HomeTrust Bancshares, Inc.
Form 10-K
September 13, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)

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

For the Fiscal Year Ended June 30, 2016
OR

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

For the Transition Period From __________________ To __________________
Commission File Number 1-35593
HOMETRUST BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland	45-5055422
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
10 Woodfin Street, Asheville, North Carolina	28801
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (828) 259-3939

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:
Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [X]
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 [X].

As of September 8, 2016, there were issued and outstanding 17,999,150 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the closing price of such stock as of December 31, 2015, was $362.8 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant).

HOMETRUST BANCSHARES, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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Forward-Looking Statements

Certain matters in this Form 10-K 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 co verbs such as “may,” “will,” “should,” “would,” and “could.” Forward-looking statements include statements with respect to ou 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: 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 Board of Governors of the Federal Reserve System (“Federal Reserve”), the North Carolina Office of the Commissioner of Banks (“NCCOB”), 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 of our 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 have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames or at all 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 this report on 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 (“HomeTrust” or "Bank") unless the context indicates otherwise.

PART I

Item 1. Business

General

HomeTrust Bancshares, Inc., a Maryland corporation, was formed for the purpose of becoming the savings and loan holding company for HomeTrust Bank in connection with HomeTrust Bank's conversion from mutual to stock form, which was completed on July 10, 2012 (the "Conversion"). In connection with the Conversion, HomeTrust Bancshares issued an aggregate of 21,160,000 shares of common stock at an offering price of $10.00 per share for gross proceeds of $211.6 million. HomeTrust Bancshares received $208.4 million in net proceeds from the stock offering of which $104.2 million or 50% of the net proceeds were contributed to HomeTrust Bank upon completion of the Conversion.
On August 25, 2014, the Bank converted from a federal savings charter to a national bank charter and HomeTrust Bancshares converted from a savings and loan holding company to a bank holding company. On December 31, 2015, the Bank converted from a national association to a North Carolina state bank. As a national bank, the Bank's primary regulator was the Office of the Comptroller of the Currency ("OCC"). As a North Carolina state-chartered bank, and member of the Federal Reserve System, the Bank's primary regulators are the NCCOB and the Federal Reserve. The Bank's deposits are federally insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank of Atlanta ("FHLB" or "FHLB of Atlanta"), which is one of the 12 regional banks in the Federal Home Loan Bank System ("FHLB System"). Our headquarters is located in Asheville, North Carolina.
As a bank holding company, HomeTrust Bancshares, Inc. is regulated by the Federal Reserve. In connection with the recent charter change, the Company elected to be treated as a financial holding company, which allows it flexibility to engage in some non-bank activities that are financial in nature. In order for the Company to maintain financial holding company status and avoid restrictions on its activities, the Bank must continue to be well capitalized and well managed, and be rated satisfactory or better under the Community Reinvestment Act ("CRA"). 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 was originally formed in 1926, in Clyde, North Carolina, as Clyde Building & Loan Association (later Clyde Savings Bank). As we expanded our geographic footprint and product offerings, our name changed to HomeTrust after rebranding on July 22, 2003.
Between fiscal years 1996 and 2011, Home Trust Bank's board of directors and executive management created a unique partnership between six established banks and one de novo bank, where hometown community banks could combine their financial resources to achieve a shared vision. The original partnership banks included:

- HomeTrust Bank, since 1926, Asheville, North Carolina
- Tryon Federal Bank, since 1935, Tryon, North Carolina
- Shelby Savings Bank, since 1905, Shelby, North Carolina
- Home Savings Bank, since 1909, Eden, North Carolina
- Industrial Federal Bank, since 1929, Lexington, North Carolina
- Cherryville Federal Bank, since 1912, Cherryville, North Carolina
- Rutherford County Bank, since 2007, Forest City, North Carolina (de novo bank)

Beginning in 2012, executive management implemented a strategic plan that would complement our existing market areas and enhance our ability to achieve positive growth. Between 2013 and 2015, we entered five attractive markets through various acquisitions and new office openings, as well as expanded our product lines. New locations and markets included:

- BankGreenville Financial Corporation ("BankGreenville") - one office in Greenville, South Carolina (acquired in July 2013)
- Jefferson Bancshares, Inc. ("Jefferson") - nine offices across East Tennessee (acquired in May 2014)
- Commercial loan production office ("LPO") in Roanoke, Virginia (opened in July 2014)
- Bank of Commerce - one office in Charlotte, North Carolina (acquired in July 2014)
-

- Ten Bank of America Branch Offices - nine in southwest Virginia, one in Eden, North Carolina (acquired in November 2014)
- Commercial LPO in Raleigh, North Carolina (opened in November 2014)

By expanding our geographic footprint and hiring local experienced talent, we have built a foundation that allows us to focus on organic growth, while maintaining the community-focused, relationship style of exceptional customer service that has differentiated our brand and characterized our success to date.

Our mission is to create stockholder value by building relationships with our employees, customers, and communities. By building a platform that supports growth and profitability, we are continuing our transition toward becoming a high-performing community bank and delivering on our promise that "It's Just Better Here."

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, construction and land/lot loans, commercial real estate loans, construction and development loans, commercial and industrial loans, indirect automobile, 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.

Market Areas

HomeTrust Bank operates in nine metropolitan statistical areas ("MSAs"): Asheville, NC; Charlotte-Concord-Gastonia, NC-SC; Greenville-Anderson-Mauldin, SC; Johnson City, TN; Kingsport-Bristol-Bristol, TN-VA; Knoxville, TN; Morristown, TN, Roanoke, VA, and Raleigh, NC.

Asheville is known for its natural beauty, scenic surroundings, and its vibrant cultural and arts community that parallels that of many larger cities in the United States. It is home to a number of historical attractions, the most prominent of which is the Biltmore Estate, a historic mansion with gardens and a winery that draws approximately one million tourists each year. Due to its scenic location and diverse cultural and historical offerings, the Asheville metropolitan area is a popular destination for tourists, which continues to positively impact our local economy. In addition, affordable housing prices, compared to many bigger cities, combined with the region’s favorable climate have also made the Asheville metropolitan area an increasingly attractive destination for retirees seeking to relocate from other parts of the United States.

Local officials remain committed to continuous improvement of the local economy and have worked diligently to keep Asheville in the national spotlight. After the successful completion of a five-year economic development plan known as the "AVL 5 X 5," which brought in thousands of new jobs and over one billion dollars in new capital, the Asheville-Buncombe County Economic Development Coalition is now focused on the next phase or "AVL 5 X 5 Vision 2020." With similar results in mind, this phase will focus on new niches and initiatives for local businesses as well as allure new businesses. Also supporting the economy is the Asheville Regional Airport that transports over 787,000 passengers a year as well as numerous colleges including the University of North Carolina Asheville, Western Carolina University, and Warren Wilson College. The area has several major employers which include: Buncombe County Public Schools, City of Asheville, Mission Health System and Hospital, The Biltmore Company, Ingles Markets, Inc., and the VA Medical Center.

The Charlotte-Concord-Gastonia, NC-SC metropolitan area is located in both North and South Carolina, within and surrounding the city of Charlotte. Located in the Piedmont region of the Southeastern United States, the Charlotte metropolitan area is well known for its stock car racing history. The region is headquarters to eight Fortune 500 and 15 Fortune 1000 companies, including Bank of America, Duke Energy, Nucor Steel, and Lowe's Home Improvement Stores. Additional headquarters include Sonic Automotive, Belk, and Carolinas HealthCare System. The Charlotte MSA is the largest in the Carolinas.

The Greenville-Anderson-Mauldin, SC metropolitan area is located in upstate South Carolina, in the foothills of the Blue Ridge Mountains. Major employment sectors for the MSA include services, manufacturing, and retail trade including major facilities for BMW, Michelin, Walgreens, and Lockheed Martin.

The Johnson City, TN metropolitan area is an economic hub largely fueled by East Tennessee State University and the medical "Med-Tech" corridor, anchored by the Johnson City Medical Center, Franklin Woods Community Hospital and affiliated facilities. The city’s museums and historical sites include the Hands On! Museum and the Tipton-Haynes State Historic Site, which hosts the annual Bluegrass and Sorghum Making Festival, as well as other seasonal events.

The Kingsport-Bristol-Bristol, TN-VA MSA is home to the headquarters of Eastman Chemical Company. The major economic components in Kingsport are healthcare, manufacturing and educational services.

The Knoxville, TN metropolitan area is located where the French Broad and Holston Rivers converge to form the Tennessee River. It is the largest city in East Tennessee and ranks third largest in the state. It is located in a broad valley between the Cumberland Mountains to the northwest and the Great Smoky Mountains to the southeast. The Knoxville area is frequently cited in national surveys as a quality place in which to live. The University of Tennessee calls Knoxville home, with over 27,000 students, making an array of educational and cultural opportunities available to area residents. Affordable housing, health care costs below the national average, a low crime rate, and a pleasant climate and location with nearby lakes and mountains are factors which make Knoxville an attractive place to settle. Major employment sectors in the Knoxville area include government, education, and healthcare.

The Morristown, TN metropolitan area includes facilities for numerous Fortune 500 companies including General Electric, International Paper, Alcoa (Howmet), Coca-Cola, Lear Corporation, Pepsi Bottling, NCR Corporation and Colgate-Palmolive. Morristown also includes the facilities of a number of international companies from countries such as Germany, Japan, Sweden, United Kingdom, Italy, Canada and France. Local industries include furniture manufacturing, poultry processing, aircraft parts, healthcare products, and automotive parts. Agriculture including soybeans, corn, livestock and dairy are also significant economic components. Morristown's major job providing segments are healthcare, manufacturing, educational services, furniture and related products, transportation equipment, educational services, and accommodation and food services.

The Roanoke, VA metropolitan area is located in the Roanoke Valley of western Virginia in the midst of the Blue Ridge and Alleghany Mountains. This 1,874-square mile region is bordered on the west by West Virginia and along the east by the Blue Ridge Mountains. The area is strategically accessible to both the East Coast and Mid-West markets with Interstate 81 passing through the region, Interstate 64 directly north, and Interstate 77 nearby to the south. The Roanoke MSA is the transportation hub of the area with an integrated interstate highway, rail, and air transportation network. Roanoke has the most diverse economy in Virginia and is the cultural and business hub for western Virginia. The Roanoke MSA is home to several large regional banking offices, headquarters of the Fortune 500 retailer Advance Auto, and to several large advanced manufacturing operations, such as those owned by General Electric, ITT Exelis, Dynax America, and Optical Cable Corporation, among others. The Roanoke, VA MSA's major employment sectors include government, health care and social assistance, retail trade, and manufacturing.

The Raleigh, NC metropolitan area is located in the northeast central region of North Carolina. Raleigh is the capital of North Carolina, home to North Carolina State University and central to one of the fastest growing areas in the country - the Research Triangle Park. With its proximity to the Research Triangle Park and several major universities, including the University of North Carolina at Chapel Hill and Duke University, Raleigh has become known for its strengths in technology and innovation.

Unemployment data remains one of our most informative indicators of our local economy. Based on information from the U.S. Bureau of Labor Statistics we have set forth below information regarding the unemployment rates nationally and in our market areas.

	As of June 30,	
Location	2016	2015
U.S. National	4.9%	5.3%
North Carolina	4.7%	5.9%
Asheville MSA	4.1%	4.7%
Charlotte/Concord/Gastonia	5.0%	5.5%
Raleigh	4.4%	4.7%
South Carolina	5.2%	6.4%
Greenville	5.2%	5.7%
Tennessee	4.3%	5.7%
Morristown	5.4%	6.6%
Johnson City	5.6%	6.2%
Kingsport-Bristol	5.4%	5.8%
Knoxville	4.7%	5.4%
Virginia	3.7%	4.8%
Roanoke	3.9%	4.9%

The Bank has built a strong foundation in the communities we serve and takes pride in the role we play. The directors and market presidents of each region work with their management team and employees to support local nonprofit and community organizations. Each location helps provide critical services to meet the financial needs of its customers and improve the quality of life for individuals and businesses in its community. Initiatives supporting our communities include affordable housing, education and financial education, and the arts. We support these initiatives through both financial and people resources in all of our communities. Collectively, bank employees volunteer thousands of hours annually in their local communities; from helping to build homes to teaching grade school youth how to start healthy savings habits, bank employees are making a positive difference in the lives of others every day.

Competition

We face strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions, life insurance companies, and mortgage bankers. Other savings institutions, commercial banks, credit unions, and finance companies provide vigorous competition in consumer lending. In addition, in indirect auto financings, we also compete with specialty consumer finance companies, including automobile manufacturers' captive finance companies. Commercial and industrial loan competition is primarily from local commercial banks. We believe that we compete effectively because we consistently deliver high-quality, personal service to our customers that results in a high level of customer satisfaction. Adding to our competitive advantage is commitment to technological resources, which has expanded our customer service capabilities and increased efficiencies in our lending process.

We attract our deposits through our branch office system. Competition for deposits is principally from other commercial banks, savings institutions, and credit unions located in the same communities, as well as mutual funds and other alternative investments. We believe that we compete for deposits by offering superior service and a variety of deposit accounts at competitive rates. We also have a highly competitive suite of cash management services, online/mobile banking, and internal support expertise specific to the needs of small to mid-sized commercial business customers. Based on the most recent branch deposit data, HomeTrust Bank's deposit market share was:

Location	Rank(1)	Deposit Market Share(1)
North Carolina	17th	0.35%
Asheville MSA	3rd	7.67%
Charlotte/Gastonia	19th	0.06%
South Carolina	78th	0.06%
Greenville	21st	0.43%
Tennessee	65th	0.24%
Morristown	3rd	19.01%
Johnson City	5th	5.85%
Kingsport-Bristol	9th	2.00%
Knoxville	25th	0.26%
Virginia	66th	0.10%
Roanoke	8th	6.52%

(1) Source: FDIC data as of June 30, 2015

Overall, we believe that we distinguish ourselves from larger, national banks operating in our market areas by offering quicker decision-making in the delivery of our products and services and competitive customer-driven products with excellent service and responsiveness, and by providing customer access to our senior managers. In addition, our larger capital base and product mix enable us to compete effectively against smaller banks. Our lending staff is experienced and knowledgeable about local lending in our markets, enabling us to build on the relationship-style banking that is our hallmark.

In addition, the way we create differentiation from our competition to fuel organic growth is by focusing on “HOW” we deliver our products and services. When we promise our customers that "It’s Just Better Here," more than anything, it refers to the care and responsiveness our employees provide to each and every customer. Teamwork is key to our success. Many of our employees have been a part of HomeTrust Bank for decades, while a significant number of employees have more recently brought their industry knowledge and expertise to us through internal growth and acquisition, reflecting their desire to be a part of a high performing team that works well together to make a difference for customers. Our culture includes relationship training and coaching with respect to banking and adding value to our customers. This “culture model” includes four key principles:

- making a difference for customers every day is fun and rewarding;
- success is built on relationships;
- we must continually add value to relationships with our customers and with each other; and
- we need to grow ourselves and our ability to make a difference and add value to relationships.

In implementing these principles, the directors, management team, and employees work to support local nonprofit and community organizations and strive to provide critical services to meet the financial needs of our customers and improve the quality of life for individuals and businesses in our communities. We support affordable housing and education initiatives to help build healthy communities through both financial assistance and employees volunteering thousands of hours annually in their local markets. We believe the opportunity to stay close to our customers gives us a unique position in the banking industry as compared to our larger competitors and we are committed to continuing to build strong relationships with our employees, customers, and communities for generations to come.

Lending Activities

The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and allowances for losses) at the dates indicated.

	At June 30,									
	2016		2015		2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perc
	(Dollars in thousands)									
Retail consumer loans:										
One-to-four family	$623,701	34.04 %	$650,750	38.61 %	$660,630	44.09 %	$602,980	51.69 %	$620,486	50.3
Home equity - originated	163,293	8.91	161,204	9.56	148,379	9.90	125,676	10.77	143,052	11.6
Home equity - purchased	144,377	7.88	72,010	4.27	—	—	—	—	—	—
Construction and land/lots	38,102	2.08	45,931	2.73	59,249	3.95	51,546	4.42	53,572	4.35
Indirect auto finance	108,478	5.92	52,494	3.11	8,833	0.59	—	—	—	—
Consumer	4,635	0.25	3,708	0.22	6,331	0.42	3,349	0.29	3,819	0.31
Total retail consumer loans	1,082,586	59.08 %	986,097	58.50 %	883,422	58.95 %	783,551	67.17 %	820,929	66.6
Commercial loans:										
Commercial real estate	486,561	26.55 %	441,620	26.20 %	377,769	25.21 %	231,086	19.81 %	238,644	19.3
Construction and development	86,840	4.74	64,573	3.83	56,457	3.78	23,994	2.06	42,362	3.44
Commercial and industrial	73,289	4.00	84,820	5.03	74,435	4.97	11,452	0.98	14,578	1.18
Municipal leases	103,183	5.63	108,574	6.44	106,215	7.09	116,377	9.98	115,516	9.38
Total commercial loans	749,873	40.92 %	699,587	41.50 %	614,876	41.05 %	382,909	32.83 %	411,100	33.3
Total loans	1,832,459	100.00%	1,685,684	100.00%	1,498,298	100.00%	1,166,460	100.00%	1,232,029	100.
Less:										
Deferred costs (fees), net	372		23		(1,340)		(2,277)		(2,984)	
Allowance for losses	(21,292)		(22,374)		(23,429)		(32,073)		(35,100)	
Total loans receivable, net	$1,811,539		$1,663,333		$1,473,529		$1,132,110		$1,193,945	

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The following table shows the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and allowances for loan losses) at the dates indicated.

	At June 30,					
	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed-rate loans:	(Dollars in thousands)					
Retail consumer loans:						
One-to-four family	$326,347	17.8 %	$351,904	20.9 %	$351,155	23.4 %
Construction and land/lots	27,907	1.5	32,685	1.9	37,484	2.5
Indirect auto finance	108,478	5.9	52,494	3.1	8,833	0.6
Consumer	4,620	0.3	3,658	0.2	6,078	0.4
Commercial loans:						
Commercial real estate	303,854	16.6	319,593	19.0	258,272	17.2
Construction and development	29,204	1.6	36,962	2.2	36,070	2.4
Commercial and industrial	42,874	2.3	46,126	2.7	40,606	2.7
Municipal leases	103,183	5.6	108,574	6.5	106,215	7.1
Total fixed-rate loans	946,467	51.7 %	951,996	56.5 %	844,713	56.4 %
Adjustable-rate loans:						
Retail consumer loans:						
One-to-four family	297,354	16.2 %	298,846	17.7 %	309,475	20.7 %
Home equity - originated	163,293	8.9	161,204	9.6	148,379	9.9
Home equity - purchased	144,377	7.9	72,010	4.3	—	—
Construction and land/lots	10,195	0.6	13,246	0.8	21,765	1.5
Consumer	15	—	50	—	253	—
Commercial loans:						
Commercial real estate	182,707	10.0	122,027	7.2	119,497	8.0
Construction and development	57,636	3.1	27,611	1.6	20,387	1.4
Commercial and industrial	30,415	1.7	38,694	2.3	33,829	2.3
Total adjustable-rate loans	885,992	48.3 %	733,688	43.5 %	653,585	43.6 %
Total loans	1,832,459	100.0%	1,685,684	100.0%	1,498,298	100.0%
Less:						
Deferred costs (fees), net	372		23		(1,340)	
Allowance for losses	(21,292)		(22,374)		(23,429)	
Total loans receivable, net	$1,811,539		$1,663,333		$1,473,529	

The increase in loans since 2015 was primarily due to organic loan growth, especially the origination of indirect auto finance loans, commercial real estate, and construction and development loans and the purchase of home equity loans. For further discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report.

Loan Maturity. The following table sets forth certain information at June 30, 2016 regarding the dollar amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Retail Consumer Due During Years Ending June 30,							
	2017	2018	2019	2020 to 2021	2022 to 2025	2026 to 2030	2031 and following	Total
	(Dollars in thousands)							
One-to-four family								
Amount	$12,459	11,363	10,747	42,071	56,692	132,381	357,988	$623,701
Weighted Average Rate	5.32 %	4.96 %	5.11 %	4.35 %	4.32 %	3.68 %	4.25 %	4.19 %
Home equity - originated								
Amount	$2,707	6,015	6,379	14,059	50,383	30,001	53,749	$163,293
Weighted Average Rate	3.87 %	4.02 %	4.26 %	4.97 %	4.06 %	4.13 %	3.65 %	4.02 %
Home equity - purchased								
Amount	$—	—	—	—	—	—	144,377	$144,377
Weighted Average Rate	— %	— %	— %	— %	— %	— %	3.28 %	3.28 %
Construction and land/lots								
Amount	$440	337	818	780	4,671	8,075	22,981	$38,102
Weighted Average Rate	4.76 %	6.79 %	6.34 %	5.88 %	5.94 %	6.03 %	4.07 %	4.83 %
Indirect auto finance								
Amount	$28	428	1,919	32,700	73,403	—	—	$108,478
Weighted Average Rate	3.24 %	3.16 %	3.51 %	3.19 %	2.93 %	— %	— %	3.02 %
Consumer								
Amount	$201	272	293	1,148	589	94	2,038	$4,635
Weighted Average Rate	5.75 %	4.93 %	4.72 %	4.76 %	4.15 %	3.85 %	17.53 %	6.68 %

	Commercial Loans Due During Years Ending June 30,							
	2017	2018	2019	2020 to 2021	2022 to 2025	2026 to 2030	2031 and following	Total
	(Dollars in thousands)							
Commercial real estate								
Amount	37,345	51,930	65,716	180,490	94,683	36,523	19,874	$486,561
Weighted Average Rate	5.01 %	4.30 %	4.13 %	3.91 %	3.57 %	3.65 %	4.18 %	3.99 %
Construction and development								
Amount	34,206	13,002	12,829	14,993	7,721	3,783	306	$86,840
Weighted Average Rate	4.15 %	4.27 %	4.22 %	3.61 %	3.71 %	3.61 %	7.00 %	4.05 %
Commercial and industrial								
Amount	21,165	9,326	8,941	18,078	7,050	1,521	7,208	$73,289
Weighted Average Rate	4.39 %	4.50 %	3.85 %	4.07 %	3.87 %	2.96 %	4.82 %	4.22 %
Municipal leases(1)								
Amount	324	1,163	2,857	7,397	15,713	44,451	31,278	$103,183
Weighted Average Rate	6.50 %	6.69 %	4.73 %	4.84 %	5.72 %	5.86 %	6.28 %	5.87 %

	Total Amount	Weighted Average Rate
	(Dollars in thousands)	
Due During Years Ending June 30,		
2017	$108,875	4.63 %
2018	93,836	4.41
2019	110,499	4.25
2020 to 2021	311,716	3.97
2022 to 2025	310,905	3.79
2026 to 2030	256,829	4.17
2031 and following	639,799	4.09
Total	$1,832,459	4.09 %

(1) The weighted average rate of municipal loans is adjusted for a 34% federal income tax rate since the interest income from these leases is tax exempt.

The total amount of loans due after June 30, 2017, which have predetermined interest rates is $900.0 million, while the total amount of loans due after such dates which have adjustable interest rates is $823.6 million.

Lending Authority. Residential real estate loans up to $750,000 may be approved at varying levels by certain officers of the Bank. Our Chief Credit Officer may approve loans up to $7.5 million. Loan relationships in excess of $7.5 million in total credit exposure must be approved by our Senior Loan Committee. Loans outside our general underwriting guidelines generally must be approved by the Chief Credit Officer, Chief Banking Officer, a Senior Credit Officer, or Mortgage Fulfillment Manager for residential loans. Certain other bank officers may approve loans outside of our general underwriting guidelines on a limited basis and generally at a lower amount. Lending authority is also granted to certain other bank officers at lower amounts, generally up to $500,000 in total credit exposure for real estate secured loan relationships, provided the loan does not have a Criticized or Classified risk grade.

Beginning in fiscal 2008, we implemented more stringent underwriting policies and procedures related to residential lending which we have maintained and continuously update to ensure originations meet both our investment and asset quality objectives. The additional emphasis on a borrower’s ongoing ability to repay a loan by requiring lower debt to income ratios, higher credit scores, and lower loan to value ratios has increased our overall asset quality. By adhering to these stringent policies and procedures the percentage of one-to-four family residential loans and home equity lines of credit made to borrowers with a credit score greater than 675 has increased to 98.5% in fiscal 2016 from 78.6% during fiscal 2007.

At June 30, 2016, the maximum amount under federal regulation that we could lend to any one borrower and the borrower’s related entities was approximately $45.3 million. Our five largest lending relationships are with commercial borrowers and totaled approximately $65.8 million in the aggregate, or 3.6% of our $1.83 billion loan portfolio at June 30, 2016. The largest lending relationship at June 30, 2016 consisted of seven loans totaling approximately $17.1 million. The largest loan in this relationship had an outstanding balance of $5.0 million as of June 30, 2016 and was secured by a non-owner-occupied retail property located in Union County, NC. The remaining relationship exposure primarily consisted of various non-owner-occupied commercial real estate properties located throughout North Carolina which are leased to national tenants. At June 30, 2016, these loans were performing in accordance with their original repayment terms.

The second largest lending relationship at June 30, 2016 was approximately $16.3 million consisting of 21 loans. The largest loan in this relationship at June 30, 2016 had an outstanding balance of $2.7 million and was secured by a multi-tenant retail property located in Buncombe County, NC. The remaining relationship exposure primarily consisted of non-owner-occupied retail, office, and industrial properties located in Buncombe County, NC. At June 30, 2016 these loans were performing in accordance with their original repayment terms.

The third largest lending relationship at June 30, 2016 was approximately $14.9 million consisting of nine loans, the largest of which had an outstanding balance of $5.7 million and is secured by a multi-family property in East Tennessee. The remaining loans are secured by retail, office, and industrial properties located in East Tennessee. At June 30, 2016, all loans in the relationship were performing in accordance with their original repayment terms.

The fourth largest lending relationship at June 30, 2016 was approximately $9.1 million consisting of eight loans, the largest of which had an outstanding balance of $2.2 million and is secured by a non-owner-occupied retail strip center located in Mecklenburg County, NC. At June 30, 2016, all loans in the relationship were performing in accordance with their original repayment terms.

The fifth largest lending relationship at June 30, 2016 was approximately $8.5 million consisting of eight loans, the largest of which had an outstanding balance of $3.6 million and is secured by six owner-occupied child care centers and a residential quadplex rental property in Southwest Virginia. The remaining loans are secured by single family rental properties, and non-owner occupied retail and office properties located in Southwest Virginia, Western North Carolina and East Tennessee. As of June 30, 2016 these loans were performing in accordance with their original repayment terms.

Retail Consumer Loans

One-to-Four Family Real Estate Lending. We originate loans secured by first mortgages on one-to-four family residences typically for the purchase or refinance of owner-occupied primary or secondary residences located primarily in our market areas. We originate one-to-four family residential mortgage loans primarily through referrals from real estate agents, builders, and from existing customers. Walk-in customers are also important sources of loan originations. At June 30, 2016, $623.7 million, or 34.0%, of our loan portfolio consisted of loans secured by one-to-four family residences.

We originate both fixed-rate loans and adjustable-rate loans. We generally originate mortgage loans in amounts up to 80% of the lesser of the appraised value or purchase price of a mortgaged property, but will also permit loan-to-value ratios of up to 95%. For loans exceeding an 80% loan-to-value ratio we generally require the borrower to obtain private mortgage insurance covering us for any loss on the amount of the loan in excess of 80% in the event of foreclosure.

The majority of our one-to-four family residential loans are originated with fixed rates and have terms of ten to 30 years. At June 30, 2016 our one-to-four family residential loan portfolio included $326.3 million in fixed rate loans, of which $49.0 million were ten year fixed rate loans. We generally originate fixed rate mortgage loans with terms greater than 15 years for sale to various secondary market investors on a servicing released basis. We also originate adjustable-rate mortgage, or ARM, loans which have interest rates that adjust annually to the yield on U.S. Treasury securities adjusted to a constant one-year maturity plus a margin. Most of our ARM loans are hybrid loans, which after an initial fixed rate period of one, five, or seven years will convert to an annual adjustable interest rate for the remaining term of the loan. Our ARM loans have terms up to 30 years. Our pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions and consistent with our asset/liability management objectives. Our ARM loans generally have a floor interest rate set at the initial interest rate, and a cap of two percentage points on rate adjustments during any one year and six percentage points over the life of the loan. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as is our cost of funds.

We generally retain ARM loans that we originate in our loan portfolio rather than selling them in the secondary market. The retention of ARM loans in our loan portfolio helps us reduce our exposure to changes in interest rates. There are, however, unquantifiable credit risks resulting from the potential of increased interest to be paid by the customer as a result of increases in interest rates. It is possible that during periods of rising interest rates the risk of default on ARM loans may increase as a result of repricing and the increased costs to the borrower. We attempt to reduce the potential for delinquencies and defaults on ARM loans by qualifying the borrower based on the borrower's ability to repay the ARM loan assuming that the maximum interest rate that could be charged at the first adjustment period remains constant during the loan term. Another consideration is that although ARM loans allow us to increase the sensitivity of our asset base due to changes in the interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Because of these considerations, we have no assurance that yield increases on ARM loans will be sufficient to offset increases in our cost of funds.

Most of our loans are written using generally accepted underwriting guidelines, and are readily saleable to Freddie Mac, Fannie Mae, or other private investors. Our real estate loans generally contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property. The average size of our one-to-four family residential loans was $108,381 at June 30, 2016.

A portion of our loans are "non-conforming" because they do not satisfy credit or other requirements due to personal and financial reasons (i.e. divorce, bankruptcy, length of time employed, etc.), and other requirements, imposed by secondary market purchasers. Many of these borrowers have higher debt-to-income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan-to-value ratios to reduce the risk of these loans. We believe that these loans satisfy a need in our local market areas. As a result, subject to market conditions, we intend to continue to originate these types of loans.

Property appraisals on real estate securing our one-to-four family loans in excess of $250,000 that are not originated for sale are made by a state-licensed or state-certified independent appraiser approved by the board of directors. Appraisals are performed in accordance with applicable regulations and policies. For loans that are less than $250,000, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal. We generally require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability, fire and, if required, flood insurance policies are also required for one-to-four family loans. We do not originate permanent one-to-four family mortgage loans with a negatively amortizing payment schedule, and currently do not offer interest-only mortgage loans. We have not typically originated stated income or low or no documentation one-to-four family loans. At June 30, 2016, $4.8 million of our one-to-four family loans were interest-only. In connection with the new rules issued by the Consumer Financial Protection Bureau ("CFPB"), which includes a definition for “qualified mortgage” loans based on the borrower’s ability to repay the loan, we believe that substantially all of the mortgage loans approved by us meet this standard.

At June 30, 2016, $91.6 million of our one-to-four family loan portfolio consisted of loans secured by non-owner occupied residential properties. Loans secured by residential rental properties represent a unique credit risk to us and, as a result, we adhere to specific underwriting guidelines for such loans. Additionally, we have established specific loan portfolio concentration limits for loans secured by residential rental property to prevent excessive credit risk that could result from an elevated concentration of these loans. A primary risk factor in non-owner occupied residential real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the successful operation and management of the properties, as well as, the ability of tenants to pay rent. As a result, repayment of such loans may be subject to adverse economic conditions and unemployment trends, and may be sensitive to changes in the supply and demand for such properties. We consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower’s expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. We periodically monitor the performance and cash flow sufficiency of certain residential rental property borrowers based on a number of factors such as loan performance, loan size, total borrower credit exposure, and risk grade.

Home Equity Lines of Credit. Our originated home equity lines of credit ("HELOCs"), consisting of adjustable-rate lines of credit, have been the second largest component of our retail loan portfolio over the past several years. At June 30, 2016, HELOCs-originated totaled $163.3 million or 8.9% of our loan portfolio of which $77.3 million was secured by a first lien on owner-occupied residential property. The lines of credit may be originated in amounts, together with the amount of the existing first mortgage, typically up to 85% of the value of the property securing the loan (less any prior mortgage loans) with an adjustable-rate of interest based on The Wall Street Journal prime rate plus a margin. Currently, our home equity line of credit floor interest rate is dependent on the overall loan to value, and has a cap of 18% above the floor rate over the life of the loan. Originated HELOCs generally have up to a 15-year draw period and amounts may be reborrowed after payment at any time during the draw period. Once the draw period has lapsed, the payment is amortized over a 15-year period based on the loan balance at that time. At June 30, 2016, unfunded commitments on these lines of credit totaled $167.1 million.

Our underwriting standards for originated HELOCs are similar to our one-to-four family loan underwriting standards and include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

In December 2014, the Company began purchasing HELOCs originated by other financial institutions. At June 30, 2016, HELOCs-purchased totaled $144.4 million, or 7.9% of our loan portfolio. Unfunded commitments on these lines of credit were $24.8 million at June 30, 2016. The credit risk characteristics are different for these loans since they were not originated by the Company and the collateral is located outside the Company's market area, primarily in several western states. All of these loans were originated in 2012 or later and had an average FICO score of 740 and loan to values of less than 90% at origination. The Company has established an allowance for loan losses based on the historical losses in the states where these loans were originated. The Company will monitor the performance of these loans and adjust the allowance for loan losses as necessary.

HELOCs generally entail greater risk than do one-to-four family residential mortgage loans where we are in the first lien position. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property.

Construction and Land/Lots. We have been an active originator of construction to permanent loans to homeowners building a residence. In addition, we originate land/lot loans predominately for the purchase or refinance of an improved lot for the construction of a residence to be occupied by the borrower. All of our construction and land/lot loans were made on properties located within our market area.

At June 30, 2016, our construction and land/lot loan portfolio was $38.1 million compared to $45.9 million at June 30, 2015. At June 30, 2016, unfunded loan commitments totaled $27.9 million, compared to $27.0 million at June 30, 2015. Construction-to-permanent loans are made for the construction of a one-to-four family property which is intended to be occupied by the borrower as either a primary or secondary residence. Construction-to-permanent loans are originated to the homeowner rather than the homebuilder and are structured to be converted to a first lien fixed- or adjustable-rate permanent loan at the completion of the construction phase. We do not originate construction phase only or junior lien construction-to-permanent loans. The permanent loan is generally underwritten to the same standards as our one-to-four family residential loans and may be held by us for portfolio investment or sold in the secondary market. At June 30, 2016 our construction-to-permanent loans totaled $19.0 million and the average loan size was $131,000. During the construction phase, which typically lasts for six to 12 months, we make periodic inspections of the construction site and loan proceeds are disbursed directly to the contractors or borrowers as construction progresses. Typically, disbursements are made in monthly draws during the construction period. Loan proceeds are disbursed based on a percentage of completion. Construction-to-permanent loans require payment of interest only during the construction phase. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser. Construction loans may be originated up to 95% of the cost or of the appraised value upon completion, whichever is less; however, we generally do not originate construction loans which exceed the lower of 80% loan to cost or appraised value without securing adequate private mortgage insurance or other form of credit enhancement such as the Federal Housing Administration or other governmental guarantee. We also require general liability, builder’s risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) on all construction loans. At June 30, 2016, the largest construction to permanent loan had an outstanding balance of $2.0 million and was performing according to the original repayment terms.

Included in our construction and land/lot loan portfolio are land/lot loans, which are typically loans secured by developed lots in residential subdivisions located in our market areas. We originate these loans to individuals intending to construct their primary or secondary residence on the lot within one year from the date of origination. This portfolio may also include loans for the purchase or refinance of unimproved land that is generally less than or equal to five acres, and for which the purpose is to commence the improvement of the land and construction of an owner-occupied primary or secondary residence within one year from the date of loan origination.

Land/lot loans are typically originated in an amount up to 70% of the lower of the purchase price or appraisal, are secured by a first lien on the property, for up to a 20-year term, require payments of interest only and are structured with an adjustable rate of interest on terms similar to our one-to-four family residential mortgage loans. At June 30, 2016, our land/lot loans totaled $19.1 million and the average land/lot loan size was

$56,000. At June 30, 2016, the largest land/lot loan had an outstanding balance of $631,000 and was performing according to the original repayment terms.

Construction and land/lot lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by our one-to-four family permanent mortgage lending. Construction/permanent loans, however, generally involve a higher degree of risk than our one-to-four family permanent mortgage lending. If our appraisal of the value of the completed residence proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction and may incur a loss. Land/lot loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can also be significantly impacted by supply and demand conditions.

Indirect Auto Finance. During the middle of fiscal year 2014, we added the origination of indirect auto finance loans to our lending products. As June 30, 2016, our indirect auto finance installment contracts totaled $108.5 million, or 5.9% of our total loan portfolio. As an indirect lender, we market to automobile dealerships, both manufacturer franchised dealerships and independent dealerships, who utilize our origination platform to provide automotive financing through installment contracts on new and used vehicles. As of June 30, 2016, we worked with 59 auto dealerships located in western North Carolina and upstate South Carolina. Working with strong dealerships within our market area provides us with the opportunity to actively deepen customer relationships through cross-selling opportunities, as 86.0% of our indirect auto finance loans are originated to noncustomers.

The dealers are compensated via an industry standard commission, known as dealer reserve, on marked-up interest rates or from flat rate commission amounts. Our auto finance sales team uses purchased industry data to provide quantitative analysis of dealer sales history to target strong dealerships as the starting point of building long lasting, successful relationships. Local, quick decisions, broad hour coverage, personalized customer service, and prompt contract funding are keys to our success in this competitive line of business. Additionally, our process has been designed to integrate with existing dealership practices, utilize an industry leading decision engine, which provides our internal underwriters with the tools needed to respond quickly to loans meeting our credit policy criteria.

Our underwriting guidelines for indirect auto loans adhere to no specific loan-to-value ratio because the primary focus is on the ability of the borrower to repay the loan rather than the value of the underlying collateral. Our underwriting procedures for indirect auto loans include an evaluation of an applicant's credit profile along with certain applicant specific characteristics to arrive at an estimate of the associated credit risk. Additionally, internal underwriters may also verify an applicant's employment income and/or residency or where appropriate, verify an applicant's payment history directly with the applicant's creditors. We will also generally verify receipt of the automobile and other information directly with the borrower.

Indirect auto finance customers receive a fixed rate loan in an amount and at an interest rate that is commensurate to their FICO credit score, consumer payment credit history, loan term, and based on our underwriting procedures. The amount financed by us will generally be up to the full sales price of the vehicle plus sales tax, dealer preparation fees, license fees and title fees, plus the cost of service and warranty contracts and "GAP" insurance coverage obtained in connection with the vehicle or the financing (such amounts in addition to the sales price, collectively the "Additional Vehicle Costs"). Accordingly, the amount financed by us generally may exceed, depending on the credit score and applicant’s profile, in the case of new vehicles, the manufacturer's suggested retail price of the financed vehicle and the Additional Vehicle Costs. In the case of used vehicles, if the applicant meets our creditworthiness criteria, the amount financed may exceed the vehicle's value as assigned by the NADA Official Used Car Guide, our primary reference source of used cars and the Additional Vehicle Costs.

Our indirect auto portfolio at June 30, 2016, consisted of 5,084 installment loan contracts with a weighted-average contract rate of 4.02%, an average FICO credit score of 744, and an average loan to value ratio of 105.28% based on wholesale dealer invoice on new cars and the NADA Official Used Car Guide for used cars. Approximately 96% were originated through manufacturer franchised dealerships and approximately 4% were originated through independent dealerships; 54% were contracts on new vehicles and 46% were contracts on used vehicles. The loan term is averaging 71 months which is comparable to national auto industry data.

Because our primary focus for indirect auto loans is on the credit quality of the customer rather than the value of the collateral, the collectability of an indirect auto loan is more likely than a single-family first mortgage loan to be affected by adverse personal circumstances. We rely on the borrower's continuing financial stability, rather than on the value of the vehicle, for the repayment of an indirect auto loan. Because automobiles usually rapidly depreciate in value, it is unlikely that a repossessed vehicle will cover repayment of the outstanding loan balance.

Consumer Lending. Our consumer loans consist of loans secured by deposits accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt. At June 30, 2016, our consumer loans totaled $4.6 million, or 0.3% of our loan portfolio. We originate our consumer loans primarily in our market areas. Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Our underwriting standards for consumer loans include a determination of the applicant’s credit history and an assessment of the applicant’s ability to meet existing obligations and payments on the proposed loan. The stability of the applicant’s monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

Consumer loans generally entail greater risk than do one-to-four family residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Commercial Loans

Commercial Real Estate Lending. We originate commercial real estate loans, including loans secured by hotels, office space, office/warehouse, retail strip centers, vehicle dealerships, mini-storage facilities, medical and professional buildings, retail sites, and churches located in our market areas. As of June 30, 2016, $486.6 million or 26.6% of our total loan portfolio was secured by commercial real estate property, including multifamily loans totaling $63.9 million, or 3.5% of our total loan portfolio. Of the remaining amount, $168.4 million was identified as owner occupied commercial real estate, and $254.3 million was secured by income producing, or non-owner-occupied commercial real estate. Commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by commercial or multi-family properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation, we generally require and obtain personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports.

The average outstanding loan size in our commercial real estate portfolio was $445,000 as of June 30, 2016. Given the Bank's recent expansions into new mid-sized metropolitan areas, the Bank's commercial focus is on developing and fostering strong banking relationships with small to mid-size clients within our market area. At June 30, 2016, the largest commercial real estate loan in our portfolio was to a local borrower in Charlotte, NC for $7.8 million, secured by a multi-tenant office building in Knoxville, TN. Our largest multi-family loan as of June 30, 2016 was a 95 unit townhouse complex on approximately 7.25 acres in Morristown, Tennessee with an outstanding balance of $5.7 million. Both of these loans were performing according to their original repayment terms as of June 30, 2016.

We offer both fixed- and adjustable-rate commercial real estate loans. Our commercial real estate mortgage loans generally include a balloon maturity of five years or less. Amortization terms are generally limited to 20 years. Adjustable rate based loans typically include a floor and ceiling interest rate and are indexed to The Wall Street Journal prime rate, or the one-month London Interbank Offered Rate ("LIBOR"), plus or minus an interest rate margin and rates generally adjust daily. The maximum loan to value ratio for commercial real estate loans is generally up to 80% on purchases and refinances. We require appraisals of all non-owner occupied commercial real estate securing loans in excess of $250,000, and all owner-occupied commercial real estate securing loans in excess of $500,000, performed by independent appraisers. For loans less than these amounts, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal.

If we foreclose on a commercial real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential mortgage loans because there are fewer potential purchasers of the collateral. Further, our commercial real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our retail loan portfolios.

Construction and Development Lending. Leading up to the housing crisis that began in late 2007, we had been an active originator of commercial real estate construction loans, more specifically construction and development loans falling into two categories: i) land, lots and development loans, and ii) commercial construction development loans. Given the severity of housing crisis, the Bank made a strategic decision to largely exit both types of loan categories over the past several years. However, our expansion into larger metro markets over the last two years combined with the hiring of experienced commercial real estate relationship managers, credit officers, and the development of a construction risk management group to better manage construction risk, the Bank made a conscience effort to grow the construction and development portfolio. Our land, lots, and development loans are predominately for the purchase or refinance of unimproved land held for future residential development, improved residential lots held for speculative investment purposes and for the future construction of speculative one-to-four family or commercial real estate. Our commercial construction development loans are for the development of business properties and multi-family dwellings.

At June 30, 2016, our construction and development loans totaled $86.8 million, or 4.7% of our total loan portfolio. At June 30, 2016, $40.0 million or 46.1% of our construction and development loans required interest-only payments. A minimal amount of these construction loans provide for interest payments to be paid out of an interest reserve, which is established in connection with the origination of the loan pursuant to which we will fund the borrower's monthly interest payments and add the payments to the outstanding principal balance of the loan. Unfunded commitments at June 30, 2016 totaled $97.3 million compared to $17.0 million at June 30, 2015. Land acquisition and development loans are included in the construction and development loan portfolio, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchase and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sale to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. Land acquisition and development loans are generally secured by property in our primary market areas. In addition, these loans are secured by a first lien on the property, are generally limited up to 65% of the lower of the acquisition price or the appraised value of the land and generally have a maximum amortization term of ten years with a balloon maturity of up to three years. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste. At June 30, 2016, our land acquisition and development loans in our commercial construction and development portfolio totaled $39.8 million. The largest land acquisition and development loan had an outstanding balance at June 30, 2016 of $2.7 million and was performing according to its repayment terms. The subject loan is secured by residential property under development and is located in Wake County, NC. At June 30, 2016, 12 land acquisition and development loans totaling $1.4 million were on non-accrual status.

Part of our land, lot, and development portfolio consists of speculative construction loans for homes. These homes typically have an average price ranging from $200,000 to $500,000. Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either us or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to fund the debt service on the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant period of time after the completion of construction, until a home buyer is identified. Loans to finance the construction of speculative single-family homes and subdivisions are generally offered to experienced builders with proven track records of performance, are qualified using the same standards as other commercial loan credits, and require cash reserves to carry projects through construction completions and sale of the project. These loans require payment of interest-only during the construction phase. At June 30, 2016, loans for the speculative construction of single family properties totaled $20.3 million compared to $8.7 million at June 30, 2015. At June 30, 2016, we had five borrowers with an aggregate outstanding loan balance over $1.0 million which comprise 77.9% of the total balance for the speculative construction of single family properties and secured by properties located in our market areas. At June 30, 2016, no speculative construction loans were on non-accrual status. Unfunded commitments at June 30, 2016 totaled $17.8 million compared to $9.1 million at June 30, 2015.

Commercial construction and construction to permanent loans include multi-family, apartment, retail, office/warehouse and office buildings and are offered on an adjustable interest rate or fixed interest rate basis. Adjustable interest rate based loans typically include a floor and ceiling interest rate and are indexed to The Wall Street Journal prime rate, plus or minus an interest rate margin. The initial construction period is generally limited to 12 to 24 months from the date of origination, and amortization terms are generally limited to 20 years; however, amortization terms of up to 25 years may be available for certain property types based on elevated underwriting and qualification criteria. Construction to permanent loans generally include a balloon maturity of five years or less; however, balloon maturities of greater than five years are allowed on a limited basis depending on factors such as property type, amortization term, lease terms, pricing, or the availability of credit enhancements. Construction loan proceeds are disbursed commensurate with the percentage of completion of work in place, as documented by periodic internal or third party inspections. The maximum loan-to-value limit applicable to these loans is generally 80% of the appraised post-construction value. Disbursement of funds is at our sole discretion and is based on the progress of construction. At June 30, 2016 we had $26.7 million of non-residential construction loans included in our commercial construction and development loan portfolio.

We require all real estate securing construction and development loans to be appraised by an independent Bank-approved state-licensed or state-certified real estate appraiser. General liability, builder’s risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) are also required on all construction and development loans.

Construction and development lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by our single-family permanent mortgage lending.

For the reasons set forth below, construction and development lending involves additional risks when compared with permanent residential lending. Our construction and development loans are based upon estimates of costs in relation to values associated with the completed project. Funds are advanced upon the collateral for the project based on an estimate of costs that will produce a future value at completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the completed project loan-to-value ratio. Changes in the demand, such as for new housing, and higher than anticipated building costs may cause actual results to vary significantly from those estimated. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including cost comparisons and on-site inspections, these loans are more difficult and costly to monitor. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and/or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end-purchaser for the finished project.

Commercial and Industrial Loans. We typically offer commercial and industrial loans to small businesses located in our primary market areas. These loans are primarily originated as conventional loans to business borrowers, which include lines of credit, term loans, and letters of credit. These loans are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment, and general investments. Loan terms vary from typically one to five years. The interest rates on such loans are either fixed rate or adjustable rate indexed to The Wall Street Journal prime rate plus a margin. Inherent with our extension of business credit is the business deposit relationship which frequently includes multiple accounts and related services from which we realize low cost deposits plus service and ancillary fee income.

Commercial and industrial loans typically have shorter maturity terms and higher interest rates than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. We are focusing our efforts on small- to medium-sized, privately-held companies with local or regional businesses that operate in our market areas. At June 30, 2016, commercial and industrial loans totaled $73.3 million, which represented 4.0% of our total loan portfolio. Our commercial business lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of our credit analysis. We generally obtain personal guarantees on our commercial business loans.
Repayment of our commercial and industrial loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Our commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of equipment, inventory or accounts receivable. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Municipal Leases. We offer ground and equipment lease financing to fire departments located primarily throughout North Carolina and, to a lesser extent, South Carolina. Municipal leases are secured primarily by a ground lease in our name with a sublease to the borrower for a firehouse or an equipment lease for fire trucks and firefighting equipment. We originate these loans primarily through a third party that assigns the lease to us after we fund the loan. All leases are underwritten directly by us prior to funding. These leases are at a fixed rate of interest and may have a term to maturity of up to 20 years.

At June 30, 2016, municipal leases totaled $103.2 million, which represented 5.6% of our total loan portfolio. At that date, $37.8 million, or 36.8% of our municipal leases were secured by fire trucks, $23.5 million, or 22.9%, were secured by firehouses, $39.5 million or 38.4%, were secured by both, with the remaining $2.4 million or 1.9% secured by miscellaneous firefighting equipment. At June 30, 2016, the average outstanding municipal lease size was $353,000. These loans are our highest yielding loans since the interest earned is tax-exempt, and this portfolio has the lowest delinquency rate of any of our loan types.

Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2016, $3.0 million of our municipal leases contained a non-appropriation clause.

Loan Originations, Purchases, Sales, Repayments and Servicing

We originate both fixed-rate and adjustable-rate loans. Our ability to originate loans, however, is dependent upon customer demand for loans in our market area. Demand is affected by competition and the interest rate environment. During the past few years, we, like many other financial institutions, have experienced significant prepayments on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions, including us, to originate large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. We do not generally purchase loans or loan participations except for municipal leases and HELOCs. We actively sell the majority of our long-term fixed-rate residential first mortgage loans to the secondary market at the time of origination and retain our adjustable-rate residential mortgages and fixed-rate mortgages with terms to maturity less than or equal to 15 years and other consumer and commercial loans. During the years ended June 30, 2016 and 2015 we sold $92.5 million and $81.3 million, respectively, of predominantly one-to-four family loans to the secondary market. We release the servicing on the loans we sell into the secondary market. Loans are generally sold on a non-recourse basis.

In addition to interest earned on loans and loan origination fees, we receive fees for loan commitments, late payments and other miscellaneous services. The fees vary from time to time, generally depending on the supply of funds and other competitive conditions in the market.

The following table shows our loan origination, purchase, sale and repayment activities for the periods indicated.

	Years Ended June 30,		
	2016	2015	2014
Originations:[1]			
Retail consumer:	(In thousands)		
One-to-four family	$173,540	$163,652	$141,743
Home equity - originated	50,406	46,728	30,030
Construction and land/lots	42,493	49,689	49,455
Indirect auto finance	87,844	53,010	9,598
Consumer	4,192	3,113	3,294
Commercial loans:			
Commercial real estate	137,660	112,349	35,773
Construction and development	164,945	47,955	13,389
Commercial and industrial	22,933	34,583	18,960
Total loans originated	$684,013	$511,079	$302,242
Purchases:			
Retail consumer:			
Home equity - purchased	$109,045	$79,039	$—
Commercial loans:			
Commercial real estate	489	648	330
Municipal leases	11,118	15,282	15,814
Loans acquired through business combination	—	87,529	377,093
Total loans purchased or acquired	$120,652	$182,498	$393,237
Sales and repayments:			
Retail consumer:			
One-to-four family	$92,054	$73,474	$85,829
Home equity - originated	15	—	117
Construction and land/lots	—	—	219
Consumer	1	—	27
Commercial loans:			
Commercial real estate	89	6,386	427
Construction and development	44	805	213
Commercial and industrial	287	594	—
Total sales	92,490	81,259	86,832
Principal repayments	565,142	420,232	284,535
Total reductions	$657,632	$501,491	$371,367
Net increase	$147,033	$192,086	$324,112

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(1) Originations include one-to-four loans originated for sale of $92.0 million, $74.4 million, and $73.5 million for years ended June 30, 2016, 2015, and 2014, respectively.

Asset Quality

Loan Delinquencies and Collection Procedure. When a borrower fails to make a required payment on a residential real estate loan, we attempt to cure the delinquency by contacting the borrower. A late notice is sent 15 days after the due date, and the borrower may also be contacted by phone at this time. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. When a loan is 90 days delinquent, we may commence repossession or a foreclosure action. Reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs, and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

Delinquent consumer loans are handled in a similar manner, except that late notices are sent within 30 days after the due date. Our procedures for repossession and sale of consumer collateral are subject to various requirements under the applicable consumer protection laws, as well as, other applicable laws and the determination by us that it would be beneficial from a cost basis.

Delinquent commercial loans are initially handled by the relationship manager of the loan, who is responsible for contacting the borrower. Larger problem commercial loans are transferred to the Bank's Special Assets Department for resolution or collection activities. The Special Assets Department may work with the commercial relationship managers to see that the necessary steps are taken to collect delinquent loans, while ensuring that standard default notices and letters are mailed to the borrower. If a commercial loan becomes more problematic, or goes 90 days past the due date, a Special Assets officer will take over the loan for further collection activities including any legal action that may be necessary. If an acceptable workout or disposition plan of a delinquent commercial loan cannot be reached, we generally initiate foreclosure or repossession proceedings on any collateral securing the loan.

The following table sets forth our loan delinquencies by type, by amount and by percentage of type at June 30, 2016.

	Loans Delinquent For:						Total Loans Delinquent 30 Days or More		
	30-89 Days			90 Days and Over					
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
	(Dollars in thousands)								
Retail consumer loans:									
One-to-four family	54	$ 3,514	0.56 %	65	$ 5,476	0.88 %	119	$ 8,990	1.44 %
Home equity - originated	4	220	0.13	12	377	0.23	16	597	0.37
Construction and land/lots	2	100	0.26	6	119	0.31	8	219	0.57
Indirect auto finance	8	182	0.17	1	—	—	9	182	0.17
Consumer	3	4	0.09	7	4	0.09	10	8	0.17
Commercial loans:									
Commercial real estate	10	1,436	0.30	14	3,353	0.69	24	4,789	0.98
Construction and development	2	371	0.43	11	1,296	1.49	13	1,667	1.92
Commercial and industrial	3	216	0.29	36	2,819	3.85	39	3,035	4.14
Total	86	$ 6,043	0.33 %	152	$ 13,444	0.73 %	238	$ 19,487	1.06 %

Nonperforming Assets. Nonperforming assets were $24.5 million, or 0.90% of total assets at June 30, 2016, compared to $31.9 million, or 1.15%, at June 30, 2015.

Over the past several years we have significantly improved our risk profile by aggressively managing and reducing our problem assets. We continue to believe our level of nonperforming assets is manageable, and we believe that we have sufficient capital and human resources to manage the collection of our nonperforming assets in an orderly fashion. However, our operating results could be adversely impacted if we are unable to significantly manage our nonperforming assets.

Loans are placed on nonaccrual status when the collection of principal and/or interest becomes doubtful or other factors involving the loan warrant placing the loan on nonaccrual status. Troubled debt restructurings 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. During the fiscal year ended June 30, 2016, 55 loans for $6.1 million were modified from their original terms and were identified in our asset quality reports as a troubled debt restructuring. This compares to 46 loans for $6.3 million that were modified in the fiscal year ended June 30, 2015. As of June 30, 2016, the outstanding balance of troubled debt restructured loans was $33.7 million, comprised of 366 loans as compared to $31.0 million comprised of 289

loans at June 30, 2015.
Once a nonaccruing troubled debt restructuring has performed according to its modified terms for six months and the collection of principal and interest under the revised terms is deemed probable, the troubled debt restructuring is removed from nonaccrual status. At June 30, 2016, $4.6 million of troubled debt restructurings were classified as nonaccrual, including $1.2 million of construction and development loans, the largest of which was $1.0 million. As of June 30, 2016, $28.3 million, or 84.0% of the restructured loans have a current payment status as compared to $21.9 million, or 57.9% at June 30, 2015. Performing troubled debt restructurings increased $6.4 million, or 29.1%, from June 30, 2015 to June 30, 2016. The table below sets forth the amounts and categories of nonperforming assets.

	At June 30, 2016	2015	2014	2013	2012
Nonaccruing loans:[1]	(In thousands)				
Retail consumer loans:					
One-to-four family	$9,192	$10,523	$14,917	$29,811	$27,659
Home equity - originated	1,026	1,856	2,749	3,793	4,781
Home equity - purchased	—	—	—	—	—
Construction and land/lots	188	465	443	2,172	3,437
Indirect auto finance	20	—	—	—	—
Consumer	15	49	27	42	76
Commercial loans:					
Commercial real estate	3,222	5,103	12,953	21,149	15,008
Construction and development	1,417	3,461	5,697	10,172	12,583
Commercial and industrial	3,019	3,081	1,134	1,422	637
Municipal leases	419	316	—	—	—
Total nonaccruing loans	18,518	24,854	37,920	68,561	64,181
Real Estate Owned assets:					
Retail consumer loans:					
One-to-four family	794	1,613	3,876	4,276	7,297
Home equity - originated	30	20	627	642	—
Home equity - purchased	—	—	—	—	—
Construction and land/lots	846	1,096	1,613	1,861	1,616
Indirect auto finance	—	—	—	—	—
Consumer	—	—	—	—	—
Commercial loans:					
Commercial real estate	1,211	978	3,820	2,016	2,449
Construction and development	3,075	3,317	4,725	2,943	4,768
Commercial and industrial	—	—	—	—	—
Municipal leases	—	—	—	—	—
Total foreclosed assets	5,956	7,024	14,661	11,738	16,130
Total nonperforming assets	$24,474	$31,878	$52,581	$80,299	$80,311
Total nonperforming assets as a percentage of total assets	0.90 %	1.15 %	2.53 %	5.07 %	4.67 %
Performing Troubled Debt Restructurings	$28,263	$21,891	$22,179	$14,012	$20,588

(1) Purchased credit impaired ("PCI") loans totaling $6,607 at June 30, 2016, $8,158 at June 30, 2015, and $9,091 at June 30, 2014 are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations. There were no PCI loans prior to 2014.

For the years ended June 30, 2016 and 2015, gross interest income which would have been recorded had the nonaccruing loans been current in accordance with their original terms amounted to $1.2 million and $2.0 million, respectively. The amount that was included in interest income on such loans was $1.1 million and $2.7 million, respectively. At June 30, 2016, $24.3 million in impaired loans were individually evaluated for impairment; $686,000 of the allowance for loan losses was allocated to these individually impaired loans at period-end. A loan is impaired when it is probable, based on current information and events, that we will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreements. Troubled debt restructurings are also considered impaired. Impaired loans are measured on an individual basis for individually significant loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

We record real estate owned ("REO") (property acquired through a lending relationship) at fair value less cost to sell on a non-recurring basis. All REO properties are recorded at amounts which are equal to the lower of the related loan balance or the fair value of the properties based on independent appraisals (reduced by estimated selling costs) upon transfer of the loans to REO. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed to operations. For the years ended June 30, 2016 and 2015, we recognized $318,000 and $406,000, respectively, of REO impairment charges.

Within our nonaccruing loans, as of June 30, 2016 we had a total of three nonaccrual lending relationships, each with aggregate loan exposures in excess of $1.0 million that collectively comprised $3.1 million, or 16.7% of our total nonaccruing loans. The single largest relationship was $1.1 million at that date. Our nonaccruing loan exposures in excess of $1.0 million are included in the following table (dollars in thousands):

Amount	Percent of Total Nonaccruing Loans		Collateral Securing the Indebtedness	Geographic Location
$1,072	5.79	%	1st Lien on one-to-four family residential real estate	Rutherford County, NC
1,022	5.52		1st Lien on improved commercial land	Buncombe County, NC
1,000	5.40		1st Lien on business equipment	Sullivan County, TN
$3,094	16.71	%		

At June 30, 2016, we had $6.0 million of REO, the largest of which had a book value of $877,000 and is related to a commercial/residential construction and development project located in Duncan, SC. The second and third largest REO properties at June 30, 2016 consist of undeveloped land located in Anderson County, TN and commercial real estate located in Boiling Springs, NC with book values of $756,000 and $648,000, respectively. At June 30, 2016 all other REO properties have individual book values of less than $400,000.

REO decreased $1.1 million, to $6.0 million at June 30, 2016 primarily due to the sale of $3.0 million in REO, partially offset by $2.2 million in transfers from loans. The total balance of REO included $3.9 million in land, construction and development projects (both residential and commercial), $1.2 million in commercial real estate, and $824,000 in single-family homes at June 30, 2016.

In fiscal 2016, we liquidated $6.3 million in REO based on contractual loan values at the time of foreclosure, realizing $2.8 million in net proceeds, or 44.2%, of the foreclosed contractual loan balances. As of June 30, 2016, the book value of our REO, expressed as a percentage of the related contractual loan balances at the time the properties were transferred to REO was 38.1%.

Other Loans of Concern. In addition to the nonperforming assets set forth in the table above, as of June 30, 2016, there were 491 accruing loans totaling $59.6 million with respect to which known information about the possible credit problems of the borrowers have caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the nonperforming asset categories. These loans have been considered in management's determination of our allowance for loan losses.

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

When we classify a problem asset as either substandard or doubtful, we may establish a specific allowance for loan losses in an amount deemed prudent by management. When we classify problem assets as "loss," we either establish a specific allowance for losses equal to 100% of that portion of the asset so classified or charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by our bank regulators, which may order the establishment of additional general or specific loss allowances. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weakness are designated by us as "special mention."

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We regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets, at June 30, 2016, our classified assets (consisting of $53.0 million of loans and $6.0 million of REO) totaled $58.9 million, or 2.17%, of our assets, of which $18.5 million was included in nonaccruing loans. The aggregate amounts of our classified assets and special mention loans at the dates indicated (as determined by management), were as follows:

	At June 30,	
	2016	2015
Classified Assets:	(In thousands)	
Loss	$48	$56
Doubtful	1,375	2,539
Substandard – performing	33,826	48,271
– nonaccruing	17,704	23,243
Total classified loans	52,953	74,109
REO	5,956	7,024
Total classified assets	58,909	81,133
Special mention loans	25,144	36,972
Total classified assets and special mention loans	$84,053	$118,105

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses in our loan portfolio to the extent they are reasonable to estimate. The allowance is maintained through provisions for loan losses that are charged to earnings in the period they are established. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged off are added back to the allowance.

In recent years, home and lot sales activity and real estate values have improved along with general economic conditions in our market areas resulting in materially lower loan charge-offs and nonaccruing loans than in prior fiscal years. Proactively managing our loan portfolio and aggressively resolving troubled assets has been and will continue to be a primary focus for us. As a result, our nonperforming assets declined substantially over the last two years. At June 30, 2016, our nonaccruing loans decreased to $18.5 million as compared to $24.9 million at June 30, 2015, and $37.9 million at June 30, 2014. At June 30, 2016, $8.1 million, or 43.7%, of our total nonaccruing loans were current on their loan payments as compared to $8.5 million, or 34.3%, of total nonaccruing loans at June 30, 2015. During fiscal 2016 classified assets decreased $22.2 million, or 27.4%, to $58.9 million and delinquent loans (loans delinquent 30 days or more) decreased $10.4 million, or 34.7%, to $19.5 million at June 30, 2016. There were $1.1 million and $1.2 million in net loan charge-offs during the fiscal years ended June 30, 2016 and 2015, respectively. There was no provision for loan losses during fiscal 2016 as compared to $150,000 during fiscal 2015. We did not record a loan loss provision in fiscal 2016 as our improved risk profile, as indicated by the improvement in our key credit quality metrics, offset any additional allowance that might have been required to cover loan growth. Although we continue to actively engage our borrowers in resolving remaining problem assets, future additions to our allowance for loan losses will be meaningfully influenced by the course of economic conditions in our primary market areas as well as the national economy.

At June 30, 2016, our allowance for loan losses was $21.3 million, or 1.16%, of our total loan portfolio, and 115.0% of total nonaccruing loans. Excluding loans acquired, which have been recorded at fair value with an appropriate credit discount, the allowance for loan losses was 1.32% of total loans at June 30, 2016. Management’s estimation of an appropriate allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. The level of allowance is based on estimates and the ultimate losses may vary from these estimates. Large groups of smaller balance homogeneous loans, such as residential real estate, small commercial real estate, home equity and consumer loans, are evaluated in the aggregate using historical loss factors adjusted for current economic conditions. Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received. In the opinion of management, the allowance, when taken as a whole, reflects estimated loan losses in our loan portfolio.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Future additions to the allowance for loan losses may be necessary if economic and other conditions in the future differ substantially from the current operating environment. In addition, the Federal Reserve and the NCCOB as an integral part of their examination process periodically review our loan and REO portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The regulators may require the allowance for loan losses or the valuation allowance for foreclosed real estate to be increased based on their review of information available at the time of the examination, which would negatively affect our earnings.

The following table summarizes the distribution of the allowance for loan losses by loan category at the dates indicated.

	At June 30, 2016 Amount	Percent of loans in each category to total loans	2015 Amount	Percent of loans in each category to total loans	2014 Amount	Percent of loans in each category to total loans	2013 Amount	Percent of loans in each category to total loans	2012 Amount	Percent of loans in each category to total loans
	(Dollars in thousands)									
Allocated at end of period to:										
Retail consumer loans:										
One-to-four family	$6,595	34.04 %	$7,990	38.61 %	$10,527	44.09 %	$15,098	51.69 %	$14,557	50.36 %
Home equity - originated	1,997	8.91	1,777	9.56	2,487	9.90	3,827	10.77	3,531	11.61
Home equity - purchased	558	7.88	432	4.27	—	—	—	—	—	—
Construction and land/lots	1,344	2.08	1,822	2.73	2,420	3.95	2,890	4.42	2,955	4.35
Indirect auto finance	1,016	5.92	464	3.11	113	0.59	—	—	—	—
Consumer	61	0.25	128	0.22	184	0.42	138	0.29	129	0.31
Commercial loans:										
Commercial real estate	6,430	26.55	6,339	26.20	5,439	25.21	6,583	19.81	6,454	19.37
Construction and development	1,908	4.74	1,581	3.83	1,241	3.78	2,399	2.06	6,253	3.44
Commercial and industrial	721	4.00	1,104	5.03	249	4.97	156	0.98	315	1.18
Municipal leases	662	5.63	737	6.44	769	7.09	982	9.98	906	9.38
Total loans	$21,292	100.00%	$22,374	100.00%	$23,429	100.00%	$32,073	100.00%	$35,100	100.00%

The following table sets forth an analysis of our allowance for loan losses at the dates and for the periods indicated.

	Years Ended June 30,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance at beginning of period:	$22,374	$23,429	$32,073	$35,100	$50,140
Provision for (recovery of) loan losses	—	150	(6,300)	1,100	15,600
Charge-offs:					
Retail consumer loans:					
One-to-four family	799	1,878	3,269	1,855	9,355
Home equity - originated	94	551	330	1,023	3,573
Construction and land/lots	321	483	804	770	3,690
Indirect auto finance	281	107	—	—	—
Consumer	168	274	33	67	131
Total retail consumer loans	1,663	3,293	4,436	3,715	16,749
Commercial loans:					
Commercial real estate	200	704	413	1,624	3,083
Construction and development	259	368	377	1,568	12,770
Commercial and industrial	1,582	495	110	84	210
Municipal leases	—	—	—	—	—
Total commercial loans	2,041	1,567	900	3,276	16,063
Total charge-offs	3,704	4,860	5,336	6,991	32,812
Recoveries:					
Retail consumer loans:					
One-to-four family	683	758	875	617	120
Home equity - originated	157	231	153	95	59
Construction and land/lots	44	95	624	137	183
Indirect auto finance	58	34	—	—	—
Consumer	292	91	10	5	—
Total retail consumer loans	1,234	1,209	1,662	854	362
Commercial loans:					
Commercial real estate	883	479	120	252	1,202
Construction and development	265	1,311	1,052	1,656	516
Commercial and industrial	240	656	159	102	92
Municipal leases	—	—	—	—	—
Total commercial loans	1,388	2,446	1,331	2,010	1,810
Total recoveries	2,622	3,655	2,993	2,864	2,172
Net charge-offs	1,082	1,205	2,343	4,127	30,640
Balance at end of period	$21,292	$22,374	$23,429	$32,073	$35,100
Net charge-offs during the period to average loans outstanding during the period [1]	0.06 %	0.07 %	0.19 %	0.34 %	2.34 %
Net charge-offs during the period to average non-performing assets [1]	3.77 %	2.89 %	3.40 %	4.99 %	38.73 %
Allowance as a percentage of nonperforming assets	87.00 %	70.19 %	44.56 %	39.94 %	43.71 %
Allowance as a percentage of total loans[2]	1.16 %	1.33 %	1.56 %	2.75 %	2.85 %

(1) In accordance with regulatory guidance, we charged-off $16.7 million related to impaired loans for which we previously had recorded valuation allowances for the year ended June 30, 2012.

(2)

Excluding loans acquired, which have been recorded at fair value with an appropriate credit discount, the allowance for loan losses was 1.32%, 1.58%, and 2.05% of total loans at June 30, 2016, 2015, and 2014, respectively.

Investment Activities

The Bank invests in various securities based on investment policies that have been approved by our board of directors and adhere to bank regulations. These securities include: United States Treasury obligations, securities of various federal agencies, including mortgage-backed securities, callable agency securities, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, investment grade corporate bonds and commercial paper, federal funds, and limited types of equity securities. See "How We Are Regulated - HomeTrust Bank" for a discussion of additional restrictions on our investment activities.

Our chief executive officer and chief financial officer have the basic responsibility for the management of our investment portfolio, subject to the direction and guidance of the board of directors. These officers consider various factors when making decisions, including the marketability, maturity, and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds via deposit withdrawals and loan originations and purchases.

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to optimize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk, and interest rate risk. At June 30, 2016, our investment portfolio consisted primarily of U.S. government agency securities and mortgage-backed securities all held as available for sale. We currently do not have any investments held to maturity or for trading.

These securities are of high quality, possess minimal credit risk, and have an aggregate market value in excess of total amortized cost as of June 30, 2016. For more information, please see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset/Liability Management" and Note 3 of the Notes to Consolidated Financial Statements contained in Item 8 in this report.

The Company began purchasing commercial paper during fiscal 2015 in conjunction with its short-term leverage strategy, to take advantage of higher returns with relatively low risk, yet remain highly liquid. The commercial paper balance at June 30, 2016 was $229.9 million. Our securities available for sale increased significantly in fiscal 2015 primarily due to the acquisition of ten branch banking locations in Virginia and North Carolina from Bank of America Corporation and additional funds from FHLB borrowings. For more information, please see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Financial Condition at June 30, 2015 and June 30, 2014" and Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 in this report.

We do not currently participate in hedging programs, stand-alone contracts for interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments and have no present intention to do so. Further, we do not invest in securities which are not rated investment grade.

As a member of the FHLB of Atlanta, we had $23.3 million in stock of the FHLB of Atlanta at June 30, 2016. For the years ended June 30, 2016 and 2015, we received $1.1 million and $562,000, respectively, in dividends from the FHLB of Atlanta. As a member bank of the Federal Reserve, the Bank is required to maintain stock in the Federal Reserve Bank of Richmond ("FRB"). At June 30, 2016 we had $6.2 million in FRB stock. For the years ended June 30, 2016 and 2015, we received $370,000 and $313,000, respectively, in dividends from the FRB.

The following table sets forth the composition of our securities portfolio and other investments at the dates indicated. All securities at the dates indicated have been classified as available for sale. At June 30, 2016, our securities portfolio did not contain securities of any issuer with an aggregate book value in excess of 10% of our equity capital, excluding those issued by the United States government or its agencies or United States government sponsored entities.

	At June 30,					
	2016		2015		2014	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)					
Securities available for sale:						

U.S. government agencies	$77,356	$77,980	$115,683	$116,071	$38,085	$38,093
Mortgage-backed securities	95,668	97,408	120,294	120,809	111,455	111,436
Municipal bonds	16,242	17,234	16,359	16,678	15,951	16,220
Corporate bonds	7,773	7,967	3,889	3,985	2,912	3,025
Equity securities	63	63	63	63	—	—
Total securities available for sale	197,102	200,652	256,288	257,606	168,403	168,774
FHLB stock	23,304	23,304	22,541	22,541	3,697	3,697
FRB stock	6,182	6,182	6,170	6,170	—	—
Total securities	$226,588	$230,138	$284,999	$286,317	$172,100	$172,471

The composition and contractual maturities of our investment securities portfolio as of June 30, 2016, excluding equity securities, FHLB, and FRB stock, are indicated in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	June 30, 2016				
	1 year or less	Over 1 year to 5 years	Over 5 to 10 years	Over 10 years	Total
Securities available for sale:	(Dollars in thousands)				
U.S. government agencies:					
Amortized cost	$—	$72,970	$4,386	$—	$77,356
Fair value	—	73,334	4,646	—	77,980
Weighted average yield	— %	1.16 %	2.56 %	— %	1.24 %
Mortgage-backed securities					
Amortized cost	7	2,185	20,712	72,764	95,668
Fair value	7	2,226	20,937	74,238	97,408
Weighted average yield	2.77 %	1.85 %	1.58 %	2.03 %	1.93 %
Municipal bonds					
Amortized cost	—	4,176	9,104	2,962	16,242
Fair value	—	4,250	9,761	3,223	17,234
Weighted average yield	— %	1.94 %	3.50 %	3.65 %	3.13 %
Corporate bonds					
Amortized cost	407	2,578	4,788	—	7,773
Fair value	411	2,706	4,850	—	7,967
Weighted average yield	2.65 %	4.06 %	2.52 %	— %	3.04 %
Total securities					
Amortized cost	$414	$81,909	$38,990	$75,726	$197,039
Fair value	$418	$82,516	$40,194	$77,461	$200,589
Weighted average yield	2.65 %	1.31 %	2.25 %	2.09 %	1.80 %

Sources of Funds

General. Our sources of funds are primarily deposits, borrowings, payments of principal and interest on loans, and funds provided from operations.

Deposits. We offer a variety of deposit accounts with a wide range of interest rates and terms to both consumers and businesses. Our deposits consist of savings, money market and demand accounts, and certificates of deposit ("CDs"). We solicit deposits primarily in our market areas. At June 30, 2016, 2015 and 2014, we had $13.6 million, $14.5 million, and $14.9 million in brokered deposits, respectively, which included certificates of deposit made under our participation in the Certificate of Deposit Account Registry Service® (“CDARS”). Through CDARS, we can provide a depositor the ability to place up to $50.0 million on deposit with us while receiving FDIC insurance on the entire deposit by placing customer funds in excess of the FDIC deposit limits with other financial institutions in the CDARS network. In return, these financial institutions place customer funds with us on a reciprocal basis. As of June 30, 2016, core deposits, which we define as our non-certificate or non-time deposit accounts, represented approximately 75.4% of total deposits.

We primarily rely on competitive pricing policies, marketing, and customer service to attract and retain deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The variety of deposit accounts we offer has allowed us to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. We have become more susceptible to short-term fluctuations in deposit flows as customers have become more interest rate conscious. We try to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to competitive factors. Based on our experience, we believe that our deposits are relatively stable sources of funds. Despite this stability, our ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions.

A large percentage of our deposits are in CDs. Our liquidity could be reduced if a significant amount of CDs, maturing within a short period of time, were not renewed. Historically, a significant portion of our CDs remain with us after they mature and we believe that this will continue. However, the need to retain these time deposits could result in an increase in our cost of funds.

The following table sets forth our deposit flows during the periods indicated.

	Years Ended June 30,		
(Dollars in thousands)	2016	2015	2014
Beginning balance	$1,872,126	$1,583,047	$1,154,750
Deposits acquired from business combination	—	422,596	466,463
Net deposits withdrawals	(73,961)	(138,409)	(43,430)
Interest credited	4,531	4,892	5,264
Ending balance	$1,802,696	$1,872,126	$1,583,047
Net increase (decrease)	$(69,430)	$289,079	$428,297
Percent increase (decrease)	(3.71)%	18.26%	37.09%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by us at the dates indicated.

	2016		2015		2014	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)						
Transaction and Savings Deposits:						
Interest-bearing checking	$403,574	22.39 %	$387,379	20.69 %	$295,386	18.66 %
Noninterest-bearing checking	225,336	12.50	204,050	10.90	123,285	7.79
Savings	210,817	11.70	221,674	11.84	175,974	11.12
Money market	520,320	28.86	481,948	25.74	354,247	22.38
Total non-certificates	$1,360,047	75.45 %	$1,295,051	69.18 %	$948,892	59.94 %
Certificates:						
0.00-0.99%	$385,342	21.38 %	$473,539	25.29 %	$480,437	30.35 %
1.00-1.99%	40,841	2.27	64,126	3.43	107,730	6.81
2.00-2.99%	2,760	0.15	24,915	1.33	33,660	2.13
3.00-3.99%	9,275	0.51	10,065	0.54	7,900	0.50
4.00-4.99%	4,427	0.25	4,426	0.24	4,428	0.28
5.00% and over	4	—	4	—	—	—
Total certificates	$442,649	24.55 %	$577,075	30.82 %	$634,155	40.06 %
Total deposits	$1,802,696	100.00 %	$1,872,126	100.00 %	$1,583,047	100.00 %

The following table shows rate and maturity information for our CDs at June 30, 2016

	0.00-0.99%	1.00-1.99%	2.00-2.99%	3.00-3.99%	4.00-4.99%	5.00% or greater	Total	Percent of Total
	(In thousands)							
Quarter ending:								
September 30, 2016	$153,807	$7,130	$759	$3,998	$—	$ —	$165,694	37.6 %
December 31, 2016	61,509	6,634	2	2	—	2	68,149	15.4
March 31, 2017	48,608	4,288	—	—	—	—	52,896	11.9
June 30, 2017	34,636	4,150	—	—	—	—	38,786	8.8
September 30, 2017	15,471	4,570	—	3	—	—	20,044	4.5
December 31, 2017	12,128	3,436	—	—	—	—	15,564	3.5
March 31, 2018	7,904	3,728	—	95	—	—	11,727	2.6
June 30, 2018	8,183	1,466	—	51	12	—	9,712	2.2
September 30, 2018	5,989	1,145	—	99	—	—	7,233	1.6
December 31, 2018	5,239	552	5	—	—	—	5,796	1.3
March 31, 2019	3,964	765	—	—	—	—	4,729	1.1
June 30, 2019	3,915	1,499	—	—	—	—	5,414	1.2
Thereafter	23,989	1,478	1,994	5,027	4,415	2	36,905	8.3
Total	$385,342	$40,841	$2,760	$9,275	$4,427	$ 4	$442,649	100.0%
Percent of total	87.1 %	9.2 %	0.6 %	2.1 %	1.0 %	— %	100.0 %	

The following table indicates the amount of our CDs by time remaining until maturity as of June 30, 2016.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
	(In thousands)				
CDs less than $100,000	$95,648	$39,799	$55,384	$66,448	$257,279
CDs of $100,000 or more	68,360	27,399	34,281	48,900	178,940
Public funds[(1)]	1,686	951	2,017	1,776	6,430
Total certificates of deposit	$165,694	$68,149	$91,682	$117,124	$442,649

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(1) Deposits from government and other public entities.

Borrowings. Although deposits are our primary source of funds, we may utilize borrowings to manage interest rate risk or as a cost-effective source of funds when they can be invested at a positive interest rate spread for additional capacity to fund loan demand according to our asset/liability management goals. Our borrowings consist of advances from the FHLB of Atlanta. In November 2014, management made a strategic decision to increase our borrowings of low-cost FHLB funds to generate additional net interest income with the proceeds, as well as dividend income from the required purchase of additional FHLB stock.

We may obtain advances from the FHLB of Atlanta upon the security of certain of our mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features, and all long-term advances are required to provide funds for residential home financing. As of June 30, 2016, we had $491.0 million in FHLB advances outstanding and the ability to borrow an additional $63.7 million. In addition to FHLB advances, at June 30, 2016 we had a $186.5 million line of credit with the FRB, subject to qualifying collateral, and $60.0 million available through lines of credit with three unaffiliated banks. See Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for more information about our borrowings.

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The following tables set forth information regarding our borrowings at the end of and during the periods indicated.

	Year ended June 30,		
	2016	2015	2014
	(Dollars in thousands)		
Maximum balance:			
Federal Home Loan Bank advances	$507,000	$475,000	$55,939
Average balances:			
Federal Home Loan Bank advances	$482,576	$245,464	$6,109
Weighted average interest rate:			
Federal Home Loan Bank advances	0.31 %	0.20 %	0.20 %

	At June 30,		
	2016	2015	2014
	(Dollars in thousands)		
Balance outstanding at end of period:			
Federal Home Loan Bank advances	$491,000	$475,000	$50,000
Weighted average interest rate:			
Federal Home Loan Bank advances	0.42 %	0.20 %	0.20 %

Subsidiary and Other Activities

HomeTrust Bank has one operating subsidiary, Western North Carolina Service Corporation (“WNCSC”), whose primary purpose is to own several office buildings in Asheville, North Carolina which are leased to HomeTrust Bank. Our capital investment in WNCSC as of June 30, 2016 was $919,000.

Employees

At June 30, 2016, we had a total of 421 full-time employees and 44 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good. Management also considers our employees to be a great team of highly engaged, competent and caring people who effectively deliver our brand promise to customers every day that "It's Just Better Here." Their performance creates word-of-mouth referrals that result in the growth of new customers and expanded customer relationships.

Internet Website

We maintain a website with the address www.hometrustbancshares.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor’s own Internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the SEC.

HOW WE ARE REGULATED

General. HomeTrust Bancshares, Inc. is subject to examination and supervision by, and is required to file certain reports with, the Federal Reserve. HomeTrust Bancshares, Inc. is also subject to the rules and regulations of the SEC under the federal securities laws.

The Bank is subject to examination and regulation primarily by the NCCOB and the Federal Reserve. This system of regulation and supervision establishes a comprehensive framework of activities in which the Bank may engage and is intended primarily for the protection of depositors and the FDIC deposit insurance fund. The Bank is periodically examined by the NCCOB and the Federal Reserve to ensure that it satisfies applicable standards with respect to its capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. The NCCOB and the Federal Reserve also regulates the branching authority of the Bank. The Bank’s relationship with its depositors and borrowers is regulated by federal consumer protection laws. The CFPB issues regulations under those laws that the Bank must comply with. The Bank’s relationship with its depositors and borrowers is also regulated by state laws with respect to certain matters, including the enforceability of loan documents.

On August 25, 2014, the Bank converted from a federal savings bank to a national bank. In connection with the conversion of the Bank, HomeTrust Bancshares, Inc. changed from a savings and loan holding company to a bank holding company, regulated under the Bank Holding Company Act ("BHCA"). On December 31, 2015, the Bank converted from a national bank to a North Carolina state-chartered bank and remained a member of the Federal Reserve System. Prior to December 31, 2015, the Bank was regulated by the OCC. In connection with the recent charter change, the Company elected to be treated as a financial holding company.

The following is a brief description of certain laws and regulations applicable to HomeTrust Bancshares, Inc. and the Bank. Descriptions of laws and regulations here and elsewhere in this report do not purport to be complete and are qualified in their entirety by reference to the actual laws and regulations. Legislation is introduced from time to time in the United States Congress that may affect the operations of HomeTrust Bancshares and the Bank. In addition, the regulations that govern us may be amended from time to time. Any such legislation or regulatory changes in the future could adversely affect our operations and financial condition.

Financial Regulatory Reform. The Dodd-Frank Act, which was enacted in July 2010, imposed new restrictions and an expanded framework of regulatory oversight for financial entities, including depository institutions and their holding companies.

The following summarizes significant aspects of the Dodd-Frank Act that may materially affect the operations and condition of HomeTrust Bank and HomeTrust Bancshares:

- Dodd-Frank Act established the CFPB and empowered it to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. HomeTrust Bank is subject to consumer protection regulations issued by the CFPB, but as a smaller financial institution, HomeTrust Bank is generally subject to NCCOB supervision and enforcement with respect to its compliance with federal consumer financial protection laws and CFPB regulations.
- Bank holding companies are required to serve as a source of strength for their banking subsidiaries.
- The federal banking agencies were required to promulgate new rules on regulatory capital, for both depository institutions, and their holding companies. These are described below.
- The prohibition on payment of interest on demand deposits was repealed.
- Deposit insurance was permanently increased to $250,000.
- The deposit insurance assessment base for FDIC insurance became the depository institution's total average assets minus the sum of its average tangible equity during the assessment period, rather than the level of deposits.
- The minimum reserve ratio of the FDIC deposit insurance fund increased to 1.35% of estimated annual insured deposits or assessment base; however, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10.0 billion.

Regulation of HomeTrust Bank

The Bank is subject to regulation and oversight by the NCCOB and the Federal Reserve extending to all aspects of its operations, including but not limited to requirements concerning an allowance for loan losses, lending and mortgage operations, interest rates received on loans and paid on deposits, the payment of dividends to the Company, loans to officers and directors, mergers and acquisitions, capital, and the opening and closing of branches. See "- Current Capital Requirements for HomeTrust Bank," "-Limitations on Dividends and Other Capital Distributions" and “-New Capital Rules” for additional details.

As a state-chartered institution, the Bank is subject to periodic examinations by the NCCOB and the Federal Reserve. During these examinations, the examiners assess compliance with state banking regulations and the safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure, and employee compensation and benefits. Any institution that fails to comply with these standards must submit a compliance plan.

The Bank is subject to a statutory lending limit on aggregate loans to one person or a group of persons combined because of certain relationships and common interests. That limit is generally equal to 15% of unimpaired capital and surplus, which was $45.3 million as of June 30, 2016. The limit is increased to 25% for loans fully secured by readily marketable collateral. The Bank has no lending relationships in excess of its lending limit.

The NCCOB and the Federal Reserve have enforcement responsibility over the Bank and the authority to bring actions against the Bank and certain institution-affiliated parties, including officers, directors, and employees, for violations of laws or regulations and for engaging in unsafe and unsound practices. Formal enforcement actions include the issuance of a capital directive or cease and desist order, civil money penalties, removal of officers and/or directors, and receivership or conservatorship of the institution.

Pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the "Volcker Rule"). These rules became effective April 15, 2014, with a conformance period for certain features lasting until July 21, 2015. Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliates from engaging in short-term proprietary trading of certain securities, investing in funds not registered with the SEC with collateral not entirely comprised of loans, and from engaging in hedging activities that do not hedge a specific identified risk.

Insurance of Accounts and Regulation by the FDIC. The deposit insurance fund of the FDIC insures deposit accounts in HomeTrust Bank up to $250,000 per separately insured deposit ownership right or category. The FDIC may initiate an action for termination of deposit insurance, if it is deemed warranted based on violations or other unsafe and unsound conduct at the institution.

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio (the ratio of the net worth of the fund to aggregate insured deposits). The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The FDIC is required to offset the effect of the increase in the reserve ratio on institutions with assets less than $10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio, known as the designated reserve ratio or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

Implementing the Dodd-Frank Act requirement that the FDIC's deposit insurance assessments be based on assets instead of deposits, the FDIC has issued rules specifying that specify that the assessment base for a bank is equal to its total average consolidated assets less average tangible equity. Until the FDIC's reserve ratio reaches 1.15%, the FDIC assessment rates for an institution with assets of less than $10 billion (like the Bank) generally range from approximately 2.5 basis points to 45 basis points, depending on applicable adjustments. Effective for the quarter beginning July 1, 2016 or the quarter that begins after the reserve ratio reserve ratio reaches 1.15%, the assessment rates for such an institution will range from 3 to 30 basis points, based on the institution's weighted average CAMELS component ratings and certain financial ratios. These rates are subject to downward adjustment (not below 1.5 basis points) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment based on its holdings of unsecured debt issued by other insured institutions. Assessment rates are expected to decrease in the future as the reserve ratio increases in specified increments. To implement the offset requirement, FDIC regulations require that institutions with assets of $10 billion or more pay a surcharge during a temporary period, and smaller institutions will receive certain credits when the reserve ratio reaches 1.38%. No institution may pay a dividend if it is in default on its federal deposit insurance assessment.

Transactions with Related Parties. Transactions between the Bank and its affiliates are required to be on terms as favorable to the Bank as transactions with non-affiliates. Certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the Bank's capital, and loans to affiliates require eligible collateral in specified amounts. HomeTrust Bancshares, Inc is an affiliate of the Bank.

Federal law generally prohibits loans by HomeTrust Bancshares to its executive officers and directors, but there is a specific exception for loans made by HomeTrust Bank to its executive officers and directors in compliance with federal banking laws. However, HomeTrust Bank's authority to extend credit to its executive officers, directors and 10% shareholders ("insiders"), as well as entities those insiders control, is limited. The individual and aggregate amounts of loans that HomeTrust Bank may make to insiders are based, in part, on HomeTrust Bank's capital level and require that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Current Capital Requirements for HomeTrust Bank. The Bank is required to maintain specified levels of regulatory capital under federal banking regulations. The capital adequacy requirements are quantitative measures established by regulation that require the Bank to maintain minimum amounts and ratios of capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by bank regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Institutions that are not well capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits. Under certain circumstances, regulators are required to take certain actions against banks that fail to meet the minimum ratios for an "adequately capitalized institution." Any such institution must submit a capital restoration plan and, until such plan is approved may not increase its assets, acquire another depository institution, establish a branch or engage in any new activities, or make capital distributions.

Beginning on January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements established by the Federal Reserve and adopted by the NCCOB, which create a new required ratio for common equity Tier 1 ("CET1") capital, increase the leverage and Tier 1 capital ratios, change the risk-weightings of certain assets for purposes of the risk-based capital ratios, and change what qualifies as capital for purposes of meeting these various capital requirements. The Bank is also required to maintain additional levels of Tier 1 common equity (the capital conservation buffer) over the minimum risk-based capital levels before it may pay dividends, repurchase shares, or pay discretionary bonuses.

The new minimum requirements are a ratio of common equity Tier 1 capital (CET1 capital) to total risk-weighted assets the (“CET1 risk-based ratio”) of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0%, and a leverage ratio of 4.0%.

The term "CET1" means generally common stock and retained earnings.
The term "leverage ratio" means the ratio of Tier 1 capital to adjusted total assets. The term "Tier 1 capital ratio" means the ratio of Tier 1 capital to risk-weighted assets. The term "total capital ratio" means the ratio of total capital to risk-weighted assets.
The term "Tier 1 capital" generally consists of CET1 and certain noncumulative perpetual preferred stock and related earnings, and excludes most intangible assets.
"Total capital" consists of the sum of an institution's Tier 1 capital and its Tier 2 capital. Tier 2 capital consists generally of certain cumulative and other perpetual preferred stock, certain subordinated debt and other maturing capital instruments, the amount of the institution's allowance for loan and lease losses up to 1.25% of risk-weighted assets and certain unrealized gains on equity securities.
In addition to the capital requirements, there are a number of changes in what constitutes regulatory capital, subject to a certain transition period. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not have any of these instruments. Mortgage

servicing and deferred tax assets over designated percentages of CET1 are deducted from capital, subject to a transition period ending December 31, 2017. Because of our asset size, we are not considered an advanced approaches banking organization and have elected to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt and equity securities in our capital calculations.

The new requirements also include changes in the risk-weighting of assets to better reflect credit risk and other risk exposure. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; and a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1 and total risk-based capital ratios, the Bank must maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

Under the FDIC's prompt corrective action regulations, a bank is deemed to be "well-capitalized" when its CET1, Tier 1, total risk-based, and leverage capital ratios are at least 6.5% (new), 8% (increased from 6%), 10% (unchanged), and 5% (unchanged), respectively. A bank is deemed to be “adequately capitalized” or better if its capital ratios meet or exceed the minimum federal regulatory capital requirements, and “undercapitalized” if it fails to meet these minimal capital requirements. A bank is “significantly undercapitalized” if its CET1, Tier 1, total risk-based and leverage capital ratios fall below 3%, 4%, 6%, and 3%, respectively and “critically undercapitalized” if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%. See Footnote 18 "Capital" in Part II, Item 8 of this report for additional details.

At June 30, 2016, the Bank was considered a "well-capitalized" institution under both state and federal regulations.

Community Reinvestment and Consumer Protection Laws. In connection with its deposit-taking, lending and other activities, the Bank is subject to a number of federal laws designed to protect consumers and promote lending to various sectors of the economy and population. The CFPB issues regulations and standards under these federal consumer protection laws, which include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act and others. The CFPB has promulgated a number of proposed and final regulations under these laws that will affect our consumer businesses. Among these regulatory initiatives, are final regulations setting “ability to repay” and “qualified mortgage” standards for residential mortgage loans and establishing new mortgage loan servicing and loan originator compensation standards. The Bank is evaluating these recent CFPB regulations and proposals and devotes substantial compliance, legal and operational business resources to ensure compliance with these consumer protection standards. In addition, customer privacy regulations limit the ability of the Bank to disclose nonpublic consumer information to non-affiliated third parties. These regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties.

The CRA requires that the Federal Reserve assess the Bank's record in meeting the credit needs of the communities it serves, especially low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received an "outstanding" rating in its most recent CRA evaluation.

Bank Secrecy Act / Anti-Money Laundering Laws. The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

Limitations on Dividends. NCCOB and the Federal Reserve regulations impose various restrictions on the ability of the Bank to pay dividends. The Bank generally may pay dividends during any calendar year in an amount up to 100% of net income for the year-to-date plus retained net income for the two preceding years, without the approval of the Federal Reserve. If the Bank proposes to pay a dividend that will exceed this limitation, it must obtain the Federal Reserve's prior approval. The Federal Reserve may object to a proposed dividend based on safety and soundness concerns. No insured depository institution may pay a dividend if, after paying the dividend, the institution would be undercapitalized. In addition, as noted above, beginning in 2016, if the Bank does not have the required capital conservation buffer, its ability to pay dividends to HomeTrust Bancshares, Inc. will be limited.

Holding Company Regulation

As a bank holding company under the BHCA, HomeTrust Bancshares, Inc. is subject to regulation, supervision, and examination by the Federal Reserve. The Federal Reserve has enforcement authority with respect to HomeTrust Bancshares, Inc. similar to its enforcement authority over the Bank. Applicable federal law and regulations limit the activities of HomeTrust Bancshares, Inc. and require the approval of (or in some cases, notice to) the Federal Reserve for any acquisition of a subsidiary, including another financial institution or holding company thereof, or a merger or acquisition of HomeTrust Bancshares, Inc. HomeTrust Bancshares, Inc. must serve as a source of strength for the Bank, maintaining the ability to provide financial assistance if the Bank suffers financial distress. These and other Federal Reserve policies may restrict the ability of HomeTrust Bancshares, Inc. to pay dividends. In addition, dividends from HomeTrust Bancshares, Inc. may depend, in part, upon its receipt of dividends from the Bank. As noted below, beginning in 2016, if HomeTrust Bancshares, Inc. does not have the required capital conservation buffer or otherwise meet its new capital requirements, its ability to pay dividends to its stockholders will be limited.

A bank holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemption during the preceding 12 months, is equal to 10% or more of the company’s consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order, or any condition imposed by, or written agreement with, the Federal Reserve. This notification requirement does not apply to any company that meets the well-capitalized standard for bank holding companies, is well-managed, and is not subject to any unresolved supervisory issues.

Permissible Activities. The business activities of HomeTrust Bancshares, Inc. are generally limited to those activities permissible for bank holding companies under Section 4(c)(8) of the BHCA, those permitted for a financial holding company under Section 4(f) of the BHCA, and certain additional activities authorized by regulation. The BHCA generally prohibits a financial holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company. A bank holding company must obtain Federal Reserve approval before acquiring directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares).

Capital Requirements for HomeTrust Bancshares. As a bank holding company, HomeTrust Bancshares, Inc. is subject to the minimum regulatory capital requirements established by the Federal Reserve regulation, which parallels the requirements discussed above under "Current Capital Requirements for HomeTrust Bank." See Footnote 18 "Capital" in Part II, Item 8 of this report for additional details.

At June 30, 2016, the HomeTrust Bancshares, Inc. was considered a "well-capitalized" institution under Federal Reserve regulations.

Federal Securities Law. The stock of HomeTrust Bancshares, Inc is registered with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). HomeTrust Bancshares, Inc. is subject to the information, proxy solicitation, insider trading restrictions, and other requirements of the SEC under the Exchange Act.

The SEC has adopted regulations and policies applicable to a registered company under the Exchange Act that seek to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties and protect investors by improving the accuracy and reliability of corporate disclosures in SEC filings. These regulations and policies include very specific additional disclosure requirements and mandate new corporate governance practices.

On April 5, 2012, the JOBS Act was signed into law, which contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. We are an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, (the “Securities Act”), as modified by the JOBS Act. We are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, an exemption from the requirement of holding a non-binding advisory vote on executive compensation. In addition, we will not be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes Oxley Act”), including the additional level of review of our internal control over financial reporting as may occur when outside auditors attest as to our internal control over financial reporting. As a result, our stockholders may not have access to certain information they may deem important. Further, we are eligible to delay adoption of new or revised accounting standards applicable to public companies and we may take advantage of the benefits of this extended transition period, although to date we have not done so. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an “emerging growth company,” whichever is earlier. The five year exemption period will expire on June 30, 2018.

On October 28, 2015, the Auditing Standards Board of the American Institute of Certified Public Accountants ("AICPA") issued Statement on Auditing Standards ("SAS") No. 130 - An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statement. Under SAS 130, our auditors will be required to opine on the effectiveness of internal controls over financial reporting for the fiscal year ended June 30, 2017. Prior to SAS 130 and our status as an emerging growth company, our auditors had the option to examine and report on management's assertion about the effectiveness of internal control over financial reporting.

Federal Taxation

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

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on June 30th for filing its federal income tax return. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

Minimum Tax. The Internal Revenue Code ("IRC") imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of the regular tax. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. At June 30, 2016, we had alternative minimum tax credit carryforwards of approximately $4.2 million.

Net Operating Loss Carryovers. A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. In 2009, IRC 172 (b) (1) was amended to allow businesses to carry back losses incurred in 2008 and 2009 for up to five years to offset 50% of the available income from the fifth year and 100% of the available income for the other four years. At June 30, 2016, we had $62.2 million of net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. HomeTrust Bancshares, Inc. will elect to file a consolidated return with the Bank. As a result, any dividends HomeTrust Bancshares, Inc. receives from the Bank will not be included as income to HomeTrust Bancshares, Inc. The corporate dividends-received deduction is 100%, or 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payer of the dividend.

State Taxation

North Carolina. On July 24, 2013, The Tax Simplification and Reduction Act of 2013 was signed into law. With this act, corporate income tax rates in North Carolina were reduced as net General Fund tax collection revenues goals were met. For tax years beginning on or after January 1, 2016, 2015, and 2014 the tax rate was 4%, 5%, and 6%, respectively. In August 2016, the state announced the revenue goals had been met and the new rate for 2017 would be 3.0%. The decrease in the North Carolina corporate tax rate will continue to decrease the deferred tax assets currently recorded on our balance sheet with a corresponding increase to our income tax provision, as temporary tax differences are reversed at lower state tax rates.

If a corporation in North Carolina does business in North Carolina and in one or more other states, North Carolina taxes a fraction of the corporation’s income based on the amount of sales, payroll, and property it maintains within North Carolina. North Carolina franchise tax is levied on business corporations at the rate of $1.50 per $1,000 of the largest of the following three alternate bases: (i) the amount of the corporation’s capital stock, surplus, and undivided profits apportionable to the state; (ii) 55% of the appraised value of the corporation’s property in the state subject to local taxation; or (iii) the book value of the corporation’s real and tangible personal property in the state less any outstanding debt that was created to acquire or improve real property in the state.

Any cash dividends, in excess of a certain exempt amount, that would be paid with respect to HomeTrust Bancshares common stock to a shareholder (including a partnership and certain other entities) who is a resident of North Carolina will be subject to the North Carolina income tax. Any distribution by a corporation from earnings according to percentage ownership is considered a dividend, and the definition of a dividend for North Carolina income tax purposes may not be the same as the definition of a dividend for federal income tax purposes. A corporate distribution may be treated as a dividend for North Carolina income tax purposes if it is paid from funds that exceed the corporation’s earned surplus and profits under certain circumstances.

South Carolina. The state of South Carolina requires banks to file a bank tax return. As a multi-state bank, we pay taxes on the portion of revenue generated within the state. In 2016 and 2015 the tax rate was 4.5%.
Tennessee. The state of Tennessee requires banks to file a franchise and excise tax form for financial institutions. The franchise tax is based on the portion of revenue generated in the state, the net worth of the Bank, and the applicable franchise tax, which was $0.25 per $100 in 2016 and 2015. The excise tax is based on the taxable income (as defined by the state), the portion of revenue generated in the state, and the applicable excise tax, which was 6.5% in 2016 and 2015.
Virginia. The state of Virginia requires banks to file a bank franchise tax. The tax is based on the portion of capital deployed within the state and county level (as defined by the state) and taxed at $1 per $100 of taxable value. New banks are prorated based on the number of quarters in operation in the state during the year.

EXECUTIVE OFFICERS

The following individuals are executive officers of HomeTrust Bancshares and HomeTrust Bank and hold the offices set forth below opposite their names.

Name	Age(1)	Position
Dana L. Stonestreet	62	Chairman, President and Chief Executive Officer
Tony J. VunCannon	51	Executive Vice President, Chief Financial Officer and Treasurer
Howard L. Sellinger	63	Executive Vice President and Chief Information Officer
C. Hunter Westbrook	53	Executive Vice President and Chief Banking Officer
Teresa White	59	Executive Vice President, Chief Administration Officer and Corporate Secretary
Keith Houghton	54	Executive Vice President and Chief Credit Officer
Parrish Little	48	Executive Vice President and Chief Risk Officer

(1) As of June 30, 2016.

Biographical Information. Set forth below is certain information regarding the executive officers of HomeTrust Bancshares and HomeTrust Bank. There are no family relationships among or between the executive officers.

Dana L. Stonestreet, Chairman and Chief Executive Officer. As part of the CEO succession plan for HomeTrust Bancshares, Inc. and the Bank, Mr. Stonestreet, who had been serving as President and Chief Operating Officer and as a director of HomeTrust Bank since 2008 and as President and Chief Operating Officer of HomeTrust Bancshares, Inc. since HomeTrust Bank's mutual-to-stock conversion, became co-Chief Executive Officer of HomeTrust Bancshares, Inc. and the Bank in 2013. Mr. Stonestreet became President, Chairman and Chief Executive Officer of HomeTrust Bancshares, Inc. and the Bank effective at the annual meeting in November 2013. Mr. Stonestreet joined HomeTrust Bank in 1989 as its Chief Financial Officer and was promoted to Chief Operating Officer in 2003. Mr. Stonestreet began his career with Hurdman & Cranston (an accounting firm that was later merged into KPMG) as a certified public accountant. Mr. Stonestreet serves as a director of the HUB Community Economic Development Alliance Board. In addition, Mr. Stonestreet has served as Chairman of the Asheville Chamber of Commerce and as a director for RiverLink, the YMCA, United Way, the North Carolina Bankers Association and other community organizations. Mr. Stonestreet's 27 years of service with HomeTrust Bank gives him in-depth knowledge of nearly all aspects of its operations. Mr. Stonestreet's accounting background and prior service as HomeTrust Bank's Chief Financial Officer also provide him with a strong understanding of the various financial matters brought before the Board.

Tony J. VunCannon, Executive Vice President, Chief Financial Officer, and Treasurer. Mr. VunCannon has served as HomeTrust Bank's Chief Financial Officer since July 2006. Mr. VunCannon joined the Bank in April 1992 as Controller; later becoming the Treasurer in March 1997 until July 2006 when he was named Chief Financial Officer. Prior to joining the Bank, Mr. VunCannon worked as an auditor in KPMG's Charlotte office where his focus was in the community banking sector. Mr. VunCannon is a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science Degree in Business Administration/Accounting. He is also a Certified Public Accountant.

Howard L. Sellinger, Executive Vice President and Chief Information Officer. Mr. Sellinger has served as Chief Information Officer of HomeTrust Bank since July 1997. Mr. Sellinger joined HomeTrust Bank in 1975 as a management trainee. Mr. Sellinger became the Office Manager of the Skyland office from 1976 until 1978. His experience also includes being the Head of Mortgage Loan Operations with loan approval authority, the Head of Loan Servicing with workout approval authority, and was responsible for regulatory compliance in Lending and Deposit Operations for many years. In 1988, he was named Operations Manager and was promoted to Vice President and Chief Information Officer in 1997.

C. Hunter Westbrook, Executive Vice President and Chief Banking Officer. Mr. Westbrook joined HomeTrust Bank in June 2012 as our Chief Banking Officer. He began his career in banking with TCF Bank in Minneapolis and later joined TCF National Bank Illinois as Senior Vice President of Finance. In 2004 he was promoted to Executive Vice President of Retail Banking for Illinois, Wisconsin and Indiana markets that included 250 branches and $4 billion in deposits. He also served as President and Chief Executive Officer of First Community Bancshares in Texas, from

2006 to 2008, where he was responsible for repositioning the bank’s retail operating model and implemented the bank’s retail and corporate lending product offerings. In his most recent role, Mr. Westbrook served as President and Chief Executive Officer of Second Federal Savings and Loan Association of Chicago, from 2010 to 2012, where he significantly grew core operating revenue, net checking account balances, and repositioned the bank’s entire product line.

Teresa White, Executive Vice President and Chief Administration Officer. Ms. White joined HomeTrust Bank in May 2011 as our Chief Administration Officer. Ms. White was also appointed as Corporate Secretary of HomeTrust Bank in December 2011. Prior to joining HomeTrust Bank, since 2006, Ms. White served as Senior Vice President, Chief of Human Resources and Training Officer for Capital Bank, Raleigh, North Carolina, a publicly held community bank with approximately $1.7 billion in assets. From 2005 to 2006, Ms. White served as Director, Corporate Human Resources, for Nash Finch Company, Edina, Minnesota, a leading food retail and distribution company. From 2002 to 2005, Ms. White served as Director of Human Resources for ConAgra Foods Snack Foods Group, Edina, Minnesota, a division of ConAgra Foods.

Keith Houghton, Executive Vice President and Chief Credit Officer. Mr. Houghton joined HomeTrust Bank in March of 2014 as our Chief Credit Officer. Mr. Houghton has more than 26 years of experience in the banking industry. For nearly 17 years, he held a variety of senior positions in the credit and lending areas with StellarOne Corporation, a Charlottesville, VA-based bank holding company with approximately $3 billion in assets, and its predecessors, until the sale of StellarOne to another bank in January 2014. The most recent of those positions was Chief Credit Risk Officer, which Mr. Houghton held since 2007.

Parrish Little, Executive Vice President and Chief Risk Officer. Mr. Little joined HomeTrust Bank in March 2015 as our Chief Risk Officer. Prior to joining HomeTrust Bank, Mr. Little served as Senior Vice President, Director of Risk Management from 2008 to 2013 and Chief Audit Executive in 2014 for First Citizens Bank and Trust, Columbia, South Carolina. From 1997 to 2007, he served in several leadership roles with Bank of America in the areas of internal audit and risk management.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Risks Related to Our Business

Changes in economic conditions, particularly a further economic slowdown in our primary market areas, could hurt our business.

Our primary market areas are concentrated in North Carolina (including the Asheville metropolitan area, the “Piedmont” region, Charlotte, Raleigh), South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City, Knoxville, and Morristown) and the Roanoke Valley area of Virginia. Adverse economic conditions in our market areas can reduce our rate of growth, affect our customers’ ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. Weak economic conditions and ongoing strains in the financial and housing markets have resulted in higher levels of loan and lease delinquencies, problem assets and foreclosures and a decline in the values of the collateral securing our loans.

Although the U.S. economy and housing market, including in our market areas, appears to be improving, deterioration in economic conditions, particularly within our primary market areas could result in the following consequences, among others, any of which could materially hurt our business:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- collateral for our loans may decline in value, in turn reducing a customer’s borrowing power and reducing the value of collateral securing our loans; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

At June 30, 2016, the most significant portion of our loans located outside of our primary market areas was HELOCs-purchased totaling $144.4 million, or 7.9% of our loan portfolio, secured by one-to-four family properties located primarily in several western states. As a result, our financial condition and results of operations will be subject to general economic conditions and the real estate conditions prevailing in the markets in which the underlying properties securing these loans are located, as well as the conditions in our primary market areas. If economic conditions or if the real estate market declines in the areas in which these properties are located, we may suffer decreased net income or losses associated with higher default rates and decreased collateral values on our existing portfolio. Further, because of their geographical diversity, these loans can be more difficult to oversee than loans in our market areas in the event of delinquency.

A continued weak economic recovery or a return to recessionary conditions could increase our level of nonperforming assets, lower real estate values in our market and reduce demand for loans, which would result in increased loan losses and lower earnings.

Economic conditions have improved since the end of the economic recession that officially ended in June, 2009, however, economic growth has been slow and uneven, unemployment remains high and concerns still exist over the federal deficit, and government spending, which have all contributed to diminished expectations for the economy. A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

Furthermore, the Federal Reserve, in an attempt to help the economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. The Federal Reserve has recently increased the federal funds rate by 25 basis points and indicated further increases in the rate could occur in 2016. As the federal funds rate increases, market interest rates would likely rise, which may negatively affect the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Our business may be adversely affected by credit risk associated with residential property.

At June 30, 2016, $623.7 million, or 34.0% of our total loan portfolio, was secured by first liens on one-to-four family residential loans. In addition, at June 30, 2016, our home equity lines of credit totaled $307.7 million or 16.8% of our total loan portfolio. These types of loans are generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values resulting from a downturn in the housing market may reduce the value of the real estate collateral securing these types of loans and increase our risk of loss if borrowers default on their loans. Recessionary conditions or declines in the volume of real estate sales and/or the sales prices coupled with elevated unemployment rates may result in higher than expected loan delinquencies or problem assets, and a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity, and damage our financial condition and business operations.

High loan-to-value ratios on a portion of our residential mortgage loan portfolio exposes us to greater risk of loss.

Many of our one-to-four family loans and home equity lines of credit are secured by liens on mortgage properties in which the borrowers have little or no equity because of these declines in home values in our market areas. Residential loans with high combined loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, they may be unable to repay their loans in full from the sale. Further, the majority of our home equity lines of credit consist of second mortgage loans. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property. For these reasons, we may experience higher rates of delinquencies, defaults and losses.

Our non-owner-occupied real estate loans may expose us to increased credit risk.

At June 30, 2016, $91.6 million, or 14.6%, of our one-to-four family loans and 5.0% of our total loan portfolio, consisted of loans secured by non-owner-occupied residential properties. Loans secured by non-owner-occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner-occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner-occupied properties is often below that of owner-occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner-occupied residential loan borrowers have more than one loan outstanding with HomeTrust Bank which may expose us to a greater risk of loss compared to an adverse development with respect to an owner-occupied residential mortgage loan.

Our construction and development loans and construction and land/lot loans have a higher risk of loss than residential or commercial real estate loans.

At June 30, 2016, construction and land/lot loans in our retail consumer loan portfolio was $38.1 million, or 2.1%, of our total loan portfolio, and consists primarily of construction to permanent loans to homeowners building a residence or developing lots in residential subdivisions intending to construct a residence within one year. Construction and development loans in our commercial loan portfolio at June 30, 2016, totaled $86.8 million, or 4.7%, of our total loan portfolio, and consists of loans to contractors and builders primarily to finance the construction of single and multi-family homes, subdivisions, as well as commercial properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale.

Construction and development lending generally involves additional risks because funds are advanced upon estimates of costs in relation to values associated with the completed project. Construction and development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the collateral for the project based on an estimate of costs that will produce a future value at completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the complete project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the completed project loan-to-value ratio. Changes in demand for new housing and higher than anticipated building costs, may cause actual results to vary significantly from those estimated. For these reasons, this type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. A downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Some of the builders we deal with have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss.

In addition, during the term of some of our construction and development loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. As a result, these loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including cost comparisons and on-site inspections, these loans are more difficult and costly to monitor. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and/or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end-purchaser for the finished project. At June 30, 2016, $12.2 million of our construction and development loans were for speculative construction loans and $1.4 million or 1.6%, of our construction and development loans were classified as nonaccruing.

Our commercial real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.

While commercial real estate lending may potentially be more profitable than single-family residential lending, it is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans require a more detailed analysis at the time of loan underwriting and on an ongoing basis. At June 30, 2016, commercial real estate loans were $486.6 million, or 26.6% of our total loan portfolio, including multifamily loans totaling $63.9 million or 3.5% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans and some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan. Repayment of these loans is dependent upon income being generated from the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. Commercial real estate loans also expose a lender to greater credit risk than loans secured by one-to-four family residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. At June 30, 2016, commercial real estate loans that were nonperforming were $3.2 million, or 17.4% of our total nonperforming loans. A secondary market for most types of commercial real estate loans is not readily available, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans. As a result of these characteristics, if we foreclose on a commercial real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential loans because there are fewer potential purchasers of the collateral. Accordingly, charge-offs on commercial real estate loans may be larger on a per loan basis than those incurred with our residential and consumer loan portfolios.

Our increased auto finance lending increases our exposure to increased lending risks.

At June 30, 2016, $108.5 million, or 5.9%, of our total loan portfolio consisted of indirect auto finance loans originated by us. Indirect auto finance loans are inherently risky as they are secured by assets that depreciate rapidly. In some cases, repossessed collateral for a defaulted automobile loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency may not warrant further substantial collection efforts against the borrower. Automobile loan collections depend on the borrower's continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. In addition, our ability to originate loans is reliant on our relationships with automotive dealers. In particular, our automotive finance operations depend in large part upon our ability to establish and maintain relationships with reputable automotive dealers that direct customers to our offices or originate loans at the point-of-sale. Although we have relationships with certain automotive dealers, none of our relationships are exclusive and any may be terminated at any time. If our existing dealer base experiences decreased sales we may experience decreased loan volume in the future, which may have an adverse effect on our business, results of operations, and financial condition.

Repayment of our municipal leases is dependent on the fire department receiving tax revenues from the county/municipality.

At June 30, 2016, municipal leases were $103.2 million, or 5.6%, of our total loan portfolio. We offer ground and equipment lease financing to fire departments located throughout North Carolina and, to a lesser extent, South Carolina. Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for that purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2016, $3.0 million of our municipal leases contained a non-appropriation clause.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

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

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

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

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

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance for loan losses through the provision for losses on loans which is charged against income. Additionally, pursuant to our growth strategy, management recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations.

If our nonperforming assets increase, our earnings will be adversely affected.

Our nonperforming assets (which consist of nonaccruing loans and REO) were $24.5 million, or 0.9%, of total assets at June 30, 2016, compared to $31.9 million, or 1.15% of total assets, and $52.6 million, or 2.5% of total assets, at June 30, 2015 and 2014, respectively. Our nonperforming assets adversely affect our net income in various ways:

- we record interest income only on a cash basis for nonaccrual loans and any nonperforming investment securities; and do not record interest income for REO;
- we must provide for probable loan losses through a current period charge to the provision for loan losses;
- noninterest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize other-than-temporary impairment ("OTTI") on nonperforming investment securities;
- there are legal fees associated with the resolution of problem assets, as well as, carrying costs, such as taxes, insurance, and maintenance fees related to our REO; and
- the resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our nonperforming assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. We have also classified $28.3 million in loans as performing troubled debt restructurings at June 30, 2016.

To meet our growth objectives we may originate or purchase loans outside of our market areas which could affect the level of our net interest margin and nonperforming loans.

In order to achieve our desired loan portfolio growth, we opportunistically purchase loans outside of our primary market areas either individually, through participations, or in bulk or "pools". We perform certain due diligence procedures and may re-underwrite these loans to our underwriting standards prior to purchase, and anticipate acquiring loans subject to customary limited indemnities, however, we may be exposed to a greater risk of loss as we acquire loans of a type or in geographic areas where management may not have substantial prior experience and which may be more difficult for us to monitor. During the years ended June 30, 2016, 2015 and 2014 we purchased $120.6 million, $95.0 million and $16.1 million of loans, respectively. Loan pools purchased in the past three years consisted primarily of home equity loans secured by single family residential properties located in several western states, most of which are still in our loan portfolio. When determining the purchase price we are willing to pay to acquire loans, management will make certain assumptions about, among other things, if and how much borrowers will prepay their loans, the real estate market and our ability to collect loans successfully and, if necessary, when and how to dispose of any real estate that may be acquired through foreclosure. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change (such as an unanticipated decline in the real estate market), the purchase price paid may prove to have been excessive, resulting in a lower yield or a loss of some or all of the loan principal. For example, if we purchase "pools" of loans at a premium and some of the loans are prepaid before we anticipate, we will earn less interest income on the acquired loans than expected. Our success in increasing our loan portfolio through loan purchases will depend on our ability to price the loans properly and on general economic conditions in the geographic areas where the underlying properties or collateral for the loans acquired are located. Inaccurate estimates or declines in economic conditions or real estate values in the markets where we purchase loans could significantly adversely affect the level of our nonperforming loans and our results of operations.

If our REO is not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed and the property taken in as REO and at certain other times during the asset's holding period. Our net book value ("NBV") in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset's NBV over its fair value. If our valuation process is incorrect, or if property values decline, the fair value of our REO may not be sufficient to recover our carrying value in such assets, resulting in the need for additional charge-offs.

Significant charge-offs to our REO could have a material adverse effect on our financial condition and results of operations.

In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our charge-offs may have a material adverse effect on our financial condition and results of operations.

Our securities portfolio may be negatively impacted by fluctuations in market value and interest rates.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Our securities portfolio is evaluated for OTTI. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our shareholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. There can be no assurance that the declines in market value will not result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

An increase in interest rates, change in the programs offered by secondary market purchasers or our ability to qualify for their programs may reduce our mortgage banking revenues, which would negatively impact our noninterest income.

Our mortgage banking operations provide a significant portion of our noninterest income. We generate mortgage revenues primarily from gains on the sale of single-family mortgage loans pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and non-GSE investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in noninterest income. In addition, our results of operations are affected by the amount of noninterest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans into the secondary market without recourse, we are required to give customary representations and warranties about the loans to the buyers. If we breach those representations and warranties, the buyers may require us to repurchase the loans and we may incur a loss on the repurchase.

Fluctuating interest rates can adversely affect our profitability.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (iii) our ability to obtain and retain deposits in competition with other available investment alternatives; (iv) the ability of our borrowers to repay adjustable or variable rate loans; and (v) the average duration of our mortgage-backed securities portfolio and other interest-earning assets. If the interest rates paid on deposits and borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. As a result of the relatively low interest rate environment, an increasing percentage of our deposits have been comprised of short-term time deposits and other deposits yielding no or a relatively low rate of interest. At June 30, 2016, we had $325.5 million in certificates of deposit that mature within one year and $1.4 billion in checking, savings, and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and borrowings.

A prolonged period of exceptionally low market interest rates, such as we are currently experiencing, limits our ability to lower our interest expense, while the average yield on our interest-earning assets may decrease as our loans reprice or are originated at these low market rates. Accordingly, our net interest income may decrease, which may have an adverse effect on our profitability. In addition, a substantial amount of our loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Further, a significant portion of our adjustable rate loans have interest rate floors below which the loan’s contractual interest rate may not adjust. As of June 30, 2016, our loans with interest rate floors totaled approximately $577.0 million or 31.5% of our total loan portfolio and had a weighted average floor rate of 4.05% of which $263.0 million, or 45.4%, had yields that would begin floating again once prime rates increase at least 200 basis points. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, although this result is subject to the risks that borrowers may refinance these loans during periods of declining interest rates. Also, when loans are at their floors, there is a further risk that our interest income may not increase as rapidly as our cost of funds during periods of increasing interest rates which could have a material adverse effect on our results of operations.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the North Carolina, South Carolina, and/or Tennessee markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry.

Deposit flows, calls of investment securities and wholesale borrowings, and the prepayment of loans and mortgage-related securities are also strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and competition for deposits and loans in the markets we serve. Furthermore, changes to the FHLB's underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. In addition, the need to replace funds in the event of large-scale withdrawals of brokered deposits could require us to pay significantly higher interest rates on retail deposits or other wholesale funding sources, which could have an adverse impact on our net interest income and net income. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill such obligations as repaying our borrowings or meeting deposit withdrawal demands.

Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could adversely affect us.

We are implementing a strategy of supplementing organic growth by acquiring other financial institutions or their businesses that we believe will help us fulfill our strategic objectives and enhance our earnings. There are risks associated with this strategy, however, including the following:

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;
- Prices at which future acquisitions can be made may not be acceptable to us;
- Our growth initiatives may require us to recruit experienced personnel to assist in such initiatives. The failure to identify and retain such personnel would place significant limitations on our ability to execute our growth strategy;

- Our strategic efforts may divert resources or management’s attention from ongoing business operations and may subject us to additional regulatory scrutiny;
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful;
- To finance a future acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders;
- We have completed four mergers during the past two fiscal years that enhanced our rate of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in the future; and
- We expect our net income will increase following our acquisitions, however, we also expect our general and administrative expenses and consequently our efficiency rates will also increase. Ultimately, we would expect our efficiency ratio to improve; however, if we are not successful in our integration process, this may not occur, and our acquisitions or branching activities may not be accretive to earnings in the short or long-term.

The required accounting treatment of loans we acquire through acquisitions, including purchase credit impaired loans, could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

Under U.S. Generally Accepted Accounting Principles ("GAAP"), we are required to record loans acquired through acquisitions, including purchase credit impaired loans, at fair value. Estimating the fair value of such loans requires management to make estimates based on available information and facts and circumstances as of the acquisition date. Actual performance could differ from management's initial estimates. If these loans outperform our original fair value estimates, the difference between our original estimate and the actual performance of the loan (the “discount”) is accreted into net interest income. Thus, our net interest margins may initially increase due to the discount. We expect the yields on our loans to decline as our acquired loan portfolio pays down or matures and the discount decreases, and we expect downward pressure on our interest income to the extent that the runoff on our acquired loan portfolio is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest rate margins and lower interest income in future periods.

We operate in a highly competitive industry and market areas.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, we have been competitive by focusing on our business lines in our market areas and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies and specialized finance companies. Many of our competitors offer products and services which we do not offer, and many have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and newer competitors may also be more aggressive in terms of pricing loan and deposit products than we are in order to obtain a share of the market. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies, federally insured state-chartered banks and national banks and federal savings banks. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services.

Our ability to compete successfully depends on a number of factors including the following:

- the ability to develop, maintain and build upon long-term customer relationships based on top-quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;

- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations that are expected to increase our costs of operations.

The financial services industry is extensively regulated. HomeTrust Bank is subject to extensive examination, supervision and comprehensive regulation by the Federal Reserve, our primary federal regulator, the NCCOB, and the FDIC, as insurer of our deposits. As a financial holding company, HomeTrust Bancshares is subject to examination, supervision and regulation by the Federal Reserve. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the deposit insurance fund and consumers and not to benefit our shareholders. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on our operations, the classification of our assets, the determination of the level of our allowance for loan losses, and the level of deposit insurance premiums assessed. Additionally, actions by regulatory agencies or significant litigation against us could require us to devote significant time and resources to defending our business and may lead to penalties that materially affect us. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Because our business is highly regulated, the applicable laws, rules and regulations are subject to constant modification and change, and the laws, rules, and regulations adopted in the future could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition, or prospects.

As discussed under “Business-How We are Regulated-Financial Regulatory Reform” in Item I of this Form 10-K, the Dodd-Frank Act has significantly changed the bank regulatory structure and will affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting and implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. It is difficult at this time to predict when or how any new standards will ultimately be applied to us or what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

The CFPB, which was created under the Dodd-Frank Act, has issued a number of final regulations and changes to certain consumer protections under existing laws and continues to issue new rules. These final rules (including the qualified mortgage rule), generally prohibit creditors from extending mortgage loans without regard for the consumers’ ability-to-repay and add restrictions and requirements to mortgage origination and servicing practices. In addition, these rules limit prepayment penalties and require creditors to retain evidence of compliance with the ability-to-repay requirement for three years. Compliance with these rules has increased our overall regulatory compliance costs and may require changes to our underwriting practices with respect to mortgage loans. This includes compliance with the Truth in Lending Act and the Real Estate Settlement Procedures Act Integrated Disclosure (TRID) rule, which combines certain disclosures that consumers receive in connection with applying for and closing a mortgage loan. Moreover, these rules may adversely affect the volume of mortgage loans that we underwrite and may subject us to increased potential liabilities related to such residential loan origination activities. The CFPB has adopted a number of additional requirements and issued additional guidance, including with respect to indirect auto lending, appraisals, escrow accounts and servicing, each of which will entail increased compliance costs. We will continue to monitor these developments and analyze the expected impacts on our business.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury’s Office of Financial Crimes

Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. Recently several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

We are subject to potentially significant litigation and our legal related costs might increase.

The Company is involved in several litigation matters in the ordinary course of business. In the current economic environment, our involvement in litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. These claims and counter claims typically arise during the course of collection efforts on problem loans or with respect to actions to enforce liens on properties in which the Company holds a security interest. 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. The Company is not a party to any pending legal proceedings that management believes would have a material adverse effect on the Company's financial condition or results of operations.

We are subject to certain risks in connection with our use of technology.
Our security measures may not be sufficient to mitigate the risk of a cyber attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage.
Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, and could result in significant legal liability and significant damage to our reputation and our business.
Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.
The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.
Managing reputational risk is important to attracting and maintaining customers, investors and employees.
Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.
We may experience future goodwill impairment.
In accordance with GAAP, we record assets acquired and liabilities assumed at their fair value, and, as such, acquisitions typically result in recording goodwill. We perform a goodwill evaluation at least annually to test for goodwill impairment. As part of its testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines the fair value of a reporting unit is less than its carrying amount using these qualitative factors, the Company then

compares the fair value of goodwill with its carrying amount, and then measures impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Adverse conditions in our business climate, including a significant decline in future operating cash flows, a significant change in our stock price or market capitalization, or a deviation from our expected growth rate and performance may significantly affect the fair value of our goodwill and may trigger additional impairment losses, which could be materially adverse to our operating results and financial position.

We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge has an adverse effect on our results of shareholders' equity and financial results and could cause a decline in our stock price.

Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

As of June 30, 2016 we had approximately $62.1 million of federal net operating losses ("NOLs"). Our ability to use our NOLs and other pre-ownership change losses (collectively, "Pre-Change Losses") to offset future taxable income will be limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"). In general, an ownership change occurs if, among other things, the shareholders (or specified groups of shareholders) who own or have owned, directly or indirectly, 5% or more of a corporation's common stock or are otherwise treated as 5% shareholders under Section 382 and U.S. Treasury regulations promulgated thereunder increase their aggregate percentage ownership of that corporation's stock by more than 50 percentage points over the lowest percentage of the stock owned by these shareholders over a rolling three-year period. If we experience an ownership change our Pre-Change Losses will be subject to an annual limitation on their use, which is generally equal to the fair market value of our outstanding stock immediately before the ownership change multiplied by the long-term tax-exempt rate, which was 2.50% for ownership changes occurring in June 2016. Depending on the size of the annual limitation (which is in part a function of our market capitalization at the time of the ownership change) and the remaining carryforward period for our Pre-Change Losses (U.S. federal net operating losses generally may be carried forward for a period of 20 years), we could realize a permanent loss of some or all of our Pre-Change Losses, which could have a material adverse effect on our results of operations and financial condition.

In September 2012, we adopted a shareholder rights plan (the “Rights Plan”), which provides an economic disincentive for any person or group to become an owner, for relevant tax purposes, of 4.99% or more of our stock. While adoption of the Rights Plan should reduce the likelihood that future transactions in our stock will result in an ownership change under Section 382, there can be no assurance that the Rights Plan will be effective to deter a shareholder from increasing its ownership interests beyond the limits set by the Rights Plan or that an ownership change will not occur in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain our administrative office, which is owned by us, in Asheville, North Carolina. In total, as of June 30, 2016, we have 39 locations, which include: 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).

Of those offices, seven are leased facilities. We also own an operations center located in Asheville, North Carolina. We lease additional space, which is adjacent to the facility we own, for administrative and operations personnel. The lease terms for our branch offices, operations center and other offices are not individually material. Lease expirations range from one to five years. In the opinion of management, all properties are adequately covered by insurance, are in a good state of repair and are appropriately designed for their present and future use. See Footnotes 5 and 11 in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information.

We maintain depositor and borrower customer files on an online basis, utilizing a telecommunications network, portions of which are leased. Management has a disaster recovery plan in place with respect to the data processing system, as well as our operations as a whole.

Item 3. Legal Proceedings

The "Litigation" section of Note 17 to the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

The Company’s common stock is listed on the Nasdaq Global Market under the symbol “HTBI.” The common stock was issued at a price of $10.00 per share in connection with the Conversion. The Conversion was completed on July 10, 2012 and the Company’s common stock commenced trading on the Nasdaq Global Market on July 11, 2012. As of the close of business on September 8, 2016, there were 17,999,150 shares of common stock outstanding held by 1,114 holders of record. Certain shares are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for the Company’s common stock for the year ended June 30, 2016 and 2015.

	Year Ended June 30,			
	2016		2015	
	High	Low	High	Low

First quarter	$18.79	$16.71	$15.87	$14.55
Second quarter	20.98	17.50	16.68	14.58
Third quarter	19.99	16.97	16.72	15.37
Fourth quarter	19.73	17.62	16.94	15.35

The Company did not declare any dividends on its common stock during the fiscal years ended June 30, 2016 or 2015. The timing and amount of cash dividends paid depends on our earnings, capital requirements, financial condition and other relevant factors. We also have the ability to receive dividends or capital distributions from HomeTrust Bank, our wholly owned subsidiary. There are regulatory restrictions on the ability of HomeTrust Bank to pay dividends. See Item 1, “Business—How We Are Regulated,” for more information regarding the restrictions on the Company’s and the Bank’s abilities to pay dividends.

Unregistered Sales of Equity Securities and Use of Proceeds

The Company has periodically repurchased shares of its common stock as authorized by our Board of Directors.

On November 19, 2014, the Company announced that its Board of Directors had authorized the repurchase of up to 1,023,266 shares of the Company’s common stock, representing 5% of the Company’s outstanding shares. We completed this stock repurchase program during the first fiscal quarter of 2016 at an average price of $15.93 per share.

On July 1, 2015, the Company announced that its Board of Directors had authorized the repurchase of up to 971,271 shares of the Company's common stock, representing 5% of the Company's outstanding shares. We completed this stock repurchase program during the second fiscal quarter of 2016 at an average price of $18.62 per share.

On December 15, 2015, the Company announced that its Board of Directors had authorized the repurchase of up to 922,855 shares of the Company's common stock, representing 5% of the Company's outstanding shares. As of June 30, 2016, 479,700 shares had been repurchased at an average price of $18.00 per share.

The table below sets forth information regarding the Company’s common stock repurchases during the year ended June 30, 2016.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2015	60,023	$ 16.84	60,023	971,271
August 1 to August 31, 2015	201,586	17.81	201,586	769,685
September 1 to September 30, 2015	152,753	18.14	152,753	616,932
Total during first quarter of fiscal 2016	414,362	$ 17.79	414,362	616,932
October 1 to October 31, 2015	381,074	$ 18.89	381,074	235,858
November 1 to November 30, 2015	62,909	18.93	62,909	172,949
December 1 to December 31, 2015	53,082	19.38	53,082	1,042,722
Total during second quarter of fiscal 2016	497,065	$ 18.95	497,065	1,042,722
January 1 to January 31, 2016	163,367	$ 19.09	163,367	879,355
February 1 to February 29, 2016	170,400	17.57	170,400	708,955
March 1 to March 31, 2016	71,000	18.18	71,000	637,955
Total during third quarter of fiscal 2016	404,767	$ 18.29	404,767	637,955
April 1 to April 30, 2016	111,000	$ 18.19	111,000	526,955
May 1 to May 30, 2016	83,800	18.14	83,800	443,155
June 1 to June 30, 2016	—	—	—	443,155
Total during fourth quarter of fiscal 2016	194,800	$ 18.17	194,800	443,155
Total year-to-date 2016	1,510,994	$ 18.35	1,510,994	443,155

Equity Compensation Plans

The equity compensation plan information presented under Part III, Item 12 of this report is incorporated herein by reference.

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Shareholder Return Performance Graph Presentation

The performance graph below compares the Company's cumulative shareholder return on its common stock since the inception of trading on July 11, 2012 to the cumulative total return of the Nasdaq Composite, and the Nasdaq Bank Index for the periods indicated. The information presented below assumes $100 was invested on July 11, 2012, in the Company's common stock and in each of the indices and assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance. Total return assumes the reinvestment of all dividends and that the value of Common Stock and each index was $100 on July 11, 2012.

	Period Ended								
	2012		2013		2014		2015		2016
	7/11	12/31	6/30	12/31	6/30	12/31	6/30	12/31	6/30
HomeTrust Bancshares, Inc.	100.00	115.47	144.96	136.67	134.79	142.39	143.25	173.08	158.12
NASDAQ Bank Index	100.00	104.65	123.55	145.37	145.58	149.50	161.06	159.40	152.74
NASDAQ Composite	100.00	104.55	117.84	144.62	152.64	163.99	172.68	173.39	167.68

Item 6. Selected Financial and Other Data.

The summary information presented below under “Selected Financial Condition Data” and “Selected Operations Data” for the years ended June 30, 2016, 2015 and 2014 are derived in part from the audited consolidated financial statements that appear in this annual report. The following information is only a summary and you should read it in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 of this report and “Financial Statements and Supplementary Data” under Item 8 of this report below.

	At June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$2,717,677	$2,783,114	$2,074,454	$1,583,323	$1,720,056
Loans receivable, net[1]	1,811,539	1,663,333	1,473,529	1,132,110	1,193,945
Allowance for loan losses	21,292	22,374	23,429	32,073	35,100
Certificates of deposit in other banks	161,512	210,629	163,780	136,617	108,010
Securities available for sale, at fair value	200,652	257,606	168,774	24,750	31,335
FHLB and FRB stock[2]	29,486	28,711	3,697	1,854	6,300
Deposits	1,802,696	1,872,126	1,583,047	1,154,750	1,466,175
Borrowings	491,000	475,000	50,000	—	22,265
Stockholders’ equity	359,976	371,050	377,151	367,515	172,485

	Years Ended June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Selected Operations Data:					
Total interest and dividend income	$87,747	$85,156	$60,281	$60,389	$67,491
Total interest expense	6,040	5,390	5,432	7,255	11,778
Net interest income	81,707	79,766	54,849	53,134	55,713
Provision for (recovery of) loan losses	—	150	(6,300)	1,100	15,600
Net interest income after provision for (recovery of) loan losses	81,707	79,616	61,149	52,034	40,113
Service charges and fees on deposit accounts	6,680	5,930	2,783	2,589	2,679
Mortgage banking income and fees	3,069	2,989	3,218	5,107	3,846
Gain on sale of securities	—	61	10	—	—
Gain on sale of fixed assets	—	—	—	—	1,503
Other noninterest income	3,754	3,539	2,727	2,691	2,400
Total noninterest income	13,503	12,519	8,738	10,387	10,428
Total noninterest expense	78,853	81,552	55,032	51,393	46,661
Income before provision (benefit) for income taxes	16,357	10,583	14,855	11,028	3,880
Income tax expense (benefit)	4,901	2,558	4,513	1,975	(647)
Net income	$11,456	$8,025	$10,342	$9,053	$4,527
Per Share Data:					
Net income per common share:					
Basic	$0.65	$0.42	$0.54	$0.45	n/a
Diluted	$0.65	$0.42	$0.54	$0.45	n/a

	At or For the Years Ended June 30,				
	2016	2015	2014	2013	2012
Selected Financial Ratios and Other Data:					
Performance ratios:					
Return on assets (ratio of net income to average total assets)	0.42 %	0.32 %	0.62 %	0.56 %	0.29 %
Return on equity (ratio of net income to average equity)	3.16	2.12	2.86	2.48	2.67
Tax equivalent yield on earning assets(3)	3.62	3.88	4.15	4.30	4.82
Rate paid on interest-bearing liabilities	0.29	0.29	0.46	0.65	0.91
Tax equivalent average interest rate spread(3)	3.33	3.59	3.69	3.65	3.91
Tax equivalent net interest margin(3)(4)	3.37	3.64	3.79	3.81	4.02
Operating expense to average total assets	2.88	3.25	3.29	3.21	2.95
Average interest-earning assets to average interest-bearing liabilities	119.25	120.61	130.20	132.54	113.61
Efficiency ratio	82.82	88.37			