

HomeTrust Bancshares, Inc.
Form 10-Q
November 09, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 001-35593

HOMETRUST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

45-5055422

(State or other jurisdiction of incorporation of organization) (IRS Employer Identification No.)

10 Woodfin Street, Asheville, North Carolina 28801

(Address of principal executive offices; Zip Code)

(828) 259-3939

(Registrant's telephone number, including area code)

None

(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 and 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☐

Accelerated filer ☒

(Do not check if a smaller reporting company)

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Non-accelerated filer ☐

Smaller reporting company ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 18,000,750 shares of common stock, par value of \$.01 per share, issued and outstanding as of November 4, 2016.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

(Unaudited)

	September 30, 2016	June 30, 2016
Assets		
Cash	\$ 32,081	\$ 29,947
Interest-bearing deposits	28,482	22,649
Cash and cash equivalents	60,563	52,596
Commercial paper	220,682	229,859
Certificates of deposit in other banks	153,431	161,512
Securities available for sale, at fair value	193,701	200,652
Other investments, at cost	31,509	29,486
Loans held for sale	8,832	5,783
Total loans, net of deferred loan costs and discount	1,881,481	1,832,831
Allowance for loan losses	(20,951)	(21,292)
Net loans	1,860,530	1,811,539
Premises and equipment, net	53,981	54,231
Accrued interest receivable	7,729	7,405
Real estate owned ("REO")	5,715	5,956
Deferred income taxes	52,087	54,153
Bank owned life insurance	80,444	79,858
Goodwill	12,673	12,673
Core deposit intangibles	6,486	7,136
Other assets	5,746	4,838
Total Assets	\$ 2,754,109	\$ 2,717,677
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$ 1,793,528	\$ 1,802,696
Borrowings	536,500	491,000
Capital lease obligations	1,953	1,958
Other liabilities	57,727	62,047
Total liabilities	2,389,708	2,357,701
Stockholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 60,000,000 shares authorized,	180	180

17,999,150 shares
issued and outstanding
at September 30, 2016;
17,998,750 at June 30,
2016

Additional paid in capital	186,960		186,104	
Retained earnings	183,637		179,813	
Unearned Employee Stock Ownership Plan ("ESOP")	(8,332	)	(8,464	)
shares				
Accumulated other comprehensive income	1,956		2,343	
Total stockholders' equity	364,401		359,976	
Total Liabilities and Stockholders' Equity	\$	2,754,109	\$	2,717,677

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

(Dollars in thousands, except per share data)

	(Unaudited) Three Months Ended September 30, 2016 2015	
Interest and Dividend Income		
Loans	\$20,480	\$ 19,635
Securities available for sale	880	1,199
Certificates of deposit and other interest-bearing deposits	1,044	830
Other investments	387	345
Total interest and dividend income	22,791	22,009
Interest Expense		
Deposits	1,099	1,191
Other borrowings	555	247
Total interest expense	1,654	1,438
Net Interest Income	21,137	20,571
Provision for Loan Losses	—	—
Net Interest Income after Provision for Loan Losses	21,137	20,571
Noninterest Income		
Service charges on deposit accounts	1,749	1,699
Mortgage banking income and fees	976	728
Gain from sale of premises and equipment	385	—
Other, net	966	942
Total noninterest income	4,076	3,369
Noninterest Expense		
Salaries and employee benefits	10,691	10,857
Net occupancy expense	2,061	2,259
Marketing and advertising	430	485
Telephone, postage, and supplies	612	830
Deposit insurance premiums	279	525
Computer services	1,427	1,584
Loss (gain) on sale and impairment of REO	129	(21)
REO expense	144	355
Core deposit intangible amortization	650	774
Merger-related expenses	307	—
Other	2,235	2,187
Total noninterest expense	18,965	19,835
Income Before Income Taxes	6,248	4,105
Income Tax Expense	2,424	1,541
Net Income	\$3,824	\$ 2,564
Per Share Data:		
Net income per common share:		
Basic	\$0.22	\$ 0.14
Diluted	\$0.22	\$ 0.14
Average shares outstanding:		
Basic	17,208,682	18,077,987

Diluted

17,451,298,291,029

The accompanying notes are an integral part of these consolidated financial statements.

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Three Months Ended September 30,	
	2016	2015
Net Income	\$3,824	\$2,564
Other Comprehensive Income		
Unrealized holding gains (losses) on securities available for sale		
Gains (losses) arising during the period	(586)	1,327
Deferred income tax benefit (expense)	199	(451)
Total other comprehensive income (loss)	\$(387)	\$876
Comprehensive Income	\$3,437	\$3,440

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands)

	Common Stock		Additional	Retained	Unearned	Accumulated	Total
	Shares	Amount	Paid In Capital	Earnings	ESOP Shares	Other Comprehensive Income (loss)	Stockholders' Equity
Balance at June 30, 2015	19,488,449	\$ 195	\$210,621	\$168,357	\$(8,993)	\$ 870	\$ 371,050
Net income	—	—	—	2,564	—	—	2,564
Stock repurchased	(414,362)	(4)	(7,367)	—	—	—	(7,371)
Forfeited restricted stock	(450)	—	—	—	—	—	—
Exercised stock options	400	—	6	—	—	—	6
Stock option expense	—	—	442	—	—	—	442
Restricted stock expense	—	—	346	—	—	—	346
ESOP shares allocated	—	—	103	—	132	—	235
Other comprehensive income	—	—	—	—	—	876	876
Balance at September 30, 2015	19,074,037	\$ 191	\$204,151	\$170,921	\$(8,861)	\$ 1,746	\$ 368,148
Balance at June 30, 2016	17,998,750	\$ 180	\$186,104	\$179,813	\$(8,464)	\$ 2,343	\$ 359,976
Net income	—	—	—	3,824	—	—	3,824
Granted restricted stock	400	—	—	—	—	—	—
Stock option expense	—	—	362	—	—	—	362
Restricted stock expense	—	—	377	—	—	—	377
ESOP shares allocated	—	—	117	—	132	—	249
Other comprehensive loss	—	—	—	—	—	(387)	(387)
Balance at September 30, 2016	17,999,150	\$ 180	\$186,960	\$183,637	\$(8,332)	\$ 1,956	\$ 364,401

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Three Months Ended September 30,	
	2016	2015
Operating Activities:		
Net income	\$3,824	\$2,564
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	868	1,046
Deferred income tax expense	2,266	1,571
Net amortization and accretion	(2,180)	(1,442)
Gain from sale of premises and equipment	(385)	—
Loss (gain) on sale and impairment of REO	129	(21)
Gain on sale of loans held for sale	(382)	(455)
Origination of loans held for sale	(38,908)	(22,561)
Proceeds from sales of loans held for sale	36,241	24,878
Decrease (increase) in deferred loan costs, net	(5)	153
Decrease (increase) in accrued interest receivable and other assets	(1,232)	7,544
Amortization of core deposit intangibles	650	774
Earnings from bank owned life insurance	(586)	(509)
ESOP compensation expense	249	235
Restricted stock and stock option expense	739	788
Decrease in other liabilities	(4,320)	(3,031)
Net cash provided by (used in) operating activities	(3,032)	11,534
Investing Activities:		
Purchase of securities available for sale	(13,000)	(11,100)
Proceeds from maturities of securities available for sale	12,570	13,060
Net maturities of commercial paper	9,724	13,224
Purchase of certificates of deposit in other banks	(13,754)	(7,453)
Maturities of certificates of deposit in other banks	21,835	21,696
Principal repayments of mortgage-backed securities	6,649	7,320
Net purchases of other investments	(2,023)	(42)
Net increase in loans	(47,513)	(55,842)
Purchase of premises and equipment	(628)	(420)
Proceeds from sale of premises and equipment	395	—
Proceeds from sale of REO	417	639
Net cash used in investing activities	(25,328)	(18,918)
Financing Activities:		
Net decrease in deposits	(9,168)	(52,176)
Net increase in other borrowings	45,500	1,000
Common stock repurchased	—	(7,371)
Exercised stock options	—	6
Decrease in capital lease obligations	(5)	(5)
Net cash provided by (used in) financing activities	36,327	(58,546)
Net Increase (Decrease) in Cash and Cash Equivalents	7,967	(65,930)
Cash and Cash Equivalents at Beginning of Period	52,596	116,160
Cash and Cash Equivalents at End of Period	\$60,563	\$50,230

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

Supplemental Disclosures:	Three Months Ended	
	September 30, 2016	2015
Cash paid during the period for:		
Interest	\$2,129	\$1,445
Income taxes	100	100
Noncash transactions:		
Unrealized gain (loss) in value of securities available for sale, net of income taxes	(387	) 876
Transfers of loans to REO	305	228

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

The consolidated financial statements presented in this report include the accounts of HomeTrust Bancshares, Inc., a Maryland corporation ("HomeTrust"), and its wholly-owned subsidiary, HomeTrust Bank (the "Bank"). As used throughout this report, the term the "Company" refers to HomeTrust and the Bank, its consolidated subsidiary, unless the context otherwise requires. Effective December 31, 2015, the Bank converted from a national association to a North Carolina state bank. See Management's Discussion and Analysis of Financial Condition and Results of Operations "Overview" for discussion of charter change.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016 ("2016 Form 10-K") filed with the SEC on September 13, 2016. The results of operations for the three months ended September 30, 2016 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's financial statements. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations and acquired loans, (iii) the valuation of REO, (iv) the valuation of goodwill and other intangible assets, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our 2016 Form 10-K. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

2. Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606)", which defers the effective date of Accounting Standard Update ("ASU") No. 2014-09 one year. ASU No. 2014-09 created Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. ASU No. 2015-14 is effective for interim and annual periods beginning after December 15, 2017; early adoption

is permitted for interim and annual periods beginning after December 15, 2016. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization's other deferred tax assets. This ASU is effective for interim and annual periods beginning after December 15, 2017. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)." The guidance in this ASU requires most leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. This ASU is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The ASU changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU is effective for interim and annual periods beginning after December 15, 2016. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the ASU on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The ASU amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows and is intended to reduce the diversity in practice. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for all entities beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the ASU on its Consolidated Financial Statements.

3. Business Combinations

On September 21, 2016, the Company announced that HomeTrust Bancshares, Inc. and TriSummit Bancorp, Inc. ("TriSummit") entered into an agreement under which the Company will acquire TriSummit with six locations in Kingsport, TN, Johnson City, TN, and Bristol, VA (the "Tri-Cities" region) and also in Morristown and Jefferson City, TN. The acquisition will add approximately \$246.0 million of loans and \$288.0 million of deposits. Under the terms of the agreement, TriSummit shareholders will receive a total of \$8.80 per share in merger consideration consisting of \$4.40 in cash plus \$4.40 in HomeTrust common stock. This represents approximately \$31.8 million of aggregate transaction consideration. The transaction is anticipated to close in the first calendar quarter of 2017, subject to TriSummit shareholder approval and customary closing conditions, including regulatory approvals.

4. Securities Available for Sale

Securities available for sale consist of the following at the dates indicated:

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	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	\$77,868	\$ 503	\$ (9)	\$78,362
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	88,929	1,535	(78)	90,386
Municipal Bonds	16,131	854	(3)	16,982
Corporate Bonds	7,746	165	(3)	7,908
Equity Securities	63	—	—	63
Total	\$190,737	\$ 3,057	\$ (93)	\$193,701

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	\$77,356	\$ 624	\$ —	\$77,980
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	95,668	1,824	(84)	97,408
Municipal Bonds	16,242	992	—	17,234
Corporate Bonds	7,773	194	—	7,967
Equity Securities	63	—	—	63
Total	\$197,102	\$ 3,634	\$ (84)	\$200,652

Debt securities available for sale by contractual maturity at the dates indicated are shown below. Mortgage-backed securities are not included in the maturity categories because the borrowers in the underlying pools may prepay without penalty; therefore, it is unlikely that the securities will pay at their stated maturity schedule.

	September 30, 2016	
	Amortized Cost	Estimated Fair Value
Due within one year	\$905	\$908
Due after one year through five years	80,586	81,039
Due after five years through ten years	17,766	18,621
Due after ten years	2,488	2,684
Mortgage-backed securities	88,929	90,386
Total	\$190,674	\$193,638

The Company had no sales of securities available for sale during the three months ended September 30, 2016 and 2015.

Securities available for sale with costs totaling \$134,678 and \$151,359 with market values of \$137,064 and \$154,132 at September 30, 2016 and June 30, 2016, respectively, were pledged as collateral to secure various public deposits and other borrowings.

The gross unrealized losses and the fair value for securities available for sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2016 and June 30, 2016 were as follows:

	September 30, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agencies	\$10,995	\$ (9)	\$—	\$ —	\$10,995	\$ (9)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	6,262	(19)	4,383	(59)	10,645	(78)
Municipal Bonds	1,477	(3)	—	—	1,477	(3)
Corporate Bonds	3,883	(3)	—	—	3,883	(3)
Total	\$22,617	\$ (34)	\$4,383	\$ (59)	\$27,000	\$ (93)
	June 30, 2016					
	Less than 12 Months		12 Months or More		Total	

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	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	\$1,970	\$ (20)	\$6,040	\$ (64)	\$8,010	\$ (84)
Total	\$1,970	\$ (20)	\$6,040	\$ (64)	\$8,010	\$ (84)

The total number of securities with unrealized losses at September 30, 2016, and June 30, 2016 were 53 and 44, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future,

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other than temporary impairment losses during the three months ended September 30, 2016 or the year ended June 30, 2016.

As a requirement for membership, the Bank invests in stock of the FHLB of Atlanta and the Federal Reserve Bank of Richmond ("FRB"). No ready market exists for this stock and the carrying value approximates its fair value based on the redemption provisions of the FHLB of Atlanta and the FRB.

5. Loans

Loans consist of the following at the dates indicated:

	September 30, 2016	June 30, 2016
Retail consumer loans:		
One-to-four family	\$613,568	\$623,701
HELOCs - originated	161,679	163,293
HELOCs - purchased	169,007	144,377
Construction and land/lots	40,100	38,102
Indirect auto finance	122,115	108,478
Consumer	5,348	4,635
Total retail consumer loans	1,111,817	1,082,586
Commercial loans:		
Commercial real estate	487,997	486,561
Construction and development	109,507	86,840
Commercial and industrial	70,393	73,289
Municipal leases	101,400	103,183
Total commercial loans	769,297	749,873
Total loans	1,881,114	1,832,459
Deferred loan costs, net	367	372
Total loans, net of deferred loan costs and discount	1,881,481	1,832,831
Allowance for loan and lease losses	(20,951)	(21,292)
Loans, net	\$1,860,530	\$1,811,539

All the qualifying one-to-four family first mortgage loans, HELOCs, and FHLB Stock are pledged as collateral by a blanket pledge to secure any outstanding FHLB advances.

The Company's total non-purchased and purchased performing loans by segment, class, and risk grade at the dates indicated follow:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2016						
Retail consumer loans:						
One-to-four family	\$579,110	\$7,542	\$ 19,038	\$ 1,610	\$ 47	\$607,347
HELOCs - originated	157,802	711	2,782	94	9	161,398
HELOCs - purchased	169,007	—	—	—	—	169,007
Construction and land/lots	38,433	444	672	9	—	39,558
Indirect auto finance	121,990	13	101	10	1	122,115
Consumer	5,148	—	183	1	9	5,341
Commercial loans:						
Commercial real estate	453,449	6,862	9,476	1	—	469,788
Construction and development	102,035	681	3,869	—	—	106,585

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Commercial and industrial	61,685	995	4,472	—	3	67,155
Municipal leases	99,782	964	654	—	—	101,400
Total loans	\$1,788,441	\$18,212	\$ 41,247	\$ 1,725	\$ 69	\$1,849,694

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2016						
Retail consumer loans:						
One-to-four family	\$587,440	\$7,800	\$ 20,129	\$ 1,283	\$ 11	\$616,663
HELOCs - originated	159,275	678	2,997	55	10	163,015
HELOCs - purchased	144,377	—	—	—	—	144,377
Construction and land/lots	36,298	542	679	9	—	37,528
Indirect auto finance	108,432	14	21	11	—	108,478
Consumer	4,390	1	224	2	9	4,626
Commercial loans:						
Commercial real estate	448,188	7,817	9,232	1	—	465,238
Construction and development	79,005	480	4,208	—	—	83,693
Commercial and industrial	63,299	1,032	5,361	—	2	69,694
Municipal leases	100,867	1,651	665	—	—	103,183
Total loans	\$1,731,571	\$20,015	\$ 43,516	\$ 1,361	\$ 32	\$1,796,495
The Company's total PCI loans by segment, class, and risk grade at the dates indicated follow:						

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2016						
Retail consumer loans:						
One-to-four family	\$4,244	\$ 376	\$ 1,397	\$ 189	\$ 15	\$6,221
HELOCs - originated	257	—	24	—	—	281
Construction and land/lots	501	—	41	—	—	542
Consumer	7	—	—	—	—	7
Commercial loans:						
Commercial real estate	10,439	3,133	4,637	—	—	18,209
Construction and development	894	64	1,964	—	—	2,922
Commercial and industrial	3,055	139	44	—	—	3,238
Total loans	\$19,397	\$ 3,712	\$ 8,107	\$ 189	\$ 15	\$31,420

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2016						
Retail consumer loans:						
One-to-four family	\$5,039	\$ 377	\$ 1,593	\$ 14	\$ 15	\$7,038
HELOCs - originated	258	—	20	—	—	278
Construction and land/lots	522	—	52	—	—	574
Consumer	8	—	—	—	1	9
Commercial loans:						
Commercial real estate	12,594	4,266	4,463	—	—	21,323
Construction and development	1,136	292	1,719	—	—	3,147
Commercial and industrial	3,234	194	167	—	—	3,595
Total loans	\$22,791	\$ 5,129	\$ 8,014	\$ 14	\$ 16	\$35,964

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's total loans by segment, class, and delinquency status at the dates indicated follows:

	Past Due		Total	Current	Total
	30-89 Days	90 Days+			Loans
September 30, 2016					
Retail consumer loans:					
One-to-four family	\$3,002	\$5,160	\$8,162	\$605,406	\$613,568
HELOCs - originated	726	374	1,100	160,579	161,679
HELOCs - purchased	—	—	—	169,007	169,007
Construction and land/lots	51	61	112	39,988	40,100
Indirect auto finance	71	52	123	121,992	122,115
Consumer	9	8	17	5,331	5,348
Commercial loans:					
Commercial real estate	1,226	3,841	5,067	482,930	487,997
Construction and development	223	1,514	1,737	107,770	109,507
Commercial and industrial	70	1,732	1,802	68,591	70,393
Municipal leases	—	—	—	101,400	101,400
Total loans	\$5,378	\$12,742	\$18,120	\$1,862,994	\$1,881,114

The table above includes PCI loans of \$591 30-89 days past due and \$5,580 90 days or more past due as of September 30, 2016.

	Past Due		Total	Current	Total Loans
	30-89 Days	90 Days+			
June 30, 2016					
Retail consumer loans:					
One-to-four family	\$3,514	\$5,476	\$8,990	\$614,711	\$623,701
HELOCs - originated	220	377	597	162,696	163,293
HELOCs - purchased	—	—	—	144,377	144,377
Construction and land/lots	100	119	219	37,883	38,102
Indirect auto finance	182	—	182	108,296	108,478
Consumer	4	4	8	4,627	4,635
Commercial loans:					
Commercial real estate	1,436	3,353	4,789	481,772	486,561
Construction and development	371	1,296	1,667	85,173	86,840
Commercial and industrial	216	2,819	3,035	70,254	73,289
Municipal leases	—	—	—	103,183	103,183
Total loans	\$6,043	\$13,444	\$19,487	\$1,812,972	\$1,832,459

The table above includes PCI loans of \$1,596 30-89 days past due and \$5,776 90 days or more past due as of June 30, 2016.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's recorded investment in loans, by segment and class, that are not accruing interest or are 90 days or more past due and still accruing interest at the dates indicated follow:

	September 30, 2016		June 30, 2016	
	90 Days		90 Days	
	Nonaccruing + & Still accruing		Nonaccruing + & Still accruing	
Retail consumer loans:				
One-to-four family	\$ 8,611	\$ —	\$ 9,192	\$ —
HELOCs - originated	1,000	—	1,026	—
Construction and land/lots	183	—	188	—
Indirect auto finance	91	—	20	—
Consumer	30	—	15	—
Commercial loans:				
Commercial real estate	3,226	—	3,222	—
Construction and development	1,275	—	1,417	—
Commercial and industrial	2,195	—	3,019	—
Municipal leases	408	—	419	—
Total loans	\$ 17,019	\$ —	\$ 18,518	\$ —

PCI loans totaling \$6,149 at September 30, 2016 and \$6,607 at June 30, 2016 are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.

Troubled debt restructurings ("TDRs") are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. Additionally, all TDRs are considered impaired. The Company had no commitments to lend additional funds on these TDR loans at September 30, 2016.

The Company's loans that were performing under the payment terms of TDRs that were excluded from nonaccruing loans above at the dates indicated follow:

	September 30, 2016	June 30, 2016
Performing TDRs included in impaired loans	\$ 27,635	\$ 28,263

An analysis of the allowance for loan losses by segment for the periods shown is as follows:

	Three Months Ended September 30, 2016				Three Months Ended September 30, 2015			
	PCI	Retail Consumer	Commercial	Total	PCI	Retail Consumer	Commercial	Total
Balance at beginning of period	\$361	\$ 11,549	\$ 9,382	\$ 21,292	\$401	\$ 12,575	\$ 9,398	\$ 22,374
Provision for (recovery of) loan losses	(5)	(895)	900	—	(73)	73	—	—
Charge-offs	—	(419)	(607)	(1,026)	—	(469)	(334)	(803)
Recoveries	—	211	474	685	—	247	294	541
Balance at end of period	\$							