana and Mississippi. No such mortgage loans have been purchased since fiscal 2009. The loans were generally secured by rural properties and the seller retained servicing rights. Although the loans were originated with fixed-rates, Home Federal Bank receives an adjustable-rate of interest equal to the Federal Housing Finance Board rate, with rate floors and ceilings of approximately 5.0% and 8.0%, respectively. Under the terms of the loan agreements, as currently modified, the seller must repurchase or replace any loan that becomes more than 180 days delinquent. At September 30, 2011, we had approximately \$8.6 million of such loans in our portfolio with an average contractual remaining term of approximately 21.1 years.

The Company's total liabilities amounted to \$191.5 million at September 30, 2011, an increase of approximately \$9.4 million, or 5.2%, compared to total liabilities of \$182.1 million at June 30, 2011. The primary reason for the increase in liabilities was due to an increase in deposits of \$12.8 million, or 8.3%, partially offset by a \$3.9 million, or 14.6%, decrease in advances from the Federal Home Loan Bank and an increase in other liabilities of \$576,000.

Stockholders' equity increased \$1.1 million, or 2.2%, to \$52.3 million at September 30, 2011 compared to \$51.2 million at June 30, 2011. This increase was primarily the result of the recognition of net income of \$802,000 for the three months ended September 30, 2011, an increase in the Company's accumulated other comprehensive income of \$392,000, the distribution of shares associated with the Company's stock award plans of \$48,000 and proceeds from the issuance of common stock from the exercise of stock options of \$66,000. These increases were partially offset by dividends of \$183,000 paid during the three months ended September 30, 2011.

The Bank is required to meet minimum capital standards promulgated by the Office of the Comptroller of the Currency ("OCC"). At September 30, 2011, Home Federal Bank's regulatory capital was well in excess of the minimum capital requirements.

Comparison of Operating Results for the Three Month Periods Ended September 30, 2011 and 2010

General

Net income amounted to \$802,000 for the three months ended September 30, 2011 compared to net income of \$646,000 for the same period in 2010, an increase of \$156,000, or 24.1%. The increase was primarily due to a \$370,000, or 21.7%, increase in net interest income for the three months ended September 30, 2011 compared to the same period in 2010, a \$110,000, or 13.2% increase in non-interest income for the 2011 period compared to the same period in 2010 and a decrease of \$53,000, or 16.0% in income tax expense, partially offset by increases of \$363,000, or 24.4% in non-interest expense, and \$14,000, or 19.4% in the provision for loan losses. The increase in net interest income for the three months ended September 30, 2011 was primarily due to an increase in interest income and fees from higher loan originations as a result of the hiring of additional commercial and residential loan officers since 2010, and a decrease in the Company's cost of funds for the three months ended September 30, 2011, compared to the prior year period. The increase in non-interest expense was primarily due to an increase in compensation and benefits expense of \$104,000, or 10.2%, and other expenses associated with the Company's growth, including a \$72,000 increase in occupancy and equipment expense in connection with the expansion and improvement of the Company's offices.

Net Interest Income

Net interest income for the three months ended September 30, 2011 was \$2.1 million, an increase of \$370,000, or 21.7%, in comparison to \$1.7 million for the three months ended September 30, 2010. This increase was primarily due to an increase of \$337,000 in total interest income and a decrease of \$33,000 in the Company's cost of funds. The increase in total interest income was primarily due to an increase in interest income generated from loans of

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Comparison of Operating Results for the Three Month Periods Ended September 30, 2011 and 2010 (continued)

\$464,000, or 25.8%, and an increase in interest income from investment securities of \$52,000, partially offset by decreases in interest income from mortgage-backed securities of \$181,000. The cost of funds from and Federal Home Loan Bank borrowings decreased \$80,000 during the period while interest paid on deposits increased \$47,000 during the same period.

The Company's average interest rate spread was 3.23% for the three months ended September 30, 2011, compared to 3.32% for the three months ended September 30, 2010. The Company's net interest margin was 3.69% for the three months ended September 30, 2011, compared to 3.79% for the three months ended September 30, 2010. The decrease in net interest margin and average interest rate spread for the three month period is attributable primarily to the lower average interest rates on interest earning assets. While the interest rate spread and net interest margin decreased, net interest income increased primarily due to the increase in volume of average interest-earning assets.

Provision for Losses on Loans

Based on an analysis of historical experience, the volume and type of lending conducted by Home Federal, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to Home Federal's market area and other factors related to the collectability of Home Federal's loan portfolio, a provision for loan losses of \$86,000 was made during the three months ended September 30, 2011, compared to a \$72,000 provision made during the three months ended September 30, 2010. Home Federal's allowance for loan losses was \$928,000, or 0.72% of total loans, at September 30, 2011 compared to \$842,000, or 0.56%, of total loans at September 30, 2010. At September 30, 2010, Home Federal had two non-performing loans in the amount of \$115,000. At September 30, 2011, Home Federal had two non-performing loans in the amount of \$89,000 and no other non-performing assets or troubled-debt restructurings. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing assets in the future.

Non-interest Income

Total non-interest income amounted to \$944,000 for the three months ended September 30, 2011, an increase of \$110,000 compared to \$834,000 for the same period in 2010. The increase was primarily due to an increase of \$56,000 in bank owned life insurance income, a \$42,000 reversal of previously accrued Louisiana bank shares tax expense and an increase of \$14,000 in gain on sale of loans, partially offset by a decrease of \$26,000 in gain on sale of investments for the same period compared to 2010.

Non-interest Expense

Total non-interest expense increased \$363,000, or 24.4%, for the three months ended September 30, 2011 compared to the prior year period. The increase in non-interest expense was primarily due to an increase in compensation and benefits expense of \$104,000, or 10.2%, as well as increases of \$72,000 in occupancy and equipment expenses, \$64,000 in franchise and bank taxes, \$40,000 in data processing costs, \$41,000 in advertising costs and \$45,000 in legal expenses.

The increase in compensation and benefits expense was a result of normal compensation increases including stock options and recognition and retention plan expense and the hiring of additional commercial and residential loan officers. The aggregate compensation expense recognized by the Company for its Stock Option, ESOP and Recognition and Retention Plans amounted to \$42,000 and \$34,000 for the three months ended September 30, 2011 and 2010, respectively.

The Louisiana bank shares tax is assessed on the Bank's equity and earnings. For the three months ended September 30, 2011 and 2010, the Company recognized franchise and bank shares tax expense of \$95,000 and \$31,000 respectively.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## Comparison of Operating Results for the Three Month Periods Ended September 30, 2011 and 2010 (continued)

## Income Taxes

Income taxes amounted to \$279,000 and \$332,000 for the three months ended September 30, 2011 and 2010, respectively, resulting in effective tax rates of 25.8% and 34.0%, respectively. The reduction in effective income tax rates for the three months ended September 30, 2011, is primarily the result of non-taxable income which had the effect of a 1.8% reduction and the difference in capital gains and losses which had the effect of a 6.4% reduction.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin.

Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

|                                          | Three months ended September 30, |          |                    |                 |          |                    |
|------------------------------------------|----------------------------------|----------|--------------------|-----------------|----------|--------------------|
|                                          | 2011                             |          |                    | 2010            |          |                    |
|                                          | Average Balance                  | Interest | Average Yield/Rate | Average Balance | Interest | Average Yield/Rate |
|                                          | (Dollars in thousands)           |          |                    |                 |          |                    |
| <b>Interest-earning assets:</b>          |                                  |          |                    |                 |          |                    |
| Investment securities                    | \$ 77,897                        | \$ 607   | 3.12 %             | \$ 59,890       | \$ 725   | 4.84 %             |
| Loans receivable                         | 134,591                          | 2,262    | 6.72               | 105,518         | 1,798    | 6.82               |
| Interest-earning deposits                | 12,232                           | 5        | .16                | 14,631          | 14       | .38                |
| Total interest-earning assets            | 224,720                          | 2,874    | 5.12               | 180,039         | 2,537    | 5.64               |
| Non-interest-earning assets              | 13,984                           |          |                    | 8,529           |          |                    |
| Total assets                             | \$ 238,704                       |          |                    | \$ 188,568      |          |                    |
| <b>Interest-bearing liabilities:</b>     |                                  |          |                    |                 |          |                    |
| Savings accounts                         | 7,012                            | 7        | .40                | 5,601           | 6        | .43                |
| NOW accounts                             | 14,808                           | 31       | .84                | 7,671           | 6        | .31                |
| Money market accounts                    | 34,193                           | 65       | .76                | 24,447          | 61       | 1.00               |
| Certificate accounts                     | 88,917                           | 518      | 2.33               | 77,245          | 502      | 2.60               |
| Total deposits                           | 144,930                          | 621      | 1.71               | 114,964         | 575      | 2.00               |
| FHLB advances                            | 24,271                           | 177      | 2.92               | 28,661          | 258      | 3.60               |
| Total interest-bearing liabilities       | 169,201                          | 798      | 1.89 %             | 143,625         | 833      | 2.32 %             |
| <b>Non-interest-bearing liabilities:</b> |                                  |          |                    |                 |          |                    |

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|                                                                         |            |      |   |            |      |   |  |
|-------------------------------------------------------------------------|------------|------|---|------------|------|---|--|
| Non-interest bearing demand accounts                                    | 17,360     |      |   | 9,639      |      |   |  |
| Other liabilities                                                       | 1,702      |      |   | 3,824      |      |   |  |
| Total liabilities                                                       | 188,263    |      |   | 157,088    |      |   |  |
| Total Stockholders' Equity(1)                                           | 50,441     |      |   | 31,480     |      |   |  |
| Total liabilities and equity                                            | \$ 238,704 |      |   | \$ 188,568 |      |   |  |
| Net interest-earning assets                                             | \$ 55,519  |      |   | \$ 36,414  |      |   |  |
| Net interest income; average interest rate spread(2)                    | \$ 2,076   | 3.23 | % | \$ 1,704   | 3.32 | % |  |
| Net interest margin(3)                                                  |            | 3.69 | % |            | 3.79 | % |  |
| Average interest-earning assets to average interest-bearing liabilities |            | 1.33 | % |            | 1.25 | % |  |

(1) Includes retained earnings and accumulated other comprehensive loss.

(2) Interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average rate on interest-bearing liabilities.

(3) Net interest margin is net interest income divided by net average interest-earning assets.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

Liquidity and Capital Resources

Home Federal Bank maintains levels of liquid assets deemed adequate by management. The Bank adjusts its liquidity levels to fund deposit outflows, repay its borrowings and to fund loan commitments. Home Federal Bank also adjusts liquidity as appropriate to meet asset and liability management objectives.

Home Federal Bank's primary sources of funds are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, loan sales and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Bank sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, Home Federal Bank invests excess funds in short-term interest-earning accounts and other assets, which provide liquidity to meet lending requirements. Home Federal Bank's deposit accounts with the Federal Home Loan Bank of Dallas amounted to \$1.1 million at September 30, 2011.

A significant portion of Home Federal Bank's liquidity consists of securities classified as available-for-sale and cash and cash equivalents. Home Federal Bank's primary sources of cash are net income, principal repayments on loans and mortgage-backed securities and increases in deposit accounts. If Home Federal Bank requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Dallas which provides an additional source of funds. At September 30, 2011, Home Federal Bank had \$23.0 million in advances from the Federal Home Loan Bank of Dallas and had \$119.9 million in additional borrowing capacity. Additionally, at September 30, 2011, Home Federal Bank was a party to a Master Purchase Agreement with First National Bankers Bank whereby Home Federal Bank may purchase Federal Funds from First National Bankers Bank in an amount not to exceed \$14.3 million. There were no amounts purchased under this agreement as of September 30, 2011.

At September 30, 2011, Home Federal Bank had outstanding loan commitments of \$16.3 million to originate loans. At September 30, 2011, certificates of deposit scheduled to mature in less than one year, totaled \$41.3 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In addition, the cost of such deposits could be significantly higher upon renewal, in a rising interest rate environment. Home Federal Bank intends to utilize its high levels of liquidity to fund its lending activities. If additional funds are required to fund lending activities, Home Federal Bank intends to sell its securities classified as available-for-sale as needed.

Home Federal Bank is required to maintain regulatory capital sufficient to meet tangible, core and risk-based capital ratios of at least 1.5%, 3.0% and 8.0%, respectively. At September 30, 2011, Home Federal Bank exceeded each of its capital requirements with ratios of 17.26%, 17.26% and 35.11%, respectively.

Off-Balance Sheet Arrangements

At September 30, 2011, the Company did not have any off-balance sheet arrangements, as defined by Securities and Exchange Commission rules.

Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein have been prepared in accordance with instructions to Form 10-Q, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the Company's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

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Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document, the words “anticipate,” “believe,” “estimate,” “except,” “intend,” “should” and similar expressions, or the negative thereof, as they relate to the Company or the Company’s management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosures Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the applicable time periods specified by the Securities and Exchange Commission’s rules and forms.

Changes in Internal Control over Financial Reporting. There has been no change in the Company’s internal control over financial reporting during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report:

| No.  | Description                                                       |
|------|-------------------------------------------------------------------|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.0 | Certification Pursuant to 18 U.S.C Section 1350                   |

The following Exhibits are being furnished as part of this report:

| No.     | Description                                              |
|---------|----------------------------------------------------------|
| 101.INS | XBRL Instance Document.*                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document.*                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.*  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.*        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document.*  |

\*These interactive data files are being furnished as part of this Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.



SIGNATURES

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

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Date: November 14, 2011

By: /s/Daniel R. Herndon  
Daniel R. Herndon  
President and Chief Executive Officer

Date: November 14, 2011

By: /s/Clyde D. Patterson  
Clyde D. Patterson  
Executive Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting Officer)