

HomeTrust Bancshares, Inc.
Form 10-Q
May 10, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

For the transition period from _____ to _____

Commission file number: 001-35593

HOMETRUST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

45-5055422

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

10 Woodfin Street, Asheville, North Carolina 28801

(Address of principal executive offices; Zip Code)

(828) 259-3939

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated filer

Accelerated filer

(Do not check if a smaller reporting company)

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Non-accelerated filer

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 18,076,550 shares of common stock, par value of \$.01 per share, issued and outstanding as of May 5, 2016.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
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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)	
	March 31, 2016	June 30, 2015
Assets		
Cash	\$30,966	\$33,891
Interest-bearing deposits	18,212	82,269
Cash and cash equivalents	49,178	116,160
Commercial paper	275,878	256,152
Certificates of deposit in other banks	158,767	210,629
Securities available for sale, at fair value	219,498	257,606
Other investments, at cost	30,163	28,711
Loans held for sale	2,537	5,874
Total loans, net of deferred loan fees and discount	1,815,017	1,685,707
Allowance for loan losses	(21,761)	(22,374)
Net loans	1,793,256	1,663,333
Premises and equipment, net	55,926	57,524
Accrued interest receivable	7,432	7,522
Real estate owned ("REO")	6,700	7,024
Deferred income taxes	55,686	59,493
Bank owned life insurance	78,921	77,354
Goodwill	12,673	12,673
Core deposit intangibles	7,815	10,043
Other assets	5,371	13,016
Total Assets	\$2,759,801	\$2,783,114
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$1,831,979	\$1,872,126
Other borrowings	507,000	475,000
Capital lease obligations	1,963	1,979
Other liabilities	60,016	62,959
Total liabilities	2,400,958	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, 18,193,550 shares issued and outstanding at March 31, 2016; 19,488,449 at June 30, 2015	182	195
Additional paid in capital	188,823	210,621
Retained earnings	176,511	168,357
Unearned Employee Stock Ownership Plan ("ESOP") shares	(8,596)	(8,993)
Accumulated other comprehensive income	1,923	870
Total stockholders' equity	358,843	371,050
Total Liabilities and Stockholders' Equity	\$2,759,801	\$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		Nine Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Interest and Dividend Income				
Loans	\$ 19,440	\$ 19,575	\$ 58,408	\$ 57,954
Securities available for sale	986	919	3,223	2,608
Certificates of deposit and other interest-bearing deposits	1,010	781	2,691	1,846
Other investments	361	261	1,050	551
Total interest and dividend income	21,797	21,536	65,372	62,959
Interest Expense				
Deposits	1,090	1,220	3,422	3,710
Other borrowings	487	128	1,009	271
Total interest expense	1,577	1,348	4,431	3,981
Net Interest Income	20,220	20,188	60,941	58,978
Recovery of Loan Losses	—	—	—	(250)
Net Interest Income after Recovery of Loan Losses	20,220	20,188	60,941	59,228
Noninterest Income				
Service charges on deposit accounts	1,614	1,732	4,931	4,111
Mortgage banking income and fees	690	672	2,008	2,232
Gain from sales of securities available for sale	—	—	—	61
Other, net	1,080	909	2,819	2,497
Total noninterest income	3,384	3,313	9,758	8,901
Noninterest Expense				
Salaries and employee benefits	10,255	10,629	31,987	30,506
Net occupancy expense	2,234	2,381	6,799	6,266
Marketing and advertising	528	461	1,512	1,472
Telephone, postage, and supplies	859	912	2,531	2,348
Deposit insurance premiums	459	608	1,507	1,453
Computer services	1,418	1,763	4,408	4,366
Loss (gain) on sale and impairment of REO	172	(32)	310	(268)
REO expense	305	390	987	1,178
Core deposit intangible amortization	710	842	2,227	1,740
Merger-related expenses	—	1,686	—	5,417
Other	2,433	2,385	6,782	6,179
Total noninterest expense	19,373	22,025	59,050	60,657
Income Before Income Taxes	4,231	1,476	11,649	7,472
Income Tax Expense	1,090	314	3,495	2,005
Net Income	\$ 3,141	\$ 1,162	\$ 8,154	\$ 5,467
Per Share Data:				
Net income per common share:				
Basic	\$ 0.18	\$ 0.06	\$ 0.46	\$ 0.28
Diluted	\$ 0.18	\$ 0.06	\$ 0.46	\$ 0.28
Average shares outstanding:				
Basic	17,183,894	19,113,387	17,581,833	19,146,025
Diluted	17,369,871	19,192,702	17,762,375	19,232,791

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

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net Income	\$3,141	\$1,162	\$8,154	\$5,467
Other Comprehensive Income				
Unrealized holding gains on securities available for sale				
Gains arising during the period	1,959	1,216	1,596	2,336
Deferred income tax expense	(666)	(413)	(543)	(794)
Reclassification of securities gains recognized in net income	—	—	—	57
Deferred income tax expense	—	—	—	(20)
Total other comprehensive income	\$1,293	\$803	\$1,053	\$1,579
Comprehensive Income	\$4,434	\$1,965	\$9,207	\$7,046

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 Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount					
Balance at June 30, 2014	20,632,008	\$ 207	\$225,889	\$160,332	\$(9,522)	\$ 245	\$ 377,151
Net income	—	—	—	5,467	—	—	5,467
Stock repurchased	(299,672)	(4)	(5,034)	—	—	—	(5,038)
Retired stock	(14,555)	—	(188)	—	—	—	(188)
Exercised stock options	18,000	—	259	—	—	—	259
Stock option expense	—	—	1,010	—	—	—	1,010
Restricted stock expense	—	—	1,078	—	—	—	1,078
ESOP shares allocated	—	—	220	—	397	—	617
Other comprehensive income	—	—	—	—	—	1,579	1,579
Balance at March 31, 2015	20,335,781	\$ 203	\$223,234	\$165,799	\$(9,125)	\$ 1,824	\$ 381,935
Balance at June 30, 2015	19,488,449	195	210,621	168,357	(8,993)	870	371,050
Net income	—	—	—	8,154	—	—	8,154
Stock repurchased	(1,316,194)	(13)	(24,181)	—	—	—	(24,194)
Forfeited restricted stock	(2,550)	—	—	—	—	—	—
Retired stock	(12,855)	—	(223)	—	—	—	(223)
Granted restricted stock	34,500	—	—	—	—	—	—
Exercised stock options	2,200	—	32	—	—	—	32
Stock option expense	—	—	1,182	—	—	—	1,182
Restricted stock expense	—	—	1,052	—	—	—	1,052
ESOP shares allocated	—	—	340	—	397	—	737
Other comprehensive income	—	—	—	—	—	1,053	1,053
Balance at March 31, 2016	18,193,550	\$ 182	\$188,823	\$176,511	\$(8,596)	\$ 1,923	\$ 358,843

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Nine Months Ended March 31,	
	2016	2015
Operating Activities:		
Net income	\$8,154	\$5,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Recovery of loan losses	—	(250)
Depreciation	3,038	2,707
Deferred income tax expense	3,264	1,841
Net amortization and accretion	(3,317)	(3,189)
Loss (gain) on sale and impairment of REO	310	(268)
Gain on sale of loans held for sale	(1,087)	(1,232)
Origination of loans held for sale	(59,394)	(47,381)
Proceeds from sales of loans held for sale	63,818	48,925
Gain on sale of securities available for sale	—	(61)
Decrease in deferred loan fees, net	(299)	(915)
Decrease (increase) in accrued interest receivable and other assets	7,633	(2,754)
Amortization of core deposit intangibles	2,227	1,740
Earnings from bank owned life insurance	(1,464)	(1,381)
ESOP compensation expense	737	617
Restricted stock and stock option expense	2,234	2,088
Decrease in other liabilities	(2,943)	(5,419)
Net cash provided by operating activities	22,911	535
Investing Activities:		
Purchase of securities available for sale	(31,099)	(87,955)
Proceeds from maturities of securities available for sale	52,260	21,885
Proceeds from sale of securities available for sale	—	10,387
Net increase in commercial paper	(19,726)	(99,953)
Purchase of certificates of deposit in other banks	(26,782)	(80,591)
Maturities of certificates of deposit in other banks	78,644	39,775
Principal repayments of mortgage-backed securities	18,276	20,017
Net purchases of other investments	(1,452)	(14,654)
Net increase in loans	(127,886)	(54,796)
Purchase of premises and equipment	(1,440)	(5,111)
Capital improvements to REO	—	(93)
Proceeds from sale of REO	1,860	8,564
Acquisition of Bank of Commerce, net of cash received	—	(7,759)
Acquisition of Bank of America branches, net of cash paid	—	310,868
Net cash provided by (used in) investing activities	(57,345)	60,584
Financing Activities:		
Net decrease in deposits	(40,147)	(92,090)
Net increase in other borrowings	32,000	184,828
Common stock repurchased	(24,194)	(5,038)
Retired stock	(223)	(188)
Exercised stock options	32	259
Decrease in capital lease obligations	(16)	(14)

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Net cash provided by (used in) financing activities	(32,548)	87,757
Net Increase (Decrease) in Cash and Cash Equivalents	(66,982)	148,876
Cash and Cash Equivalents at Beginning of Period	116,160	45,830
Cash and Cash Equivalents at End of Period	\$49,178	\$194,706

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

Supplemental Disclosures:	Nine Months Ended March 31,	
	2016	2015
Cash paid during the period for:		
Interest	\$4,771	\$ 3,589
Income taxes	350	222
Noncash transactions:		
Unrealized gain in value of securities available for sale, net of income taxes	1,053	1,579
Transfers of loans to REO	1,846	2,171
Loans originated to finance the sale of REO	—	460
Business Combinations:		
Assets acquired	—	464,179
Liabilities assumed	—	444,374
Net assets acquired	—	19,805

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2015 ("2015 Form 10-K") filed with the SEC on September 11, 2015. The results of operations for the three and nine months ended March 31, 2016 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. At March 31, 2016 and June 30, 2015, the Bank had \$552,000 and \$1.6 million, respectively, of foreclosed residential real estate property in REO. The recorded investment in consumer mortgage loans collateralized by residential real estate in the process of foreclosure totaled \$1.0 million and \$1.7 million at March 31, 2016 and June 30, 2015, respectively.

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 were effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU No. 2015-01 did not 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. This ASU did not 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 ASU 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. All other amendments were 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." This ASU provides guidance regarding debt issuance related to line-of-credit arrangements. The amendments in this ASU 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. This ASU was effective for fiscal years beginning after December 15, 2015. The adoption of ASU No. 2015-15 did not 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 in this ASU 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. This ASU was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of ASU No. 2015-16 did not have a material impact on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization's other deferred tax assets. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU No. 2016-01 is not expected to 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 February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)." The guidance in this ASU requires most leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption. In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The ASU changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU is effective for annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

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. The one year measurement period has expired for all business combinations.

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.

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 By Bank of America	Fair Value and Other Merger Related Adjustments	As Recorded by the 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

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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			\$—

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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 By Bank of Commerce	Fair Value and Other Merger Related Adjustments	As Recorded by the 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 Performing	PCI	Total Loans
Retail Consumer Loans:			
One-to-four family	\$2,717	\$2,979	\$5,696
Home equity lines of credit ("HELOCs")	8,823	317	9,140
Consumer	37	15	52
Commercial:			
Commercial real estate	29,048	30,047	59,095

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Construction and development	202	3,020	3,222
Commercial and industrial	5,402	3,877	9,279
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 Recorded by Jefferson	Fair Value and Other Merger Related Adjustments	As Recorded by the 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