

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

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

45-5055422

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.

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.

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 (Unaudited) at December 31, 2017 and June 30, 2017</u> | <u>2</u> |
| <u>Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended December 31, 2017 and 2016</u> | <u>3</u> |
| <u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended December 31, 2017 and 2016</u> | <u>4</u> |
| <u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three and Six Months Ended December 31, 2017 and 2016</u> | <u>5</u> |
| <u>Consolidated Statements of Cash Flows (Unaudited) for the Three and Six Months Ended December 30, 2017 and 2016</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>34</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>51</u> |
| Item 4. <u>Controls and Procedures</u> | <u>51</u> |
| <u>PART II OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | <u>51</u> |
| Item 1A. <u>Risk Factors</u> | <u>51</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>51</u> |
| Item 3. <u>Defaults Upon Senior Securities</u> | <u>52</u> |
| Item 4. <u>Mine Safety Disclosures</u> | <u>52</u> |
| Item 5. <u>Other Information</u> | <u>52</u> |
| Item 6. <u>Exhibits</u> | <u>52</u> |
| <u>SIGNATURES</u> | <u>53</u> |

EXHIBIT INDEX

54

1

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.

3

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) |

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

| | | |
|--|----------|----------|
| 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 |

6

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

| | (Unaudited) | |
|---|----------------|----------|
| | Six Months | |
| Supplemental Disclosures: | Ended December | |
| | 31, | |
| | 2017 | 2016 |
| 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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The following table presents the consideration paid by the 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 |
|---|-----------------------------------|---|-------------------------------------|
| Consideration Paid: | | | |
| 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 |
| Assets: | | | |
| 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 |
| Liabilities: | | | |
| 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 |
|-------------------------------|-------------------------|----------|----------------|
| Retail Consumer Loans: | | | |
| 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 |
| Commercial: | | | |
| 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

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

13

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

(Dollars in thousands, except per share data)

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 |

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, 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 |

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+ | | | |
| 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.

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:

| | December 31, 2017 | | June 30, 2017 | |
|------------------------------|--|------|--|------|
| | 90 Days Nonaccruing + & Still accruing | | 90 Days Nonaccruing + & Still accruing | |
| Retail consumer loans: | | | | |
| One-to-four family | \$ 6,281 | \$ — | —\$ 6,453 | \$ — |
| HELOCs - originated | 1,275 | — | 1,291 | — |
| HELOCs - purchased | 190 | — | 192 | — |
| Construction and land/lots | 315 | — | 245 | — |
| Indirect auto finance | 285 | — | 1 | — |
| Consumer | 21 | — | 29 | — |
| Commercial loans: | | | | |
| Commercial real estate | 2,808 | — | 2,756 | — |
| Construction and development | 2,569 | — | 1,766 | — |
| Commercial and industrial | 525 | — | 827 | — |
| Municipal leases | 98 | — | 106 | — |
| Total loans | \$ 14,367 | \$ — | —\$ 13,666 | \$ — |

PCI loans totaling \$4,596 at December 31, 2017 and \$6,664 at June 30, 2017 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 December 31, 2017.

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:

| | December 31, 2017 | June 30, 2017 |
|--|-------------------|---------------|
| Performing TDRs included in impaired loans | \$ 25,181 | \$ 27,043 |

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

| | Three Months Ended December 31, 2017 | | | | Three Months Ended December 31, 2016 | | | |
|---|--------------------------------------|--------------------|------------|-----------|--------------------------------------|--------------------|------------|-----------|
| | PCI | Retail Consumer | Commercial | Total | PCI | Retail Consumer | Commercial | Total |
| Balance at beginning of period | \$ 1,197 | \$ 8,310 | \$ 12,490 | \$ 21,997 | \$ 356 | \$ 10,446 | \$ 10,149 | \$ 20,951 |
| Provision for (recovery of) loan losses | (286) | 162 | 124 | — | (20) | (609) | 629 | — |
| Charge-offs | (345) | (378) | (349) | (1,072) | — | (155) | (67) | (222) |
| Recoveries | — | 97 | 68 | 165 | — | 131 | 126 | 257 |
| Balance at end of period | \$ 566 | \$ 8,191 | \$ 12,333 | \$ 21,090 | \$ 336 | \$ 9,813 | \$ 10,837 | \$ 20,986 |
| | Six Months Ended December 31, 2017 | | | | Six Months Ended December 31, 2016 | | | |
| | PCI | Retail Consumer | Commercial | Total | PCI | Retail Consumer | Commercial | Total |
| Balance at beginning of period | \$ 727 | \$ 8,585 | \$ 11,839 | \$ 21,151 | \$ 361 | \$ 11,549 | \$ 9,382 | \$ 21,292 |

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

| | | | | | | | | |
|---|-------|----------|-----------|----------|-------|----------|-----------|----------|
| Provision for (recovery of) loan losses | 184 | (250 |) 66 | — | (25 |) (1,505 |) 1,530 | — |
| Charge-offs | (345 |) (528 |) (363 |) (1,236 |) — | (574 |) (675 |) (1,249 |
| Recoveries | — | 384 | 791 | 1,175 | — | 343 | 600 | 943 |
| Balance at end of period | \$566 | \$ 8,191 | \$ 12,333 | \$21,090 | \$336 | \$ 9,813 | \$ 10,837 | \$20,986 |

18

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 |
| December 31, 2017 | | | | | | | | |
| Retail consumer loans: | | | | | | | | |
| One-to-four family | \$135 | \$ 391 | \$ 3,587 | \$4,113 | \$7,448 | \$ 9,302 | \$669,479 | \$686,229 |
| HELOCs - originated | — | 21 | 1,311 | 1,332 | 256 | 462 | 149,366 | 150,084 |
| HELOCs - purchased | — | — | 791 | 791 | — | — | 162,181 | 162,181 |
| Construction and land/lots | — | 22 | 1,063 | 1,085 | 511 | 611 | 59,683 | 60,805 |
| Indirect auto finance | — | — | 940 | 940 | — | — | 150,042 | 150,042 |
| Consumer | — | 9 | 56 | 65 | 3 | 9 | 9,687 | 9,699 |
| Commercial loans: | | | | | | | | |
| Commercial real estate | 248 | 190 | 7,463 | 7,901 | 12,726 | 5,806 | 767,849 | 786,381 |
| Construction and development | 168 | 51 | 2,876 | 3,095 | 2,432 | 2,583 | 180,906 | 185,921 |
| Commercial and industrial | 15 | 91 | 1,197 | 1,303 | 2,420 | 1,060 | 124,229 | 127,709 |
| Municipal leases | — | — | 465 | 465 | — | — | 100,205 | 100,205 |
| Total | \$566 | \$ 775 | \$ 19,749 | \$21,090 | \$25,796 | \$ 19,833 | \$2,373,627 | \$2,419,256 |
| June 30, 2017 | | | | | | | | |
| Retail consumer loans: | | | | | | | | |
| One-to-four family | \$28 | \$ 863 | \$ 3,585 | \$4,476 | \$8,069 | \$ 10,305 | \$665,715 | \$684,089 |
| HELOCs - originated | — | 44 | 1,340 | 1,384 | 288 | 12 | 156,768 | 157,068 |
| HELOCs - purchased | — | — | 838 | 838 | — | — | 162,407 | 162,407 |
| Construction and land/lots | — | 88 | 889 | 977 | 528 | 634 | 48,974 | 50,136 |
| Indirect auto finance | — | 1 | 880 | 881 | — | 1 | 140,878 | 140,879 |
| Consumer | — | 8 | 49 | 57 | 18 | 8 | 7,874 | 7,900 |
| Commercial loans: | | | | | | | | |
| Commercial real estate | 512 | 239 | 6,600 | 7,351 | 17,383 | 6,284 | 706,741 | 730,408 |
| Construction and development | 171 | 13 | 2,982 | 3,166 | 2,629 | 2,184 | 193,153 | 197,966 |
| Commercial and industrial | 16 | 287 | 1,221 | 1,524 | 2,626 | 1,514 | 116,247 | 120,387 |
| Municipal leases | — | — | 497 | 497 | — | — | 101,175 | 101,175 |
| Total | \$727 | \$ 1,543 | \$ 18,881 | \$21,151 | \$31,541 | \$ 20,942 | \$2,299,932 | \$2,352,415 |

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 | |
| December 31, 2017 | | | | | |
| Retail consumer loans: | | | | | |
| One-to-four family | \$27,510 | \$ 18,013 | \$ 6,147 | \$24,160 | \$ 935 |
| HELOCs - originated | 3,826 | 2,046 | 554 | 2,600 | 63 |
| HELOCs - purchased | 190 | 190 | — | 190 | 1 |
| Construction and land/lots | 2,538 | 1,277 | 332 | 1,609 | 60 |
| Indirect auto finance | 354 | 257 | 28 | 285 | 1 |
| Consumer | 512 | 2 | 29 | 31 | 9 |
| Commercial loans: | | | | | |
| Commercial real estate | 7,483 | 4,737 | 2,390 | 7,127 | 204 |
| Construction and development | 4,433 | 1,272 | 2,006 | 3,278 | 62 |
| Commercial and industrial | 6,280 | 1,339 | 50 | 1,389 | 93 |
| Municipal leases | 98 | 98 | — | 98 | — |
| Total impaired loans | \$53,224 | \$ 29,231 | \$ 11,536 | \$40,767 | \$ 1,428 |
| June 30, 2017 | | | | | |
| Retail consumer loans: | | | | | |
| One-to-four family | \$28,469 | \$ 17,353 | \$ 7,773 | \$25,126 | \$ 881 |
| HELOCs - originated | 4,070 | 2,270 | 532 | 2,802 | 49 |
| HELOCs - purchased | 192 | — | 192 | 192 | — |
| Construction and land/lots | 2,817 | 1,310 | 468 | 1,778 | 88 |
| Indirect auto finance | 22 | — | 1 | 1 | 1 |
| Consumer | 552 | 15 | 27 | 42 | 8 |
| Commercial loans: | | | | | |
| Commercial real estate | 8,307 | 4,721 | 3,186 | 7,907 | 253 |
| Construction and development | 3,768 | 1,024 | 1,617 | 2,641 | 16 |
| Commercial and industrial | 7,757 | 845 | 1,231 | 2,076 | 288 |
| Municipal leases | 400 | 106 | 294 | 400 | — |
| Total impaired loans | \$56,354 | \$ 27,644 | \$ 15,321 | \$42,965 | \$ 1,584 |

Impaired loans above excludes \$4,596 at December 31, 2017 and \$6,677 at June 30, 2017 in PCI loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations. The June 30, 2017 balance in the preceding sentence was previously disclosed as \$13,425. Based on further review, this amount was determined to be an error and was corrected during the quarter ended September 30, 2017. The error had no effect on the Company's audited financial statements or other disclosures.

The table above includes \$20,934 and \$22,023, of impaired loans that were not individually evaluated at December 31, 2017 and June 30, 2017, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes \$653 and \$41 related to these loans that were not individually evaluated at December 31, 2017 and June 30, 2017, 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 and six months ended December 31, 2017 and 2016 was as follows:

| | Three Months Ended | | December 31, 2016 | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2017 | December 31, 2016 | December 31, 2016 | December 31, 2016 |
| | Average Interest | Average Interest | Average Interest | Average Interest |
| | RecordedIncome | RecordedIncome | RecordedIncome | RecordedIncome |
| | InvestmentRecognized | InvestmentRecognized | InvestmentRecognized | InvestmentRecognized |
| Retail consumer loans: | | | | |
| One-to-four family | \$24,519 | \$ 287 | \$26,673 | \$ 283 |
| HELOCs - originated | 2,750 | 31 | 2,544 | 33 |
| HELOC - purchased | 191 | 3 | — | — |
| Construction and land/lots | 1,588 | 27 | 1,594 | 38 |
| Indirect auto finance | 232 | 3 | 134 | 1 |
| Consumer | 33 | 4 | 32 | 5 |
| Commercial loans: | | | | |
| Commercial real estate | 7,184 | 77 | 7,673 | 63 |
| Construction and development | 2,973 | 31 | 2,530 | 31 |
| Commercial and industrial | 1,723 | 23 | 3,372 | 22 |
| Municipal leases | 102 | 6 | 408 | — |
| Total loans | \$41,295 | \$ 492 | \$44,960 | \$ 476 |

| | Six Months Ended | | December 31, 2016 | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2017 | December 31, 2016 | December 31, 2016 | December 31, 2016 |
| | Average Interest | Average Interest | Average Interest | Average Interest |
| | RecordedIncome | RecordedIncome | RecordedIncome | RecordedIncome |
| | InvestmentRecognized | InvestmentRecognized | InvestmentRecognized | InvestmentRecognized |
| Retail consumer loans: | | | | |
| One-to-four family | \$24,721 | \$ 585 | \$26,356 | \$ 585 |
| HELOCs - originated | 2,767 | 61 | 2,755 | 65 |
| HELOCs - purchased | 191 | 7 | — | — |
| Construction and land/lots | 1,651 | 56 | 1,548 | 75 |
| Indirect auto finance | 155 | 9 | 96 | 3 |
| Consumer | 36 | 8 | 29 | 10 |
| Commercial loans: | | | | |
| Commercial real estate | 7,425 | 152 | 7,326 | 130 |
| Construction and development | 2,862 | 52 | 2,530 | 49 |
| Commercial and industrial | 1,841 | 42 | 3,624 | 58 |
| Municipal leases | 201 | 6 | 412 | 12 |
| Total loans | \$41,850 | \$ 978 | \$44,676 | \$ 987 |

A summary of changes in the accretable yield for PCI loans for the three and six months ended December 31, 2017 and 2016 was as follows:

| | Three Months Ended | |
|---|--------------------|-------------------|
| | December 31, 2017 | December 31, 2016 |
| Accretable yield, beginning of period | \$6,698 | \$ 8,339 |
| Reclass from nonaccretable yield ⁽¹⁾ | 77 | 185 |

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

| | | | | |
|-----------------------------------|---------|----------|------|---|
| Other changes, net ⁽²⁾ | 80 | (282 |) | |
| Interest income | (634 |) | (723 |) |
| Accretable yield, end of period | \$6,221 | \$ 7,519 | | |

21

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

| | Six Months Ended | |
|---|-------------------------|----------------------|
| | December 31, 2017 | December 31, 2016 |
| Accretable yield, beginning of period | \$7,080 | \$ 9,532 |
| Reclass from nonaccretable yield ⁽¹⁾ | 278 | 1,072 |
| Other changes, net ⁽²⁾ | 107 | (741) |
| Interest income | (1,244) | (2,344) |
| Accretable yield, end of period | \$6,221 | \$ 7,519 |

(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)

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.

For the three and six months ended December 31, 2017 and 2016, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

| | Three Months Ended December 31, 2017 | | Three Months Ended December 31, 2016 | |
|----------------------------|--|---|--|---|
| | 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 |
| Extended payment terms: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 3 \$ 398 | \$ 395 | 1 \$ 20 | \$ 20 |
| HELOCs - originated | 1 64 | 59 | — — | — |
| Construction and land/lots | 1 36 | 36 | 1 280 | 280 |
| Total | 5 \$ 498 | \$ 490 | 2 \$ 300 | \$ 300 |
| Other TDRs: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 6 \$ 177 | \$ 176 | 5 \$ 168 | \$ 171 |
| Construction and land/lots | — — | — | 2 254 | 251 |
| Indirect auto finance | 1 19 | 6 | — — | — |
| Commercial: | | | | |
| Commercial & Industrial | — — | — | 1 24 | 24 |
| Total | 7 \$ 196 | \$ 182 | 8 \$ 446 | \$ 446 |
| Total | 12 \$ 694 | \$ 672 | 10 \$ 746 | \$ 746 |
| | Six Months Ended December 31, 2017 | | Six Months Ended December 31, 2016 | |
| | 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 |
| Extended payment terms: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 3 \$ 398 | \$ 395 | 3 \$ 139 | \$ 137 |
| HELOCs - originated | 1 64 | 59 | — — | — |
| Construction and land/lots | 1 36 | 36 | 1 280 | 280 |
| Total | 5 \$ 498 | \$ 490 | 4 \$ 419 | \$ 417 |
| Other TDRs: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 15 \$ 1,493 | \$ 1,481 | 8 \$ 273 | \$ 275 |
| HELOCs - originated | — — | — | 1 3 | 3 |
| Construction and land/lots | — — | — | 2 254 | 251 |
| Indirect auto finance | 1 19 | 6 | — — | — |
| Commercial: | | | | |
| Commercial and industrial | — — | — | 1 24 | 24 |

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

| | | | | | | |
|-------|----|----------|----------|----|--------|--------|
| Total | 16 | \$ 1,512 | \$ 1,487 | 12 | \$ 554 | \$ 553 |
| Total | 21 | \$ 2,010 | \$ 1,977 | 16 | \$ 973 | \$ 970 |

23

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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 and six months ended December 31, 2017 and 2016:

| | Three Months Ended December 31, 2017 | Three Months Ended December 31, 2016 | Number of Recorded Investment Loans | Number of Recorded Investment Loans |
|---------------------------|---|--|--|--|
| Extended payment terms: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 1 \$ 37 | —\$ — | | |
| Total | 1 \$ 37 | —\$ — | | |
| Other TDRs: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 3 \$ 493 | —\$ — | | |
| Indirect auto finance | 1 6 | — | | |
| Commercial: | | | | |
| Commercial and industrial | — — | 4 1,277 | | |
| Total | 4 \$ 499 | 4 \$ 1,277 | | |
| Total | 5 \$ 536 | 4 \$ 1,277 | | |
| | Six Months Ended December 31, 2017 | Six Months Ended December 31, 2016 | Number of Recorded Investment Loans | Number of Recorded Investment Loans |
| Extended payment terms: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 1 \$ 37 | —\$ — | | |
| Total | 1 \$ 37 | —\$ — | | |
| Other TDRs: | | | | |
| Retail consumer: | | | | |
| One-to-four family | 3 \$ 493 | —\$ — | | |
| Indirect auto finance | 1 6 | — | | |
| Commercial: | | | | |
| Commercial real estate | — — | — | | |
| Commercial and industrial | — — | 4 1,277 | | |
| Total | 4 \$ 499 | 4 \$ 1,277 | | |
| Total | 5 \$ 536 | 4 \$ 1,277 | | |

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.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

6. Real Estate Owned

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

| | Three Months Ended December 31, 2017 | | Six Months Ended December 31, 2016 | |
|--------------------------------|---|----------|---|----------|
| Balance at beginning of period | \$5,941 | \$5,715 | \$6,318 | \$5,956 |
| Transfers from loans | 339 | 1,025 | 591 | 1,330 |
| Sales, net of gain or loss | (1,111) | (1,005) | (1,758) | (1,551) |
| Writedowns | (351) | (87) | (351) | (87) |
| Capital improvements | — | — | 18 | — |
| Balance at end of period | \$4,818 | \$5,648 | \$4,818 | \$5,648 |

At December 31, 2017 and June 30, 2017, the Bank had \$1,081 and \$1,015 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 \$2,268 and \$2,230 at December 31, 2017 and June 30, 2017, respectively.

7. Income Taxes

Income tax expense consists of:

| | Three Months Ended December 31, 2017 | | Six Months Ended December 31, 2016 | |
|---|---|-------|---|---------|
| Current: | | | | |
| Federal | \$92 | \$40 | \$230 | \$191 |
| State | (3) | 22 | 8 | 29 |
| Total current expense | 89 | 62 | 238 | 220 |
| Deferred: | | | | |
| Federal | 1,611 | 751 | 3,681 | 2,356 |
| State | 115 | 80 | 406 | 741 |
| Adjustment due to the Tax Cuts and Jobs Act | 17,693 | — | 17,693 | — |
| Total deferred expense | 19,419 | 831 | 21,780 | 3,097 |
| Total income tax expense | \$19,508 | \$893 | \$22,018 | \$3,317 |

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 28% and 34% for the periods ended December 31, 2017 and 2016, respectively, to pretax income from continuing operations before income taxes as a result of the following:

| | Three Months Ended December 31, 2017 | | | | Six Months Ended December 31, 2016 | | | |
|--|--|-------|---------|-------|---------------------------------------|-------|---------|-------|
| | \$ | Rate | \$ | Rate | \$ | Rate | \$ | Rate |
| Tax at federal income tax rate | \$2,432 | 28 % | \$1,318 | 34 % | \$4,653 | 28 % | \$3,442 | 34 % |
| Increase (decrease) resulting from: | | | | | | | | |
| Tax exempt income | (264) | (3)% | (340) | (9)% | (541) | (3)% | (712) | (7)% |
| Nondeductible merger expenses | 1 | — % | 1 | — % | 1 | — % | 28 | — % |
| Change in valuation allowance for deferred tax assets, allocated to income tax expense | (49) | (1)% | (65) | (2)% | (184) | (1)% | (264) | (3)% |
| State tax, net of federal benefit | 81 | 1 % | 67 | 2 % | 204 | 1 % | 185 | 2 % |
| Change in deferred tax assets due to North Carolina corporate tax rate decrease | — | — % | — | — % | 133 | 1 % | 490 | 5 % |

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

| | | | | | | | | |
|--|----------|-------|-------|-------|----------|-------|---------|------|
| Change in deferred tax assets due to the Tax Cuts and Jobs Act | 17,693 | 200 % | — | — % | 17,693 | 105 % | — | — % |
| Adjustment for prior quarter expense due to accrual at higher rate | (418) | (5)% | — | — % | — | — % | — | — % |
| Other | 32 | — % | (88) | (2)% | 59 | — % | 148 | 1 % |
| Total | \$19,508 | 220 % | \$893 | 23 % | \$22,018 | 131 % | \$3,317 | 32 % |

25

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The sources and tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at December 31, 2017 and June 30, 2017 are presented below:

| | December 31, 2017 | June 30, 2017 |
|--|----------------------|------------------|
| Deferred tax assets: | | |
| Alternative minimum tax credit | \$ 4,637 | \$4,418 |
| Allowance for loan losses | 4,646 | 7,452 |
| Deferred compensation and post-retirement benefits | 9,672 | 16,055 |
| Accrued vacation and sick leave | 18 | 29 |
| Impairments on real estate owned | 877 | 1,337 |
| Other than temporary impairment on investments | 2,262 | 3,617 |
| Net operating loss carryforward | 11,109 | 21,443 |
| Discount from business combination | 3,056 | 3,645 |
| Unrealized loss on securities held for sale | 98 | — |
| Stock compensation plans | 2,154 | 2,884 |
| Other | 1,904 | 2,687 |
| Total gross deferred tax assets | 40,433 | 63,567 |
| Less valuation allowance | (54 |) (238) |
| Deferred tax assets | 40,379 | 63,329 |
| Deferred tax (liabilities): | | |
| Depreciable basis of fixed assets | (589 |) (670) |
| Deferred loan fees | (406 |) (493) |
| FHLB stock, book basis in excess of tax | (89 |) (143) |
| Unrealized gain on securities available for sale | — | (152) |
| Other | (2,769 |) (4,484) |
| Total gross deferred tax liabilities | (3,853 |) (5,942) |
| Net deferred tax assets | \$ 36,526 | \$57,387 |

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax asset will not be realized. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets.

The decrease in net deferred tax assets was driven by the enactment of the Tax Cuts and Jobs Act (the "Tax Act"), which among other things reduced the federal corporate tax rate to 21% effective January 1, 2018 requiring the Company to revalue net deferred tax assets. The resulting estimated \$17.7 million deferred tax revaluation was reflected as an increase to the Company's income tax expense. In addition, our June 30 fiscal year end required the use of a blended rate as prescribed by the Internal Revenue Code. The blended federal rate of 27.5% was retroactively effective July 1, 2017 and will be used for the entire fiscal year ending June 30, 2018. As a result of this blended rate, income tax expense for the quarter ended December 31, 2017 includes approximately \$418,000 in tax benefit from adjusting the federal income tax rate to 27.5% from 34% for the first quarter of the fiscal year. The estimated \$17.7 million deferred tax revaluation includes provisional amounts where a reasonable estimate was made to comply with

the Tax Act, which can be adjusted throughout the measurement period or up to one year. These provisional amounts include estimates related to the timing of potential reversals of various deferred tax assets and liabilities during fiscal year 2018 using the blended tax rate as described above. The Company will continue to update the provisional amounts as additional information becomes available and expects all adjustments to be finalized by the end of fiscal 2018.

The Company had federal net operating loss ("NOL") carry forwards of \$52,655 and \$62,041 as of December 31, 2017 and June 30, 2017, respectively, with a recorded tax benefit of \$11,109 and \$21,443 included in deferred tax assets. The majority of these NOLs will expire for federal tax purposes from 2024 through 2036.

The Company also adjusted its net deferred tax asset as a result of additional reductions in the North Carolina corporate income tax rates that were enacted July 23, 2013, and effective January 1, 2014 through 2017. The lower corporate income tax rate resulted in a reduction in the deferred tax assets as of December 31, 2017 and June 30, 2017 and an increase in income tax expense for the six months ended December 31, 2017 and 2016.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The valuation allowance for deferred tax assets as of December 31, 2017 and June 30, 2017 was \$54 and \$238, respectively. The net decrease in the total valuation allowance relates to North Carolina state income taxes due to limitations on state net operating loss carry forwards.

Retained earnings at December 31, 2017 and June 30, 2017 include \$19,570 representing pre-1988 tax bad debt reserve base year amounts for which no deferred tax liability has been provided since these reserves are not expected to reverse and may never reverse. Circumstances that would require an accrual of a portion or all of this unrecorded tax liability are a failure to meet the definition of a bank, dividend payments in excess of current year or accumulated earnings and profits, or other distributions in dissolution or liquidation of the Bank. The Company is no longer subject to examination for federal and state purposes for tax years prior to 2013.

8. Net Income (Loss) per Share

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

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|------------|----------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator: | | | | |
| Net income (loss) | \$(10,666) | \$ 2,983 | \$(5,099) | \$ 6,807 |
| Allocation of earnings to participating securities | — | (44) | — | (100) |
| Numerator for basic EPS - Net income (loss) available to common stockholders | \$(10,666) | \$ 2,939 | \$(5,099) | \$ 6,707 |
| Effect of dilutive securities: | | | | |
| Dilutive effect to participating securities | — | 1 | — | 3 |
| Numerator for diluted EPS | \$(10,666) | \$ 2,940 | \$(5,099) | \$ 6,710 |
| Denominator: | | | | |
| Weighted-average common shares outstanding - basic | 17,975,883 | 16,900,387 | 17,971,439 | 16,893,775 |
| Effect of dilutive shares | — | 543,757 | — | 497,629 |
| Weighted-average common shares outstanding - diluted | 17,975,883 | 17,444,144 | 17,971,439 | 17,391,404 |
| Net income (loss) per share - basic | \$(0.59) | \$ 0.17 | \$(0.28) | \$ 0.39 |
| Net income (loss) per share - diluted | \$(0.59) | \$ 0.17 | \$(0.28) | \$ 0.39 |

Potential dilutive shares are excluded from the computation of earnings per share if their effect is anti-dilutive. There were no stock options that were anti-dilutive for the three months ended December 31, 2016. There were 46,500 stock options that were anti-dilutive for the six months ended December 31, 2016.

9. 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 for current directors, officers, and employees. The fair value of equity-based awards is updated quarterly for certain nonemployee emeritus directors and advisory directors. 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.

The table below presents share based compensation expense and the estimated related tax benefit for stock options and restricted stock for the three and six months ended December 31, 2017 and 2016:

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

| | Three Months | | Six Months | |
|----------------------------------|----------------|----------|--------------|---------|
| | Ended December | | Ended | |
| | 31, | | December 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Share based compensation expense | \$ 841 | \$ 2,053 | \$2,014 | \$2,792 |
| Tax benefit | \$ 235 | \$ 698 | \$564 | \$950 |

27

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The table below presents stock option activity for the six months ended December 31, 2017 and 2016:

| | Options | Weighted- average exercise price | Remaining contractual life (years) | Aggregate Intrinsic Value |
|--|-----------|---|---|---------------------------------|
| Options outstanding at June 30, 2016 | 1,529,300 | \$ 14.50 | 6.8 | \$ 6,117 |
| Exercised | — | — | — | — |
| Forfeited | — | — | — | — |
| Expired | — | — | — | — |
| Options outstanding at December 31, 2016 | 1,529,300 | \$ 14.50 | 6.3 | \$ 17,433 |
| Exercisable at December 31, 2016 | 829,400 | \$ 14.40 | | |
| Options outstanding at June 30, 2017 | 1,470,043 | \$ 15.22 | 5.8 | \$ 13,533 |
| Exercised | 3,900 | 14.37 | — | — |
| Forfeited | 24,700 | 14.43 | — | — |
| Expired | 43,273 | 23.82 | — | — |
| Options outstanding at December 31, 2017 | 1,398,170 | \$ 14.97 | 5.4 | \$ 15,077 |
| Exercisable at December 31, 2017 | 986,670 | \$ 14.43 | 5.2 | \$ 11,169 |
| Non-vested at December 31, 2017 | 411,500 | \$ 16.25 | 6.0 | \$ 3,908 |

At December 31, 2017, the Company had \$835 of unrecognized compensation expense related to 411,500 stock options originally 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 0.7 years at December 31, 2017. At December 31, 2016, the Company had \$2,444 of unrecognized compensation expense related to 699,900 stock options originally 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 0.9 years at December 31, 2016. The table below presents restricted stock award activity for the six months ended December 31, 2017 and 2016:

| | Restricted stock awards | Weighted- average grant date fair value | Aggregate Intrinsic Value |
|---------------------------------|-------------------------------|---|---------------------------------|
| Non-vested at June 30, 2016 | 248,750 | \$ 14.81 | \$ 4,602 |
| Granted | 2,000 | 19.02 | — |
| Vested | — | — | — |
| Non-vested at December 31, 2016 | 250,750 | \$ 14.84 | \$ 6,494 |
| Non-vested at June 30, 2017 | 185,630 | \$ 17.46 | \$ 4,780 |
| Granted | 2,000 | 23.05 | — |
| Vested | 400 | 19.02 | — |
| Forfeited | 6,600 | 14.37 | — |
| Non-vested at December 31, 2017 | 180,630 | \$ 17.57 | \$ 4,651 |

At December 31, 2017, unrecognized compensation expense was \$1,671 related to 180,630 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 1.1 years at December 31, 2017. At December 31, 2016, unrecognized compensation expense was \$2,230 related to 250,750 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 1.0 years at December 31, 2016.

28

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

10. 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 December 31, 2017 and June 30, 2017, respectively, loan commitments (excluding \$123,262 and \$158,380 of undisbursed portions of construction loans) totaled \$54,720 and \$43,730 of which \$25,846 and \$21,221 were variable rate commitments and \$28,874 and \$22,509 were fixed rate commitments. The fixed rate loans had interest rates ranging from 2.03% to 7.75% at December 31, 2017 and 1.95% to 6.25% at June 30, 2017, 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 \$447,787 and \$414,373 at December 31, 2017 and June 30, 2017, 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 December 31, 2017 or June 30, 2017.

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.

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 December 31, 2017 and June 30, 2017 was \$2,513, and \$2,152, 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 December 31, 2017 and June 30, 2017 were \$9,927 and \$5,164, respectively. There was no liability recorded for these letters of credit at December 31, 2017 or June 30, 2017, 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.

11. 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. The Company has no Level 3 securities.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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.

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 | December 31, 2017 | | | |
|---|-------------------|---------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| U.S Government Agencies | \$47,693 | \$ — | — | \$ — |
| Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises | 81,278 | — | 81,278 | — |
| Municipal Bonds | 32,423 | — | 32,423 | — |
| Corporate Bonds | 6,212 | — | 6,212 | — |
| Equity Securities | 63 | — | 63 | — |
| Total | \$167,669 | \$ — | — | \$ — |
| Description | June 30, 2017 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| U.S Government Agencies | \$65,830 | \$ — | — | \$ — |
| Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises | 92,971 | — | 92,971 | — |

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

| | | | | | |
|-------------------|-----------|----|------------|----|---|
| Municipal Bonds | 34,510 | — | 34,510 | — | |
| Corporate Bonds | 6,293 | — | 6,293 | — | |
| Equity Securities | 63 | — | 63 | — | |
| Total | \$199,667 | \$ | —\$199,667 | \$ | — |

There were no transfers between levels during the three or six months ended December 31, 2017.

30

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

| Description | Total | December 31, 2017 | | |
|----------------|----------|-------------------|---------|-----------|
| | | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$8,538 | \$ — | — | —\$8,538 |
| REO | 3,018 | — | — | 3,018 |
| Total | \$11,556 | \$ — | — | —\$11,556 |

| Description | Total | June 30, 2017 | | |
|----------------|----------|---------------|---------|-----------|
| | | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$9,156 | \$ — | — | —\$9,156 |
| REO | 4,044 | — | — | 4,044 |
| Total | \$13,200 | \$ — | — | —\$13,200 |

Quantitative information about Level 3 fair value measurements during the period ended December 31, 2017 is shown in the table below:

| | Fair Value at December 31, 2017 | Valuation Techniques | Unobservable Input | Range | Weighted Average |
|----------------------------|---------------------------------|---|--|---------------------|------------------|
| Nonrecurring measurements: | | | | | |
| Impaired loans, net | \$ 8,538 | Discounted appraisals and discounted cash flows | Collateral discounts and discount spread | 3% - 26% 1% - 4% | 4% |
| REO | \$ 3,018 | Discounted appraisals | Collateral discounts | 10% - 20% | 13% |

The stated carrying value and estimated fair value amounts of financial instruments as of December 31, 2017 and June 30, 2017, are summarized below:

| | December 31, 2017 | | | | |
|--|-------------------|------------|----------|---------|-----------|
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and interest-bearing deposits | \$98,665 | \$ 98,665 | \$98,665 | \$ — | — |
| Commercial paper | 199,722 | 199,722 | 199,722 | — | — |
| Certificates of deposit in other banks | 100,349 | 100,349 | — | 100,349 | — |
| Securities available for sale | 167,669 | 167,669 | — | 167,669 | \$ — |
| Loans, net | 2,396,924 | 2,312,758 | — | — | 2,312,758 |
| Loans held for sale | 7,072 | 7,213 | — | — | 7,213 |
| FHLB stock | 31,582 | 31,582 | 31,582 | — | — |
| FRB stock | 7,295 | 7,295 | 7,295 | — | — |
| Accrued interest receivable | 9,371 | 9,371 | — | 1,268 | 8,103 |
| Noninterest-bearing and NOW deposits | 803,161 | 803,161 | — | 803,161 | — |
| Money market accounts | 638,259 | 638,259 | — | 638,259 | — |
| Savings accounts | 224,732 | 224,732 | — | 224,732 | — |
| Certificates of deposit | 442,056 | 437,304 | — | 437,304 | — |
| Borrowings | 685,000 | 684,852 | — | 684,852 | — |
| Accrued interest payable | 655 | 655 | — | 655 | — |

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

| | June 30, 2017 | | Level 1 | Level 2 | Level 3 |
|--|----------------|------------|----------|---------|-----------|
| | Carrying Value | Fair Value | | | |
| Cash and interest-bearing deposits | \$86,985 | \$86,985 | \$86,985 | \$ — | — |
| Commercial paper | 149,863 | 149,863 | 149,863 | — | — |
| Certificates of deposit in other banks | 132,274 | 132,274 | — | 132,274 | — |
| Securities available for sale | 199,667 | 199,667 | — | 199,667 | — |
| Loans, net | 2,330,319 | 2,230,683 | — | — | 2,230,683 |
| Loans held for sale | 5,607 | 5,719 | — | — | 5,719 |
| FHLB stock | 32,071 | 32,071 | 32,071 | — | — |
| FRB stock | 7,284 | 7,284 | 7,284 | — | — |
| Accrued interest receivable | 8,758 | 8,758 | 331 | 1,078 | 7,349 |
| Noninterest-bearing and NOW deposits | 779,549 | 779,549 | — | 779,549 | — |
| Money market accounts | 569,607 | 569,607 | — | 569,607 | — |
| Savings accounts | 237,149 | 237,149 | — | 237,149 | — |
| Certificates of deposit | 462,146 | 458,818 | — | 458,818 | — |
| Borrowings | 696,500 | 696,500 | — | 696,500 | — |
| Accrued interest payable | 512 | 512 | — | 512 | — |

The Company had off-balance sheet financial commitments, which included approximately \$625,769 and \$616,483 of commitments to originate loans, undisbursed portions of interim construction loans, and unused lines of credit at December 31, 2017 and June 30, 2017, respectively (see Note 10). 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.

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 December 31, 2017 and June 30, 2017. 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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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.

33

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: 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 laws or regulations, changes in regulatory policies and principles or the application or interpretation of laws and regulations by regulatory agencies and tax authorities, including changes in deferred tax asset and liability activity, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; 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 principles, policies or guidelines 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 2017 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 formed for the purpose of becoming the holding company for HomeTrust Bank in connection with HomeTrust Bank's conversion from mutual to stock form, which was completed on July 10, 2012 (the "Conversion"). As a bank holding company and financial holding company, HomeTrust Bancshares, Inc. is regulated by the Federal Reserve. As a North Carolina state-chartered bank, and member of the Federal Reserve System, the Bank's primary regulators are the NCCOB and the Federal Reserve. The Bank's deposits are federally insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank of Atlanta ("FHLB" or "FHLB of Atlanta"), which is one of the 12 regional banks in the Federal Home Loan Bank System ("FHLB System"). Our headquarters is located in Asheville, North Carolina.

Our principal business consists of attracting deposits from the general public and investing those funds, along with borrowed funds, in loans secured 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, commercial paper and certificates of deposit insured by the FDIC.

We offer a variety of deposit accounts for individuals, businesses, and nonprofit organizations. Deposits and borrowings 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, loan income and fees, SBA lending fees, 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 seven additional markets through strategic acquisitions as well as three 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 January 1, 2017, the Company completed its acquisition of TriSummit pursuant to an Agreement and Plan of Merger, dated as of September 20, 2016, under which TriSummit merged with and into HomeTrust 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. See Note 3 of the Notes to Consolidated Financial Statements under Item 1 of this report for more details on the Merger.

On August 1, 2017, the Company opened a commercial loan production office in Greensboro, North Carolina. At December 31, 2017, we had 43 locations in North Carolina (including the Asheville metropolitan area, Greensboro/"Piedmont" region, Charlotte, and Raleigh), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City/Bristol, 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 2017 Form 10-K. There have not been any material changes in the Company's critical accounting policies and estimates during the six months ended December 31, 2017 as compared to the disclosure contained in the Company's 2017 Form 10-K, with the exception of the revaluation of net deferred tax assets related to the Tax Act. For more information on the revaluation, see Note 7 of the Notes to Consolidated Financial Statements under Item 1 of this report.

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.

Reclassifications and corrections. To maintain consistency and comparability, certain amounts from prior periods have been reclassified to conform to current period presentation with no effect on net income or shareholders' equity as previously reported.

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, adjustments for the change in federal tax law, 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 utilize short-term FHLB borrowings beginning in November 2014 as part of a leverage strategy to increase net interest income. The Company believes that showing the effects of these borrowings on net interest income and net interest margin is useful to both management and investors as these measures are commonly used to measure financial institution's 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, adjustments for the change in federal tax law, 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 and Six Months Ended December 31, 2017 and 2016" 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:

| | As of | | |
|--|-------------------------|------------------|-------------------------|
| | December 31, 2017 | June 30, 2017 | December 31, 2016 |
| (Dollars in thousands, except per share data) | | | |
| Total stockholders' equity | \$395,361 | \$397,647 | \$367,776 |
| Less: goodwill, core deposit intangibles, net of taxes | 30,083 | 30,157 | 16,795 |
| Tangible book value ⁽¹⁾ | \$365,278 | \$367,490 | \$350,981 |
| Common shares outstanding | 18,967,175 | 18,967,875 | 18,000,750 |
| Tangible book value per share | \$19.26 | \$19.37 | \$19.50 |
| Book value per share | \$20.84 | \$20.96 | \$20.43 |

⁽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:

| | As of | | |
|--|-------------------------|------------------|-------------------------|
| | December 31, 2017 | June 30, 2017 | December 31, 2016 |
| (Dollars in thousands) | | | |
| Tangible book value ⁽¹⁾ | \$365,278 | \$367,490 | \$350,981 |
| Total assets | 3,250,588 | 3,206,533 | 2,774,240 |
| Less: goodwill, core deposit intangibles, net of taxes | 30,083 | 30,157 | 16,795 |

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

| | | | | |
|--------------------------------------|-------------|-------------|-------------|---|
| Total tangible assets ⁽²⁾ | \$3,220,505 | \$3,176,376 | \$2,757,445 | |
| Tangible equity to tangible assets | 11.34 | % 11.57 | % 12.73 | % |

(1) Tangible equity (or 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:

| (Dollars in thousands) | Three Months Ended December 31, | | | | | | |
|---|---------------------------------|------------------------|-------------|-----------------------------|------------------------|-------------|--|
| | 2017 | | | 2016 | | | |
| | Average Balance Outstanding | Interest Earned / Paid | Yield/ Rate | Average Balance Outstanding | Interest Earned / Paid | Yield/ Rate | |
| Interest-earning assets ⁽¹⁾ | \$2,974,198 | \$29,226 | 3.93 % | \$2,521,311 | \$22,636 | 3.59 % | |
| Less: Interest-earning assets funded by additional FHLB borrowings ⁽²⁾ | 255,000 | 1,056 | 1.66 % | 340,000 | 908 | 1.07 % | |
| Interest-earning assets - adjusted | \$2,719,198 | \$28,170 | 4.14 % | \$2,181,311 | \$21,728 | 3.98 % | |
| Interest-bearing liabilities | \$2,469,855 | \$3,618 | 0.58 % | \$2,088,325 | \$1,648 | 0.31 % | |
| Additional FHLB borrowings | 255,000 | 782 | 1.23 % | 340,000 | 378 | 0.44 % | |
| Interest-bearing liabilities - adjusted | \$2,214,855 | \$2,836 | 0.51 % | \$1,748,325 | \$1,270 | 0.29 % | |
| Tax equivalent net interest income and net interest margin | | \$25,608 | 3.44 % | | \$20,988 | 3.33 % | |
| Tax equivalent net interest income and net interest margin - adjusted | | 25,334 | 3.73 % | | 20,458 | 3.75 % | |
| Difference | | \$274 | (0.29)% | | \$530 | (0.42)% | |
| (Dollars in thousands) | Six Months Ended December 31, | | | | | | |
| | 2017 | | | 2016 | | | |
| | Average Balance Outstanding | Interest Earned / Paid | Yield/ Rate | Average Balance Outstanding | Interest Earned / Paid | Yield/ Rate | |
| Interest-earning assets ⁽¹⁾ | \$2,946,607 | \$57,508 | 3.90 % | \$2,524,362 | \$46,017 | 3.65 % | |
| Less: Interest-earning assets funded by additional FHLB borrowings ⁽²⁾ | 250,000 | 2,024 | 1.62 % | 367,500 | 1,907 | 1.04 % | |
| Interest-earning assets - adjusted | \$2,696,607 | \$55,484 | 4.12 % | \$2,156,862 | \$44,110 | 4.20 % | |
| Interest-bearing liabilities | \$2,444,457 | \$6,933 | 0.56 % | \$2,093,127 | \$3,302 | 0.31 % | |
| Less: Additional FHLB borrowings | 250,000 | 1,505 | 1.20 % | 367,500 | 788 | 0.43 % | |
| Interest-bearing liabilities - adjusted | \$2,194,457 | \$5,428 | 0.49 % | \$1,725,627 | \$2,514 | 0.29 % | |
| Tax equivalent net interest income and net interest margin | | \$50,575 | 3.43 % | | \$42,715 | 3.38 % | |
| Tax equivalent net interest income and net interest margin - adjusted | | 50,056 | 3.71 % | | 41,596 | 3.86 % | |
| Difference | | \$519 | (0.28)% | | \$1,119 | (0.48)% | |

Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$378 and \$573 for the three months ended December 31, 2017 and 2016, respectively, calculated based on a combined federal and state tax rate of 30% and 37%, respectively. Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$764 and \$1,163 for the six months ended December 31, 2017 and 2016, respectively, calculated based on a combined federal and state tax rate of 30% and 37%, respectively.

(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.

37

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

Set forth below is a reconciliation to GAAP net income (loss), EPS, ROA, and ROE as adjusted to exclude merger-related expenses, certain state tax expense, adjustments for the change in federal tax law, and gain from the sale of premises and equipment:

| (Dollars in thousands, except per share data) | Three Months Ended | | Six months ended | |
|--|--------------------|-------------|------------------|-------------|
| | December 31, | | December 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Merger-related expenses | \$— | \$27 | \$— | \$334 |
| State tax expense adjustment ⁽¹⁾ | — | — | 133 | 490 |
| Change in federal tax law adjustment ⁽²⁾ | 17,693 | — | 17,693 | — |
| Gain from sale of premises and equipment | — | — | (164) | (385) |
| Total adjustments | 17,693 | 27 | 17,662 | 439 |
| Tax effect ⁽³⁾ | — | (10) | 49 | 49 |
| Total adjustments, net of tax | 17,693 | 17 | 17,711 | 488 |
| Net income (loss) (GAAP) | (10,666) | 2,983 | (5,099) | 6,807 |
| Net income (non-GAAP) | \$7,027 | \$3,000 | \$12,612 | \$7,295 |
| Per Share Data | | | | |
| Average shares outstanding - basic | 17,975,883 | 16,900,387 | 17,971,439 | 16,893,775 |
| Average shares outstanding - diluted | 17,975,883 | 17,444,144 | 17,971,439 | 17,391,404 |
| Average shares outstanding - diluted (adjusted) ⁽⁴⁾ | 18,689,894 | 17,444,144 | 18,655,048 | 17,391,404 |
| Basic EPS | | | | |
| EPS (GAAP) | \$(0.59) | \$0.17 | \$(0.28) | \$0.39 |
| Non-GAAP adjustment | 0.98 | 0.01 | 0.98 | 0.04 |
| EPS (non-GAAP) | \$0.39 | \$0.18 | \$0.70 | \$0.43 |
| Diluted EPS | | | | |
| EPS (GAAP) | \$(0.59) | \$0.17 | \$(0.28) | \$0.39 |
| Non-GAAP adjustment | 0.97 | — | 0.96 | 0.04 |
| EPS (non-GAAP) | \$0.38 | \$0.17 | \$0.68 | \$0.43 |
| Average Balances | | | | |
| Average assets | \$3,249,632 | \$2,765,047 | \$3,223,758 | \$2,764,985 |
| Average equity | 405,993 | 365,740 | 403,708 | 364,018 |
| ROA | | | | |
| ROA (GAAP) | (1.31)% | 0.43 % | (0.32)% | 0.49 % |
| Non-GAAP adjustment | 2.17 % | — | 1.10 % | 0.04 % |
| ROA (non-GAAP) | 0.86 % | 0.43 % | 0.78 % | 0.53 % |
| ROE | | | | |
| ROE (GAAP) | (10.51)% | 3.26 % | (2.53)% | 3.74 % |
| Non-GAAP adjustment | 17.43 % | 0.02 % | 8.78 % | 0.27 % |
| ROE (non-GAAP) | 6.92 % | 3.28 % | 6.25 % | 4.01 % |

(1) State tax adjustment is a result of a decrease in value of our deferred tax assets stemming from recent decreases in North Carolina's corporate tax rate.

- (2) Revaluation of net deferred tax assets due to the Tax Cuts and Jobs Act.
- (3) Tax amounts have been adjusted for certain nondeductible merger-related expenses.
- (4) Average shares outstanding - diluted were adjusted for the three and six months ended December 31, 2017 to include potentially dilutive shares not considered due to the corresponding net losses under GAAP.

Set forth below is a reconciliation to GAAP of the allowance for loan losses to total loans and the allowance for loan losses as adjusted to exclude acquired loans:

| (Dollars in thousands) | As of | | |
|--|-------------------------|------------------|-------------------------|
| | December 31, 2017 | June 30, 2017 | December 31, 2016 |
| Total gross loans receivable (GAAP) | \$2,419,256 | \$2,352,415 | \$1,955,629 |
| Less: acquired loans | 311,508 | 374,538 | 169,234 |
| Adjusted gross loans (non-GAAP) | \$2,107,748 | \$1,977,877 | \$1,786,395 |
| Allowance for loan losses (GAAP) | \$21,090 | \$21,151 | \$20,986 |
| Less: allowance for loan losses on acquired loans | 566 | 727 | 336 |
| Adjusted allowance for loan losses (non-GAAP) | \$20,524 | \$20,424 | \$20,650 |
| Adjusted allowance for loan losses / Adjusted gross loans (non-GAAP) | 0.97 | % 1.03 | % 1.16 |

Comparison of Financial Condition at December 31, 2017 and June 30, 2017

General. Total assets increased \$44.0 million, or 1.4% to \$3.3 billion at December 31, 2017 from \$3.2 billion at June 30, 2017. Total liabilities increased \$46.3 million, or 1.6% to \$2.9 billion at December 31, 2017 from \$2.8 billion at June 30, 2017. Deposit growth of \$59.8 million, or 2.9% and the cumulative decrease of \$63.9 million, or 19.3% in certificates of deposit in other banks and securities available for sale during the first six months of fiscal 2018 were used to partially fund the \$66.5 million, or 2.8% increase in total loans, the \$49.9 million, or 33.3% increase in commercial paper, and reduce borrowings by \$11.5 million, or 1.7%. We continue to utilize our leveraging strategy, where designated short-term FHLB borrowings are invested in various short-term liquid assets to generate additional net interest income, as well as the required purchase of additional FHLB stock which generates increased dividend income.

Cash, cash equivalents, and commercial paper. Total cash and cash equivalents increased \$11.7 million, or 13.4%, to \$98.7 million at December 31, 2017 from \$87.0 million at June 30, 2017 mainly due to additional funds held at the Federal Reserve Bank. In conjunction with our leveraging strategy, we purchase commercial paper to take advantage of higher returns with relatively low risk while remaining highly liquid. The commercial paper balance increased \$49.9 million, or 33.3% to \$199.7 million at December 31, 2017 from \$149.9 million at June 30, 2017.

Investments. Securities available for sale decreased \$32.0 million, or 16.0%, to \$167.7 million at December 31, 2017 from \$199.7 million at June 30, 2017. During the six months ended December 31, 2017, \$19.7 million of securities matured and \$10.9 million of principal payments were received. At December 31, 2017, certificates of deposit in other banks decreased \$32.0 million, or 24.1% to \$100.3 million compared to \$132.3 million at June 30, 2017. The decrease in certificates of deposit in other banks was due to \$44.5 million in maturities partially offset by \$12.6 million in purchases. All certificates of deposit in other banks are fully insured by the FDIC. We evaluate individual investment securities quarterly for other-than-temporary declines in market value. We did not believe that there were any other-than-temporary impairments at December 31, 2017; therefore, no impairment losses were recorded during the first six months of fiscal 2018. Other investments at cost at December 31, 2017 included FRB and FHLB stock totaling \$7.3 million and \$31.6 million, respectively. In total, other investments decreased \$478,000, or 1.2% from June 30, 2017 as a result of required redemptions of FHLB stock due to reductions in our FHLB borrowings.

Loans held for sale. Loans held for sale increased \$1.5 million, or 26.1% at December 31, 2017 to \$7.1 million from \$5.6 million at June 30, 2017. The increase was driven by volume increases as a result of expanding our mortgage operations into our newer market areas and adding additional seasoned loan officers.

Loans. Net loans receivable increased \$66.6 million, or 2.9%, at December 31, 2017 to \$2.4 billion from June 30, 2017 primarily due to \$66.8 million of organic loan growth.

For the six-month period ended December 31, 2017, retail loan portfolio originations increased \$16.2 million, or 11.0% to \$163.7 million from \$147.5 million, compared to the same period in the previous year. For the six-month period ended December 31, 2017, commercial loan portfolio originations increased \$68.2 million, or 30.2% to \$294.0

million, from \$225.8 million, compared to the same period in the previous year. For the quarter ended December 31, 2017, organic net loan growth, which excludes loans acquired through acquisitions and purchases of HELOCs, was \$66.8 million or 6.1% annualized.

Retail consumer and commercial loans consist of the following at the dates indicated:

| (Dollars in thousands) | As of | | Change | | Percent of total | |
|-------------------------------|-------------------|---------------|----------|-------|-------------------|---------------|
| | December 31, 2017 | June 30, 2017 | \$ | % | December 31, 2017 | June 30, 2017 |
| Retail consumer loans: | | | | | | |
| One-to-four family | \$686,229 | \$684,089 | \$2,140 | 0.3 % | 28.4 % | 29.1 % |
| HELOCs - originated | 150,084 | 157,068 | (6,984) | (4.4) | 6.2 | 6.7 |
| HELOCs - purchased | 162,181 | 162,407 | (226) | (0.1) | 6.7 | 6.9 |
| Construction and land/lots | 60,805 | 50,136 | 10,669 | 21.3 | 2.5 | 2.1 |
| Indirect auto finance | 150,042 | 140,879 | 9,163 | 6.5 | 6.2 | 6.0 |
| Consumer | 9,699 | 7,900 | 1,799 | 22.8 | 0.4 | 0.3 |
| Total retail consumer loans | 1,219,040 | 1,202,479 | 16,561 | 1.4 | 50.4 | 51.1 |
| Commercial loans: | | | | | | |
| Commercial real estate | 786,381 | 730,408 | 55,973 | 7.7 | 32.5 | 31.0 |
| Construction and development | 185,921 | 197,966 | (12,045) | (6.1) | 7.7 | 8.4 |
| Commercial and industrial | 127,709 | 120,387 | 7,322 | 6.1 | 5.3 | 5.1 |
| Municipal leases | 100,205 | 101,175 | (970) | (1.0) | 4.1 | 4.3 |
| Total commercial loans | 1,200,216 | 1,149,936 | 50,280 | 4.4 | 49.6 | 48.9 |
| Total loans | \$2,419,256 | \$2,352,415 | \$66,841 | 2.8 % | 100.0 % | 100.0 % |

Recently, our expansion into larger metro markets as well as in-market acquisitions combined with improvements in the economy, employment rates, stronger real estate prices, and a general lack of new housing inventory in certain markets have led to us significantly increasing originations of construction loans for properties located in our market areas. We have hired experienced commercial real estate relationship managers, credit officers, and developed a construction risk management group to better manage construction risk, as part of our efforts to grow the construction portfolio. We will continue to take a disciplined approach in our construction and land development lending by concentrating our efforts on smaller one-to-four residential loans to builders known to us and developers of commercial real estate and multifamily properties with proven success in this type of construction. At December 31, 2017, construction and land/lots totaled \$60.8 million including \$46.4 million of one-to-four family construction loans that will roll over to permanent loans upon completion of the construction period, excluding unfunded loan commitments of \$59.3 million. Total construction and development loans at December 31, 2017, were \$185.9 million, excluding unfunded loan commitments of \$123.3 million, of which \$69.5 million was for non-residential commercial real estate construction, \$65.0 million was for land development, \$39.6 million was for speculative construction of single family properties, and \$11.8 million was for multi-family construction. Undisbursed construction and development loan commitments at December 31, 2017 included \$80.9 million of commercial real estate projects, multi-family residential projects of \$8.7 million and \$33.7 million for the speculative construction of one- to four-family residential properties.

Asset Quality. Our overall asset quality metrics continue to demonstrate our commitment to growing and maintaining a loan portfolio with a moderate risk profile. Nonperforming assets decreased \$800,000 to \$19.2 million, or 0.59% of total assets, at December 31, 2017 from \$20.0 million at June 30, 2017. Nonperforming assets included \$14.4 million in nonaccruing loans and \$4.8 million in REO at December 31, 2017, compared to \$13.7 million and \$6.3 million, in nonaccruing loans and REO respectively, at June 30, 2017. Included in nonperforming loans are \$4.8 million of loans restructured from their original terms of which \$2.1 million were current with respect to their modified payment terms. The increase in nonaccruing loans was primarily due to one construction and development relationship totaling \$771,000, partially offset by loans returning to performing status as payment history and the borrower's financial status improved. At December 31, 2017, \$4.6 million, or 32.1%, of nonaccruing loans were current on their loan payments. Purchased credit impaired loans aggregating \$4.6 million were excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations. Nonperforming loans to total loans was 0.59% at December 31, 2017 compared to 0.58% at June 30, 2017.

The ratio of classified assets to total assets decreased to 1.39% at December 31, 2017 from 1.57% at June 30, 2017. Classified assets decreased 10.8% to \$44.8 million at December 31, 2017 compared to \$50.2 million at June 30, 2017 primarily due to payoffs of two commercial real estate loans totaling \$1.6 million and the decrease in REO of \$1.5 million. Delinquent loans (loans delinquent 30 days or more) increased to \$17.3 million at December 31, 2017, from \$15.2 million at June 30, 2017 primarily due to one construction and development loan relationship in the 90+ day category and one-to-four family loans in the 30-60 day category.

As of December 31, 2017, we had identified \$40.8 million of impaired loans compared to \$43.0 million at June 30, 2017. Our impaired loans are comprised of loans on non-accrual status and all TDRs, whether performing or on non-accrual status under their restructured terms. Impaired loans may be evaluated for reserve purposes using either a specific impairment analysis or on a collective basis as part of homogeneous pools. As of December 31, 2017, there were \$19.8 million loans individually evaluated for impairment and \$21.0 million were collectively evaluated. For more information on these impaired loans, see Note 5 of the Notes to Consolidated Financial Statements under Item 1 of this report.

Allowance for loan losses. We establish an allowance for loan losses by charging amounts to the loan loss provision at a level required to reflect estimated credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers, among other factors, historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability

to repay, estimated value of any underlying collateral, prevailing economic conditions and current risk factors specifically related to each loan type.

The allowance for loan losses was \$21.1 million, or 0.87% of total loans, at December 31, 2017 compared to \$21.2 million, or 0.90% of total loans, at June 30, 2017. The allowance for loan losses to gross loans excluding acquired loans was 0.97% at December 31, 2017, compared to 1.03% at June 30, 2017. Loans acquired from acquisitions are recorded at fair value, which includes a credit discount, therefore, no allowance for loan losses is established for these acquired loans unless the credit quality deteriorates further subsequent to the acquisition. The allowance for our acquired loans at December 31, 2017 was \$566,000 compared to \$727,000 at June 30, 2017.

There was no provision for loan loss during the three and six months ended December 31, 2017 and December 31, 2016 as the allowance for loan losses required by our loan growth was offset by continued improvements in our asset quality. Net loan charge offs totaled \$907,000 for the three months ended December 31, 2017 compared to net recoveries of \$35,000 for the same period during the prior fiscal year. Net charge offs totaled \$61,000 for the six months ended December 31, 2017 compared to \$306,000 for the same period during the prior fiscal year. Net charge offs as a percentage of average loans increased to 0.15% for the three months ended December 31, 2017 from net recoveries of (0.01)% for the same period last fiscal year. Net charge offs as a percentage of average loans decreased to 0.01% compared to 0.03% for the same period last fiscal year.

The allowance as a percentage of nonaccruing loans decreased to 146.79% at December 31, 2017 from 154.77% at June 30, 2017.

We believe that the allowance for loan losses as of December 31, 2017 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Real estate owned. REO decreased \$1.5 million, to \$4.8 million at December 31, 2017 primarily due to \$2.2 million in REO sales during the period, partially offset by \$591,000 in properties transferred to REO and a gain on sale of REO of \$393,000 during the period. The total balance of REO at December 31, 2017 included \$1.9 million in land, construction and development projects (both residential and commercial), \$1.8 million in commercial real estate, and \$1.1 million in single-family homes.

Deferred income taxes. Deferred income taxes decreased \$20.9 million, or 36.4%, to \$36.5 million at December 31, 2017 from \$57.4 million at June 30, 2017. The decrease was primarily driven by the previously mentioned revaluation as a result of the Tax Act, the realization of net operating losses through increases in taxable income, and to a lesser extent, the revaluation of deferred tax assets relating to a change in North Carolina's corporate tax rate, as discussed below.

Goodwill. Goodwill remained at \$25.6 million at December 31, 2017 and June 30, 2017.

Deposits. Deposits increased \$59.8 million, or 2.9%, to \$2.1 billion at December 31, 2017 as compared to \$2.0 billion at June 30, 2017. The increase was primarily due to an increase of \$79.8 million in our core deposits (which excludes certificates of deposit) as a result of recent deposit gathering initiatives, which were partially offset by a \$20.1 million managed run off in our higher costing certificates of deposit and brokered deposits by competing less aggressively for time deposits.

The following table sets forth our deposits by type of deposit account as of the dates indicated:

| | As of | | Change | Percent of total | |
|------------------------|-------------------|---------------|--------|-------------------|---------------|
| | December 31, 2017 | June 30, 2017 | | December 31, 2017 | June 30, 2017 |
| (Dollars in thousands) | | | \$ | % | |

Core deposits:

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

| | | | | | | |
|------------------------------|-------------|-------------|----------|--------|--------|--------|
| Noninterest-bearing accounts | \$313,493 | \$310,172 | 3,321 | 1.1 % | 14.9 % | 15.1 % |
| NOW accounts | 489,668 | 469,377 | 20,291 | 4.3 % | 23.2 % | 22.9 % |
| Money market accounts | 638,259 | 569,607 | 68,652 | 12.1 % | 30.3 % | 27.8 % |
| Savings accounts | 224,732 | 237,149 | (12,417) | (5.2)% | 10.7 % | 11.6 % |
| Core deposits | 1,666,152 | 1,586,305 | 79,847 | 5.0 % | 79.0 % | 77.4 % |
| Certificates of deposit | 442,056 | 462,146 | (20,090) | (4.3)% | 21.0 % | 22.6 % |
| Total | \$2,108,208 | \$2,048,451 | 59,757 | 2.9 % | 100.0% | 100.0% |

Borrowings. Borrowings decreased to \$685.0 million at December 31, 2017 from \$696.5 million at June 30, 2017. A total of \$585.0 million of these FHLB advances have maturities of less than 90 days with a weighted average interest rate of 1.34% at December 31, 2017.

Equity. Stockholders' equity at December 31, 2017 decreased to \$395.4 million from \$397.6 million at June 30, 2017. The decrease was primarily driven by \$5.1 million in net losses due to the deferred tax revaluation, and a \$601,000 decrease in other comprehensive income, partially offset by \$2.0 million representing stock-based compensation, and \$680,000 in a cumulative adjustment for the adoption of Accounting Standard Update 2016-09, "Improvements to Employee Share-Based Payment Accounting."

Average Balances, Interest and Average Yields/Cost

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

| | For the Three Months Ended December 31, | | | | | |
|--|---|--|-------------------------------|-----------------------------------|--|-------------------------------|
| | 2017 | | | 2016 | | |
| | Average Balance Outstanding | Interest Earned/ Paid ⁽²⁾ | Yield/ Rate ⁽²⁾ | Average Balance Outstanding | Interest Earned/ Paid ⁽²⁾ | Yield/ Rate ⁽²⁾ |
| | (Dollars in thousands) | | | | | |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable ⁽¹⁾ | \$2,406,014 | \$26,518 | 4.41 % | \$1,910,134 | \$20,444 | 4.28 % |
| Deposits in other financial institutions | 151,197 | 517 | 1.37 % | 178,119 | 478 | 1.07 % |
| Investment securities | 175,039 | 903 | 2.06 % | 188,023 | 862 | 1.83 % |
| Other interest-earning assets ⁽³⁾ | 241,948 | 1,288 | 2.13 % | 245,035 | 852 | 1.39 % |
| Total interest-earning assets | 2,974,198 | 29,226 | 3.93 % | 2,521,311 | 22,636 | 3.59 % |
| Other assets | 275,434 | | | 243,736 | | |
| Total assets | 3,249,632 | | | 2,765,047 | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Interest-bearing checking accounts | 471,474 | 236 | 0.20 % | 405,340 | 172 | 0.17 % |
| Money market accounts | 644,928 | 585 | 0.36 % | 518,095 | 351 | 0.27 % |
| Savings accounts | 227,933 | 76 | 0.13 % | 210,223 | 70 | 0.13 % |
| Certificate accounts | 448,507 | 644 | 0.57 % | 408,314 | 448 | 0.44 % |
| Total interest-bearing deposits | 1,792,842 | 1,541 | 0.33 % | 1,541,972 | 1,041 | 0.28 % |
| Borrowings | 677,013 | 2,077 | 1.22 % | 546,353 | 607 | 0.44 % |
| Total interest-bearing liabilities | 2,469,855 | 3,618 | 0.58 % | 2,088,325 | 1,648 | 0.31 % |
| Noninterest-bearing deposits | 307,934 | | | 250,914 | | |
| Other liabilities | 65,850 | | | 60,068 | | |
| Total liabilities | 2,843,639 | | | 2,399,307 | | |
| Stockholders' equity | 405,993 | | | 365,740 | | |
| Total liabilities and stockholders' equity | \$3,249,632 | | | \$2,765,047 | | |
| Net earning assets | \$504,343 | | | \$432,986 | | |
| Average interest-earning assets to average interest-bearing liabilities | 120.42 | % | | 120.73 | % | |
| Tax-equivalent: | | | | | | |
| Net interest income | | \$25,608 | | | \$20,988 | |
| Interest rate spread | | | 3.35 % | | | 3.28 % |
| Net interest margin ⁽⁴⁾ | | | 3.44 % | | | 3.33 % |
| Non-tax-equivalent: | | | | | | |
| Net interest income | | \$25,230 | | | \$20,415 | |
| Interest rate spread | | | 3.30 % | | | 3.18 % |
| Net interest margin ⁽⁴⁾ | | | 3.39 % | | | 3.24 % |

(1) The average loans receivable, net balances include loans held for sale and nonaccruing loans.

(2) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$378,000 and \$573,000 for the three months ended December 31, 2017 and 2016, respectively, calculated based on a combined federal and state tax rate of 30% and 37%, respectively.

(3) The average other interest-earning assets consists of FRB stock, FHLB stock, and commercial paper. See Comparison of Results of Operation for the Three Months Ended December 31, 2017 for discussion of our leveraging strategy.

(4) Net interest income divided by average interest-earning assets.

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

| | For the Six Months Ended December 31, | | | | | |
|--|---------------------------------------|--|-------------------------------|-----------------------------------|--|-------------------------------|
| | 2017 | | | 2016 | | |
| | Average Balance Outstanding | Interest Earned/ Paid ⁽²⁾ | Yield/ Rate ⁽²⁾ | Average Balance Outstanding | Interest Earned/ Paid ⁽²⁾ | Yield/ Rate ⁽²⁾ |
| (Dollars in thousands) | | | | | | |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable ⁽¹⁾ | \$2,383,768 | \$52,154 | 4.38 % | \$1,879,110 | \$41,515 | 4.42 % |
| Deposits in other financial institutions | 155,175 | 1,053 | 1.36 % | 184,918 | 974 | 1.05 % |
| Investment securities | 182,479 | 1,875 | 2.06 % | 192,456 | 1,742 | 1.81 % |
| Other interest-earning assets ⁽³⁾ | 225,185 | 2,426 | 2.15 % | 267,878 | 1,786 | 1.33 % |
| Total interest-earning assets | 2,946,607 | 57,508 | 3.90 % | 2,524,362 | 46,017 | 3.65 % |
| Other assets | 277,151 | | | 240,623 | | |
| Total assets | \$3,223,758 | | | \$2,764,985 | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking accounts | 467,201 | 452 | 0.19 % | 404,581 | 345 | 0.17 % |
| Money market accounts | 625,095 | 1,062 | 0.34 % | 518,672 | 698 | 0.27 % |
| Savings accounts | 230,436 | 153 | 0.13 % | 210,201 | 140 | 0.13 % |
| Certificate accounts | 449,173 | 1,220 | 0.54 % | 419,552 | 957 | 0.46 % |
| Total interest-bearing deposits | 1,771,905 | 2,887 | 0.33 % | 1,553,006 | 2,140 | 0.27 % |
| Borrowings | 672,552 | 4,046 | 1.20 % | 540,121 | 1,162 | 0.43 % |
| Total interest-bearing liabilities | 2,444,457 | 6,933 | 0.56 % | 2,093,127 | 3,302 | 0.31 % |
| Noninterest-bearing deposits | 309,265 | | | 246,212 | | |
| Other liabilities | 66,328 | | | 61,628 | | |
| Total liabilities | 2,820,050 | | | 2,400,967 | | |
| Stockholders' equity | 403,708 | | | 364,018 | | |
| Total liabilities and stockholders' equity | \$3,223,758 | | | \$2,764,985 | | |
| Net earning assets | \$502,150 | | | \$431,235 | | |
| Average interest-earning assets to average interest-bearing liabilities | 120.54 | % | | 120.60 | % | |
| Tax-equivalent: | | | | | | |
| Net interest income | | \$50,575 | | | \$42,715 | |
| Interest rate spread | | | 3.34 % | | | 3.34 % |
| Net interest margin ⁽⁴⁾ | | | 3.43 % | | | 3.38 % |
| Non-tax-equivalent: | | | | | | |
| Net interest income | | \$49,811 | | | \$41,552 | |
| Interest rate spread | | | 3.29 % | | | 3.24 % |
| Net interest margin ⁽⁴⁾ | | | 3.38 % | | | 3.29 % |

(1) The average loans receivable, net balances include loans held for sale and nonaccruing loans.

(2) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$764,000 and \$1,163,000 for the six months ended December 31, 2017 and 2016, respectively, calculated based on a combined federal and state tax rate of 30% and 37%, respectively.

(3) The average other interest-earning assets consists of FRB stock, FHLB stock, and commercial paper. See Comparison of Results of Operation for the Six Months Ended December 31, 2017 for discussion of our leveraging strategy.

(4) Net interest income divided by average interest-earning assets.

44

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and that due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

| (Dollars in thousands) | Three Months Ended December 31, 2017 | | Total increase/(decrease) |
|---|--|----------|------------------------------|
| | Compared to Three Months Ended December 31, 2016 | | |
| | Increase/ (decrease) due to Volume | Rate | |
| Interest-earning assets: | | | |
| Loans receivable ⁽¹⁾ | \$5,306 | \$768 | \$ 6,074 |
| Deposits in other financial institutions | (72) | 111 | 39 |
| Investment securities | (60) | 101 | 41 |
| Other interest-earning assets | (11) | 447 | 436 |
| Total interest-earning assets | \$5,163 | \$1,427 | \$ 6,590 |
| Interest-bearing liabilities: | | | |
| Interest-bearing checking accounts | \$29 | \$35 | \$ 64 |
| Money market accounts | 85 | 149 | 234 |
| Savings accounts | 6 | — | 6 |
| Certificate accounts | 44 | 152 | 196 |
| Borrowings | 145 | 1,325 | 1,470 |
| Total interest-bearing liabilities | 309 | 1,661 | 1,970 |
| Net increase (decrease) in tax equivalent interest income | \$4,854 | \$(234) | \$ 4,620 |

| (Dollars in thousands) | Six Months Ended December 31, 2017 | | Total increase/(decrease) |
|--|---|----------|------------------------------|
| | Compared to Six Months Ended December 31, 2016 | | |
| | Increase/ (decrease) due to Volume | Rate | |
| Interest-earning assets: | | | |
| Loans receivable ⁽¹⁾ | \$11,151 | \$(512) | \$ 10,639 |
| Deposits in other financial institutions | (156) | 235 | 79 |
| Investment securities | (90) | 223 | 133 |
| Other interest-earning assets | (285) | 925 | 640 |
| Total interest-earning assets | 10,620 | 871 | 11,491 |
| Interest-bearing liabilities: | | | |
| Interest-bearing checking accounts | \$54 | \$53 | \$ 107 |
| Money market accounts | 143 | 221 | 364 |
| Savings accounts | 13 | — | 13 |
| Certificate accounts | 68 | 195 | 263 |

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

| | | | |
|---|----------|-----------|----------|
| Borrowings | 285 | 2,599 | 2,884 |
| Total interest-bearing liabilities | 563 | 3,068 | 3,631 |
| Net increase (decrease) in tax equivalent interest income | \$10,057 | \$(2,197) | \$ 7,860 |

(1) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$378,000 and \$573,000 for the three months ended December 31, 2017 and 2016, respectively, calculated based on a combined federal and state tax rate of 30% and 37%. Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$764,000 and \$1,163,000 for the six months ended December 31, 2017 and 2016, respectively, calculated based on a combined federal and state tax rate of 30% and 37%.

Comparison of Results of Operation for the Three Months Ended December 31, 2017 and 2016

General. During the three months ended December 31, 2017, we had a net loss of \$10.7 million, driven by an estimated \$17.7 million deferred tax revaluation resulting from enactment of the Tax Cuts and Jobs Act (the "Tax Act"), compared to net income of \$3.0 million for the three months ended December 31, 2016. The Company's diluted loss per share was \$0.59 for the three months ended December 31, 2017 compared to earning per share of \$0.17 for the same period in fiscal 2017. The Tax Act, among other things, reduced the federal corporate tax rate to 21% effective January 1, 2018 requiring the Company to revalue net deferred tax assets. The resulting estimated \$17.7 million deferred tax revaluation was reflected as an increase to the Company's income tax expense. Net income and diluted earnings per share before the change in the federal tax rate and prior year merger-related expenses for the quarter ended December 31, 2017 was \$7.0 million and \$0.38, compared to \$3.0 million and \$0.17, respectively. Net Interest Income. Net interest income increased \$4.8 million, or 23.6% to \$25.2 million for the quarter ended December 31, 2017 compared to \$20.4 million for the corresponding period in 2016. The increase in net interest income for the quarter ended December 31, 2017 was driven by a \$6.8 million, or 30.8% increase in interest and dividend income due primarily to an increase in average interest-earning assets.

Average interest-earning assets increased \$452.9 million, or 18.0% to \$3.0 billion for the quarter ended December 31, 2017 compared to \$2.5 billion for the corresponding quarter in fiscal 2017. The average balance of loans receivable for the quarter ended December 31, 2017 increased \$495.9 million, or 26.0% due to the TriSummit acquisition and organic net loan growth, which was mainly funded by the cumulative decrease of \$43.0 million, or 7.0% in average interest-earning deposits with banks, securities available for sale, and other interest-earning assets, an increase in average deposits of \$307.9 million, or 17.2%, and an increase in average FHLB borrowings of \$130.7 million, or 23.9% as compared to the same quarter last year. Net interest margin (on a fully taxable-equivalent basis) for the three months ended December 31, 2017 increased to 3.44% from 3.33% for the same period a year ago. During the three months ended December 31, 2017 our leveraging strategy produced an additional \$1.1 million in interest and dividend income at an average yield of 1.66%, while the average cost of the borrowings was 1.23%, resulting in approximately \$274,000 in net interest income. During the same quarter in the prior fiscal year, our leveraging strategy produced an additional \$908,000 in interest and dividend income at an average yield of 1.07%, while the average cost of the borrowings was 0.44%, resulting in approximately \$530,000 in net interest income. Excluding the effects of the leveraging strategy, the tax equivalent net interest margin would be 3.73% and 3.75% for the quarters ended December 31, 2017 and 2016, respectively.

Total interest and dividend income increased \$6.8 million, or 30.8% for the three months ended December 31, 2017 as compared to the same period last year, which was primarily driven by a \$6.3 million, or 31.6% increase in loan interest income, a \$364,000, or 38.8% increase in interest income on certificates of deposit and other interest-bearing deposits, and a \$110,000, or 28.1% increase in other investment interest income. The additional loan interest income was primarily due to the increase in the average balance of loans receivable as well as an increase in the average loan yields due to increases in the federal funds rate over the past 12 months. Average loan yields increased 13 basis points to 4.41% for the quarter ended December 31, 2017 from 4.28% in the corresponding quarter from last year. In addition, there was a \$146,000, or 18.9% increase in the accretion of purchase discounts on acquired loans to \$920,000 for the quarter ended December 31, 2017 from \$774,000 for the same quarter in fiscal 2017 as a result of prepayments. Accretable income on acquired loans stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. Each quarter, the Company analyzes the cash flow assumptions on the PCI loan pools and, at least semi-annually, the Company updates loss estimates, prepayment speeds and other variables when analyzing cash flows. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. As a result, income from loan pools can be volatile from quarter to quarter. For the quarters ended December 31, 2017 and 2016, the average loan yields included 15 and 16 basis points, respectively, from the accretion of purchase discounts on acquired loans.

Total interest expense increased \$2.0 million, or 119.5% for the quarter ended December 31, 2017 compared to the same period last year. This increase was primarily related to the TriSummit acquisition and recent deposit gathering

initiatives contributing to a \$250.9 million, or 16.3% increase in the average balance of interest-bearing deposits. In addition, average borrowings, consisting primarily of short-term FHLB advances, increased by \$130.7 million to \$677.0 million due to funding for loan growth along with a 78 basis point increase in the average cost of such borrowings during the quarter as compared to the same quarter last year. The overall average cost of funds increased 27 basis points to 0.58% for the current quarter as compared to the same quarter last year due primarily to the impact of the recent increases in the federal funds rate on our borrowings.

Provision for Loan Losses. During the three months ended December 31, 2017 and 2016, there was no provision for loan losses as improved credit quality measures have been sufficient to cover reserves needed for loan growth and changes in the mix of loans. Net loan charge-offs totaled \$907,000 for the three months ended December 31, 2017 compared to net recoveries of \$35,000 for the same period last year. Net charge-offs as a percentage of average loans increased to 0.15% for the three months ended December 31, 2017 from net recoveries of (0.01%) for the same period last fiscal year.

See Comparison of Financial Condition - Asset Quality for additional details.

Noninterest Income. Noninterest income increased \$846,000, or 21.5%, to \$4.8 million for the three months ended December 31, 2017 from \$3.9 million in the comparative quarter of 2016. The leading factors of the increase included a \$299,000, or 15.9% increase in service charges on deposit accounts as a result of the increase in deposit accounts as well as a \$424,000, or 45.3% increase in loan income from the gain on sale of mortgage loans and various commercial loan-related fees driven by the new SBA loan line of business.

Noninterest Expense. Noninterest expense for the quarter ended December 31, 2017 increased \$695,000, or 3.4%, to \$21.2 million compared to \$20.5 million for the quarter ended December 31, 2016. The TriSummit acquisition led to additional noninterest expenses as shown in the cumulative increase of \$973,000, or 17.4% in net occupancy expense; telephone, postage, and supplies; core deposit intangible amortization; and

other expenses. Deposit insurance premiums increased \$216,000, or 106.4% as the net asset base has increased. These increases in noninterest expense were partially offset by the absence of \$27,000 in merger-related expenses, a \$140,000, or 30.5% decrease in marketing and advertising expense, and a \$408,000, or 56.9% decrease in real estate owned ("REO") related expenses for the quarter ended December 31, 2017 compared to the same period last year. For the three months ended December 31, 2017, there was a \$235,000 decrease on writedowns and losses from REO sales compared to the corresponding quarter last year; and a \$173,000 decrease in REO expenses as a result of fewer REO properties held.

Income Taxes. The Company had income tax expense of \$19.5 million for the three months ended December 31, 2017, an increase of \$18.6 million compared to \$893,000 for the three months ended December 31, 2016 as a result of the Tax Act. As previously mentioned, the reduction in the corporate tax rate required the Company to revalue net deferred tax assets, resulting in a \$17.7 million adjustment through income tax expense. In addition, our June 30 fiscal year end required the use of a blended rate as prescribed by the Internal Revenue Code. The blended federal rate of 27.5% was effective retroactively to July 1, 2017 and will be used for the entire fiscal year ended June 30, 2018. As a result of this blended rate, income tax expense for the quarter ended December 31, 2017 includes approximately \$418,000 in tax benefit from adjusting the federal income tax rate to 27.5% from 34% for the first quarter of the fiscal year. Excluding the effect of the revaluation of net deferred tax assets, the additional income tax expense was due to higher taxable income. For more information on the Tax Act's impact on the Company's income tax expense, see Note 7 of the Notes to Consolidated Financial Statements under Item 1 of this report.

Comparison of Results of Operation for the Six Months Ended December 31, 2017 and 2016

General. During the six months ended December 31, 2017, we had a net loss of \$5.1 million compared to net income of \$6.8 million for the six months ended December 31, 2016 as a result of the previously mentioned deferred tax revaluation. Diluted loss per share was \$0.28 for the first six months of fiscal year 2018, compared to \$0.39 per share in the same period in fiscal 2017. Net income and diluted earnings per share before the change in the federal tax rate, prior year merger-related expenses, certain state income tax expenses, and gains from the sale of premises and equipment for the six months ended December 31, 2017 was \$12.6 million and \$0.68, compared to \$7.3 million and \$0.43, respectively.

Net Interest Income. Net interest income increased \$8.3 million, or 19.9% to \$49.8 million for the six months ended December 31, 2017 compared to \$41.6 million for the six months ended December 31, 2016. This increase in net interest income was driven by an \$11.9 million, or 26.5% increase in interest and dividend income partially offset by a \$3.6 million, or 110.0% increase in interest expense.

Average interest-earning assets increased \$422.2 million, or 16.7% to \$2.9 billion for the six months ended December 31, 2017 compared to \$2.5 billion in the same period in fiscal 2017. The \$504.7 million, or 26.9% increase in average balance of loans receivable for the six months ended December 31, 2017 was due to the TriSummit acquisition and increased organic loan growth, which was mainly funded by the cumulative decrease of \$82.4 million, or 12.8% in average interest-earning deposits with banks, securities available for sale, and other interest-earning assets, an increase in average deposits of \$282.0 million, or 15.7% and an increase in average FHLB borrowings of \$132.4 million, or 24.5%. Net interest margin (on a fully taxable-equivalent basis) for the six months ended December 31, 2017 increased five basis points to 3.43% from 3.38% for the period last year. For the six months ended December 31, 2017, our leveraging strategy produced an additional \$2.0 million in interest and dividend income at an average yield of 1.62%, while the average cost of the borrowings was 1.20%, resulting in approximately \$519,000 in net interest income. Our leveraging strategy produced an additional \$1.9 million in interest and dividend income at an average yield of 1.04% during the corresponding period in fiscal 2017, while the average cost of the borrowings was 0.43%, resulting in approximately \$1.1 million in net interest income. Excluding the effects of the leveraging strategy, the tax equivalent net interest margin would be 3.71% and 3.86% for the six months ended December 31, 2017 and 2016, respectively.

Total interest income increased \$11.9 million, or 26.5% for the six months ended December 31, 2017 as compared to the same period last year. The increase was primarily driven by an \$11.0 million, or 27.4% increase in loan interest income, a \$490,000, or 24.7% increase in certificates of deposit and other interest-bearing deposits, and a \$229,000, or 29.4% increase in other investment income. The additional loan interest income was primarily due to the increase in

the average balance of loans receivable, which was partially offset by a \$908,000 decrease in the accretion of purchase discounts on acquired loans to \$1.7 million for the six months ended December 31, 2017 from \$2.6 million for the same period in fiscal 2017, as a result of full repayments of several loans with large discounts in the previous year. Overall, average loan yields decreased four basis points to 4.38% for the six months ended December 31, 2017 from 4.42% in the fiscal 2017 period. Excluding the effects of the accretion on purchase discounts on acquired loans, loan yields increased nine basis points to 4.23% for the six months ended December 31, 2017 compared to 4.14% in the same period last year.

Total interest expense increased \$3.6 million, or 110.0% for the six months ended December 31, 2017 compared to the same period last year. This increase was primarily related to the increase in average borrowings and the corresponding 77 basis point increase in the average cost of those borrowings, resulting in additional interest expense of \$2.9 million for the six months ended December 31, 2017 as compared to the same period in the prior year. The overall increase in average interest-bearing deposits and the seven basis point increase in cost of funds resulted in an additional \$747,000 in interest expense for the six months ended December 31, 2017 compared to the corresponding period last year.

Provision for Loan Losses. There was no provision for loan losses during the six months ended December 31, 2017 or 2016. Net charge-offs for the six months ended December 31, 2017 and 2016 were \$61,000 and \$306,000, respectively. Net charge-offs as a percentage of average loans was 0.01% for the six months ended December 31, 2017 compared to 0.03% for the same period last fiscal year.

See Comparison of Financial Condition - Asset Quality for additional details.

Noninterest Income. Noninterest income increased \$1.2 million, or 14.4%, to \$9.4 million for the six months ended December 31, 2017 from \$8.2 million for the six months ended December 31, 2016. The increase was primarily the result of a \$424,000, or 11.2% increase in service charges on deposit accounts; a \$549,000, or 28.7% increase in loan income from the gain on sale of mortgage loans and various commercial

loan-related fees; and \$414,000, or 40.6% increase in other income. Partially offsetting these increases was a \$221,000, or 57.4% decrease in gains from the sale of fixed assets for the six months ended December 31, 2017 compared to the same period last year.

Noninterest Expense. Noninterest expense for the six months ended December 31, 2017 increased \$2.6 million, or 6.7%, to \$42.3 million compared to \$39.6 million for the six months ended December 31, 2016. Salaries and employee benefits increased \$1.8 million, or 8.0% primarily as a result of the TriSummit acquisition. The TriSummit acquisition was the leading factor in the \$1.5 million, or 13.0% cumulative increase in net occupancy expense; telephone, postage, and supplies; core deposit intangible amortization; and other expenses. Partially offsetting these increases was the absence of \$334,000 in merger-related expenses, and a \$587,000, or 59.2% decrease in REO-related expenses for the six months ended December 31, 2017 compared to the same period last year, which was driven by a \$42,000 gain on the sale of REO compared to a \$469,000 loss on the sale of REO in the corresponding period in the prior year.

Income Taxes. For the six months ended December 31, 2017, the Company's income tax expense was \$22.0 million compared to \$3.3 million for the six months ended December 31, 2016. The increase was a result of the deferred tax revaluation and to a lesser extent, higher taxable income. In addition, the Company had a \$133,000 and a \$490,000 charge during the six months ended December 31, 2017 and 2016, respectively, related to the decrease in value of our deferred tax assets based on decreases in North Carolina's corporate tax rate.

Liquidity

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. We rely on a number of different sources in order to meet our potential liquidity demands. The primary sources are increases in deposit accounts and cash flows from loan payments and the securities portfolio.

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of December 31, 2017, the Bank had an available borrowing capacity of \$56.3 million with the FHLB of Atlanta, a \$115.4 million line of credit with the FRB and three lines of credit with three unaffiliated banks totaling \$60.0 million. At December 31, 2017, we had \$685.0 million in FHLB advances outstanding and nothing outstanding under our other lines of credit. Additionally, the Company classifies its securities portfolio as available for sale, providing an additional source of liquidity. Management believes that our security portfolio is of high quality and the securities would therefore be marketable. In addition, we have historically sold longer term fixed-rate mortgage loans in the secondary market to reduce interest rate risk and to create still another source of liquidity. From time to time we also utilize brokered time deposits to supplement our other sources of funds. Brokered time deposits are obtained by utilizing an outside broker that is paid a fee. This funding requires advance notification to structure the type of deposit desired by us. Brokered deposits can vary in term from one month to several years and have the benefit of being a source of longer-term funding. We also utilize brokered deposits to help manage interest rate risk by extending the term to repricing of our liabilities, enhance our liquidity and fund asset growth. Brokered deposits are typically from outside our primary market areas, and our brokered deposit levels may vary from time to time depending on competitive interest rate conditions and other factors. At December 31, 2017 brokered deposits totaled \$11.8 million, or 0.6% of total deposits.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer term basis, we maintain a strategy of investing in various lending products and investment securities, including mortgage-backed securities and commercial paper. HomeTrust Bancshares on a stand-alone level is a separate legal entity from the Bank and must provide for its own liquidity and pay its own operating expenses. The Company's primary source of funds consists of the net proceeds retained from the Conversion. The Company also has the ability to receive dividends or capital distributions from the Bank, although there are regulatory restrictions on the ability of the Bank to pay dividends. At December 31, 2017, the Company (on an unconsolidated basis) had liquid assets of \$20.1 million.

We use our sources of funds primarily to meet our ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At December 31, 2017, the total approved loan commitments and unused lines of credit outstanding amounted to \$178.0 million and \$447.8 million, respectively, as compared to \$202.1

million and \$414.4 million, respectively, as of June 30, 2017. Certificates of deposit scheduled to mature in one year or less at December 31, 2017, totaled \$302.2 million. It is management's policy to manage deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with us.

During the first six months of fiscal 2018, cash and cash equivalents increased \$11.7 million, or 13.4%, from \$87.0 million as of June 30, 2017 to \$98.7 million as of December 31, 2017. Cash provided by operating and financing activities was \$13.0 million and \$48.3 million, respectively; while cash used in investing activities was \$49.6 million. Primary sources of cash for the six months ended December 31, 2017 included \$19.7 million in proceeds from the maturity of securities available for sale, \$31.9 million in maturing certificates of deposit in other banks, net of purchases, \$10.9 million in principal repayments from mortgage-backed securities, and a \$59.8 million increase in deposits. Primary uses of cash during the period included a net increase in commercial paper of \$48.4 million, an increase in loans of \$65.8 million, and a \$11.5 million decrease in borrowings. All sources and uses of cash reflect our cash management strategy to increase our number of higher yielding investments and loans by increasing lower costing borrowings and reducing our holdings in lower yielding investments.

Off-Balance Sheet Activities

In the normal course of operations, we engage in a variety of financial transactions that are not recorded in our financial statements. These transactions involve varying degrees of off-balance sheet credit, interest rate and liquidity risks. These transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For the six months ended December 31, 2017, we engaged in no off-balance sheet transactions likely to have a material effect on our financial condition, results of operations or cash flows.

A summary of our off-balance sheet commitments to extend credit at December 31, 2017, is as follows (in thousands):

| | |
|---|-----------|
| Undisbursed portion of construction loans | \$123,262 |
| Commitments to make loans | 54,720 |
| Unused lines of credit | 447,787 |
| Unused letters of credit | 9,927 |
| Total loan commitments | \$635,696 |

Capital Resources

At December 31, 2017, stockholder's equity totaled \$395.4 million. HomeTrust Bancshares, Inc. is a bank holding company and a financial holding company subject to regulation by the Federal Reserve. As a bank holding company, we are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended and the regulations of the Federal Reserve. Our subsidiary, the Bank, an FDIC-insured, North Carolina state-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve and the NCCOB and is subject to minimum capital requirements applicable to state member banks established by the Federal Reserve that are calculated in a manner similar to those applicable to bank holding companies.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

At December 31, 2017, HomeTrust Bancshares, Inc. and the Bank each exceeded all regulatory capital requirements as of that date. Consistent with our goals to operate a sound and profitable organization, our policy is for the Bank to maintain a "well-capitalized" status under the regulatory capital categories of the Federal Reserve. The Bank was categorized as "well-capitalized" at December 31, 2017 under applicable regulatory requirements.

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

HomeTrust Bancshares, Inc. and the Bank's actual and required minimum capital amounts and ratios are as follows (dollars in thousands):

| | Actual | | Regulatory Requirements | | | |
|--|-----------|--------|---------------------------------------|-------|--------------------------------|--------|
| | | | Minimum for Capital Adequacy Purposes | | Minimum to Be Well Capitalized | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| HomeTrust Bancshares, Inc. | | | | | | |
| As of December 31, 2017 | | | | | | |
| Common Equity Tier I Capital to Risk-Weighted Assets | \$354,765 | 13.02% | \$122,649 | 4.50% | \$177,160 | 6.50% |
| Tier I Capital (to Total Adjusted Assets) | \$354,765 | 11.06% | \$128,323 | 4.00% | \$160,404 | 5.00% |
| Tier I Capital (to Risk-weighted Assets) | \$354,765 | 13.02% | \$163,533 | 6.00% | \$218,043 | 8.00% |
| Total Risk-based Capital (to Risk-weighted Assets) | \$376,310 | 13.81% | \$218,043 | 8.00% | \$272,554 | 10.00% |
| As of June 30, 2017 | | | | | | |
| Common Equity Tier I Capital to Risk-Weighted Assets | \$342,664 | 13.07% | \$118,024 | 4.50% | \$170,478 | 6.50% |
| Tier I Capital (to Total Adjusted Assets) | \$342,664 | 11.13% | \$123,149 | 4.00% | \$153,936 | 5.00% |
| Tier I Capital (to Risk-weighted Assets) | \$342,664 | 13.07% | \$157,365 | 6.00% | \$209,820 | 8.00% |
| Total Risk-based Capital (to Risk-weighted Assets) | \$364,269 | 13.89% | \$209,820 | 8.00% | \$262,275 | 10.00% |

HomeTrust Bank:

| | | | | | | |
|--|-----------|--------|-----------|-------|-----------|--------|
| As of December 31, 2017 | | | | | | |
| Common Equity Tier I Capital to Risk-Weighted Assets | \$318,394 | 11.73% | \$122,157 | 4.50% | \$176,449 | 6.50% |
| Tier I Capital (to Total Adjusted Assets) | \$318,394 | 9.95% | \$128,038 | 4.00% | \$160,047 | 5.00% |
| Tier I Capital (to Risk-weighted Assets) | \$318,394 | 11.73% | \$162,876 | 6.00% | \$217,168 | 8.00% |
| Total Risk-based Capital (to Risk-weighted Assets) | \$339,816 | 12.52% | \$217,168 | 8.00% | \$271,461 | 10.00% |
| As of June 30, 2017 | | | | | | |
| Common Equity Tier I Capital to Risk-Weighted Assets | \$305,216 | 11.68% | \$117,560 | 4.50% | \$169,809 | 6.50% |
| Tier I Capital (to Total Adjusted Assets) | \$305,216 | 9.97% | \$122,453 | 4.00% | \$153,066 | 5.00% |
| Tier I Capital (to Risk-weighted Assets) | \$305,216 | 11.68% | \$156,747 | 6.00% | \$208,996 | 8.00% |
| Total Risk-based Capital (to Risk-weighted Assets) | \$326,635 | 12.50% | \$208,996 | 8.00% | \$261,245 | 10.00% |

In addition to the minimum common equity Tier 1 ("CET1"), Tier 1 and total risk-based capital ratios, HomeTrust Bancshares, Inc. and the Bank now have to maintain a capital conservation buffer consisting of additional CET1 capital above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement has phased in starting in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented to an amount equal to 2.5% of risk-weighted assets in January 2019. At December 31, 2017, the Bank's CET1 capital exceeded the required capital conservation buffer of 1.25%.

Impact of Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index ("CPI") coincides with changes in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a

corresponding effect on interest rates or upon the cost of those goods and services normally purchased by the Company. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the opposite may occur.

50

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has not been any material change in the market risk disclosures contained in our 2017 Form 10-K.

Item 4. Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of December 31, 2017, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures in effect as of December 31, 2017, were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The "Litigation" section of Note 10 to the Consolidated Financial Statements included in Part I, Item 1 is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2017 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and use of Proceeds

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2017:

| Period | Total Number Of Shares Purchased | Average Price Paid per Share | Total | Maximum |
|--------|---|---------------------------------------|--|---|
| | | | Number Of Shares Purchased as Part of Publicly Announced Plans | Number of Shares that May Yet Be Purchased Under Publicly Announced Plans |
| | | | | |

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

| | | | | |
|--------------------------------|---|----|---|---------|
| October 1 - October 31, 2017 | — | \$ | — | 443,155 |
| November 1 - November 30, 2017 | — | — | — | 443,155 |
| December 1 - December 31, 2017 | — | — | — | 443,155 |
| Total | — | \$ | — | 443,155 |

On December 15, 2015 the Company announced that its Board of Directors had authorized the repurchase of up to 922,855 shares of the Company's common stock, representing 5% of the Company's outstanding shares at the time of the announcement. The shares may be purchased in the open market or in privately negotiated transactions, from time to time depending upon market conditions and other factors. As of December 31, 2017, 479,700 of the shares approved on December 15, 2015 had been purchased at an average price of \$18.00.

Item 3. Defaults Upon Senior Securities

Nothing to report.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HomeTrust Bancshares, Inc.

Date: February 9, 2018 By: /s/ Dana L. Stonestreet

Dana L. Stonestreet
Chairman, President and CEO
(Duly Authorized Officer)

Date: February 9, 2018 By: /s/ Tony J. VunCannon

Tony J. VunCannon
Executive Vice President, CFO, and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

| Regulation S-K Exhibit Number | Document | Reference to Prior Filing or Exhibit Number Attached Hereto |
|----------------------------------|--|--|
| 2.1 | <u>Agreement and Plan of Merger, dated as of September 20, 2016, by and between HomeTrust Bancshares, Inc. and TriSummit Bancorp, Inc.</u> | (a) |
| 3.1 | <u>Charter of HomeTrust Bancshares, Inc.</u> | (b) |
| 3.2 | <u>Articles Supplementary to the Charter of HomeTrust Bancshares, Inc. for HomeTrust Bancshares, Inc.'s Junior Participating Preferred Stock, Series A</u> | (c) |
| 3.3 | <u>Bylaws of HomeTrust Bancshares, Inc.</u> | (d) |
| 3.4 | <u>Amended and Restated Bylaws of HomeTrust Bancshares, Inc., dated as of January 29, 2018</u> | (q) |
| 4.1 | <u>Tax Benefits Preservation Plan, dated as of September 25, 2012, between HomeTrust Bancshares, Inc. and Registrar and Transfer Company, as Rights Agent</u> | (e) |
| 4.2 | <u>Amendment No. 1, dated as of August 31, 2015, to Tax Benefit Preservation Plan, dated as of September 25, 2012, between HomeTrust Bancshares, Inc. and Computershare Trust Company, N.A., as successor rights agent to Registrar and Transfer Company</u> | (m) |
| 10.1 | <u>HomeTrust Bancshares, Inc. Strategic Operating Committee Incentive Plan</u> | (p) |
| 10.2 | <u>Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and Dana L. Stonestreet</u> | (e) |
| 10.3 | <u>Employment Agreement entered into between HomeTrust Bancshares, Inc. and each of Tony J. VunCannon and Howard L. Sellinger</u> | (b) |
| 10.4 | <u>Employment Agreement entered into between HomeTrust Bancshares, Inc. and C. Hunter Westbrook</u> | (f) |
| 10.5 | <u>Employment Agreement between HomeTrust Bank and Sidney A. Biesecker</u> | (b) |
| 10.6 | <u>Employment Agreement between HomeTrust Bank and Stan Allen</u> | (b) |
| 10.7 | <u>HomeTrust Bank Executive Supplemental Retirement Income Master Agreement ("SERP")</u> | (b) |
| 10.7A | <u>SERP Joinder Agreement for F. Edward Broadwell, Jr.</u> | (b) |
| 10.7B | <u>SERP Joinder Agreement for Dana L. Stonestreet</u> | (b) |
| 10.7C | <u>SERP Joinder Agreement for Tony J. VunCannon</u> | (b) |
| 10.7D | <u>SERP Joinder Agreement for Howard L. Sellinger</u> | (b) |
| 10.7E | <u>SERP Joinder Agreement for Stan Allen</u> | (b) |
| 10.7F | <u>SERP Joinder Agreement for Sidney A. Biesecker</u> | (b) |
| 10.7G | <u>SERP Joinder Agreement for Peggy C. Melville</u> | (b) |
| 10.7H | <u>SERP Joinder Agreement for William T. Flynt</u> | (b) |
| 10.7I | <u>Amended and Restated Supplemental Income Agreement between HomeTrust Bank, as successor to Industrial Federal Savings Bank, and Sidney Biesecker</u> | (g) |
| 10.8 | <u>HomeTrust Bank Director Emeritus Plan ("Director Emeritus Plan")</u> | (b) |
| 10.8A | <u>Director Emeritus Plan Joinder Agreement for William T. Flynt</u> | (b) |
| 10.8B | <u>Director Emeritus Plan Joinder Agreement for J. Steven Goforth</u> | (b) |
| 10.8C | <u>Director Emeritus Plan Joinder Agreement for Craig C. Koontz</u> | (b) |
| 10.8D | <u>Director Emeritus Plan Joinder Agreement for Larry S. McDevitt</u> | (b) |
| 10.8E | <u>Director Emeritus Plan Joinder Agreement for F.K. McFarland, III</u> | (b) |

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

| | | |
|-------|--|-----|
| 10.8F | <u>Director Emeritus Plan Joinder Agreement for Peggy C. Melville</u> | (b) |
| 10.8G | <u>Director Emeritus Plan Joinder Agreement for Robert E. Shepherd, Sr.</u> | (b) |
| 10.9 | <u>HomeTrust Bank Defined Contribution Executive Medical Care Plan</u> | (b) |
| 10.10 | <u>HomeTrust Bank 2005 Deferred Compensation Plan</u> | (b) |
| 10.11 | <u>HomeTrust Bank Pre-2005 Deferred Compensation Plan</u> | (b) |
| 10.12 | <u>HomeTrust Bancshares, Inc. Strategic Operating Committee Incentive Plan</u> | (n) |
| 10.13 | <u>HomeTrust Bancshares, Inc. 2013 Omnibus Incentive Plan ("Omnibus Incentive Plan")</u> | (h) |
| 10.14 | <u>Form of Incentive Stock Option Award Agreement under Omnibus Incentive Plan</u> | (i) |

| | | |
|-------|---|------|
| 10.15 | <u>Form of Non-Qualified Stock Option Award Agreement under Omnibus Incentive Plan</u> | (i) |
| 10.16 | <u>Form of Stock Appreciation Right Award Agreement under Omnibus Incentive Plan</u> | (i) |
| 10.17 | <u>Form of Restricted Stock Award Agreement under Omnibus Incentive Plan</u> | (i) |
| 10.18 | <u>Form of Restricted Stock Unit Award Agreement under Omnibus Incentive Plan</u> | (i) |
| 10.19 | <u>Fully Restated Employment Agreement between HomeTrust Bank and Anderson L. Smith</u> | (j) |
| 10.20 | <u>Amended and Restated Jefferson Federal Bank Supplemental Executive Retirement Plan</u> | (k) |
| 10.21 | <u>Money Purchase Deferred Compensation Agreement, dated as of September 1, 1987, between HomeTrust Bank and F. Edward Broadwell, Jr.</u> | (l) |
| 10.22 | <u>Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and F. Edward Broadwell, Jr., as amended</u> | (l) |
| 10.23 | <u>Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and Larry S. McDevitt, as amended</u> | (l) |
| 10.24 | <u>Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and Peggy C. Melville, as amended</u> | (l) |
| 10.25 | <u>Retirement Payment Agreement, dated as of August 1, 1988, between HomeTrust Bank and Robert E. Shepherd, Sr., as amended</u> | (l) |
| 10.26 | <u>Retirement Payment Agreement, dated as of May 1, 1991, between HomeTrust Bank and William T. Flynt, as amended</u> | (l) |
| 10.27 | <u>Offer Letter between HomeTrust Bank and Keith J. Houghton</u> | (n) |
| 10.28 | <u>Form of Relocation Repayment Agreement between HomeTrust Bank and Keith J. Houghton</u> | (n) |
| 10.29 | <u>Form of Change in Control Severance Agreement between HomeTrust Bancshares, Inc. and each of Keith J. Houghton and R. Parrish Little</u> | (o) |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | 31.1 |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | 31.2 |
| 32 | <u>Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | 32.0 |
| 101 | The following materials from HomeTrust Bancshares' Quarterly Report on Form 10-Q for the quarter ended December 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Changes in Stockholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements. | 101 |
| (a) | Attached as Appendix A to the proxy statement/prospectus filed by HomeTrust Bancshares on November 2, 2016 pursuant to Rule 424(b) of the Securities Act of 1933. | |
| (b) | Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on December 29, 2011. | |
| (c) | Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on September 25, 2012 (File No. 001-35593). | |
| (d) | Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on January 29, 2014 (File No. 001-35593). | |
| (e) | Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on November 27, 2013 (File No. 001-35593). | |
| (f) | Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (File No. 001-35593). | |
| (g) | Filed as an exhibit to Amendment No. One to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on March 9, 2012. | |
| (h) | Attached as Appendix A to HomeTrust Bancshares's definitive proxy statement filed on December 5, 2012 (File No. 001-35593). | |

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

- (i) Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-8 (File No. 333-186666) filed on February 13, 2013.
- (j) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on June 3, 2014 (File No. 001-35593).
- (k) Filed as an exhibit to Jefferson Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 (File No. 000-50347).
- (l) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (File No. 001-35593).
- (m) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on August 31, 2015 (File No. 001-35593)
- (n) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 (File No. 001-35593).
- (o) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on January 29, 2016 (File No. 001-35593)
- (p) Filed as an exhibit to HomeTrust Bancshares's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (File No. 001-35593).
- (q) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on January 30, 2018 (File No. 001-35593)