

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

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

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

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

The consolidated financial statements presented in this report include the accounts of HomeTrust Bancshares, Inc., a Maryland corporation ("HomeTrust"), and its wholly-owned subsidiary, HomeTrust Bank (the "Bank"). As used throughout this report, the term the "Company" refers to HomeTrust and the Bank, its consolidated subsidiary, unless the context otherwise requires.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2017 ("2017 Form 10-K") filed with the SEC on September 12, 2017. The results of operations for the three and six months ended December 31, 2017 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions, and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's financial statements. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations and acquired loans, (iii) the valuation of REO, (iv) the valuation of goodwill and other intangible assets, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our 2017 Form 10-K. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

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

2. Recent Accounting Pronouncements

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

606. ASU No. 2015-14 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. With respect to noninterest income, the Company is in its preliminary stages of identifying and evaluating the revenue streams and underlying revenue contracts within the scope of the guidance. The Company is expecting to begin developing processes and procedures during fiscal 2018 to ensure it is fully compliant with these amendments at the adoption date. To date, the Company has not yet identified any significant changes in the timing of revenue recognition when considering the amended accounting guidance; however, the Company's implementation efforts are ongoing and such assessments may change prior to the July 1, 2018 implementation date.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) require separate presentation of financial assets and

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization's other deferred tax assets. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements. Management is in the planning stages of developing processes and procedures to comply with the disclosures requirements of this ASU, which could impact the disclosures the Company makes related to fair value of its financial instruments.

In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)." The guidance in this ASU requires most leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption. The Company will compile an inventory of all leased assets to determine the impact of ASU 2016-02 on its financial condition and results of operations. Once adopted, we expect to report higher assets and liabilities on our Consolidated Balance Sheets as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, which currently are not reflected in our Consolidated Balance Sheets. We do not expect the guidance to have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Changes in Stockholders' Equity. In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The ASU changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. We have elected to account for forfeitures of stock-based awards as they occur. The Company has adopted the amendments in this ASU and appropriate disclosures have been included in this Note. At the adoption of this ASU, we had a cumulative adjustment to retained earnings of \$680,000. In accordance with the transition guidance outlined in this ASU, the adoption had no effect on net income or shareholder's equity in any previously issued periods. Going forward, we expect this ASU to create some volatility in our reported income tax expense related to the excess tax benefits for employee stock-based transactions, however, the actual amounts recognized will be dependent on the amount of employee stock-based transactions and the stock price at the time of exercise or vesting.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU significantly changes the impairment model for most financial

assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of identifying required changes to the loan loss estimation models and processes and evaluating the impact of this new guidance. Once adopted, we expect our allowance for loan losses to increase, however, until our evaluation is complete the magnitude of the increase will be unknown.

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

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

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

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

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

3. Business Combinations

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

United Financial of North Carolina, Inc.

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

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

TriSummit Bancorp. Inc.

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

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

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	December
	31,	31, 2016
	2017	
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 %