

HomeTrust Bancshares, Inc.  
Form 10-Q  
February 09, 2018

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 December 31, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

(Do not check if a smaller reporting company)

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  Yes  No

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 18,985,175 shares of common stock, par value of \$.01 per share, issued and outstanding as of February 6, 2018.

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	(Unaudited)	
	December 31, 2017	June 30, 2017
Assets		
Cash	\$ 46,743	\$ 41,982
Interest-bearing deposits	51,922	45,003
Cash and cash equivalents	98,665	86,985
Commercial paper	199,722	149,863
Certificates of deposit in other banks	100,349	132,274
Securities available for sale, at fair value	167,669	199,667
Other investments, at cost	38,877	39,355
Loans held for sale	7,072	5,607
Total loans, net of deferred loan fees	2,418,014	2,351,470
Allowance for loan losses	(21,090)	(21,151)
Net loans	2,396,924	2,330,319
Premises and equipment, net	62,435	63,648
Accrued interest receivable	9,371	8,758
Real estate owned ("REO")	4,818	6,318
Deferred income taxes	36,526	57,387
Bank owned life insurance ("BOLI")	86,984	85,981
Goodwill	25,638	25,638
Core deposit intangibles	5,773	7,173
Other assets	9,765	7,560
Total Assets	\$ 3,250,588	\$ 3,206,533
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$ 2,108,208	\$ 2,048,451
Borrowings	685,000	696,500
Capital lease obligations	1,925	1,937
Other liabilities	60,094	61,998
Total liabilities	2,855,227	2,808,886
Stockholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 60,000,000 shares authorized, 18,967,175 shares issued and outstanding at December 31, 2017; 18,967,875 at June 30, 2017	190	190
Additional paid in capital	215,928	213,459
Retained earnings	187,241	191,660
Unearned Employee Stock Ownership Plan ("ESOP") shares	(7,670)	(7,935)
Accumulated other comprehensive income (loss)	(328)	273
Total stockholders' equity	395,361	397,647
Total Liabilities and Stockholders' Equity	\$ 3,250,588	\$ 3,206,533

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



## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Statements of Income (Loss)

(Dollars in thousands, except per share data)

	(Unaudited)			
	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Interest and Dividend Income				
Loans	\$26,140	\$ 19,871	\$51,390	\$ 40,352
Securities available for sale	904	862	1,875	1,742
Certificates of deposit and other interest-bearing deposits	1,303	939	2,472	1,982
Other investments	501	391	1,007	778
Total interest and dividend income	28,848	22,063	56,744	44,854
Interest Expense				
Deposits	1,541	1,041	2,887	2,140
Borrowings	2,077	607	4,046	1,162
Total interest expense	3,618	1,648	6,933	3,302
Net Interest Income	25,230	20,415	49,811	41,552
Provision for Loan Losses	—	—	—	—
Net Interest Income after Provision for Loan Losses	25,230	20,415	49,811	41,552
Noninterest Income				
Service charges and fees on deposit accounts	2,185	1,886	4,224	3,800
Loan income and fees	1,361	937	2,463	1,914
BOLI income	518	503	1,080	1,065
Gain from sale of premises and equipment	—	—	164	385
Other, net	723	615	1,433	1,019
Total noninterest income	4,787	3,941	9,364	8,183
Noninterest Expense				
Salaries and employee benefits	11,973	11,839	24,325	22,530
Net occupancy expense	2,473	2,015	4,822	4,076
Marketing and advertising	319	459	772	889
Telephone, postage, and supplies	748	574	1,433	1,187
Deposit insurance premiums	419	203	833	481
Computer services	1,595	1,648	3,140	3,075
Loss (gain) on sale and impairment of REO	104	339	(42 )	469
REO expense	205	378	446	522
Core deposit intangible amortization	681	618	1,400	1,268
Merger-related expenses	—	27	—	334
Other	2,658	2,380	5,127	4,780
Total noninterest expense	21,175	20,480	42,256	39,611
Income Before Income Taxes	8,842	3,876	16,919	10,124
Income Tax Expense	19,508	893	22,018	3,317
Net Income (Loss)	\$(10,666)	\$ 2,983	\$(5,099 )	\$ 6,807
Per Share Data:				
Net income (loss) per common share:				
Basic	\$(0.59 )	\$ 0.17	\$(0.28 )	\$ 0.39
Diluted	\$(0.59 )	\$ 0.17	\$(0.28 )	\$ 0.39
Average shares outstanding:				
Basic	17,975,883	16,900,387	17,971,439	16,893,775

Diluted

17,975,883 17,444,144 17,971,439 17,391,404

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

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in thousands)

	(Unaudited)			
	Three Months		Six Months Ended	
	Ended		December 31,	
	December 31,	December 31,	December 31,	December 31,
	2017	2016	2017	2016
Net Income (Loss)	\$(10,666)	\$2,983	\$(5,099)	\$6,807
Other Comprehensive Income (Loss)				
Unrealized holding losses on securities available for sale				
Losses arising during the period	(1,009 )	(2,955 )	(859 )	(3,540 )
Deferred income tax benefit	303	1,005	258	1,203
Total other comprehensive loss	\$(706 )	\$(1,950)	\$(601 )	\$(2,337)
Comprehensive Income (Loss)	\$(11,372)	\$1,033	\$(5,700)	\$4,470

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, 2016	17,998,750	\$ 180	\$ 186,104	\$ 179,813	\$(8,464 )	\$ 2,343	\$ 359,976
Net income	—	—	—	6,807	—	—	6,807
Granted restricted stock	2,000	—	—	—	—	—	—
Stock option expense	—	—	2,034	—	—	—	2,034
Restricted stock expense	—	—	758	—	—	—	758
ESOP shares allocated	—	—	273	—	265	—	538
Other comprehensive loss	—	—	—	—	—	(2,337 )	(2,337 )
Balance at December 31, 2016	18,000,750	\$ 180	\$ 189,169	\$ 186,620	\$(8,199 )	\$ 6	\$ 367,776
Balance at June 30, 2017	18,967,875	\$ 190	\$ 213,459	\$ 191,660	\$(7,935 )	\$ 273	\$ 397,647
Net loss	—	—	—	(5,099 )	—	—	(5,099 )
Cumulative-effect adjustment on the change in accounting for share-based payments	—	—	—	680	—	—	680
Forfeited restricted stock	(6,600 )	—	—	—	—	—	—
Granted restricted stock	2,000	—	—	—	—	—	—
Exercised stock options	3,900	—	57	—	—	—	57
Stock option expense	—	—	1,209	—	—	—	1,209
Restricted stock expense	—	—	805	—	—	—	805
ESOP shares allocated	—	—	398	—	265	—	663
Other comprehensive loss	—	—	—	—	—	(601 )	(601 )
Balance at December 31, 2017	18,967,175	\$ 190	\$ 215,928	\$ 187,241	\$(7,670 )	\$ (328 )	\$ 395,361

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)

	(Unaudited)	
	Six Months Ended	
	December 31,	
	2017	2016
Operating Activities:		
Net income (loss)	\$(5,099 )	\$6,807
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1,950	1,745
Deferred income tax expense	21,780	3,097
Net amortization and accretion	(2,567 )	(3,505 )
Gain from sale of premises and equipment	(164 )	(385 )
Loss (gain) on sale and impairment of REO	(42 )	469
Gain on sale of loans held for sale	(1,555 )	(1,444 )
Origination of loans held for sale	(61,981 )	(77,526 )
Proceeds from sales of loans held for sale	62,071	79,755
Increase (decrease) in deferred loan fees, net	297	(397 )
Increase in accrued interest receivable and other assets	(2,818 )	(5,280 )
Amortization of core deposit intangibles	1,400	1,268
BOLI income	(1,080 )	(1,065 )
ESOP compensation expense	663	538
Restricted stock and stock option expense	2,014	2,792
Decrease in other liabilities	(1,904 )	(3,920 )
Net cash provided by operating activities	12,965	2,949
Investing Activities:		
Purchase of securities available for sale	—	(15,091 )
Proceeds from maturities of securities available for sale	19,680	17,795
Net maturities (purchases) of commercial paper	(48,440 )	50,928
Purchase of certificates of deposit in other banks	(12,619 )	(24,708 )
Maturities of certificates of deposit in other banks	44,544	36,073
Principal repayments of mortgage-backed securities	10,941	13,080
Net redemptions (purchases) of other investments	478	(2,855 )
Net increase in loans	(65,808 )	(121,236)
Purchase of BOLI	(69 )	(110 )
Proceeds from redemption of BOLI	146	—
Purchase of premises and equipment	(1,496 )	(2,020 )
Capital improvements to REO	(18 )	—
Proceeds from sale of premises and equipment	923	395
Proceeds from sale of REO	2,151	1,169
Acquisition costs related to United Financial of North Carolina Inc.	—	(200 )
Acquisition costs related to TriSummit Bancorp, Inc.	—	(16,074 )
Net cash used in investing activities	(49,587 )	(62,854 )
Financing Activities:		
Net increase (decrease) in deposits	59,757	(16,531 )
Net increase (decrease) in other borrowings	(11,500 )	69,000
Exercised stock options	57	—
Decrease in capital lease obligations	(12 )	(11 )

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Net cash provided by financing activities	48,302	52,458
Net Increase (Decrease) in Cash and Cash Equivalents	11,680	(7,447 )
Cash and Cash Equivalents at Beginning of Period	86,985	52,596
Cash and Cash Equivalents at End of Period	\$98,665	\$45,149

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## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

	(Unaudited)	
	Six Months	
	Ended December	
	31,	
	2017	2016
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	\$6,788	\$3,754
Income taxes	266	170
Noncash transactions:		
Unrealized loss in value of securities available for sale, net of income taxes	(601 )	(2,337 )
Transfers of loans to REO	591	1,330
Cumulative-effect adjustment on the change in accounting for share-based payments	680	—
Payable related to the acquisition of United Financial Inc. of North Carolina	—	225

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.

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, 2017 ("2017 Form 10-K") filed with the SEC on September 12, 2017. The results of operations for the three and six months ended December 31, 2017 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018.

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 2017 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.

Certain amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported cash flows, stockholders' equity or net income.

#### 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 annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016, and interim periods within those annual periods. 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. A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. With respect to noninterest income, the Company is in its preliminary stages of identifying and evaluating the revenue streams and underlying revenue contracts within the scope of the guidance. The Company is expecting to begin developing processes and procedures during fiscal 2018 to ensure it is fully compliant with these amendments at the adoption date. To date, the Company has not yet identified any significant changes in the timing of revenue recognition when considering the amended accounting guidance; however, the Company's implementation efforts are ongoing and such assessments may change prior to the July 1, 2018 implementation date.

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization's other deferred tax assets. The amendments in this ASU are effective for annual periods, and interim periods within those 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. Management is in the planning stages of developing processes and procedures to comply with the disclosures requirements of this ASU, which could impact the disclosures the Company makes related to fair value of its financial instruments.

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. The amendments in this ASU are effective for annual periods, and interim periods within those 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. The Company will compile an inventory of all leased assets to determine the impact of ASU 2016-02 on its financial condition and results of operations. Once adopted, we expect to report higher assets and liabilities on our Consolidated Balance Sheets as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, which currently are not reflected in our Consolidated Balance Sheets. We do not expect the guidance to have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Changes in Stockholders' Equity. 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. We have elected to account for forfeitures of stock-based awards as they occur. The Company has adopted the amendments in this ASU and appropriate disclosures have been included in this Note. At the adoption of this ASU, we had a cumulative adjustment to retained earnings of \$680,000. In accordance with the transition guidance outlined in this ASU, the adoption had no effect on net income or shareholder's equity in any previously issued periods. Going forward, we expect this ASU to create some volatility in our reported income tax expense related to the excess tax benefits for employee stock-based transactions, however, the actual amounts recognized will be dependent on the amount of employee stock-based transactions and the stock price at the time of exercise or vesting.

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. The amendments in this ASU are effective for annual periods, and interim periods within those annual 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 in the process of identifying required changes to the loan loss estimation models and processes and evaluating the impact of this new guidance. Once adopted, we expect our allowance for loan losses to increase, however, until our evaluation is complete the magnitude of the increase will be unknown.

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. The amendments in this ASU are effective for annual periods, and interim periods within those annual 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.

In December 2016, FASB issued ASU No. 2016-19, "Technical Corrections and Improvements" and ASU 2016-20, "Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers." On November 10, 2010 FASB added a standing project that will facilitate the FASB Accounting Standards Codification ("Codification") updates for technical corrections, clarifications, and improvements. These amendments are referred to as Technical Corrections and Improvements. Maintenance updates include non-substantive corrections to the Codification, such as editorial corrections, various link-related changes, and changes to source fragment information. These updates contain amendments that will affect a wide variety of Topics in the Codification. The amendments in these ASUs will apply to all reporting entities within the scope of the affected accounting guidance and generally fall into one of four categories: amendments related to differences between original guidance and the Codification, guidance clarification and reference corrections, simplification, and minor improvements. In summary, the amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the amendments

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

in the ASUs. The amendments that require transition guidance are effective for fiscal years and interim reporting periods after December 15, 2016. Early adoption is permitted including adoption in an interim period. All other amendments are effective upon the issuance of these ASUs. Neither ASU 2016-19 nor ASU 2016-20 had a material impact on the Company's Consolidated Financial Statements.

In January 2017, FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The ASU removes the requirement to compare the implied fair value of goodwill with its carrying value as required in Step 2 of the goodwill impairment test. Under the ASU, registrants would perform their goodwill impairment test and recognize an impairment charge for any amount the carrying value exceeds the reporting unit's fair value, but limited by the amount of goodwill allocated to that reporting unit. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for all entities after January 1, 2017. The Company did early adopt this ASU and adoption did not have a material effect on the Company's Consolidated Financial Statements.

In March 2017, FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The ASU requires entities to amortize the premium on certain purchased callable debt securities to the earliest call date, which more closely aligns the amortization period of premiums and discounts to expectations incorporated in the market prices. Entities will no longer recognize a loss in earnings upon the debtor's exercise of a call on a purchased debt security held at a premium. The ASU does not require any accounting change for debt securities held at a discount, therefore the discount will continue to be amortized as an adjustment of yield over the contractual life of the investment. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted for all entities. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides clarity on the guidance related to stock compensation when there have been changes to the terms or conditions of a share-based payment award to which an entity would be required to apply modification accounting under ASC 718. The ASU provides the three following criteria must be met in order to not account for the effect of the modification of terms or conditions: the fair value, the vesting conditions and the classification as an equity or liability instrument of the modified award is the same as the original award immediately before the original award is modified. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The adoption of ASU No. 2017-09 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2017, FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This ASU improves the transparency and understandability of disclosures in the financial statements regarding the entities risk management activities and reduces the complexity of hedge accounting. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

### 3. Business Combinations

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

United Financial of North Carolina, Inc.

On December 31, 2016, the Bank acquired United Financial of North Carolina, Inc. ("United Financial"), a municipal lease company headquartered in Fletcher, North Carolina that specializes in providing financing for fire departments and municipalities to purchase fire trucks and related equipment as well as to construct fire stations and other municipal buildings across the Carolinas and other southeastern states. United Financial underwrites and originates municipal leases and then sells them to HomeTrust and other financial institutions. Since January 1, 2017, United Financial has conducted business under the name United Financial, a division of HomeTrust Bank.

The total consideration paid by the Bank in the United Financial acquisition approximates \$425. Per the merger agreement, a cash payment of \$200 was paid on the acquisition date with an additional \$225 due in the third quarter of fiscal 2018; all of which was allocated to goodwill.

TriSummit Bancorp. Inc.

On January 1, 2017, HomeTrust completed its acquisition of TriSummit Bancorp, Inc., ("TriSummit") pursuant to an Agreement and Plan of Merger, dated as of September 20, 2016, under which TriSummit merged with and into HomeTrust (the "Merger") with HomeTrust as the surviving corporation in the Merger. Immediately following the Merger, TriSummit's wholly owned subsidiary bank, TriSummit Bank, merged with and into the Bank (together with the Merger, the "TriSummit Merger").

Pursuant to the Merger Agreement, each share of the common stock of TriSummit and each share of Series A Preferred Stock of TriSummit issued and outstanding immediately prior to the Merger (on an as converted basis to a share of TriSummit common stock) was converted into

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the right to receive \$4.40 in cash and .2099 shares of HomeTrust common stock, with cash paid in lieu of fractional share interests. At the Merger date, 50% of outstanding options granted by TriSummit were canceled. The remaining options were assumed by HomeTrust and converted into options to purchase 86,185 shares of HomeTrust Common Stock. In addition, TriSummit's \$7,222 Series B, Series C and Series D TARP preferred stock (all held by private shareholders) was redeemed in connection with the closing of the merger.

The total consideration paid by HomeTrust in the TriSummit Merger approximates \$36,126. The total number of HomeTrust shares issued was 765,277 shares. HomeTrust paid aggregate cash consideration of approximately \$16,083.

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## Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The following table presents the consideration paid by the Company in the acquisition of TriSummit and the assets acquired and liabilities assumed as of January 1, 2017:

	As Recorded by TriSummit	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
<b>Consideration Paid:</b>			
Cash paid including cash in lieu of fractional shares			\$ 16,083
Fair value of HomeTrust common stock at \$25.90 per share			20,043
Total consideration			\$ 36,126
<b>Assets:</b>			
Cash and cash equivalents	\$ 5,498	\$ —	\$ 5,498
Certificates of deposit in other banks	250	—	250
Investment securities	58,728	(203 )	58,525
Other investments, at cost	2,614	—	2,614
Loans, net	261,926	(3,867 )	258,059
Premises and equipment, net	12,841	(2,419 )	10,422
REO	1,633	(122 )	1,511
Deferred income tax	2,653	4,462	7,115
Bank owned life insurance	3,762	—	3,762
Core deposit intangibles	1,285	1,575	2,860
Other assets	1,453	(105 )	1,348
Total assets acquired	\$ 352,643	\$ (679 )	\$ 351,964
<b>Liabilities:</b>			
Deposits	\$ 279,647	\$ 587	280,234
Borrowings	47,453	16	47,469
Other liabilities	675	—	675
Total liabilities assumed	\$ 327,775	\$ 603	\$ 328,378
Net identifiable assets acquired over liabilities assumed	\$ 24,868	\$ (1,282 )	\$ 23,586
Goodwill			\$ 12,540

The carrying amount of acquired loans from TriSummit as of January 1, 2017 consisted of purchased performing loans and Purchase Credit Impaired ("PCI") loans as detailed in the following table:

	Purchased Performing	PCI	Total Loans
<b>Retail Consumer Loans:</b>			
One-to-four family	\$ 75,179	\$ 3,753	\$ 78,932
HELOCs	6,479	2	6,481
Construction and land/lots	15,591	—	15,591
Consumer	1,686	17	1,703
<b>Commercial:</b>			
Commercial real estate	107,880	3,494	111,374
Construction and development	15,253	142	15,395
Commercial and industrial	28,295	288	28,583
Total	\$ 250,363	\$ 7,696	\$ 258,059



## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

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The following table presents the performing loans receivable purchased from TriSummit at January 1, 2017, the acquisition date:

Contractually required principal payments receivable	\$255,852
Adjustment for credit, interest rate, and liquidity	5,489
Balance of purchased loans receivable	\$250,363

The following table presents the PCI loans acquired from TriSummit at January 1, 2017, the acquisition date:

Contractually required principal and interest payments receivable	\$11,474
Amounts not expected to be collected - nonaccretable difference	2,490
Estimated payments expected to be received	8,984
Accretable yield	1,288
Fair value of PCI loans	\$7,696

## 4. Securities Available for Sale

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

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	\$47,986	\$ 84	\$(377)	\$47,693
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	81,675	244	(641)	81,278
Municipal Bonds	32,154	351	(82)	32,423
Corporate Bonds	6,216	83	(87)	6,212
Equity Securities	63	—	—	63
Total	\$168,094	\$ 762	\$(1,187)	\$167,669
	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	\$65,947	\$ 184	\$(301)	\$65,830
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	92,841	411	(281)	92,971
Municipal Bonds	34,135	403	(28)	34,510
Corporate Bonds	6,267	114	(88)	6,293
Equity Securities	63	—	—	63
Total	\$199,253	\$ 1,112	\$(698)	\$199,667

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.

	December 31, 2017	
	Amortized Cost	Estimated Fair Value
Due within one year	\$12,260	\$12,187
Due after one year through five years	54,404	54,153
Due after five years through ten years	10,243	10,483
Due after ten years	9,449	9,505
Mortgage-backed securities	81,675	81,278

Total \$168,031 \$167,606

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## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

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The Company had no sales of securities available for sale during the three and six months ended December 31, 2017 and 2016. There were no gross realized gains or losses for the three and six months ended December 31, 2017 and 2016, respectively.

Securities available for sale with costs totaling \$131,784 and \$156,592 and market values of \$131,337 and \$154,264 at December 31, 2017 and June 30, 2017, 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 December 31, 2017 and June 30, 2017 were as follows:

	December 31, 2017					
	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	\$13,885	\$ (80 )	\$25,696	\$ (297 )	\$39,581	\$ (377 )
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	31,210	(285 )	20,058	(356 )	51,268	(641 )
Municipal Bonds	11,616	(72 )	1,068	(10 )	12,684	(82 )
Corporate Bonds	—	—	3,691	(87 )	3,691	(87 )
Total	\$56,711	\$ (437 )	\$50,513	\$ (750 )	\$107,224	\$ (1,187 )
	June 30, 2017					
	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	\$46,767	\$ (222 )	\$6,921	\$ (79 )	\$53,688	\$ (301 )
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	42,921	(240 )	3,970	(41 )	46,891	(281 )
Municipal Bonds	9,153	(28 )	—	—	9,153	(28 )
Corporate Bonds	3,734	(88 )	—	—	3,734	(88 )
Total	\$102,575	\$ (578 )	\$10,891	\$ (120 )	\$113,466	\$ (698 )

The total number of securities with unrealized losses at December 31, 2017, and June 30, 2017 were 164 and 136, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future, and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other-than-temporary impairment losses during the six months ended December 31, 2017 or the year ended June 30, 2017.

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

## HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

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## 5. Loans

Loans consist of the following at the dates indicated:

	December 31, 2017	June 30, 2017
Retail consumer loans:		
One-to-four family	\$686,229	\$684,089
HELOCs - originated	150,084	157,068
HELOCs - purchased	162,181	162,407
Construction and land/lots	60,805	50,136
Indirect auto finance	150,042	140,879
Consumer	9,699	7,900
Total retail consumer loans	1,219,040	1,202,479
Commercial loans:		
Commercial real estate	786,381	730,408
Construction and development	185,921	197,966
Commercial and industrial	127,709	120,387
Municipal leases	100,205	101,175
Total commercial loans	1,200,216	1,149,936
Total loans	2,419,256	2,352,415
Deferred loan fees, net	(1,242 )	(945 )
Total loans, net of deferred loan fees	2,418,014	2,351,470
Allowance for loan losses	(21,090 )	(21,151 )
Loans, net	\$2,396,924	\$2,330,319

All qualifying one-to-four family first mortgage loans, HELOCs, commercial real estate loans, 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
December 31, 2017						
Retail consumer loans:						
One-to-four family	\$658,436	\$4,783	\$ 14,298	\$ 1,132	\$ 132	\$678,781
HELOCs - originated	146,733	756	2,318	—	21	149,828
HELOCs - purchased	161,991	—	190	—	—	162,181
Construction and land/lots	59,496	389	409	—	—	60,294
Indirect auto finance	149,660	—	382	—	—	150,042
Consumer	9,656	10	20	1	9	9,696
Commercial loans:						
Commercial real estate	760,262	7,584	5,809	—	—	773,655
Construction and development	179,946	714	2,829	—	—	183,489
Commercial and industrial	122,282	906	2,099	—	2	125,289
Municipal leases	99,798	309	98	—	—	100,205
Total loans	\$2,348,260	\$15,451	\$ 28,452	\$ 1,133	\$ 164	\$2,393,460

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	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2017						
Retail consumer loans:						
One-to-four family	\$655,424	\$4,715	\$ 14,769	\$ 1,101	\$ 11	\$676,020
HELOCs - originated	153,676	809	2,100	188	7	156,780
HELOCs - purchased	162,215	—	192	—	—	162,407
Construction and land/lots	48,728	479	341	60	—	49,608
Indirect auto finance	140,780	—	97	1	1	140,879
Consumer	7,828	12	34	—	8	7,882
Commercial loans:						
Commercial real estate	700,060	5,847	7,118	—	—	713,025
Construction and development	192,025	992	2,320	—	—	195,337
Commercial and industrial	113,923	883	2,954	—	1	117,761
Municipal leases	99,811	1,258	106	—	—	101,175
Total loans	\$2,274,470	\$14,995	\$ 30,031	\$ 1,350	\$ 28	\$2,320,874

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2017						
Retail consumer loans:						
One-to-four family	\$2,827	\$ 1,193	\$ 3,427	\$ —	—\$ 1	\$7,448
HELOCs - originated	256	—	—	—	—	256
Construction and land/lots	469	—	42	—	—	511
Consumer	3	—	—	—	—	3
Commercial loans:						
Commercial real estate	6,627	1,579	4,520	—	—	12,726
Construction and development	326	—	2,106	—	—	2,432
Commercial and industrial	2,267	23	130	—	—	2,420
Total loans	\$12,775	\$2,795	\$ 10,225	\$ —	—\$ 1	\$25,796

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2017						
Retail consumer loans:						
One-to-four family	\$3,115	\$ 1,129	\$ 3,615	\$ 210	\$ —	—\$8,069
HELOCs - originated	258	—	30	—	—	288
Construction and land/lots	487	—	41	—	—	528
Consumer	4	14	—	—	—	18
Commercial loans:						
Commercial real estate	8,909	2,299	6,175	—	—	17,383
Construction and development	338	—	2,291	—	—	2,629
Commercial and industrial	2,460	44	122	—	—	2,626
Total loans	\$15,571	\$3,486	\$ 12,274	\$ 210	\$ —	—\$31,541

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## Notes to Consolidated Financial Statements

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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+			
December 31, 2017					
Retail consumer loans:					
One-to-four family	\$4,730	\$3,601	\$8,331	\$677,898	\$686,229
HELOCs - originated	531	740	1,271	148,813	150,084
HELOCs - purchased	—	—	—	162,181	162,181
Construction and land/lots	164	133	297	60,508	60,805
Indirect auto finance	441	67	508	149,534	150,042
Consumer	7	4	11	9,688	9,699
Commercial loans:					
Commercial real estate	341	2,854	3,195	783,186	786,381
Construction and development	831	2,062	2,893	183,028	185,921
Commercial and industrial	267	538	805	126,904	127,709
Municipal leases	—	—	—	100,205	100,205
Total loans	\$7,312	\$9,999	\$17,311	\$2,401,945	\$2,419,256

The table above includes PCI loans of \$797 30-89 days past due and \$2,023 90 days or more past due as of December 31, 2017.

	Past Due		Total	Current	Total Loans
	30-89 Days	90 Days+			
June 30, 2017					
Retail consumer loans:					
One-to-four family	\$3,496	\$3,990	\$7,486	\$676,603	\$684,089
HELOCs - originated	1,037	274	1,311	155,757	157,068
HELOCs - purchased	—	—	—	162,407	162,407
Construction and land/lots	132	129	261	49,875	50,136
Indirect auto finance	96	—	96	140,783	140,879
Consumer	5	14	19	7,881	7,900
Commercial loans:					
Commercial real estate	809	3,100	3,909	726,499	730,408
Construction and development	385	887	1,272	196,694	197,966
Commercial and industrial	37	831	868	119,519	120,387
Municipal leases	—	—	—	101,175	101,175
Total loans	\$5,997	\$9,225	\$15,222	\$2,337,193	\$2,352,415

The table above includes PCI loans of \$854 30-89 days past due and \$4,211 90 days or more past due as of June 30, 2017.

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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: