

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

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

Commission file number: 001-35593

HOMETRUST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

45-5055422

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

10 Woodfin Street, Asheville, North Carolina 28801

(Address of principal executive offices; Zip Code)

(828) 259-3939

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated filer

Accelerated filer

(Do not check if a smaller reporting company)

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Non-accelerated filer

Smaller reporting company

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

---

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES  
 10-Q  
 TABLE OF CONTENTS

	Page Number
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets at September 30, 2016 (Unaudited) and June 30, 2016</u>	<u>2</u>
<u>Consolidated Statements of Income for the Three Months Ended September 30, 2016 and 2015</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
Item 4. <u>Controls and Procedures</u>	<u>40</u>
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>40</u>
Item 1A. <u>Risk Factors</u>	<u>40</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>41</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>41</u>
Item 5. <u>Other Information</u>	<u>41</u>
Item 6. <u>Exhibits</u>	<u>41</u>
<u>SIGNATURES</u>	<u>42</u>
<u>EXHIBIT INDEX</u>	<u>43</u>



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Balance Sheets

(Dollars in thousands, except per share data)

(Unaudited)

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

17,999,150 shares

issued and outstanding

at September 30, 2016;

17,998,750 at June 30,

2016

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Statements of Income

(Dollars in thousands, except per share data)

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

Diluted

17,451,298,291,029

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

3

---



HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY  
 Consolidated Statements of Changes in Stockholders' Equity  
 (Dollars in thousands)

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

(Dollars in thousands)

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



HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

#### 1. Summary of Significant Accounting Policies

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

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

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

#### 2. Recent Accounting Pronouncements

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

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

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

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

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

### 3. Business Combinations

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

### 4. Securities Available for Sale

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



Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

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

9

---

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

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

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

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

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

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

  

	June 30, 2016		
	Less than 12 Months	12 Months or More	Total

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

## 5. Loans

Loans consist of the following at the dates indicated:

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

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

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

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

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

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

11

---

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

The Company's total PCI loans by segment, class, and risk grade at the dates indicated follow:

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

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

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

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

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

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

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

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

	Three Months Ended September 30, 2016				Three Months Ended September 30, 2015			
	PCI	Retail Consumer	Commercial	Total	PCI	Retail Consumer	Commercial	Total
Balance at beginning of period	\$361	\$ 11,549	\$ 9,382	\$ 21,292	\$401	\$ 12,575	\$ 9,398	\$ 22,374
Provision for (recovery of) loan losses	(5 )	(895 )	900	—	(73 )	73	—	—
Charge-offs	—	(419 )	(607 )	(1,026 )	—	(469 )	(334 )	(803 )
Recoveries	—	211	474	685	—	247	294	541
Balance at end of period	\$356	\$ 10,446	\$ 10,149	\$ 20,951	\$328	\$ 12,426	\$ 9,358	\$ 22,112



## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

	Allowance for Loan Losses				Total Loans Receivable			
	PCI	Loans individually evaluated for impairment	Loans collectively evaluated	Total	PCI	Loans individually evaluated for impairment	Loans collectively evaluated	Total
September 30, 2016								
Retail consumer loans:								
One-to-four family	\$20	\$ 364	\$ 5,526	\$5,910	\$6,221	\$ 11,209	\$596,138	\$613,568
HELOCs - originated	—	9	1,736	1,745	281	14	161,384	161,679
HELOCs - purchased	—	—	676	676	—	—	169,007	169,007
Construction and land/lots	—	—	1,038	1,038	542	388	39,170	40,100
Indirect auto finance	—	1	1,045	1,046	—	1	122,114	122,115
Consumer	—	9	42	51	7	9	5,332	5,348
Commercial loans:								
Commercial real estate	298	150	6,282	6,730	18,209	5,206	464,582	487,997
Construction and development	14	—	2,313	2,327	2,922	1,767	104,818	109,507
Commercial and industrial	24	3	754	781	3,238	2,773	64,382	70,393
Municipal leases	—	—	647	647	—	294	101,106	101,400
Total	\$356	\$ 536	\$ 20,059	\$20,951	\$31,420	\$ 21,661	\$1,828,033	\$1,881,114
June 30, 2016								
Retail consumer loans:								
One-to-four family	\$23	\$ 187	\$ 6,385	\$6,595	\$7,038	\$ 12,411	\$604,252	\$623,701
HELOCs - originated	—	288	1,709	1,997	278	1,145	161,870	163,293
HELOCs - purchased	—	—	558	558	—	—	144,377	144,377
Construction and land/lots	—	198	1,146	1,344	574	392	37,136	38,102
Indirect auto finance	—	—	1,016	1,016	—	—	108,478	108,478
Consumer	—	10	51	61	9	—	4,626	4,635
Commercial loans:								
Commercial real estate	288	—	6,142	6,430	21,323	5,376	459,862	486,561
Construction and development	17	—	1,891	1,908	3,147	1,789	81,904	86,840
Commercial and industrial	33	3	685	721	3,595	2,927	66,767	73,289
Municipal leases	—	—	662	662	—	305	102,878	103,183
Total	\$361	\$ 686	\$ 20,245	\$21,292	\$35,964	\$ 24,345	\$1,772,150	\$1,832,459

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

	Total Impaired Loans				Related Recorded Allowance
	Unpaid Principal Balance	Recorded Investment With a Recorded Allowance	Recorded Investment With No Recorded Allowance	Total	
September 30, 2016					
Retail consumer loans:					
One-to-four family	\$29,613	\$ 17,245	\$ 9,015	\$26,260	\$ 846
HELOCs - originated	3,939	2,262	378	2,640	53
Construction and land/lots	2,633	852	494	1,346	27
Indirect auto finance	194	38	53	91	1
Consumer	576	4	22	26	9
Commercial loans:					
Commercial real estate	7,661	4,305	2,723	7,028	180
Construction and development	3,213	726	1,487	2,213	4
Commercial and industrial	9,044	839	2,772	3,611	19
Municipal leases	408	114	294	408	1
Total impaired loans	\$57,281	\$ 26,385	\$ 17,238	\$43,623	\$ 1,140
June 30, 2016					
Retail consumer loans:					
One-to-four family	\$29,053	\$ 12,348	\$ 13,375	\$25,723	\$ 281
HELOCs - originated	4,486	1,999	1,178	3,177	305
Construction and land/lots	2,890	764	693	1,457	209
Indirect auto finance	45	20	—	20	—
Consumer	514	9	13	22	10
Commercial loans:					
Commercial real estate	7,433	857	5,776	6,633	13
Construction and development	3,556	600	1,929	2,529	14
Commercial and industrial	9,710	1,197	2,930	4,127	17
Municipal leases	419	114	305	419	1
Total impaired loans	\$58,106	\$ 17,908	\$ 26,199	\$44,107	\$ 850

Impaired loans above excludes \$0 at September 30, 2016 and \$2,541 at June 30, 2016 in PCI loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations. For the quarter ended September 30, 2016, impaired loans with a recorded allowance increased primarily due to the change in methodology of measuring impairment for \$5.2 million of loans from the collateral method to the present value of future cash flows method to better reflect the anticipated repayments of these loans.

The table above includes \$21,962 and \$19,762, of impaired loans that were not individually evaluated at September 30, 2016 and June 30, 2016, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes \$604 and \$164 related to these loans that were not individually evaluated at September 30, 2016 and June 30, 2016, respectively.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's average recorded investment in impaired loans and interest income recognized on impaired loans for the three months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended			
	September 30, 2016		September 30, 2015	
	Average Interest		Average Interest	
	Recorded Income		Recorded Income	
	Investment	Recognized	Investment	Recognized
Retail consumer loans:				
One-to-four family	\$25,992	\$ 326	\$28,907	\$ 338
HELOCs - originated	2,909	46	3,722	50
Construction and land/lots	1,402	32	1,993	28
Indirect auto finance	56	1	—	1
Consumer	24	5	91	14
Commercial loans:				
Commercial real estate	6,831	69	10,722	38
Construction and development	2,371	13	4,631	14
Commercial and industrial	3,869	45	3,885	13
Municipal leases	414	12	311	10
Total loans	\$43,868	\$ 549	\$54,262	\$ 506

A summary of changes in the accretable yield for PCI loans for the three months ended September 30, 2016 and 2015 was as follows:

	Three Months	
	Ended	
	September	September
	30,	30, 2015
	2016	
Accretable yield, beginning of period	\$9,532	\$ 11,096
Reclass from nonaccretable yield <sup>(1)</sup>	887	366
Other changes, net <sup>(2)</sup>	(459 )	(111 )
Interest income	(1,621 )	(1,588 )
Accretable yield, end of period	\$8,339	\$ 9,763

(1) Represents changes attributable to expected losses assumptions.

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

For the three months ended September 30, 2016 and 2015, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
	Pre Modification of Outstanding Loans Recorded Investment	Post Modification of Outstanding Loans Recorded Investment	Pre Modification of Outstanding Loans Recorded Investment	Post Modification of Outstanding Loans Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	—\$ —	\$ —	1 \$ 29	\$ 29
HELOCs - originated	—	—	1 18	14
Total	—\$ —	\$ —	2 \$ 47	\$ 43
Extended term:				
Retail consumer:				
One-to-four family	2 \$ 119	\$ 119	—\$ —	\$ —
Total	2 \$ 119	\$ 119	—\$ —	\$ —
Other TDRs:				
Retail consumer:				
One-to-four family	3 \$ 105	\$ 105	6 \$ 523	\$ 528
HELOCs - originated	1 3	3	—	—
Total	4 \$ 108	\$ 108	6 \$ 523	\$ 528
Total	6 \$ 227	\$ 227	8 \$ 570	\$ 571

The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default during the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
	Number Recorded of Investment Loans	Number Recorded of Investment Loans
Below market interest rate:		
Retail consumer:		
One-to-four family	—\$ —	1 \$ 6
Total	—\$ —	1 \$ 6
Extended payment terms:		
Retail consumer:		
One-to-four family	1 \$ 39	— \$ —
Total	1 \$ 39	— \$ —
Other TDRs:		
Retail consumer:		
One-to-four family	3 \$ 57	1 \$ 182

HELOCs - originated	—	—	1	—
Commercial:				
Construction and development	2	371	—	—
Commercial and industrial	3	970	—	—
Total	8	\$ 1,398	2	\$ 182
Total	9	\$ 1,437	3	\$ 188

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

## 6. Real Estate Owned

The activity within REO for the periods shown is as follows:

	Three Months Ended September 30, 2016 2015	
Balance at beginning of period	\$5,956	\$7,024
Transfers from loans	305	228
Sales, net of loss	(546 )	(612 )
Writedowns	—	(6 )
Balance at end of period	\$5,715	\$6,634

At September 30, 2016 and June 30, 2016, the Bank had \$961 and \$824 respectively, of foreclosed residential real estate property in REO. The recorded investment in consumer mortgage loans collateralized by residential real estate in the process of foreclosure totaled \$2,112 and \$1,681 for September 30, 2016 and June 30, 2016, respectively.

## 7. Net Income per Share

Per the provisions of FASB ASC 260, Earnings Per Share, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. ESOP shares are considered outstanding for basic and diluted earnings per share when the shares are committed to be released.

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

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

	Three Months Ended September 30, 2016 2015	
Numerator:		
Net income available to common stockholders	\$3,824	\$ 2,564
Denominator:		
Weighted-average common shares outstanding - basic	17,208,682	17,077,987
Effect of dilutive shares	242,613	213,042
Weighted-average common shares outstanding - diluted	17,451,295	17,291,029
Net income per share - basic	\$0.22	\$ 0.14
Net income per share - diluted	\$0.22	\$ 0.14

There were 46,500 and 40,000 outstanding stock options that were anti-dilutive for the three months ended September 30, 2016 and 2015.

## 8. Equity Incentive Plan

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

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Share based compensation expense related to stock options and restricted stock recognized for the three months ended September 30, 2016 and 2015 was \$739 and \$788, respectively, before the tax related benefit of \$274 and \$292, respectively.

The table below presents stock option activity for the three months ended September 30, 2016 and 2015:

	Options	Weighted- average exercise price	Remaining contractual life (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2015	1,498,000	\$ 14.41	7.7	\$ 3,519
Granted	—	—	—	—
Exercised	400	14.37	—	—
Forfeited	1,200	14.37	—	—
Expired	—	—	—	—
Options outstanding at September 30, 2015	1,496,400	\$ 14.41	7.4	\$ 6,194
Exercisable at September 30, 2015	548,150	\$ 14.39		
Options outstanding at June 30, 2016	1,529,300	\$ 14.50	6.8	\$ 6,117
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at September 30, 2016	1,529,300	\$ 14.50	6.5	\$ 6,117
Exercisable at September 30, 2016	829,400	\$ 14.40		

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

	Assumptions in Estimating Option Values		
	2017	2016	2015
Weighted-average volatility	— %	— %	18.90 %
Expected dividend yield	— %	— %	— %
Risk-free interest rate	— %	— %	1.56 %
Expected life (years)	0.0	0.0	6.0

At September 30, 2016, the Company had \$2,073 of unrecognized compensation expense related to 1,529,300 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 1.1 years at September 30, 2016. At September 30, 2015, the Company had \$3,238 of unrecognized compensation expense related to 1,496,400 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 1.5 years at September 30, 2015.



## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The table below presents restricted stock award activity for the three months ended September 30, 2016 and 2015:

	Restricted stock awards	Weighted- average grant date fair value	Aggregate Intrinsic Value
Non-vested at June 30, 2015	310,470	\$ 14.40	\$ 5,203
Granted	—	—	—
Vested	—	—	—
Forfeited	450	14.37	—
Non-vested at September 30, 2015	310,020	\$ 14.40	\$ 5,751
Non-vested at June 30, 2016	248,750	\$ 14.81	\$ 4,602
Granted	400	19.02	—
Vested	—	—	—
Forfeited	—	—	—
Non-vested at September 30, 2016	249,150	\$ 14.84	\$ 4,609

At September 30, 2016, unrecognized compensation expense was \$3,580 related to 249,150 shares of restricted stock scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 1.2 years at September 30, 2016. At September 30, 2015, unrecognized compensation expense was \$3,462 related to 310,020 shares of restricted stock scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 1.5 years at September 30, 2015.

## 9. Commitments and Contingencies

**Loan Commitments** – Legally binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In the normal course of business, there are various outstanding commitments to extend credit that are not reflected in the consolidated financial statements. At September 30, 2016 and June 30, 2016, respectively, loan commitments (excluding \$122,710 and \$125,157 of undisbursed portions of construction loans) totaled \$41,129 and \$39,609 of which \$9,144 and \$9,932 were variable rate commitments and \$31,985 and \$29,677 were fixed rate commitments. The fixed rate loans had interest rates ranging from 2.20% to 5.75% at September 30, 2016 and 2.02% to 7.99% at June 30, 2016, and terms ranging from three to 30 years. Pre-approved but unused lines of credit (principally second mortgage home equity loans and overdraft protection loans) totaled \$339,185 and \$340,397 at September 30, 2016 and June 30, 2016, respectively. These amounts represent the Company's exposure to credit risk, and in the opinion of management have no more than the normal lending risk that the Company commits to its borrowers. The Company has two types of commitments related to loans held for sale: rate lock commitments and forward loan commitments. Rate lock commitments are commitments to extend credit to a customer that has an interest rate lock and are considered derivative instruments. The rate lock commitments do not qualify for hedge accounting. In order to mitigate the risk from interest rate fluctuations, we enter into forward loan sale commitments on a "best efforts" basis, which do not meet the definition of a derivative instrument. The fair value of these commitments was not material at September 30, 2016 or June 30, 2016.

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

loan portfolio.

Restrictions on Cash – The Bank is required by regulation to maintain a varying cash reserve balance with the Federal Reserve System. The daily average calculated cash reserve required as of September 30, 2016 and June 30, 2016 was \$2,413, and \$2,346, respectively, which was satisfied by vault cash and balances held at the FRB.

Guarantees – Standby letters of credit obligate the Company to meet certain financial obligations of its customers, if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable and payment is only guaranteed upon the borrower's failure to perform its obligations to the beneficiary. Total commitments under standby letters of credit as of September 30, 2016 and June 30, 2016 were \$2,139 and \$2,326, respectively. There was no liability recorded for these letters of credit at September 30, 2016 or June 30, 2016, respectively.

Litigation – The Company is involved in several litigation matters in the ordinary course of business. 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. 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.

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

#### 10. Fair Value of Financial Instruments

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

##### Fair Value Hierarchy

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

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

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

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

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

##### Investment Securities Available for Sale

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted prices of comparable securities. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored enterprises, municipal bonds, and corporate debt securities. Level 3 securities include one community bank corporate bond that is thinly traded. The community bank corporate bond was acquired as part of a bank acquisition and is carried at book value, which approximates fair value. Because the bond is thinly traded we rely on public information to review the overall financial condition and capital level of the community bank.

##### Loans

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

The fair value of impaired loans is estimated in one of two ways, which include collateral value and discounted cash flows. Loans are considered collateral dependent if repayment is expected solely from the collateral. For these collateral dependent impaired loans, the Company obtains updated appraisals at least annually. These appraisals are reviewed for appropriateness and then discounted for estimated closing costs to determine if an allowance is necessary. As part of the quarterly review of impaired loans, the Company reviews these appraisals to determine if any additional discounts to the fair value are necessary. If a current appraisal is not obtained, the Company determines whether a discount is needed to the value from the original appraisal based on the decline in value of similar properties with recent appraisals. For loans that are not collateral dependent, estimated fair value is based on the present value of expected future cash flows using the interest rate implicit in the original agreement. Impaired loans where a charge-off has occurred or an allowance is established during the period being reported require classification in the fair value hierarchy. The Company records such impaired loans as a nonrecurring Level 3 in the fair value

hierarchy.

**Loans Held for Sale**

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

**Real Estate Owned**

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

Description	September 30, 2016			
	Total	Level 1	Level 2	Level 3
U.S Government Agencies	\$78,362	\$ —	-\$78,362	\$—
Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises	90,386	—	90,386	—
Municipal Bonds	16,982	—	16,982	—
Corporate Bonds	7,908	—	6,908	1,000
Equity Securities	63	—	63	—
Total	\$193,701	\$ —	-\$192,701	\$1,000

  

Description	June 30, 2016			
	Total	Level 1	Level 2	Level 3
U.S Government Agencies	\$77,980	\$ —	-\$77,980	\$—
Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises	97,408	—	97,408	—
Municipal Bonds	17,234	—	17,234	—
Corporate Bonds	7,967	—	6,967	1,000
Equity Securities	63	—	63	—
Total	\$200,652	\$ —	-\$199,652	\$1,000

There were no transfers between levels during the three months ended September 30, 2016.

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

Description	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$7,028	\$ —	—	-\$7,028
REO	199	—	—	199
Total	\$7,227	\$ —	—	-\$7,227

  

Description	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$4,239	\$ —	—	-\$4,239
REO	1,117	—	—	1,117
Total	\$5,356	\$ —	—	-\$5,356

Quantitative information about Level 3 fair value measurements during the period ended September 30, 2016 is shown in the table below:

	Fair Value at September 30, 2016	Valuation Techniques	Unobservable Input	Range	Weighted Average
Nonrecurring measurements:					
Impaired loans, net	\$ 7,028	Discounted appraisals and discounted cash flows	Collateral discounts and discount spread	1% - 26%	3%
REO	\$ 199	Discounted appraisals	Collateral discounts	10% - 15%	11%



## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The stated carrying value and estimated fair value amounts of financial instruments as of September 30, 2016 and June 30, 2016, are summarized below:

	September 30, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Cash and interest-bearing deposits	\$60,563	\$60,563	\$60,563	\$ —	—
Commercial paper	220,682	220,682	220,682	—	—
Certificates of deposit in other banks	153,431	153,431	—	153,431	—
Securities available for sale	193,701	193,701	—	192,701	1,000
Loans, net	1,860,530	1,828,662	—	—	1,828,662
Loans held for sale	8,832	8,973	—	—	8,973
FHLB stock	25,323	25,323	25,323	—	—
FRB stock	6,186	6,186	6,186	—	—
Accrued interest receivable	7,729	7,729	—	1,176	6,553
Noninterest-bearing and NOW deposits	650,832	650,832	—	650,832	—
Money market accounts	516,396	516,396	—	516,396	—
Savings accounts	208,992	208,992	—	208,992	—
Certificates of deposit	417,308	417,067	—	417,067	—
Borrowings	536,500	536,500	—	536,500	—
Accrued interest payable	230	230	—	230	—
	June 30, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Cash and interest-bearing deposits	\$52,596	\$52,596	\$52,596	\$ —	—
Commercial paper	229,859	229,859	229,859	—	—
Certificates of deposit in other banks	161,512	161,512	—	161,512	—
Securities available for sale	200,652	200,652	—	199,652	1,000
Loans, net	1,811,539	1,761,926	—	—	1,761,926
Loans held for sale	5,783	5,876	—	—	5,876
FHLB stock	23,304	23,304	23,304	—	—
FRB stock	6,182	6,182	6,182	—	—
Accrued interest receivable	7,405	7,405	—	1,106	6,299
Noninterest-bearing and NOW deposits	628,910	628,910	—	628,910	—
Money market accounts	520,320	520,320	—	520,320	—
Savings accounts	210,817	210,817	—	210,817	—
Certificates of deposit	442,649	442,203	—	442,203	—
Borrowings	491,000	491,000	—	491,000	—
Accrued interest payable	246	246	—	246	—

The Company had off-balance sheet financial commitments, which include approximately \$503,024 and \$505,163 of commitments to originate loans, undisbursed portions of interim construction loans, and unused lines of credit at September 30, 2016 and June 30, 2016, respectively (see Note 9). Since these commitments are based on current rates, the carrying amount approximates the fair value.

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

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

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

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

Securities available for sale – Fair values are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The Company has one \$1.0 million community bank corporate bond that is not actively traded and considered a level three asset.



HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

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

Deposits – Fair values for demand deposits, money market accounts, and savings accounts are the amounts payable on demand as of September 30, 2016 and June 30, 2016. The fair value of certificates of deposit is estimated by discounting the contractual cash flows using current market interest rates for accounts with similar maturities.

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

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

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, a significant asset not considered a financial asset is premises and equipment. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

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

Forward-Looking Statements

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: expected cost savings, synergies and other financial benefits from our pending acquisition of TriSummit Bancorp, Inc. ("TriSummit") by HomeTrust ("merger") might not be realized within the expected time frames or at all, and costs or difficulties relating to integration matters might be greater than expected; the requisite approval of TriSummit's shareholders and regulatory approvals for the merger might not be obtained; 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 assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; statements with respect to our intentions regarding disclosure and other changes resulting from the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"); changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), including our 2016 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 (the "Bank") unless the context indicates otherwise.

#### Overview

HomeTrust Bancshares, Inc., a Maryland corporation, was organized in July 2012 for the purpose of becoming the holding company of HomeTrust Bank, upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on July 10, 2012. On August 25, 2014, the Bank converted from a federal savings bank charter to a national bank charter and the Company became 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").

HomeTrust Bancshares, Inc. is a bank holding company 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. 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.

Our principal business consists of attracting deposits from the general public and investing those funds, along with borrowed funds in loans secured primarily by first and second mortgages on one-to-four family residences, including home equity loans and construction and land/lot loans, commercial real estate loans, construction and development loans, commercial and industrial loans, indirect automobile loans, and municipal leases. Municipal leases are secured primarily by a ground lease for a firehouse or an equipment lease for fire trucks and firefighting equipment to fire departments located throughout North and South Carolina. We also purchase investment securities consisting primarily of securities issued by United States Government agencies and government-sponsored enterprises, as well as, certificates of deposit insured by the FDIC.

We offer a variety of deposit accounts for individuals, businesses, and nonprofit organizations. Deposits are our primary source of funds for our lending and investing activities.

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

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

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

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

On September 21, 2016, the Company announced that HomeTrust Bancshares, Inc. and TriSummit entered into an agreement under which the Company will acquire TriSummit with six locations in Kingsport, TN, Johnson City, TN, and Bristol, VA (the "Tri-Cities" region) and also in Morristown and Jefferson City, TN. The acquisition will add approximately \$246.0 million of loans and \$288.0 million of deposits. The Company expects the acquisition to close during the first calendar quarter of 2017, following satisfaction of customary closing conditions.

At September 30, 2016, we had 39 locations in North Carolina (including the Asheville metropolitan area, the "Piedmont" region, Charlotte, and a loan production office in Raleigh), Upstate South Carolina (Greenville), East

Tennessee (including Kingsport/Johnson City, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley).

#### Critical Accounting Policies and Estimates

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations and acquired loans, (iii) the valuation of REO, (iv) the valuation of goodwill and other intangible assets, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and estimates are described in further detail in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies with the 2016 Form 10-K. There have not been any material changes in the Company's critical accounting policies and estimates as compared to the disclosure contained in the Company's 2016 Form 10-K.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting

pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period, although we have not done so to date. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards or disclosures.

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

#### Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this report contains certain non-GAAP financial measures, which include: tangible book value per share; tangible equity to tangible assets ratio; net interest income and net interest margin as adjusted to exclude additional FHLB borrowings and proceeds from such borrowings; net income, earnings per share ("EPS"), return on assets ("ROA"), and return on equity ("ROE") excluding merger-related expenses, certain state tax expense, and gain from the sale of premises and equipment; and the ratio of the allowance for loan losses to total loans excluding acquired loans. Management elected to obtain additional FHLB borrowings beginning November 2014 as part of a plan to increase net interest income. The Company believes that showing the effects of the additional borrowings on net interest income and net interest margins is useful to both management and investors as these measures are commonly used to measure financial institutions performance and against peers.

Management has presented the non-GAAP financial measures in this discussion and analysis excluding merger-related expenses, certain state tax expense, and gain from the sale of premises because it believes excluding these items is more indicative of and provides useful and comparative information to assess trends in our core operations while facilitating comparison of the quality and composition of the Company's earnings over time and in comparison to its competitors. However, these non-GAAP financial measures are supplemental, are not audited and are not a substitute for operating results or any analysis determined in accordance with GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. See "Comparison of Results of Operations for the Three Months Ended September 30, 2016 and 2015" for more detailed information about our financial performance.

Set forth below is a reconciliation to GAAP of tangible book value and tangible book value per share:

(Dollars in thousands, except per share data)	As of		
	September 30, 2016	June 30, 2016	September 30, 2015
Total stockholders' equity	\$364,401	\$359,976	\$368,148
Less: goodwill, core deposit intangibles, net of taxes	(16,759 )	(17,169 )	(18,512 )
Tangible book value	\$347,642	\$342,807	\$349,636
Common shares outstanding	17,999,150	17,998,750	19,074,037
Tangible book value per share <sup>(1)</sup>	\$19.31	\$19.05	\$18.33
Book value per share	\$20.25	\$20.00	\$19.30

(1) Tangible book value is equal to total stockholders' equity less goodwill and core deposit intangibles, net of related deferred tax liabilities.

Set forth below is a reconciliation to GAAP of tangible equity to tangible assets:

(Dollars in thousands)	As of		
	September 30, 2016	June 30, 2016	September 30, 2015

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Tangible book value <sup>(1)</sup>	\$347,642	\$342,807	\$349,636
Total assets	2,754,109	2,717,677	2,726,000
Less: goodwill, core deposit intangibles, net of taxes	(16,759 )	(17,169 )	(18,512 )
Total tangible assets <sup>(2)</sup>	\$2,737,350	\$2,700,508	\$2,707,488
Tangible equity to tangible assets	12.70	% 12.69	% 12.91 %

(1) Tangible book value is equal to total stockholders' equity less goodwill and core deposit intangibles, net of related deferred tax liabilities.

(2) Total tangible assets is equal to total assets less goodwill and core deposit intangibles, net of related deferred tax liabilities.

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

	Three Months Ended September 30,					
	2016			2015		
	Average Balance Outstanding	Interest Earned / Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned / Paid	Yield/ Rate
Interest-earning assets <sup>(1)</sup>	\$2,527,413	\$23,381	3.70 %	\$2,515,767	\$22,656	3.60 %
Less: Interest-earning assets funded by additional FHLB borrowings <sup>(2)</sup>	395,000	999	1.01 %	446,000	664	0.60 %
Interest-earning assets - adjusted	\$2,132,413	\$22,382	4.20 %	\$2,069,767	\$21,992	4.25 %
Interest-bearing liabilities	\$2,097,932	\$1,654	0.31 %	\$2,117,705	\$1,438	0.27 %
Additional FHLB borrowings	395,000	410	0.42 %	446,000	231	0.21 %
Interest-bearing liabilities - adjusted	\$1,702,932	\$1,244	0.29 %	\$1,671,705	\$1,207	0.29 %
Tax equivalent net interest income and net interest margin		\$21,727	3.44 %		\$21,218	3.37 %
Tax equivalent net interest income and net interest margin - adjusted		21,138	3.97 %		20,785	4.02 %
Difference		\$589	(0.53)%		\$433	(0.65)%

Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of (1) \$590,000 and \$647,000 for the three months ended September 30, 2016 and 2015, respectively, calculated based on a federal tax rate of 34%.

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



Set forth below is a reconciliation to GAAP net income, EPS, ROA, and ROE as adjusted to exclude merger-related expenses, certain state tax expense, and gain from the sale of premises and equipment:

	Three months ended	
(Dollars in thousands, except per share data)	September 30,	
	2016	2015
Merger-related expenses	\$ 307	\$ —
State tax expense adjustment <sup>(1)</sup>	490	526
Gain from sale of premises and equipment	(385 )	—