

HomeTrust Bancshares, Inc.  
Form 10-Q  
November 06, 2015

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, 2015

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

(State or other jurisdiction of incorporation of organization)

45-5055422

(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

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Non-accelerated filer  (Do not check if a smaller reporting company) 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 18,656,221 shares of common stock, par value of \$.01 per share, issued and outstanding as of November 3, 2015.

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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,<br>2015 | June 30,<br>2015 |
| Assets  |                       |                  |
| Cash  | \$ 37,411             | \$ 33,891        |
| Interest-bearing deposits   | 12,819                | 82,269           |
| Cash and cash equivalents   | 50,230                | 116,160          |
| Commercial paper  | 242,928               | 256,152          |
| Certificates of deposit in other banks  | 196,386               | 210,629          |
| Securities available for sale, at fair value  | 249,711               | 257,606          |
| Other investments, at cost  | 28,753                | 28,711           |
| Loans held for sale   | 4,012                 | 5,874            |
| Total loans, net of deferred loan fees and discount   | 1,742,290             | 1,685,707        |
| Allowance for loan losses   | (22,112 )             | (22,374 )        |
| Net loans   | 1,720,178             | 1,663,333        |
| Premises and equipment, net   | 56,898                | 57,524           |
| Accrued interest receivable   | 7,914                 | 7,522            |
| Real estate owned (REO)   | 6,634                 | 7,024            |
| Deferred income taxes   | 57,471                | 59,493           |
| Bank owned life insurance   | 77,840                | 77,354           |
| Goodwill  | 12,673                | 12,673           |
| Core deposit intangibles  | 9,269                 | 10,043           |
| Other assets  | 5,103                 | 13,016           |
| Total Assets  | \$ 2,726,000          | \$ 2,783,114     |
| Liabilities and Stockholders' Equity  |                       |                  |
| Liabilities   |                       |                  |
| Deposits  | \$ 1,819,950          | \$ 1,872,126     |
| Other borrowings  | 476,000               | 475,000          |
| Capital lease obligations   | 1,974                 | 1,979            |
| Other liabilities   | 59,928                | 62,959           |
| Total liabilities   | 2,357,852             | 2,412,064        |
| 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, 19,074,037 shares issued and outstanding at September 30, 2015; 19,488,449 at June 30, 2015 | 191                   | 195              |
| Additional paid in capital  | 204,151               | 210,621          |
| Retained earnings   | 170,921               | 168,357          |
| Unearned Employee Stock Ownership Plan (ESOP) shares  | (8,861 )              | (8,993 )         |
| Accumulated other comprehensive income  | 1,746                 | 870              |
| Total stockholders' equity  | 368,148               | 371,050          |
| Total Liabilities and Stockholders' Equity  | \$ 2,726,000          | \$ 2,783,114     |

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)

|   | Three Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|
|   | 2015                                | 2014       |
| Interest and Dividend Income                                |                                     |            |
| Loans   | \$19,635                            | \$18,557   |
| Securities available for sale                               | 1,199                               | 805        |
| Certificates of deposit and other interest-bearing deposits | 830                                 | 439        |
| Other investments   | 345                                 | 64         |
| Total interest and dividend income                          | 22,009                              | 19,865     |
| Interest Expense  |                                     |            |
| Deposits  | 1,191                               | 1,227      |
| Other borrowings  | 247                                 | 38         |
| Total interest expense                                      | 1,438                               | 1,265      |
| Net Interest Income   | 20,571                              | 18,600     |
| Recovery of Loan Losses                                     | —                                   | (250 )     |
| Net Interest Income after Recovery for Loan Losses          | 20,571                              | 18,850     |
| Noninterest Income  |                                     |            |
| Service charges on deposit accounts                         | 1,699                               | 1,062      |
| Mortgage banking income and fees                            | 728                                 | 846        |
| Other, net  | 942                                 | 861        |
| Total noninterest income                                    | 3,369                               | 2,769      |
| Noninterest Expense   |                                     |            |
| Salaries and employee benefits                              | 10,857                              | 9,808      |
| Net occupancy expense                                       | 2,259                               | 1,853      |
| Marketing and advertising                                   | 485                                 | 388        |
| Telephone, postage, and supplies                            | 830                                 | 678        |
| Deposit insurance premiums                                  | 525                                 | 430        |
| Computer services   | 1,584                               | 1,353      |
| Gain on sale and impairment of REO                          | (21 )                               | (36 )      |
| REO expense   | 355                                 | 356        |
| Core deposit intangible amortization                        | 774                                 | 413        |
| Merger-related expenses                                     | —                                   | 1,421      |
| Other   | 2,187                               | 1,833      |
| Total other expense   | 19,835                              | 18,497     |
| Income Before Income Taxes                                  | 4,105                               | 3,122      |
| Income Tax Expense  | 1,541                               | 866        |
| Net Income  | \$2,564                             | \$2,256    |
| Per Share Data:   |                                     |            |
| Net income per common share:                                |                                     |            |
| Basic   | \$0.14                              | \$0.12     |
| Diluted   | \$0.14                              | \$0.12     |
| Average shares outstanding:                                 |                                     |            |
| Basic   | 18,077,987                          | 19,178,607 |
| Diluted   | 18,291,029                          | 19,242,722 |

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





HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

|  | Three Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|
|  | 2015                                | 2014    |
| Net Income   | \$2,564                             | \$2,256 |
| Other Comprehensive Income (Loss)                                  |                                     |         |
| Unrealized holding gains (losses) on securities available for sale |                                     |         |
| Gains (losses) arising during the period                           | 1,327                               | (52 )   |
| Deferred income tax benefit (expense)                              | (451                                | ) 18    |
| Total other comprehensive income (loss)                            | \$876                               | \$(34 ) |
| Comprehensive Income   | \$3,440                             | \$2,222 |

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<br>Paid In<br>Capital | Retained<br>Earnings | Unearned<br>ESOP<br>Shares | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|-------------------------------|--------------|--------|----------------------------------|----------------------|----------------------------|---|----------------------------------|
|                               | Shares       | Amount |                                  |                      |                            |   |                                  |
| Balance at June 30, 2014      | 20,632,008   | \$207  | \$225,889                        | \$160,332            | \$(9,522)                  | \$245   | \$377,151                        |
| Net income                    | —            | —      | —                                | 2,256                | —                          | —   | 2,256                            |
| Stock repurchased             | (142,760)    | (2)    | (2,536)                          | —                    | —                          | —   | (2,538)                          |
| Exercised stock options       | 18,000       | —      | 259                              | —                    | —                          | —   | 259                              |
| Stock option expense          | —            | —      | 365                              | —                    | —                          | —   | 365                              |
| Restricted stock expense      | —            | —      | 388                              | —                    | —                          | —   | 388                              |
| ESOP shares allocated         | —            | —      | 69                               | —                    | 132                        | —   | 201                              |
| Other comprehensive loss      | —            | —      | —                                | —                    | —                          | (34)  | (34)                             |
| Balance at September 30, 2014 | 20,507,248   | \$205  | \$224,434                        | \$162,588            | \$(9,390)                  | \$211   | \$378,048                        |
| <br>                          |              |        |                                  |                      |                            |   |                                  |
| 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                        |

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

|   | Three Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|
|   | 2015                                | 2014      |
| Operating Activities:   |                                     |           |
| Net income  | \$2,564                             | \$2,256   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |           |
| Recovery of loan losses   | —                                   | (250 )    |
| Depreciation  | 1,046                               | 760       |
| Deferred income tax expense   | 1,571                               | 668       |
| Net amortization and accretion  | (1,442 )                            | (491 )    |
| Gain on sale and impairment of REO  | (21 )                               | (36 )     |
| Gain on sale of loans held for sale   | (455 )                              | (430 )    |
| Origination of loans held for sale  | (22,561 )                           | (16,776 ) |
| Proceeds from sales of loans held for sale  | 24,878                              | 17,111    |
| Increase (decrease) in deferred loan fees, net                                    | 153                                 | (620 )    |
| Increase (decrease) in accrued interest receivable and other assets               | 7,544                               | (387 )    |
| Amortization of core deposit intangibles  | 774                                 | 413       |
| Earnings from bank owned life insurance   | (509 )                              | (467 )    |
| ESOP compensation expense   | 235                                 | 201       |
| Restricted stock and stock option expense   | 788                                 | 673       |
| Decrease in other liabilities   | (3,031 )                            | (5,566 )  |
| Net cash provided by (used in) operating activities                               | 11,534                              | (2,941 )  |
| Investing Activities:   |                                     |           |
| Purchase of securities available for sale   | (11,100 )                           | (5,303 )  |
| Proceeds from maturities of securities available for sale                         | 13,060                              | 16,000    |
| Net decrease in commercial paper  | 13,224                              | —         |
| Purchase of certificates of deposit in other banks                                | (7,453 )                            | (23,935 ) |
| Maturities of certificates of deposit in other banks                              | 21,696                              | 11,846    |
| Principal repayments of mortgage-backed securities                                | 7,320                               | 5,792     |
| Net purchases of other investments  | (42 )                               | (8,270 )  |
| Net increase in loans   | (55,842 )                           | (24,575 ) |
| Purchase of premises and equipment  | (420 )                              | (3,197 )  |
| Capital improvements to REO   | —                                   | (42 )     |
| Proceeds from sale of REO   | 639                                 | 1,822     |
| Acquisition of Bank of Commerce, net of cash received                             | —                                   | (7,759 )  |
| Net cash used in investing activities   | (18,918 )                           | (37,621 ) |
| Financing Activities:   |                                     |           |
| Net decrease in deposits  | (52,176 )                           | (17,669 ) |
| Net increase in other borrowings  | 1,000                               | 46,828    |
| Common stock repurchased  | (7,371 )                            | (2,538 )  |
| Exercised stock options   | 6                                   | 339       |
| Decrease in capital lease obligations   | (5 )                                | (5 )      |
| Net cash provided by (used in) financing activities                               | (58,546 )                           | 26,955    |
| Net Decrease in Cash and Cash Equivalents   | (65,930 )                           | (13,607 ) |
| Cash and Cash Equivalents at Beginning of Period                                  | 116,160                             | 45,830    |
| Cash and Cash Equivalents at End of Period  | \$50,230                            | \$32,223  |



| Supplemental Disclosures:   | Three Months Ended |         |
|---|--------------------|---------|
|   | September 30,      |         |
|   | 2015               | 2014    |
| Cash paid during the period for:  |                    |         |
| Interest  | \$1,445            | \$1,298 |
| Income taxes  | 100                | 120     |
| Noncash transactions:   |                    |         |
| Unrealized gain (loss) in value of securities available for sale, net of income taxes   | 876                | (34 )   |
| Transfers of loans to REO   | 228                | 309     |
| Business Combinations:  |                    |         |
| Assets acquired   | —                  | 124,956 |
| Liabilities assumed   | —                  | 114,956 |
| Net assets acquired   | —                  | 10,000  |
| The accompanying notes are an integral part of these consolidated financial statements. |                    |         |

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## 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, National Association (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.

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, 2015 ("2015 Form 10-K") filed with the SEC on September 11, 2015. The results of operations for the three months ended September 30, 2015 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2016. Certain prior year amounts have been reclassified to conform to current fiscal year presentation. The reclassifications had no impact on previously reported net income or equity.

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 2015 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 January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure". The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded

investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 was effective, for the Company, for interim and annual reporting periods beginning after June 30, 2015. The adoption of ASU No. 2014-04 did not have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables-Troubled Debt Restructuring by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim of the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU were effective, for the Company, for annual periods, and interim periods within those annual periods, beginning after June 30, 2015. The adoption of ASU No. 2014-14 did not have a material impact on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20)." The ASU eliminates the need to separately classify, present, and disclose extraordinary events. The disclosure of events or transactions that are unusual or infrequent in nature will be included in other guidance. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU No. 2015-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In April 2015, FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments in this ASU provide guidance to customers in cloud computing arrangements about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. This ASU is not expected to have a material effect on the Company's Consolidated Financial Statements.

In June 2015, FASB issued ASU No. 2015-10, "Technical Corrections and Improvements." On November 10, 2010 FASB added a standing project that will facilitate the FASB Accounting Standards Codification ("Codification") updates for technical corrections, clarifications, and improvements. These amendments are referred to as Technical Corrections and Improvements. Maintenance updates include non-substantive corrections to the Codification, such as editorial corrections, various link-related changes, and changes to source fragment information. This update contains amendments that will affect a wide variety of Topics in the Codification. The amendments in this ASU will apply to all reporting entities within the scope of the affected accounting guidance and generally fall into one of four categories: amendments related to differences between original guidance and the Codification, guidance clarification and reference corrections, simplification, and minor improvements. In summary, the amendments in this ASU represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the amendments in this ASU. The amendments in this ASU that require transition guidance are effective for fiscal years and interim reporting periods after December 15, 2015. Early adoption is permitted including adoption in an interim period. All other amendments are effective upon the issuance of this ASU. ASU 2015-10 did not have a material impact on the Company's Consolidated Financial Statements.

In August 2015, the FASB issued ASU No. 2015-15, "Interest-Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." The ASU provides guidance not previously included in ASU 2015-03 regarding debt issuance related to line-of-credit arrangements. The amendment allows an entity to present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs over the term of the line-of-credit arrangement, regardless if there are any outstanding borrowings on the line-of-credit arrangement. The amendment is effective for fiscal years beginning after December 15, 2015. The adoption of ASU No. 2015-15 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805)". The ASU simplifies the accounting for measurement period adjustments. The amendments require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period when the adjustment amounts are determined. The acquirer is required to record in the same period's financial statements the effect on earnings from changes in depreciation, amortization, or other income effects resulting from the change to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The acquirer must present separately on the income statement, or disclose in the notes, the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the provisional amount had been recognized at the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of ASU No. 2015-16 is not expected to



have a material impact on the Company's Consolidated Financial Statements.

### 3. Business Combinations

All business combinations are accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

On November 14, 2014, the Bank completed its acquisition of ten branch banking operations in Southwest Virginia and Eden, North Carolina from Bank of America Corporation (the "Branch Acquisition"). Under the terms of the agreement, the Bank paid a deposit premium of \$9,805 equal to 2.86% of the average daily deposits for the 30 calendar day period prior to the acquisition date. In addition, the Bank acquired approximately \$1,045 in loans and all related premises and equipment valued at \$8,993.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The following table presents the consideration paid by the Bank in the Branch Acquisition and the assets acquired and liabilities assumed as of November 14, 2014:

|   | As Recorded<br>By Bank of<br>America | Fair Value and<br>Other Merger<br>Related<br>Adjustments | As<br>Recorded<br>by the<br>Company |
|---|--------------------------------------|--|-------------------------------------|
| Consideration Paid  |                                      |  |                                     |
| Cash paid as deposit premium                              |                                      |  | \$9,805                             |
| Total consideration                                       |                                      |  | \$9,805                             |
| Assets  |                                      |  |                                     |
| Cash and cash equivalents                                 | \$320,673                            | \$—  | \$320,673                           |
| Loans, net of allowance                                   | 1,045                                | —  | 1,045                               |
| Premises and equipment, net                               | 6,303                                | 2,690  | 8,993                               |
| Accrued interest receivable                               | 3                                    | —  | 3                                   |
| Deferred income taxes                                     | —                                    | 353  | 353                                 |
| Core deposit intangibles                                  | —                                    | 7,936  | 7,936                               |
| Total assets acquired                                     | \$328,024                            | \$10,979   | \$339,003                           |
| Liabilities   |                                      |  |                                     |
| Deposits  | \$328,007                            | \$1,174  | \$329,181                           |
| Other liabilities   | 17                                   | —  | 17                                  |
| Total liabilities assumed                                 | \$328,024                            | \$1,174  | \$329,198                           |
| Net identifiable assets acquired over liabilities assumed | \$—                                  | \$9,805  | \$9,805                             |
| Goodwill  |                                      |  | \$—                                 |

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

On July 31, 2014, the Bank completed its acquisition of Bank of Commerce in accordance with the terms of the Agreement and Plan of Share Exchange dated March 3, 2014. Under the terms of the agreement, Bank of Commerce shareholders received \$6.25 per share in cash consideration, representing approximately \$10,000 of aggregate deal consideration. In addition, all \$3,200 of Bank of Commerce's preferred stock was redeemed.

The excess of the merger consideration over the fair value of Bank of Commerce's net assets was allocated to goodwill. The book value as of July 31, 2014, of assets acquired was \$122,530 and liabilities assumed was \$114,672. The Company recorded \$1,922 in goodwill related to the acquisition.

The following table presents the consideration paid by the Bank in the acquisition of Bank of Commerce and the assets acquired and liabilities assumed as of July 31, 2014:

|   | As Recorded<br>By Bank of<br>Commerce | Fair Value and<br>Other Merger<br>Related<br>Adjustments | As<br>Recorded<br>by the<br>Company |
|---|---------------------------------------|--|-------------------------------------|
| Consideration Paid  |                                       |  |                                     |
| Cash paid   |                                       |  | \$10,000                            |
| Total consideration                                       |                                       |  | \$10,000                            |
| Assets  |                                       |  |                                     |
| Cash and cash equivalents                                 | \$2,241                               | \$—  | \$2,241                             |
| Securities available for sale                             | 24,228                                | —  | 24,228                              |
| Loans, net of allowance                                   | 89,339                                | (2,855 )   | 86,484                              |
| Federal Home Loan Bank ("FHLB") Stock                     | 791                                   | —  | 791                                 |
| REO   | 224                                   | (14 )  | 210                                 |
| Premises and equipment, net                               | 135                                   | —  | 135                                 |
| Accrued interest receivable                               | 355                                   | (100 )   | 255                                 |
| Deferred income taxes                                     | 286                                   | 2,839  | 3,125                               |
| Core deposit intangibles                                  | —                                     | 640  | 640                                 |
| Other assets  | 4,931                                 | (6 )   | 4,925                               |
| Total assets acquired                                     | \$122,530                             | \$504  | \$123,034                           |
| Liabilities   |                                       |  |                                     |
| Deposits  | \$93,303                              | \$112  | \$93,415                            |
| Other borrowings  | 15,000                                | 172  | 15,172                              |
| Other liabilities   | 6,369                                 | —  | 6,369                               |
| Total liabilities assumed                                 | \$114,672                             | \$284  | \$114,956                           |
| Net identifiable assets acquired over liabilities assumed | \$7,858                               | \$220  | \$8,078                             |
| Goodwill  |                                       |  | \$1,922                             |

The carrying amount of acquired loans from Bank of Commerce as of July 31, 2014 consisted of purchased performing loans and purchased credit-impaired ("PCI") loans as detailed in the following table:

|                              | Purchased<br>Performing | PCI     | Total<br>Loans |
|------------------------------|-------------------------|---------|----------------|
| Retail Consumer Loans:       |                         |         |                |
| One-to-four family           | \$2,717                 | \$2,979 | \$5,696        |
| Home equity lines of credit  | 8,823                   | 317     | 9,140          |
| Consumer                     | 37                      | 15      | 52             |
| Commercial:                  |                         |         |                |
| Commercial real estate       | 29,048                  | 30,047  | 59,095         |
| Construction and development | 202                     | 3,020   | 3,222          |
| Commercial and industrial    | 5,402                   | 3,877   | 9,279          |

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|       |          |          |          |
|-------|----------|----------|----------|
| Total | \$46,229 | \$40,255 | \$86,484 |
|-------|----------|----------|----------|

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## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

On May 31, 2014, the Company completed its acquisition of Jefferson Bancshares, Inc. ("Jefferson") in accordance with the terms of the Agreement and Plan of Merger dated January 22, 2014. Under the terms of the agreement, Jefferson shareholders received 0.2661 shares of HomeTrust common stock, and \$4.00 in cash for each share of Jefferson common stock. This represents approximately \$50,490 of aggregate deal consideration.

The excess of the merger consideration over the fair value of Jefferson's net assets was allocated to goodwill. The book value as of May 31, 2014, of assets acquired was \$494,261 and liabilities assumed was \$441,858. The Company recorded \$7,949 in goodwill related to the acquisition.

The following table presents the consideration paid by the Company in the acquisition of Jefferson and the assets acquired and liabilities assumed as of May 31, 2014:

|   | As<br>Recorded<br>by<br>Jefferson | Fair Value<br>and<br>Other Merger<br>Related<br>Adjustments | As<br>Recorded<br>by the<br>Company |
|---|-----------------------------------|---|-------------------------------------|
| Consideration Paid  |                                   |   |                                     |
| Cash paid including cash in lieu of fractional shares     |                                   |   | \$25,251                            |
| Fair value of HomeTrust common stock at \$15.03 per share |                                   |   | 25,239                              |
| Total consideration                                       |                                   |   | \$50,490                            |
| Assets  |                                   |   |                                     |
| Cash and cash equivalents                                 | \$18,325                          | \$—   | \$18,325                            |
| Securities available for sale                             | 85,744                            | (675)   | 85,069                              |
| Loans, net of allowance                                   | 338,616                           | (8,704)   | 329,912                             |
| FHLB Stock  | 4,635                             | —   | 4,635                               |
| REO   | 3,288                             | (1,064)   | 2,224                               |
| Premises and equipment, net                               | 24,662                            | (1,487)   | 23,175                              |
| Accrued interest receivable                               | 1,367                             | (90)  | 1,277                               |
| Deferred income taxes                                     | 9,606                             | 3,637   | 13,243                              |
| Core deposit intangibles                                  | 847                               | 2,683   | 3,530                               |
| Other assets  | 7,171                             | (393)   | 6,778                               |
| Total assets acquired                                     | \$494,261                         | \$(6,093)   | \$488,168                           |
| Liabilities   |                                   |   |                                     |
| Deposits  | \$376,985                         | \$371   | \$377,356                           |
| Other borrowings  | 55,081                            | 858   | 55,939                              |
| Subordinated debentures                                   | 7,460                             | 2,540   | 10,000                              |
| Other liabilities   | 2,332                             | —   | 2,332                               |
| Total liabilities assumed                                 | \$441,858                         | \$3,769   | \$445,627                           |
| Net identifiable assets acquired over liabilities assumed | \$52,403                          | \$(9,862)   | 42,541                              |
| Goodwill  |                                   |   | \$7,949                             |

The carrying amount of acquired loans from Jefferson as of May 31, 2014 consisted of purchased performing loans and PCI loans as detailed in the following table:

|                             | Purchased<br>Performing | PCI     | Total<br>Loans |
|-----------------------------|-------------------------|---------|----------------|
| Retail Consumer Loans:      |                         |         |                |
| One-to-four family          | \$74,378                | \$6,066 | \$80,444       |
| Home equity lines of credit | 16,857                  | 18      | 16,875         |
| Construction and land/lots  | 7,810                   | 924     | 8,734          |
| Consumer                    | 3,690                   | 2       | 3,692          |

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Commercial:

|                              |           |          |           |
|------------------------------|-----------|----------|-----------|
| Commercial real estate       | 119,635   | 15,649   | 135,284   |
| Construction and development | 24,658    | 1,012    | 25,670    |
| Commercial and industrial    | 52,863    | 6,350    | 59,213    |
| Total                        | \$299,891 | \$30,021 | \$329,912 |

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## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

On July 31, 2013, the Company completed its acquisition of BankGreenville Financial Corporation ("BankGreenville") in accordance with the terms of the Agreement and Plan of Merger dated May 3, 2013. Under the terms of the agreement, BankGreenville shareholders received \$6.63 per share in cash consideration. This represents approximately \$7,823 of aggregate deal consideration. On October 27, 2015, additional contingent cash consideration of \$0.41 per share (or approximately \$484) was paid at the expiration of a 24 month performance period on a select pool of loans totaling approximately \$8,000.

The book value as of July 31, 2013, of assets acquired was \$102,180 and liabilities assumed was \$94,117. The Company recorded \$2,802 in goodwill related to the acquisition.

The following table presents the consideration paid by the Company in the acquisition of BankGreenville and the assets acquired and liabilities assumed as of July 31, 2013:

|   | As Recorded<br>by<br>BankGreenville | Fair Value and<br>Other Merger<br>Related<br>Adjustments | As<br>Recorded<br>by the<br>Company |
|---|-------------------------------------|--|-------------------------------------|
| Consideration Paid  |                                     |  |                                     |
| Cash  |                                     |  | \$7,823                             |
| Repayment of BankGreenville preferred stock               |                                     |  | 1,050                               |
| Contingent cash consideration <sup>(1)</sup>              |                                     |  | 680                                 |
| Total consideration                                       |                                     |  | \$9,553                             |
| Assets  |                                     |  |                                     |
| Cash and cash equivalents                                 | \$ 10,348                           | \$—  | \$ 10,348                           |
| Investment securities                                     | 34,345                              | —  | 34,345                              |
| Loans, net of allowance                                   | 51,622                              | (3,792   | ) 47,830                            |
| FHLB Stock  | 447                                 | —  | 447                                 |
| REO   | 2,317                               | (168   | ) 2,149                             |
| Premises and equipment, net                               | 2,458                               | (117   | ) 2,341                             |
| Accrued interest receivable                               | 429                                 | —  | 429                                 |
| Deferred tax asset  | —                                   | 2,470  | 2,470                               |
| Other assets  | 214                                 | —  | 214                                 |
| Core deposit intangibles                                  | —                                   | 530  | 530                                 |
| Total assets acquired                                     | \$ 102,180                          | \$(1,077   | ) \$ 101,103                        |
| Liabilities   |                                     |  |                                     |
| Deposits  | \$ 88,906                           | \$ 201   | \$ 89,107                           |
| Other borrowings  | 4,700                               | 34   | 4,734                               |
| Other liabilities   | 511                                 | —  | 511                                 |
| Total liabilities assumed                                 | \$ 94,117                           | \$ 235   | \$ 94,352                           |
| Net identifiable assets acquired over liabilities assumed | \$ 8,063                            | \$(1,312   | ) 6,751                             |
| Goodwill  |                                     |  | \$2,802                             |

(1) Estimate of additional amount to be paid to shareholders after 24 months based on performance of a select pool of loans totaling approximately \$8,000. Actual amount paid was \$484 on October 27, 2015.

The carrying amount of acquired loans from BankGreenville as of July 31, 2013 consisted of purchased performing loans and PCI loans as detailed in the following table:

|                        | Purchased<br>Performing | PCI     | Total<br>Loans |
|------------------------|-------------------------|---------|----------------|
| Retail Consumer Loans: |                         |         |                |
| One-to-four family     | \$8,274                 | \$1,392 | \$9,666        |

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|                              |          |         |          |
|------------------------------|----------|---------|----------|
| Home equity lines of credit  | 3,987    | 134     | 4,121    |
| Consumer                     | 522      | —       | 522      |
| Commercial:                  |          |         |          |
| Commercial real estate       | 23,073   | 4,552   | 27,625   |
| Construction and development | 2,367    | 3,529   | 5,896    |
| Total                        | \$38,223 | \$9,607 | \$47,830 |

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## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

## 4. Securities Available for Sale

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

|  | September 30, 2015 |                              |                               |                            |
|--|--------------------|------------------------------|-------------------------------|----------------------------|
|  | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| U.S. Government Agencies                                     | \$ 113,429         | \$ 839                       | \$—                           | \$ 114,268                 |
| Residential Mortgage-backed Securities of U.S.<br>Government |                    |                              |                               |                            |
| Agencies and Government-Sponsored Enterprises                | 112,977            | 1,220                        | (92                           | ) 114,105                  |
| Municipal Bonds  | 16,713             | 572                          | (22                           | ) 17,263                   |
| Corporate Bonds  | 3,884              | 128                          | —                             | 4,012                      |
| Equity Securities  | 63                 | —                            | —                             | 63                         |
| Total  | \$247,066          | \$2,759                      | \$(114                        | ) \$249,711                |

|  | June 30, 2015     |                              |                               |                            |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| U.S. Government Agencies                                     | \$ 115,683        | \$ 455                       | \$(67                         | ) \$ 116,071               |
| Residential Mortgage-backed Securities of U.S.<br>Government |                   |                              |                               |                            |
| Agencies and Government-Sponsored Enterprises                | 120,294           | 674                          | (159                          | ) 120,809                  |
| Municipal Bonds  | 16,359            | 372                          | (53                           | ) 16,678                   |
| Corporate Bonds  | 3,889             | 96                           | —                             | 3,985                      |
| Equity Securities  | 63                | —                            | —                             | 63                         |
| Total  | \$256,288         | \$1,597                      | \$(279                        | ) \$257,606                |

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, 2015 |                         |
|--|--------------------|-------------------------|
|  | Amortized<br>Cost  | Estimated<br>Fair Value |
| Due within one year                    | \$314              | \$314                   |
| Due after one year through five years  | 83,887             | 84,293                  |
| Due after five years through ten years | 46,066             | 47,041                  |
| Due after ten years                    | 3,759              | 3,895                   |
| Mortgage-backed securities             | 112,977            | 114,105                 |
| Total                                  | \$247,003          | \$249,648               |

The Company had no sales of securities available for sale during the three months ended September 30, 2015 and 2014.

Securities available for sale with costs totaling \$180,071 and \$181,404 with market values of \$181,825 and \$182,217 at September 30, 2015 and June 30, 2015, respectively, were pledged as collateral to secure various public deposits. 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, 2015 and June 30, 2015 were as follows:



## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

|   | September 30, 2015  |                   |                   |                   |            |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | 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  | \$—                 | \$—               | \$—               | \$—               | \$—        | \$—               |
| Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises | 6,684               | (17 )             | 7,312             | (75 )             | 13,996     | (92 )             |
| Municipal Bonds   | 1,125               | (22 )             | —                 | —                 | 1,125      | (22 )             |
| Total   | \$7,809             | \$(39 )           | \$7,312           | \$(75 )           | \$15,121   | \$(114 )          |
|   | June 30, 2015       |                   |                   |                   |            |                   |
|   | 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  | \$35,793            | \$(67 )           | \$—               | \$—               | \$35,793   | \$(67 )           |
| Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises | 24,429              | (81 )             | 5,037             | (78 )             | 29,466     | (159 )            |
| Municipal Bonds   | 3,920               | (53 )             | —                 | —                 | 3,920      | (53 )             |
| Total   | \$64,142            | \$(201 )          | \$5,037           | \$(78 )           | \$69,179   | \$(279 )          |

The total number of securities with unrealized losses at September 30, 2015, and June 30, 2015 were 54 and 81, 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, 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, 2015 or the year ended June 30, 2015.

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.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

## 5. Loans

Loans consist of the following at the dates indicated:

|   | September 30,<br>2015 | June 30,<br>2015 |
|---|-----------------------|------------------|
| Retail consumer loans:                              |                       |                  |
| One-to-four family                                  | \$645,737             | \$650,750        |
| Home equity lines of credit - originated            | 160,622               | 161,204          |
| Home equity lines of credit - purchased             | 102,136               | 72,010           |
| Construction and land/lots                          | 44,718                | 45,931           |
| Indirect auto finance                               | 70,564                | 52,494           |
| Consumer  | 3,849                 | 3,708            |
| Total retail consumer loans                         | 1,027,626             | 986,097          |
| Commercial loans:                                   |                       |                  |
| Commercial real estate                              | 452,772               | 441,620          |
| Construction and development                        | 72,742                | 64,573           |
| Commercial and industrial                           | 81,497                | 84,820           |
| Municipal leases                                    | 107,477               | 108,574          |
| Total commercial loans                              | 714,488               | 699,587          |
| Total loans   | 1,742,114             | 1,685,684        |
| Deferred loan costs, net                            | 176                   | 23               |
| Total loans, net of deferred loan fees and discount | 1,742,290             | 1,685,707        |
| Allowance for loan and lease losses                 | (22,112 )             | (22,374 )        |
| Loans, net  | \$1,720,178           | \$1,663,333      |

All the qualifying one-to-four family first mortgage loans, home equity lines of credit ("HELOCs") - originated, 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<br>Mention | Substandard | Doubtful | Loss | Total       |
|------------------------------|-------------|--------------------|-------------|----------|------|-------------|
| September 30, 2015           |             |                    |             |          |      |             |
| Retail consumer loans:       |             |                    |             |          |      |             |
| One-to-four family           | \$597,149   | \$9,041            | \$28,416    | \$1,268  | \$8  | \$635,882   |
| HELOCs - originated          | 155,144     | 991                | 4,044       | 145      | 4    | 160,328     |
| HELOCs - purchased           | 102,136     | —                  | —           | —        | —    | 102,136     |
| Construction and land/lots   | 41,523      | 631                | 1,739       | 124      | —    | 44,017      |
| Indirect auto finance        | 70,548      | 16                 | —           | —        | —    | 70,564      |
| Consumer                     | 3,349       | 42                 | 265         | 100      | 83   | 3,839       |
| Commercial loans:            |             |                    |             |          |      |             |
| Commercial real estate       | 402,036     | 9,733              | 13,220      | 115      | —    | 425,104     |
| Construction and development | 62,510      | 830                | 4,585       | —        | —    | 67,925      |
| Commercial and industrial    | 71,563      | 1,836              | 3,105       | —        | 2    | 76,506      |
| Municipal leases             | 105,185     | 1,722              | 570         | —        | —    | 107,477     |
| Total loans                  | \$1,611,143 | \$24,842           | \$55,944    | \$1,752  | \$97 | \$1,693,778 |

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

|  | Pass        | Special<br>Mention | Substandard | Doubtful | Loss | Total       |
|--|-------------|--------------------|-------------|----------|------|-------------|
| June 30, 2015  |             |                    |             |          |      |             |
| Retail consumer loans:   |             |                    |             |          |      |             |
| One-to-four family   | \$598,417   | \$11,563           | \$28,656    | \$1,772  | \$12 | \$640,420   |
| HELOCs - originated  | 155,899     | 580                | 4,020       | 407      | 3    | 160,909     |
| HELOCs - purchased   | 72,010      | —                  | —           | —        | —    | 72,010      |
| Construction and land/lots   | 42,689      | 650                | 1,754       | 124      | —    | 45,217      |
| Indirect auto finance  | 52,396      | 59                 | 39          | —        | —    | 52,494      |
| Consumer   | 3,610       | 16                 | 32          | —        | 39   | 3,697       |
| Commercial loans:  |             |                    |             |          |      |             |
| Commercial real estate   | 384,525     | 12,762             | 13,972      | 182      | —    | 411,441     |
| Construction and development   | 50,815      | 3,567              | 5,413       | —        | —    | 59,795      |
| Commercial and industrial  | 73,774      | 953                | 4,781       | —        | 2    | 79,510      |
| Municipal leases   | 106,260     | 1,733              | 581         | —        | —    | 108,574     |
| Total loans  | \$1,540,395 | \$31,883           | \$59,248    | \$2,485  | \$56 | \$1,634,067 |
| The Company's total PCI loans by segment, class, and risk grade at the dates indicated follow: |             |                    |             |          |      |             |
|  | Pass        | Special<br>Mention | Substandard | Doubtful | Loss | Total       |
| September 30, 2015   |             |                    |             |          |      |             |
| Retail consumer loans:   |             |                    |             |          |      |             |
| One-to-four family   | \$5,045     | \$831              | \$3,964     | \$15     | \$—  | \$9,855     |
| HELOCs - originated  | 259         | —                  | 35          | —        | —    | 294         |
| Construction and land/lots   | 565         | —                  | 136         | —        | —    | 701         |
| Consumer   | 10          | —                  | —           | —        | —    | 10          |
| Commercial loans:  |             |                    |             |          |      |             |
| Commercial real estate   | 19,904      | 3,907              | 3,857       | —        | —    | 27,668      |
| Construction and development   | 2,236       | 138                | 2,443       | —        | —    | 4,817       |
| Commercial and industrial  | 4,046       | 271                | 674         | —        | —    | 4,991       |
| Total loans  | \$32,065    | \$5,147            | \$11,109    | \$15     | \$—  | \$48,336    |
|  | Pass        | Special<br>Mention | Substandard | Doubtful | Loss | Total       |
| June 30, 2015  |             |                    |             |          |      |             |
| Retail consumer loans:   |             |                    |             |          |      |             |
| One-to-four family   | \$5,176     | \$1,210            | \$3,890     | \$54     | \$—  | \$10,330    |
| HELOCs - originated  | 259         | —                  | 36          | —        | —    | 295         |
| Construction and land/lots   | 571         | —                  | 143         | —        | —    | 714         |
| Consumer   | 11          | —                  | —           | —        | —    | 11          |
| Commercial loans:  |             |                    |             |          |      |             |
| Commercial real estate   | 21,550      | 3,454              | 5,175       | —        | —    | 30,179      |
| Construction and development   | 2,292       | 146                | 2,340       | —        | —    | 4,778       |
| Commercial and industrial  | 4,349       | 279                | 682         | —        | —    | 5,310       |
| Total loans  | \$34,208    | \$5,089            | \$12,266    | \$54     | \$—  | \$51,617    |

## 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<br>30-89 Days | 90 Days+ | Total    | Current     | Total<br>Loans |
|------------------------------|------------------------|----------|----------|-------------|----------------|
| September 30, 2015           |                        |          |          |             |                |
| Retail consumer loans:       |                        |          |          |             |                |
| One-to-four family           | \$4,533                | \$9,185  | \$13,718 | \$632,019   | \$645,737      |
| HELOCs - originated          | 498                    | 319      | 817      | 159,805     | 160,622        |
| HELOCs - purchased           | —                      | —        | —        | 102,136     | 102,136        |
| Construction and land/lots   | 90                     | 370      | 460      | 44,258      | 44,718         |
| Indirect auto finance        | —                      | —        | —        | 70,564      | 70,564         |
| Consumer                     | 122                    | —        | 122      | 3,727       | 3,849          |
| Commercial loans:            |                        |          |          |             |                |
| Commercial real estate       | 3,393                  | 6,722    | 10,115   | 442,657     | 452,772        |
| Construction and development | 3,106                  | 2,085    | 5,191    | 67,551      | 72,742         |
| Commercial and industrial    | 632                    | 2,971    | 3,603    | 77,894      | 81,497         |
| Municipal leases             | —                      | 202      | 202      | 107,275     | 107,477        |
| Total loans                  | \$12,374               | \$21,854 | \$34,228 | \$1,707,886 | \$1,742,114    |

The table above includes PCI loans of \$1,161 30-89 days past due and \$2,993 90 days or more past due as of September 30, 2015.

|                              | Past Due<br>30-89 Days | 90 Days+ | Total    | Current     | Total<br>Loans |
|------------------------------|------------------------|----------|----------|-------------|----------------|
| June 30, 2015                |                        |          |          |             |                |
| Retail consumer loans:       |                        |          |          |             |                |
| One-to-four family           | \$5,548                | \$8,261  | \$13,809 | \$636,941   | \$650,750      |
| HELOCs - originated          | 695                    | 808      | 1,503    | 159,701     | 161,204        |
| HELOCs - purchased           | —                      | —        | —        | 72,010      | 72,010         |
| Construction and land/lots   | 102                    | 307      | 409      | 45,522      | 45,931         |
| Indirect auto finance        | —                      | —        | —        | 52,494      | 52,494         |
| Consumer                     | 23                     | 2        | 25       | 3,683       | 3,708          |
| Commercial loans:            |                        |          |          |             |                |
| Commercial real estate       | 2,758                  | 4,636    | 7,394    | 434,226     | 441,620        |
| Construction and development | 166                    | 2,992    | 3,158    | 61,415      | 64,573         |
| Commercial and industrial    | 439                    | 2,898    | 3,337    | 81,483      | 84,820         |
| Municipal leases             | 202                    | —        | 202      | 108,372     | 108,574        |
| Total loans                  | \$9,933                | \$19,904 | \$29,837 | \$1,655,847 | \$1,685,684    |

The table above includes PCI loans of \$513 30-89 days past due and \$3,198 90 days or more past due as of June 30, 2015.

## 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, 2015 |                            | June 30, 2015 |                            |
|------------------------------|--------------------|----------------------------|---------------|----------------------------|
|                              | Nonaccruing        | 90 Days + & still accruing | Nonaccruing   | 90 Days + & still accruing |
| Retail consumer loans:       |                    |                            |               |                            |
| One-to-four family           | \$10,811           | \$—                        | \$10,523      | \$—                        |
| HELOCs - originated          | 1,540              | —                          | 1,856         | —                          |
| Construction and land/lots   | 524                | —                          | 465           | —                          |
| Consumer                     | 98                 | —                          | 49            | —                          |
| Commercial loans:            |                    |                            |               |                            |
| Commercial real estate       | 6,870              | —                          | 5,103         | —                          |
| Construction and development | 2,207              | —                          | 3,461         | —                          |
| Commercial and industrial    | 2,546              | —                          | 3,081         | —                          |
| Municipal leases             | 305                | —                          | 316           | —                          |
| Total loans                  | \$24,901           | \$—                        | \$24,854      | \$—                        |

PCI loans totaling \$8,090 at September 30, 2015 and \$8,158 at June 30, 2015 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'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, 2015 | June 30, 2015 |
|--|--------------------|---------------|
| Performing TDRs included in impaired loans | \$21,783           | \$21,891      |

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

|   | Three Months Ended September 30, 2015 |                 |            |          | Three Months Ended September 30, 2014 |            |          |
|---|---------------------------------------|-----------------|------------|----------|---------------------------------------|------------|----------|
|   | PCI                                   | Retail Consumer | Commercial | Total    | Retail Consumer                       | Commercial | Total    |
| Balance at beginning of period          | \$401                                 | \$12,575        | \$9,398    | \$22,374 | \$15,731                              | \$7,698    | \$23,429 |
| Provision for (recovery of) loan losses | (73 )                                 | 73              | —          | —        | (674 )                                | 424        | (250 )   |
| Charge-offs                             | —                                     | (469 )          | (334 )     | (803 )   | (479 )                                | (197 )     | (676 )   |
| Recoveries                              | —                                     | 247             | 294        | 541      | 367                                   | 210        | 577      |
| Balance at end of period                | \$328                                 | \$12,426        | \$9,358    | \$22,112 | \$14,945                              | \$8,135    | \$23,080 |

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's ending balances of loans and the related allowance, by segment and class, at the dates indicated follows:

|                              | Allowance for Loan Losses |   |                              |          | Total Loans Receivable |   |                              |              |
|------------------------------|---------------------------|---|------------------------------|----------|------------------------|---|------------------------------|--------------|
|                              | PCI                       | Loans individually evaluated for impairment | Loans collectively evaluated | Total    | PCI                    | Loans individually evaluated for impairment | Loans collectively evaluated | Total        |
| September 30, 2015           |                           |   |                              |          |                        |   |                              |              |
| Retail consumer loans:       |                           |   |                              |          |                        |   |                              |              |
| One-to-four family           | \$9                       | \$ 329                                      | \$ 7,813                     | \$8,151  | \$9,855                | \$ 15,389                                   | \$620,493                    | \$645,737    |
| HELOCs - originated          | 3                         | 259   | 1,432                        | 1,694    | 294                    | 1,147                                       | 159,181                      | 160,622      |
| HELOCs - purchased           | —                         | —   | 409                          | 409      | —                      | —   | 102,136                      | 102,136      |
| Construction and land/lots   | —                         | 350   | 1,159                        | 1,509    | 701                    | 1,342                                       | 42,675                       | 44,718       |
| Indirect auto finance        | —                         | —   | 569                          | 569      | —                      | —   | 70,564                       | 70,564       |
| Consumer                     | —                         | 83  | 99                           | 182      | 10                     | —   | 3,839                        | 3,849        |
| Commercial loans:            |                           |   |                              |          |                        |   |                              |              |
| Commercial real estate       | 297                       | —   | 5,421                        | 5,718    | 27,668                 | 7,722                                       | 417,382                      | 452,772      |
| Construction and development | —                         | —   | 1,523                        | 1,523    | 4,817                  | 2,597                                       | 65,328                       | 72,742       |
| Commercial and industrial    | 19                        | 936   | 737                          | 1,692    | 4,991                  | 2,445                                       | 74,061                       | 81,497       |
| Municipal leases             | —                         | —   | 665                          | 665      | —                      | 305   | 107,172                      | 107,477      |
| Total                        | \$328                     | \$ 1,957                                    | \$ 19,827                    | \$22,112 | \$48,336               | \$ 30,947                                   | \$1,662,831                  | \$ 1,742,114 |
| June 30, 2015                |                           |   |                              |          |                        |   |                              |              |
| Retail consumer loans:       |                           |   |                              |          |                        |   |                              |              |
| One-to-four family           | \$35                      | \$ 492                                      | \$ 7,463                     | \$7,990  | \$10,330               | \$ 22,841                                   | \$617,579                    | \$650,750    |
| HELOCs - originated          | 3                         | 275   | 1,499                        | 1,777    | 295                    | 2,608                                       | 158,301                      | 161,204      |
| HELOCs - purchased           | —                         | —   | 432                          | 432      | —                      | —   | 72,010                       | 72,010       |
| Construction and land/lots   | —                         | 531   | 1,291                        | 1,822    | 714                    | 1,926                                       | 43,291                       | 45,931       |
| Indirect auto finance        | —                         | —   | 464                          | 464      | —                      | —   | 52,494                       | 52,494       |
| Consumer                     | —                         | 39  | 89                           | 128      | 11                     | 45  | 3,652                        | 3,708        |
| Commercial loans:            |                           |   |                              |          |                        |   |                              |              |
| Commercial real estate       | 334                       | —   | 6,005                        | 6,339    | 30,179                 | 10,961                                      | 400,480                      | 441,620      |
| Construction and development | —                         | 119   | 1,462                        | 1,581    | 4,778                  | 5,161                                       | 54,634                       | 64,573       |
| Commercial and industrial    | 29                        | 400   | 675                          | 1,104    | 5,310                  | 4,537                                       | 74,973                       | 84,820       |
| Municipal leases             | —                         | —   | 737                          | 737      | —                      | 316   | 108,258                      | 108,574      |
| Total                        | \$401                     | \$ 1,856                                    | \$ 20,117                    | \$22,374 | \$51,617               | \$ 48,395                                   | \$1,585,672                  | \$ 1,685,684 |



During the quarter ended September 30, 2015, the Company increased its thresholds for loans individually evaluated for impairment under ASC 310-10. These changes primarily impacted the retail consumer loan segment, which contains loan that are more homogeneous in nature. This increase was appropriate given the growth in loans as well as the improvement in the overall credit quality of the portfolio. While these changes decreased the loans individually evaluated for impairment by \$11,913, it did not have a material impact on the Company's allowance for loan losses at September 30, 2015 or provision for loan losses for the quarter ended September 30, 2015.

Loans acquired from acquisitions are initially excluded from the allowance for loan losses in accordance with the acquisition method of accounting for business combinations. The Company records these loans at fair value, which includes a credit discount, therefore, no allowance for loan losses are established for these acquired loans at acquisition. A provision for loan losses is recorded for any further deterioration in these acquired loans subsequent to the acquisition.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's impaired loans and the related allowance, by segment and class, at the dates indicated follows:

|                              | Total Impaired Loans           |   |  | Total    | Related<br>Recorded<br>Allowance |
|------------------------------|--------------------------------|---|--|----------|----------------------------------|
|                              | Unpaid<br>Principal<br>Balance | Recorded<br>Investment<br>With a<br>Recorded<br>Allowance | Recorded<br>Investment<br>With No<br>Recorded<br>Allowance |          |                                  |
| September 30, 2015           |                                |   |  |          |                                  |
| Retail consumer loans:       |                                |   |  |          |                                  |
| One-to-four family           | \$30,335                       | \$12,677  | \$15,634   | \$28,311 | \$455                            |
| HELOCs - originated          | 4,461                          | 2,673   | 664  | 3,337    | 278                              |
| Construction and land/lots   | 3,179                          | 1,517   | 486  | 2,003    | 365                              |
| Indirect auto finance        | —                              | —   | —  | —        | —                                |
| Consumer                     | 2,462                          | 81  | 43   | 124      | 86                               |
| Commercial loans:            |                                |   |  |          |                                  |
| Commercial real estate       | 10,627                         | 1,647   | 8,130  | 9,777    | 323                              |
| Construction and development | 3,225                          | 487   | 3,265  | 3,752    | 12                               |
| Commercial and industrial    | 1,993                          | 2,997   | 33   | 3,030    | 962                              |
| Municipal leases             | 305                            | —   | 305  | 305      | —                                |
| Total impaired loans         | \$56,587                       | \$22,079  | \$28,560   | \$50,639 | \$2,481                          |
| June 30, 2015                |                                |   |  |          |                                  |
| Retail consumer loans:       |                                |   |  |          |                                  |
| One-to-four family           | \$31,590                       | \$10,340  | \$19,164   | \$29,504 | \$598                            |
| HELOCs - originated          | 6,019                          | 2,565   | 1,543  | 4,108    | 294                              |
| Construction and land/lots   | 3,303                          | 1,225   | 758  | 1,983    | 533                              |
| Indirect auto finance        | 10                             | —   | —  | —        | —                                |
| Consumer                     | 1,966                          | 13  | 45   | 58       | 39                               |
| Commercial loans:            |                                |   |  |          |                                  |
| Commercial real estate       | 13,829                         | 696   | 10,971   | 11,667   | 412                              |
| Construction and development | 6,615                          | 1,268   | 4,241  | 5,509    | 64                               |
| Commercial and industrial    | 5,668                          | 688   | 4,051  | 4,739    | 431                              |
| Municipal leases             | 316                            | —   | 316  | 316      | —                                |
| Total impaired loans         | \$69,316                       | \$16,795  | \$41,089   | \$57,884 | \$2,371                          |

Impaired loans above excludes \$842 at September 30, 2015 and \$644 at June 30, 2015 in PCI loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations. The table above includes \$19,692 and \$9,492, of impaired loans that were not individually evaluated at September 30, 2015 and June 30, 2015, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes \$524 and \$515 related to these loans that were not individually evaluated at September 30, 2015 and June 30, 2015, respectively.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's average recorded investment in impaired loans and interest income recognized on impaired loans for the three months ended September 30, 2015 and 2014 was as follows:

|                              | Three Months Ended          |                            | September 30, 2014          |                            |
|------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                              | September 30, 2015          | September 30, 2014         | September 30, 2014          | September 30, 2014         |
|                              | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Retail consumer loans:       |                             |                            |                             |                            |
| One-to-four family           | \$28,907                    | \$338                      | \$31,842                    | \$451                      |
| HELOCs - originated          | 3,722                       | 50                         | 4,710                       | 75                         |
| Construction and land/lots   | 1,993                       | 28                         | 2,098                       | 36                         |
| Indirect auto finance        | —                           | 1                          | —                           | —                          |
| Consumer                     | 91                          | 14                         | 31                          | 3                          |
| Commercial loans:            |                             |                            |                             |                            |
| Commercial real estate       | 10,722                      | 38                         | 16,903                      | 210                        |
| Construction and development | 4,631                       | 14                         | 6,103                       | 32                         |
| Commercial and industrial    | 3,885                       | 13                         | 2,901                       | 76                         |
| Municipal leases             | 311                         | 10                         | 152                         | —                          |
| Total loans                  | \$54,262                    | \$506                      | \$64,740                    | \$883                      |

A summary of changes in the accretable yield for PCI loans for the three months ended September 30, 2015 and 2014 was as follows:

|   | Three Months Ended |                    |
|---|--------------------|--------------------|
|   | September 30, 2015 | September 30, 2014 |
| Accretable yield, beginning of period           | \$11,096           | \$6,151            |
| Addition from the Bank of Commerce acquisition  | —                  | 7,315              |
| Reclass from nonaccretable yield <sup>(1)</sup> | 366                | —                  |
| Other changes, net <sup>(2)</sup>               | (111)              | —                  |
| Interest income                                 | (1,588)            | (931)              |
| Accretable yield, end of period                 | \$9,763            | \$12,535           |

(1) Represents changes attributable to expected losses assumptions.

(2) Represents changes in cash flows expected to be collected due to the impact of modifications, changes in prepayment assumptions, and changes in interest rates.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

For the three months ended September 30, 2015 and 2014, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

|                            | Three Months Ended September 30, 2015 |  |   | Three Months Ended September 30, 2014 |  |   |
|----------------------------|---------------------------------------|--|---|---------------------------------------|--|---|
|                            | Number of Loans                       | Pre Modification Outstanding Recorded Investment | Post Modification Outstanding Recorded Investment | Number of Loans                       | Pre Modification Outstanding Recorded Investment | Post Modification Outstanding Recorded Investment |
| Extended term:             |                                       |  |   |                                       |  |   |
| Retail consumer:           |                                       |  |   |                                       |  |   |
| One-to-four family         | 1                                     | \$29   | \$29  | 1                                     | \$146  | \$147   |
| HELOCs - originated        | 1                                     | 18   | 14  | 1                                     | 46   | 46  |
| Total                      | 2                                     | \$47   | \$43  | 2                                     | \$192  | \$193   |
| Other TDRs:                |                                       |  |   |                                       |  |   |
| Retail consumer:           |                                       |  |   |                                       |  |   |
| One-to-four family         | 6                                     | \$523  | \$528   | 4                                     | \$314  | \$324   |
| HELOCs - originated        | —                                     | —  | —   | 1                                     | 100  | 105   |
| Construction and land/lots | —                                     | —  | —   | 1                                     | 106  | 100   |
| Total                      | 6                                     | \$523  | \$528   | 6                                     | \$520  | \$529   |
| Total                      | 8                                     | \$570  | \$571   | 8                                     | \$712  | \$722   |

The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default during the three months ended September 30, 2015 and 2014:

|                             | Three Months Ended September 30, 2015 |                     | Three Months Ended September 30, 2014 |                     |
|-----------------------------|---------------------------------------|---------------------|---------------------------------------|---------------------|
|                             | Number of Loans                       | Recorded Investment | Number of Loans                       | Recorded Investment |
| Below market interest rate: |                                       |                     |                                       |                     |
| Retail consumer:            |                                       |                     |                                       |                     |
| One-to-four family          | 1                                     | \$6                 | —                                     | \$—                 |
| Total                       | 1                                     | \$6                 | —                                     | \$—                 |
| Other TDRs:                 |                                       |                     |                                       |                     |
| Retail consumer:            |                                       |                     |                                       |                     |
| One-to-four family          | 1                                     | \$182               | 4                                     | \$312               |
| HELOCs - originated         | 1                                     | —                   | —                                     | —                   |
| Total                       | 2                                     | \$182               | 4                                     | \$312               |
| Total                       | 3                                     | \$188               | 4                                     | \$312               |

Other TDRs include TDRs that have a below market interest rate and extended payment terms. The Company does not typically forgive principal when restructuring troubled debt.

In the determination of the allowance for loan losses, management considers TDRs for all loan classes, and the subsequent nonperformance in accordance with their modified terms, by measuring impairment on a loan-by-loan basis based on either the value of the loan's expected future cash flows discounted at the loan's original effective interest rate or on the collateral value, net of the estimated costs of disposal, if the loan is collateral dependent.

## 6. Net Income per Share

Per the provisions of FASB ASC 260, Earnings Per Share, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the

computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. ESOP shares are considered outstanding for basic and diluted earnings per share when the shares are committed to be released.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Net income is allocated between the common stock and participating securities pursuant to the two-class method, based on their rights to receive dividends, participate in earnings, or absorb losses. Basic earnings per common shares is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

The following is a reconciliation of the numerator and denominator of basic and diluted net income per share of common stock:

|  | Three Months Ended September 30, |            |
|--|----------------------------------|------------|
|  | 2015                             | 2014       |
| Numerator:   |                                  |            |
| Net income available to common stockholders          | \$2,564                          | \$2,256    |
| Denominator:   |                                  |            |
| Weighted-average common shares outstanding - basic   | 18,077,987                       | 19,178,607 |
| Effect of dilutive shares                            | 213,042                          | 64,115     |
| Weighted-average common shares outstanding - diluted | 18,291,029                       | 19,242,722 |
| Net income per share - basic                         | \$0.14                           | \$0.12     |
| Net income per share - diluted                       | \$0.14                           | \$0.12     |

There were 40,000 and 1,495,500 outstanding stock options that were anti-dilutive for the three months ended September 30, 2015 and 2014, respectively.

## 7. Equity Incentive Plan

The Company provides stock-based awards through the 2013 Omnibus Incentive Plan, which provides for awards of restricted stock, restricted stock units, stock options, stock appreciation rights and cash awards to directors, emeritus directors, officers, employees and advisory directors. The cost of equity-based awards under the 2013 Omnibus Incentive Plan generally is based on the fair value of the awards on their grant date. The maximum number of shares that may be utilized for awards under the plan is 2,962,400, including 2,116,000 for stock options and stock appreciation rights and 846,400 for awards of restricted stock and restricted stock units.

Shares of common stock issued under the 2013 Omnibus Incentive Plan may be authorized but unissued shares or repurchased shares. During fiscal 2013, the Company had repurchased the 846,400 shares available for awards of restricted stock and restricted stock units under the 2013 Omnibus Incentive Plan on the open market, for \$13,297, at an average cost of \$15.71 per share.

Share based compensation expense related to stock options and restricted stock recognized for the three months ended September 30, 2015 and 2014 was \$788 and \$753, respectively, before the tax related benefit of \$292 and \$279, respectively.

The table below presents stock option activity for the three months ended September 30, 2015 and 2014:

|   | Options   | Weighted-average exercise price | Remaining contractual life (years) | Aggregate Intrinsic Value |
|---|-----------|---------------------------------|------------------------------------|---------------------------|
| Options outstanding at June 30, 2014      | 1,513,500 | \$14.40                         | 8.6                                | \$2,077                   |
| Granted                                   | —         | —                               | —                                  | —                         |
| Exercised                                 | 18,000    | 14.37                           | —                                  | —                         |
| Forfeited                                 | —         | —                               | —                                  | —                         |
| Expired                                   | —         | —                               | —                                  | —                         |
| Options outstanding at September 30, 2014 | 1,495,500 | \$14.40                         | 8.4                                | \$352                     |
| Exercisable at September 30, 2014         | 272,175   | \$14.37                         |                                    |                           |

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|   |             |         |     |         |
|---|-------------|---------|-----|---------|
| Options outstanding at June 30, 2015      | 1,498,000   | \$14.41 | 7.7 | \$3,519 |
| Granted                                   | —           | —       | —   | —       |
| Exercised                                 | 400         | 14.37   | —   | —       |
| Forfeited                                 | 1,200       | 14.37   | —   | —       |
| Expired                                   | —           | —       | —   | —       |
| Options outstanding at September 30, 2015 | \$1,496,400 | \$14.41 | 7.4 | \$6,194 |
| Exercisable at September 30, 2015         | 548,150     | \$14.39 |     |         |

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## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option pricing model. There were no options granted in fiscal year 2016 as of September 30, 2015. The weighted average fair value of each option granted in 2015 and 2014 was \$3.59 and \$5.26, respectively. Assumptions used for grants were as follows:

## Assumptions in Estimating Option Values

|                             | 2016 | 2015    | 2014    |   |
|-----------------------------|------|---------|---------|---|
| Weighted-average volatility | —    | % 18.90 | % 28.19 | % |
| Expected dividend yield     | —    | % —     | % —     | % |
| Risk-free interest rate     | —    | % 1.56  | % 1.28  | % |
| Expected life (years)       | 0    | 6.0     | 6.5     |   |

At September 30, 2015, the Company had \$3,238 of unrecognized compensation expense related to 1,496,400 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 1.5 years at September 30, 2015. At September 30, 2014, the Company had \$4,655 of unrecognized compensation expense related to 1,495,500 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 2.0 years at September 30, 2014.

The table below presents restricted stock award activity for the three months ended September 30, 2015 and 2014:

|                                  | Restricted stock awards | Weighted-average grant date fair value | Aggregate Intrinsic Value |
|----------------------------------|-------------------------|--|---------------------------|
| Non-vested at June 30, 2014      | 403,965                 | \$ 14.39                               | \$6,371                   |
| Granted                          | —                       | —                                      | —                         |
| Vested                           | —                       | —                                      | —                         |
| Forfeited                        | —                       | —                                      | —                         |
| Non-vested at September 30, 2014 | 403,965                 | \$ 14.39                               | \$5,902                   |
| Non-vested at June 30, 2015      | 310,470                 | \$ 14.40                               | \$5,203                   |
| Granted                          | —                       | —                                      | —                         |
| Vested                           | —                       | —                                      | —                         |
| Forfeited                        | 450                     | 14.37                                  | —                         |
| Non-vested at September 30, 2015 | 310,020                 | \$ 14.40                               | \$5,751                   |

At September 30, 2015, unrecognized compensation expense was \$3,462 related to 310,020 shares of restricted stock scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 1.5 years at September 30, 2015. At September 30, 2014, unrecognized compensation expense was \$4,876 related to 403,965 shares of restricted stock scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 2.0 years at September 30, 2014.

## 8. Commitments and Contingencies

**Loan Commitments** – Legally binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In the normal course of business, there are various outstanding commitments to extend credit that are not reflected in the consolidated financial statements. At September 30, 2015 and June 30, 2015, respectively, loan commitments (excluding \$66,825 and \$43,989 of undisbursed portions of construction loans) totaled \$56,739 and \$43,629 of which \$29,002 and \$24,020 were variable rate commitments and \$27,736 and \$19,608 were fixed rate commitments. The fixed rate loans had interest rates ranging from 1.99% to 8.74% at September 30, 2015 and 1.99% to 9.75% at June 30, 2015, and terms ranging from 3 to 30 years. Pre-approved but unused lines of credit (principally second



mortgage home equity loans and overdraft protection loans) totaled \$296,735 and \$250,762 at September 30, 2015 and June 30, 2015, respectively. These amounts represent the Company's exposure to credit risk, and in the opinion of management have no more than the normal lending risk that the Company commits to its borrowers. The Company has freestanding derivative instruments consisting of commitments to originate fixed rate conforming loans and commitments to sell fixed rate conforming loans. The fair value of these commitments was not material at September 30, 2015 or June 30, 2015.

The Company grants construction and permanent loans collateralized primarily by residential and commercial real estate to customers throughout its primary market area. In addition, the Company grants municipal leases to customers throughout North and South Carolina. The Company's loan portfolio can be affected by the general economic conditions within these market areas. Management believes that the Company has no concentration of credit in the loan portfolio.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Restrictions on Cash – The Bank is required by regulation to maintain a varying cash reserve balance with the Federal Reserve System. The daily average calculated cash reserve required as of September 30, 2015 and June 30, 2015 was \$4,693, and \$1,743, respectively, which was satisfied by vault cash and balances held at the Federal Reserve Bank.

Guarantees – Standby letters of credit obligate the Company to meet certain financial obligations of its customers, if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable and payment is only guaranteed upon the borrower's failure to perform its obligations to the beneficiary. Total commitments under standby letters of credit as of September 30, 2015 and June 30, 2015 were \$2,739 and \$2,533. There was no liability recorded for these letters of credit at September 30, 2015 or June 30, 2015, respectively.

Litigation – The Company is involved in several litigation matters in the ordinary course of business. One matter, originally filed in March 2012, involved claims of \$12.5 million in compensatory damages and a request for additional punitive treble damages resulting from the purported failure of the Company and a third party brokerage firm to discover a Ponzi scheme conducted by a customer holding accounts at each entity. The Company received a favorable summary judgment ruling on February 20, 2015, however the plaintiffs filed an appeal. The appeal was dropped on September 25, 2015. The Company considers this matter resolved.

The Company is also subject to a variety of other legal matters that have arisen in the ordinary course of our business. In the current economic environment, litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. There can be no assurance that loan workouts and other activities will not expose the Company to additional legal actions, including lender liability or environmental claims. Therefore, the Company may be exposed to substantial liabilities, which could adversely affect its results of operations and financial condition. Moreover, the expenses of legal proceedings will adversely affect its results of operations until they are resolved.

9. Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets recorded at fair value. The Company does not have any liabilities recorded at fair value.

Investment Securities Available for Sale

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored enterprises, municipal bonds, and

corporate debt securities. Level 3 securities include one community bank corporate bond that is thinly traded.

#### Loans

The Company does not record loans at fair value on a recurring basis. From time to time, however, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, the fair value is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. The Company reviews all impaired loans each quarter to determine if an allowance is necessary. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

At September 30, 2015 and June 30, 2015, most of the total impaired loans were evaluated based on the fair value of the collateral. For these collateral dependent impaired loans, the Company obtains updated appraisals at least annually. These appraisals are reviewed for appropriateness and then discounted for estimated closing costs to determine if an allowance is necessary. As part of the quarterly review of impaired loans, the

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Company reviews these appraisals to determine if any additional discounts to the fair value are necessary. If a current appraisal is not obtained, the Company determines whether a discount is needed to the value from the original appraisal based on the decline in value of similar properties with recent appraisals. Impaired loans where a charge-off has occurred or an allowance is established during the period being reported require classification in the fair value hierarchy. Impaired loans where a charge-off has occurred or an allowance is established during the period being reported require classification as a nonrecurring Level 3 in the fair value hierarchy.

## Loans Held for Sale

Loans held for sale are adjusted to lower of cost or fair value. Fair value is based upon investor pricing. The Company considers all loans held for sale carried at fair value as nonrecurring Level 3.

## Real Estate Owned

REO is considered held for sale and is adjusted to fair value less estimated selling costs upon transfer of the loan to foreclosed assets. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. The Company considers all REO that has been charged off or received an allowance during the period as nonrecurring Level 3.

## Financial Assets Recorded at Fair Value on a Recurring Basis

The following table presents financial assets measured at fair value on a recurring basis at the dates indicated:

| Description   | September 30, 2015 |         |            |          |
|---|--------------------|---------|------------|----------|
|   | Total              | Level 1 | Level 2    | Level 3  |
| U.S Government Agencies   | \$ 114,268         | \$—     | \$ 114,268 | \$—      |
| Residential Mortgage-backed Securities of U.S.<br>Government Agencies and Government Sponsored<br>Enterprises | 114,105            | —       | 114,105    | —        |
| Municipal Bonds   | 17,263             | —       | 17,263     | —        |
| Corporate Bonds   | 4,012              | —       | 3,012      | 1,000    |
| Equity Securities   | 63                 | —       | 63         | —        |
| Total   | \$ 249,711         | \$—     | \$ 248,711 | \$ 1,000 |
| Description   | June 30, 2015      |         |            |          |
|   | Total              | Level 1 | Level 2    | Level 3  |
| U.S Government Agencies   | \$ 116,071         | \$—     | \$ 116,071 | \$—      |
| Residential Mortgage-backed Securities of U.S.<br>Government Agencies and Government Sponsored<br>Enterprises | 120,809            | —       | 120,809    | —        |
| Municipal Bonds   | 16,678             | —       | 16,678     | —        |
| Corporate Bonds   | 3,985              | —       | 2,985      | 1,000    |
| Equity Securities   | \$ 63              | \$—     | \$ 63      | \$—      |
| Total   | \$ 257,606         | \$—     | \$ 256,606 | \$ 1,000 |

There were no transfers between levels during the three months ended September 30, 2015.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The following table presents financial assets measured at fair value on a non-recurring basis at the dates indicated:

| Description    | September 30, 2015 |         |         |         |
|----------------|--------------------|---------|---------|---------|
|                | Total              | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$4,663            | \$—     | \$—     | \$4,663 |
| REO            | 140                | —       | —       | 140     |
| Total          | \$4,803            | \$—     | \$—     | \$4,803 |
| Description    | June 30, 2015      |         |         |         |
|                | Total              | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$5,697            | \$—     | \$—     | \$5,697 |
| REO            | 1,685              | —       | —       | 1,685   |
| Total          | \$7,382            | \$—     | \$—     | \$7,382 |

Quantitative information about Level 3 fair value measurements during the period ended September 30, 2015 is shown in the table below:

|                            | Fair Value at<br>September 30,<br>2015 | Valuation<br>Techniques  | Unobservable<br>Input   | Range     | Weighted<br>Average |
|----------------------------|--|--------------------------|-------------------------|-----------|---------------------|
| Nonrecurring measurements: |  |                          |                         |           |                     |
| Impaired loans, net        | \$4,663                                | Discounted<br>appraisals | Collateral<br>discounts | 3% - 80%  | 14%                 |
| REO                        | \$140                                  | Discounted<br>appraisals | Collateral<br>discounts | 10% - 15% | 15%                 |

The stated carrying value and estimated fair value amounts of financial instruments as of September 30, 2015 and June 30, 2015, are summarized below:

|  | September 30, 2015 |               |          |         |           |
|--|--------------------|---------------|----------|---------|-----------|
|  | Carrying<br>Value  | Fair<br>Value | Level 1  | Level 2 | Level 3   |
| Cash and interest-bearing deposits     | \$50,230           | \$50,230      | \$50,230 | \$—     | \$—       |
| Commercial paper                       | 242,928            | 242,928       | 242,928  | —       | —         |
| Certificates of deposit in other banks | 196,386            | 196,386       | —        | 196,386 | —         |
| Securities available for sale          | 249,711            | 249,711       | —        | 248,711 | 1,000     |
| Loans, net                             | 1,720,178          | 1,639,956     | —        | —       | 1,639,956 |
| Loans held for sale                    | 4,012              | 4,076         | —        | —       | 4,076     |
| FHLB stock                             | 22,583             | 22,583        | 22,583   | —       | —         |
| FRB stock                              | 6,170              | 6,170         | 6,170    | —       | —         |
| Accrued interest receivable            | 7,914              | 7,914         | —        | 1,328   | 6,586     |
| Noninterest-bearing and NOW deposits   | 582,626            | 582,626       | —        | 582,626 | —         |
| Money market accounts                  | 483,939            | 483,939       | —        | 483,939 | —         |
| Savings accounts                       | 216,689            | 216,689       | —        | 216,689 | —         |
| Certificates of deposit                | 536,696            | 536,699       | —        | 536,699 | —         |
| Other borrowings                       | 476,000            | 476,000       | —        | 476,000 | —         |
| Accrued interest payable               | 174                | 174           | —        | 174     | —         |

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

|  | June 30, 2015  |            |           |         |           |
|--|----------------|------------|-----------|---------|-----------|
|  | Carrying Value | Fair Value | Level 1   | Level 2 | Level 3   |
| Cash and interest-bearing deposits     | \$116,160      | \$116,160  | \$116,160 | \$—     | \$—       |
| Commercial paper                       | 256,152        | 256,152    | 256,152   | —       | —         |
| Certificates of deposit in other banks | 210,629        | 210,629    | —         | 210,629 | —         |
| Securities available for sale          | 257,606        | 257,606    | —         | 256,606 | 1,000     |
| Loans, net                             | 1,663,333      | 1,555,992  | —         | —       | 1,555,992 |
| Loans held for sale                    | 5,874          | 5,968      | —         | —       | 5,968     |
| FHLB stock                             | 22,541         | 22,541     | 22,541    | —       | —         |
| FRB stock                              | 6,170          | 6,170      | 6,170     | —       | —         |
| Accrued interest receivable            | 7,522          | 7,522      | —         | 1,252   | 6,270     |
| Noninterest-bearing and NOW deposits   | 591,429        | 591,429    | —         | 591,429 | —         |
| Money market accounts                  | 481,948        | 481,948    | —         | 481,948 | —         |
| Savings accounts                       | 221,674        | 221,674    | —         | 221,674 | —         |
| Certificates of deposit                | 577,075        | 577,174    | —         | 577,174 | —         |
| Other borrowings                       | 475,000        | 475,000    | —         | 475,000 | —         |
| Accrued interest payable               | 181            | 181        | —         | 181     | —         |

The Company had off-balance sheet financial commitments, which include approximately \$420,299 and \$338,380 of commitments to originate loans, undisbursed portions of interim construction loans, and unused lines of credit at September 30, 2015 and June 30, 2015, respectively (see Note 8). Since these commitments are based on current rates, the carrying amount approximates the fair value.

Estimated fair values were determined using the following methods and assumptions:

Cash and interest-bearing deposits – The stated amounts approximate fair values as maturities are less than 90 days.

Commercial paper - The stated amounts approximate fair value due to the short-term nature of these investments.

Certificates of deposit in other banks – The stated amounts approximate fair values.

Securities available for sale and investment securities – Fair values 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.

Loans held for sale – The fair value of loans held for sale is determined by outstanding commitments from investors on a "best efforts" basis or current investor yield requirements, calculated on the aggregate loan basis.

Loans, net – Fair values for loans are estimated by segregating the portfolio by type of loan and discounting scheduled cash flows using current market interest rates for loans with similar terms and credit quality. A prepayment assumption is used as an estimate of the portion of loans that will be repaid prior to their scheduled maturity. Both the carrying value and estimated fair value amounts are shown net of the allowance for loan losses.

FHLB and FRB stock– No ready market exists for these stocks and they have no quoted market value. However, redemptions of these securities have historically been at par value. Accordingly, cost is deemed to be a reasonable estimate of fair value.

Deposits – Fair values for demand deposits, money market accounts, and savings accounts are the amounts payable on demand as of September 30, 2015 and June 30, 2015. The fair value of certificates of deposit is estimated by discounting the contractual cash flows using current market interest rates for accounts with similar maturities.

Other borrowings – The fair value of short-term advances from the FHLB is estimated based on current rates for borrowings with similar terms.

Accrued interest receivable and payable – The stated amounts of accrued interest receivable and payable approximate the fair value.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no

market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, a significant asset not considered

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

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a financial asset is premises and equipment. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

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

### Forward-Looking Statements

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: expected cost savings, synergies and other financial benefits from our recent acquisitions might not be realized within the expected time frames or at all, and costs or difficulties relating to integration matters might be greater than expected; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; decreases in the secondary market for the sale of loans that we originate; results of examinations of us by the Office of the Comptroller of the Currency ("OCC") or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; increases in premiums for deposit insurance; management's assumptions in determining the adequacy of the allowance for loan losses; our ability to control operating costs and expenses, especially costs associated with our operation as a public company; the use of estimates in determining fair value of certain assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; statements with respect to our intentions regarding disclosure and other changes resulting from the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"); changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), including our 2015 Form 10-K.

Any of the forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this report

or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms "we", "our", "us", "HomeTrust Bancshares" or the "Company" refer to HomeTrust Bancshares, Inc. and its consolidated subsidiaries, including HomeTrust Bank, National Association (the "Bank") unless the context indicates otherwise.

#### Overview

HomeTrust Bancshares, Inc., a Maryland corporation, was organized in July 2012 for the purpose of becoming the holding company of HomeTrust Bank, upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on July 10, 2012. On August 25, 2014, the Bank converted from a federal savings bank charter to a national bank charter and the Company is now a bank holding company. HomeTrust Bancshares, Inc. is regulated by the Federal Reserve Board ("Federal Reserve"). The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiary.

The Bank, founded in 1926, is a national bank headquartered in Asheville, North Carolina. The Bank is regulated by the OCC, its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are federally insured up to applicable limits by the FDIC.

Our principal business consists of attracting deposits from the general public and investing those funds, along with borrowed funds in loans secured primarily by first and second mortgages on one-to-four family residences, including home equity loans and construction and land/lot

loans, commercial real estate loans, construction and development loans, commercial and industrial loans, indirect automobile loans, and municipal leases. Municipal leases are secured primarily by a ground lease for a firehouse or an equipment lease for fire trucks and firefighting equipment to fire departments located throughout North and South Carolina. We also purchase investment securities consisting primarily of securities issued by United States Government agencies and government-sponsored enterprises, as well as, certificates of deposit insured by the FDIC. We offer a variety of deposit accounts for individuals, businesses and nonprofit organizations. Deposits are our primary source of funds for our lending and investing activities.

We are significantly affected by prevailing economic conditions, as well as, government policies and regulations concerning, among other things, monetary and fiscal affairs, housing and financial institutions. Deposit flows are influenced by a number of factors, including interest rates paid on competing time deposits, other investments, account maturities, and the overall level of personal income and savings. Lending activities are influenced by the demand for funds, the number and quality of lenders, and regional economic cycles.

Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. A secondary source of income is noninterest income, which includes revenue we receive from providing products and services, including service charges on deposit accounts, mortgage banking income and gains and losses from sales of securities. An offset to net interest income is the provision for loan losses which is required to establish the allowance for loan losses at a level that adequately provides for probable losses inherent in our loan portfolio. As a loan's risk rating improves, property values increase, or recoveries of amounts previously charged off are received, a recapture of previously recognized provision for loan losses may be added to net interest income.

Our noninterest expenses consist primarily of salaries and employee benefits, expenses for occupancy, marketing and computer services, and FDIC deposit insurance premiums. Salaries and benefits consist primarily of the salaries and wages paid to our employees, payroll taxes, expenses for retirement and other employee benefits. Occupancy expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of lease payments, property taxes, depreciation charges, maintenance and costs of utilities.

In recent years, we have expanded our geographic footprint into five additional markets through strategic acquisitions as well as two de novo commercial loan offices. Looking forward, we believe opportunities currently exist within our market areas to grow our franchise. We anticipate organic growth as the local economy and loan demand strengthens, through our marketing efforts and as a result of the opportunities being created as a result of the consolidation of financial institutions occurring in our market areas. We may also seek to expand our franchise through the selective acquisition of individual branches, loan purchases and, to a lesser degree, whole bank transactions that meet our investment and market objectives. We will continue to be disciplined as it pertains to future expansion focusing primarily on organic growth in our current market areas.

At September 30, 2015, we had 45 locations in North Carolina (including the Asheville metropolitan area, the "Piedmont" region, Charlotte, and a loan production office in Raleigh), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley). On July 22, 2015, we announced the consolidation of six branches in North Carolina and Tennessee. The closures are the result of a review of customer banking preferences and the current branch network. The consolidation was completed on October 30, 2015.

#### Critical Accounting Policies and Estimates

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. 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

estimates are described in further detail in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies with the 2015 Form 10-K. There have not been any material changes in the Company's critical accounting policies and estimates as compared to the disclosure contained in the Company's 2015 Form 10-K.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period, although we have not done so to date. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards or disclosures.

**Recent Accounting Pronouncements.** Refer to Note 2 of our consolidated financial statements for a description of recent accounting pronouncements including the respective dates of adoption and effects on results of operations and financial condition.

## Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this report contains certain non-GAAP financial measures, which include net interest income and net interest margin as adjusted to exclude additional FHLB borrowings and proceeds from such borrowings, net income excluding merger-related expenses, nonrecurring state tax expense, and recovery of loan losses, and earnings per share excluding merger expenses, nonrecurring state tax expense, and recovery of loan losses. Management elected to obtain additional FHLB borrowings beginning November 2014 as part of a plan to increase net interest income. The Company believes that showing the effects of the additional borrowings on net interest income and net interest margins is useful to both management and investors as these measures are commonly used to measure financial institutions performance and against peers.

Management has presented the non-GAAP financial measures in this discussion and analysis excluding merger-related expenses, nonrecurring state tax expense, and recovery of loan losses because it believes excluding these items is more indicative of and provides useful and comparative information to assess trends in our core operations while facilitating comparison of the quality and composition of the Company's earnings over time and in comparison to its competitors. However, these non-GAAP financial measures are supplemental, are not audited and are not a substitute for operating results or any analysis determined in accordance with GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. See "Comparison of Results of Operations for the Three Months Ended September 30, 2015 and 2014" for more detailed information about our financial performance.

Set forth below is a reconciliation to GAAP of net interest income and net interest margin as adjusted to exclude additional FHLB borrowings and proceeds from such borrowings:

|   | Three Months Ended September 30, 2015 |                           |             |    |
|---|---------------------------------------|---------------------------|-------------|----|
|   | Average<br>Balance<br>Outstanding     | Interest Earned /<br>Paid | Yield/ Rate |    |
| Interest-earning assets   | \$2,515,767                           | \$22,655                  | 3.60        | %  |
| Less: Interest-earning assets funded by additional FHLB borrowings <sup>(1)</sup> | 446,000                               | 664                       | 0.60        | %  |
| Interest-earning assets - adjusted  | \$2,069,767                           | \$21,991                  | 4.25        | %  |
| Interest-bearing liabilities  | 2,117,705                             | 1,438                     | 0.27        | %  |
| Additional FHLB borrowings <sup>(2)</sup>   | 446,000                               | 231                       | 0.21        | %  |
| Interest-bearing liabilities - adjusted   | \$1,671,705                           | \$1,207                   | 0.29        | %  |
| Net interest income and net interest margin                                       |                                       | 21,217                    | 3.37        | %  |
| Net interest income and net interest margin - adjusted                            |                                       | 20,784                    | 4.02        | %  |
| Difference  |                                       | \$433                     | (0.65)      | )% |

(1) Proceeds from the additional borrowings were invested in various interest-earning assets including: deposits with the FRB, FHLB stock, certificates of deposit in other banks, and commercial paper.

(2) Additional borrowings were obtained in November 2014.

Set forth below is a reconciliation to GAAP net income and earnings per share (EPS) as adjusted to exclude merger-related expenses, nonrecurring state tax expense, and the recovery of loan losses:

| (Dollars in thousands, except per share data) | Three months ended |            |
|---|--------------------|------------|
|   | September 30,      |            |
|   | 2015               | 2014       |
| Merger-related expenses                       | \$—                | \$1,421    |
| Nonrecurring state tax expense                | 526                | —          |
| Recovery of loan losses                       | —                  | (250)      |
| Total adjustments                             | 526                | 1,171      |
| Tax effect <sup>(1)</sup>                     | —                  | (412)      |
| Total adjustments, net of tax                 | 526                | 759        |
| Net income (GAAP)                             | 2,564              | 2,256      |
| Net income (non-GAAP)                         | \$3,090            | \$3,015    |
| Per Share Data                                |                    |            |
| Average shares outstanding - basic            | 18,077,987         | 19,178,607 |
| Average shares outstanding - diluted          | 18,291,029         | 19,242,722 |
| Basic EPS                                     |                    |            |
| EPS (GAAP)                                    | \$0.14             | \$0.12     |
| Non-GAAP adjustment                           | 0.03               | 0.04       |
| EPS (non-GAAP)                                | \$0.17             | \$0.16     |
| Diluted EPS                                   |                    |            |
| EPS (GAAP)                                    | \$0.14             | \$0.12     |
| Non-GAAP adjustment                           | 0.03               | 0.04       |
| EPS (non-GAAP)                                | \$0.17             | \$0.16     |

(1) Tax amounts have been adjusted for certain nondeductible merger-related expenses.

#### Comparison of Financial Condition at September 30, 2015 and June 30, 2015

**Assets.** Total assets decreased \$57.1 million, or 2.1%, to \$2.7 billion at September 30, 2015 from \$2.8 billion at June 30, 2015. Cash and cash equivalents, commercial paper, certificates of deposit in other banks, and securities available for sale had a cumulative decrease of \$101.3 million, or 12.1% during the three months ended September 30, 2015 compared to June 30, 2015. The cumulative decrease was used to fund a \$56.8 million increase in net loans receivable, the repayment of \$40.3 million of higher cost deposits, and the repurchase of \$7.4 million of Company stock.

**Cash, cash equivalents, and commercial paper.** Total cash and cash equivalents decreased \$65.9 million, or 56.8%, to \$50.2 million at September 30, 2015 from \$116.2 million at June 30, 2015. The Company began purchasing commercial paper during fiscal year 2015 in conjunction with its short-term leveraging strategy, to take advantage of higher returns with relatively low risk, yet remain highly liquid. The commercial paper balance at September 30, 2015 decreased \$13.2 million, or 5.2% to \$242.9 million from June 30, 2015.

**Investments.** Securities available for sale decreased \$7.9 million, or 3.1%, to \$249.7 million at September 30, 2015 from \$257.6 million at June 30, 2015. During the three months ended September 30, 2015, \$11.1 million of securities available for sale were purchased, \$13.1 million matured, and \$7.3 million of principal payments were made. The securities purchased and acquired during the period were primarily short- to intermediate-term U.S. government

agency notes and, to a lesser extent, intermediate-term taxable municipal securities. At September 30, 2015, certificates of deposits in other banks totaled \$196.4 million compared to \$210.6 million at June 30, 2015. All certificates of deposit in other banks are fully insured.

We evaluate individual investment securities quarterly for other-than-temporary declines in market value. We do not believe that there are any other-than-temporary impairments at September 30, 2015; therefore, no impairment losses have been recorded during the first three months of fiscal 2016.

Loans. Net loans receivable increased \$56.8 million, or 3.4%, at September 30, 2015 to \$1.7 billion from June 30, 2015 primarily due to \$26.5 million of organic growth and \$30.3 million in purchased home equity lines of credit, net of repayments.

Since June 30, 2015, total retail consumer and commercial loans have increased \$41.5 million, or 4.2% to \$1.0 billion; and \$14.9 million, or 2.1%, to \$714.5 million, respectively. The composition of the Company's loan portfolio at September 30, 2015 was 37.1% in one-to-four family, 9.2% in HELOCs - originated, 5.8% in HELOCs - purchased, 2.5% in retail construction and land, 4.1% in indirect auto finance, 0.2% in consumer

loans, 26.0% in commercial real estate, 4.2% in commercial construction and development, 4.7% in commercial and industrial, and 6.2% in municipal leases. The composition of the Company's loan portfolio at June 30, 2015 was 38.6% in one-to-four family, 9.6% in HELOCs - originated, 4.4% in HELOCs - purchased, 2.7% in retail construction and land, 3.1% in indirect auto finance, 0.2% in consumer loans, 26.2% in commercial real estate, 3.8% in commercial construction and development, 5.0% in commercial and industrial, and 6.4% in municipal leases. At September 30, 2015 loan commitments (excluding \$66.8 million of undisbursed portions of construction loans) totaled \$56.7 million.

**Asset Quality.** Nonperforming assets decreased \$342,000 to \$31.5 million, or 1.2% of total assets, at September 30, 2015, compared to \$31.9 million, or 1.2% of total assets, at June 30, 2015. Nonperforming assets included \$24.9 million in nonaccruing loans and \$6.6 million in REO at September 30, 2015, compared to \$24.9 million and \$7.0 million, in nonaccruing loans and REO respectively, at June 30, 2015. Included in nonperforming loans are \$6.2 million of loans restructured from their original terms of which \$2.9 million were current with respect to their modified payment terms. The decrease in nonaccruing loans was primarily due to loans returning to performing status as payment history and the borrower's financial status improved. At September 30, 2015, \$7.3 million, or 29.5%, of nonaccruing loans were current on their required loan payments. Purchased impaired loans aggregating \$8.1 million are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.

The ratio of classified assets to total assets decreased to 2.72% at September 30, 2015 from 2.90% at June 30, 2015. Classified assets decreased 8.1% to \$74.2 million at September 30, 2015 compared to \$81.1 million at June 30, 2015. Delinquent loans (loans delinquent 30 days or more) increased to \$34.2 million at September 30, 2015, from \$29.8 million at June 30, 2015.

As of September 30, 2015, we had identified \$50.6 million of impaired loans compared to \$57.9 million at June 30, 2015. Our impaired loans are comprised of loans on non-accrual status and all TDRs, whether performing or on non-accrual status under their restructured terms. Impaired loans may be evaluated for reserve purposes using either a specific impairment analysis or on a collective basis as part of homogeneous pools. As of September 30, 2015, there were \$30.9 million loans individually evaluated for impairment and \$19.7 million were collectively evaluated. For more information on these impaired loans, see Note 5 of the Notes to Consolidated Financial Statements under Item 1 of this report.

**Allowance for loan losses.** We establish an allowance for loan losses by charging amounts to the loan provision at a level required to reflect estimated credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers, among other factors, historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of any underlying collateral, prevailing economic conditions and current risk factors specifically related to each loan type. The allowance for loan losses was \$22.1 million, or 1.27% of total loans, at September 30, 2015 compared to \$22.4 million, or 1.33% of total loans, at June 30, 2015. The allowance for loan losses was 1.52% of total loans at September 30, 2015, excluding acquired loans as the loans acquired from acquisitions are excluded from the allowance for loan losses in accordance with the acquisition method of accounting for business combinations. The Company recorded these loans at fair value, which includes a credit discount, therefore, no allowance for loan losses is established for these acquired loans unless the credit quality deteriorates further subsequent to the acquisition. There was no provision for loan loss during the three months ended September 30, 2015 compared to a recovery for loan losses of \$250,000 for the three months ended September 30, 2014. Net loan charge-offs totaled \$262,000 for the three months ended September 30, 2015 compared to \$99,000 for the same period during the prior fiscal year. Net charge-offs as a percentage of average loans increased to 0.06% for the three months ended September 30, 2015 from 0.03% for the same period last fiscal year.

The allowance as a percentage of nonaccruing loans decreased from 90.02% at June 30, 2015 to 88.84% at September 30, 2015.

We believe that the allowance for loan losses as of September 30, 2015 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and



assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Real estate owned. REO decreased \$390,000, to \$6.6 million at September 30, 2015. The total balance of REO at September 30, 2015 included \$3.5 million in land, construction and development projects (both residential and commercial), \$1.7 million in commercial real estate and \$1.4 million in single-family homes.

Deposits. Deposits decreased \$52.2 million, or 2.8%, from \$1.9 billion at June 30, 2015 to \$1.8 billion at September 30, 2015. This decrease was primarily due to a managed run off of \$40.3 million in higher costing certificates of deposit.

Borrowings. Other borrowings increased to \$476.0 million at September 30, 2015 from \$475.0 million at June 30, 2015. All FHLB advances have maturities of less than 90 days with a weighted average interest rate of 0.21% at September 30, 2015.

Equity. Stockholders' equity at September 30, 2015 decreased to \$368.1 million from \$371.1 million at June 30, 2015. The decrease was primarily a result of 414,362 shares of common stock repurchased at an average cost of \$17.79, or approximately \$7.4 million, partially offset by \$2.6 million in net income, and a \$876,000 increase in unrealized gains on securities available for sale.

Average Balances, Interest and Average Yields/Cost

The following table sets forth for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin (otherwise known as net yield on interest earning assets), and the ratio of average interest earning assets to average interest-bearing liabilities. All average balances are daily average balances. Nonaccruing loans have been included in the table as loans carrying a zero yield.

|                                 | For the Three Months Ended September 30,<br>2015            |  |                               | 2014                              |  |                               |   |
|---------------------------------|---|--|-------------------------------|-----------------------------------|--|-------------------------------|---|
|                                 | Average<br>Balance<br>Outstanding<br>(Dollars in thousands) | Interest<br>Earned/<br>Paid <sup>(2)</sup> | Yield/<br>Rate <sup>(2)</sup> | Average<br>Balance<br>Outstanding | Interest<br>Earned/<br>Paid <sup>(2)</sup> | Yield/<br>Rate <sup>(2)</sup> |   |
| Interest-earning assets:        |   |  |                               |                                   |  |                               |   |
| Loans receivable <sup>(1)</sup> | \$ 1,728,862  | \$ 20,281                                  | 4.69                          | % \$ 1,568,406                    | \$ 19,237                                  | 4.91                          | % |
| Deposits in other financial     |   |  |                               |                                   |  |                               |   |