HomeTrust Bancshares, Inc.
Form 10-K
September 13, 2018

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

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

For the Fiscal Year Ended June 30, 2018

OR

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

For the Transition Period From __________________ To __________________

Commission File Number 1-35593

HOMETRUST BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer [ ]	Accelerated Filer [X]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
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 [X].

As of September 10, 2018, there were issued and outstanding 19,015,568 shares of the Registrant's Common Stock.

The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the closing price of such stock as of December 31, 2017, was $472.7 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant).

HOMETRUST BANCSHARES, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
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Forward-Looking Statements

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or co verbs such as “may,” “will,” “should,” “would,” and “could.” Forward-looking statements include statements with respect to o 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; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; 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; 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 this report on Form 10-K.

Any of the forward-looking statements are based upon management’s beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms “we”, “our”, “us”, “HomeTrust Bancshares” or the “Company” refer to HomeTrust Bancshares, Inc. and its consolidated subsidiaries, including HomeTrust Bank (“HomeTrust” or "Bank") unless the context indicates otherwise.

PART I

Item 1. Business

General

HomeTrust Bancshares, Inc., a Maryland corporation, was formed for the purpose of becoming the 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. At June 30, 2018, the Company had consolidated total assets of $3.3 billion, total deposits of $2.2 billion and stockholders’ equity of $409.2 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K (“Form 10-K”), including the audited consolidated financial statements and related data, relates primarily to the Bank and its subsidiary. 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.

The Bank was originally formed in 1926. Between fiscal years 1996 and 2011, HomeTrust Bank's board of directors and executive management expanded the Bank beyond its historical Asheville market and created a unique partnership through mergers between six established banks and one de novo bank located in Tryon, Shelby, Eden, Lexington, Cherryville and Forest City, North Carolina, through which hometown community banks could combine their financial resources to achieve a shared vision.

Starting in 2013, we entered seven attractive markets through various acquisitions and new office openings, as well as expanded our product lines. New locations and markets included:

- BankGreenville Financial Corporation (“BankGreenville”) - one office in Greenville, South Carolina (acquired in July 2013)
- Jefferson Bancshares, Inc. (“Jefferson”) - nine offices across East Tennessee (acquired in May 2014)
- Commercial loan production office ("LPO") in Roanoke, Virginia (opened in July 2014)
- Bank of Commerce - one office in Charlotte, North Carolina (acquired in July 2014)
- Ten Bank of America Branch Offices - nine in southwest Virginia, one in Eden, North Carolina (acquired in November 2014)
- Commercial LPO in Raleigh, North Carolina (opened in November 2014) and later converted into full service branch (converted in April 2017)
- United Financial of North Carolina, Inc. ("United Financial") - municipal lease company headquartered in Fletcher, North Carolina (acquired in December 2016)
- TriSummit Bancorp, Inc. ("TriSummit") - six offices in East Tennessee (acquired in January 2017)
- Commercial LPO Greensboro, North Carolina (opened in August 2017)
- De novo branch in Cary, North Carolina (Opened in March 2018)

By expanding our geographic footprint and hiring local experienced talent, we have built a foundation that allows us to focus on organic growth, while maintaining "Our Commitment to the Customer Experience" that has differentiated our brand and characterized our success to date.

Our mission is to create stockholder value by building relationships with our employees, customers, and communities. By building a platform that supports growth and profitability, we are continuing our transition toward becoming a high-performing community bank and helping our customers every day to be "Ready For What's Next."

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, construction and land/lot loans, commercial real estate loans, construction and development loans, commercial and industrial loans, U.S. Small Business Administration ("SBA") loans, equipment finance leases, indirect automobile loans, and municipal leases. 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 are our primary source of funds for our lending and investing activities.

Market Areas

HomeTrust Bank operates in nine metropolitan statistical areas ("MSAs"): Asheville, NC, with a population of 456,000 as of June 2017; Charlotte-Concord-Gastonia, NC-SC, with a population of 2.5 million as of June 2017; Greensboro, NC, with a population of 761,000 as of June 2017; Greenville-Anderson-Mauldin, SC, with a population of 896,000 as of June 2017; Johnson City, TN, with a population of 202,000 as of June 2017; Kingsport-Bristol-Bristol, TN-VA, with a population of 307,000 as of June 2017; Knoxville, TN, with a population of 877,000 as of June 2017; Morristown, TN, with a population of 118,000 as of June 2017; Roanoke, VA, with a population of 314,000 as of June 2017; and Raleigh, NC, with a population of 1.3 million as of June 2017 according to the United State Census Bureau.

Asheville is known for its natural beauty, scenic surroundings, and its vibrant cultural and arts community that parallels that of many larger cities in the United States. It is home to a number of historical attractions, the most prominent of which is the Biltmore Estate, a historic mansion with gardens and a winery that draws approximately one million tourists each year. Due to its scenic location and diverse cultural and historical offerings, the Asheville metropolitan area is a popular destination for tourists, which continues to positively impact our local economy. In addition, affordable housing prices, compared to many bigger cities, combined with the region’s favorable climate have also made the Asheville metropolitan area an increasingly attractive destination for retirees seeking to relocate from other parts of the United States. The area has several major employers which include: Buncombe County Public Schools, City of Asheville, Mission Health System and Hospital, The Biltmore Company, Ingles Markets, Inc., and the VA Medical Center. Also supporting the economy is the Asheville Regional Airport that transports over one million passengers a year as well as numerous colleges and universities, medical centers, and arts and entertainment facilities. HomeTrust Bank is the only community bank headquartered in this vibrant and growing market.

The Charlotte-Concord-Gastonia, NC-SC metropolitan area is located in both North and South Carolina, within and surrounding the city of Charlotte. Located in the Piedmont region of the Southeastern United States, the Charlotte metropolitan area is well known for its lower cost of living, diversified economy, national sports teams, and thriving arts community that has led it to be one of the highest in-migration cities in the country according to the Charlotte Chamber. The region is headquarters to several Fortune 500 and Fortune 1000 companies, including Bank of America, Duke Energy, Sealed Air, Nucor Steel, Sonic Automotive, and Lowe's Home Improvement Stores. The Charlotte MSA is the largest in the Carolinas.

The Raleigh, NC metropolitan area is located in the northeast central region of North Carolina and routinely ranks among the nation's highest in places to do business and obtain an education. Raleigh is the capital of North Carolina, home to North Carolina State University and central to one of the fastest growing areas in the country - the Research Triangle Park. With its proximity to the Research Triangle Park and several major universities, including the University of North Carolina at Chapel Hill and Duke University, Raleigh has become known for its strengths in technology and innovation.

The Greensboro, NC metropolitan area is centrally located in North Carolina. Major employment sectors for the MSA include services, manufacturing, government, financial activities, and retail trade. Major employers for the MSA include Guilford County Schools, Guilford County, Cone Health, and the City of Greensboro.

The Greenville-Anderson-Mauldin, SC metropolitan area is located in upstate South Carolina, in the foothills of the Blue Ridge Mountains. Major employment sectors for the MSA include services, manufacturing, and retail trade including major facilities for BMW, Michelin, Walgreens, and Lockheed Martin. Additional employers include Greenville Health System, Greenville County School District, and Bon Secours St. Francis Health System.

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

The Kingsport-Bristol-Bristol, TN-VA MSA is home to the headquarters of Eastman Chemical Company as well as a diverse mix of manufacturing firms, technology companies, and small businesses. The major economic components in Kingsport are healthcare, manufacturing and educational services.

The Knoxville, TN metropolitan area is located where the French Broad and Holston Rivers converge to form the Tennessee River. It is the largest city in East Tennessee and ranks third largest in the state. It is located in a broad valley between the Cumberland Mountains to the northwest and the Great Smoky Mountains to the southeast. The Knoxville area is frequently cited in national surveys, including Livability.com's Top 10 Best Affordable Places to Live. The University of Tennessee calls Knoxville home, with over 28,000 students, making an array of educational and cultural opportunities available to area residents. Affordable housing, health care costs below the national average, a low crime rate, and a pleasant climate and location with nearby lakes and mountains are factors which make Knoxville an attractive place to settle. Major employment sectors in the Knoxville area include government, education, and healthcare.

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

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

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

	As of June 30,	
Location	2018	2017
U.S. National	4.2%	4.5%
North Carolina	4.2%	4.2%
Asheville MSA	3.4%	3.4%
Charlotte/Concord/Gastonia	3.9%	4.0%
Greensboro	4.5%	4.9%
Raleigh	3.7%	3.7%
South Carolina	3.8%	4.0%
Greenville	3.3%	3.9%
Tennessee	3.5%	3.6%
Morristown	4.4%	4.4%
Johnson City	4.5%	4.7%
Kingsport-Bristol	4.2%	4.6%
Knoxville	3.9%	4.1%
Virginia	4.2%	3.7%
Roanoke	3.4%	4.0%

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

Competition

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

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

Location	Rank[1]	Deposit Market Share[1]
North Carolina	16th	0.34%
Asheville MSA	6th	7.34%
Charlotte/Gastonia	20th	0.05%
Raleigh	24th	0.06%
South Carolina	77th	0.04%
Greenville	23rd	0.28%
Tennessee	48th	0.32%
Morristown	2nd	21.73%
Johnson City	4th	7.50%
Kingsport-Bristol	7th	3.57%
Knoxville	25th	0.22%
Virginia	64th	0.11%
Roanoke	5th	6.48%
Bristol	5th	4.86%

(1) Source: FDIC data as of June 30, 2017

Overall, we distinguish ourselves from larger, national banks operating in our market areas by providing local decision-making and competitive customer-driven products with excellent service, responsiveness, and execution. In addition, our larger capital base and product mix enable us to compete effectively against smaller banks. Our bankers believe that strong relationships lead to great things and strive everyday to ensure our customers are "ready for what's next" in their financial future.

In addition, the way we create differentiation from our competition to fuel organic growth is by focusing on “HOW” we deliver our products and services. Many of our employees have been a part of HomeTrust Bank for decades, while a significant number of employees have more recently brought their industry knowledge and expertise to us through internal growth and acquisitions, reflecting their desire to be a part of a high performing team that works well together to make a difference for customers. We strive to create organizational clarity by adhering to our core values of caring and teamwork while continuing to reach for our aspirational values of customer satisfaction, accountability, continuous improvement, and humility. This “culture model” includes four key principles:

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

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

Lending Activities

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

	At June 30,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perc
	(Dollars in thousands)									
Retail consumer loans:										
One-to-four family	$664,289	26.29 %	$684,089	29.08 %	$623,701	34.04 %	$650,750	38.61 %	$660,630	44.0
Home equity - originated	137,564	5.44	157,068	6.68	163,293	8.91	161,204	9.56	148,379	9.90
Home equity - purchased	166,276	6.58	162,407	6.90	144,377	7.88	72,010	4.27	—	—
Construction and land/lots	65,601	2.60	50,136	2.13	38,102	2.08	45,931	2.73	59,249	3.95
Indirect auto finance	173,095	6.85	140,879	5.99	108,478	5.92	52,494	3.11	8,833	0.59
Consumer	12,379	0.49	7,900	0.34	4,635	0.25	3,708	0.22	6,331	0.42
Total retail consumer loans	1,219,204	48.25 %	1,202,479	51.12 %	1,082,586	59.08 %	986,097	58.50 %	883,422	58.9
Commercial loans:										
Commercial real estate	857,315	33.94 %	730,408	31.04 %	486,561	26.55 %	441,620	26.20 %	377,769	25.2
Construction and development	192,102	7.60	197,966	8.42	86,840	4.74	64,573	3.83	56,457	3.78
Commercial and industrial	148,823	5.89	120,387	5.12	73,289	4.00	84,820	5.03	74,435	4.97
Municipal leases	109,172	4.32	101,175	4.30	103,183	5.63	108,574	6.44	106,215	7.09
Total commercial loans	1,307,412	51.75 %	1,149,936	48.88 %	749,873	40.92 %	699,587	41.50 %	614,876	41.0
Total loans	2,526,616	100.00 %	2,352,415	100.00 %	1,832,459	100.00 %	1,685,684	100.00 %	1,498,298	100.
Less:										
Deferred costs (fees), net	(764)		(945)		372		23		(1,340)	
Allowance for losses	(21,060)		(21,151)		(21,292)		(22,374)		(23,429)	
Total loans receivable, net	$2,504,792		$2,330,319		$1,811,539		$1,663,333		$1,473,529	

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

	At June 30,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed-rate loans:	(Dollars in thousands)					
Retail consumer loans:						
One-to-four family	$333,986	13.2 %	$365,566	15.5 %	$326,347	17.8 %
Home equity - originated	163	—	1,664	0.1	416	—
Construction and land/lots	59,283	2.3	42,149	1.8	27,907	1.5
Indirect auto finance	173,095	6.9	140,879	6.0	108,478	5.9
Consumer	6,457	0.3	7,887	0.3	4,620	0.3
Commercial loans:						
Commercial real estate	441,796	17.5	444,055	18.9	303,854	16.6
Construction and development	55,682	2.2	50,231	2.1	29,204	1.6
Commercial and industrial	87,568	3.5	73,600	3.1	42,874	2.3
Municipal leases	109,172	4.3	101,175	4.4	103,183	5.7
Total fixed-rate loans	1,267,202	50.2 %	1,227,206	52.2 %	946,883	51.7 %
Adjustable-rate loans:						
Retail consumer loans:						
One-to-four family	330,303	13.1 %	318,523	13.5 %	297,354	16.2 %
Home equity - originated	137,401	5.4	155,404	6.6	162,877	8.9
Home equity - purchased	166,276	6.6	162,407	6.9	144,377	7.9
Construction and land/lots	6,318	0.3	7,987	0.3	10,195	0.6
Consumer	5,922	0.2	13	—	15	—
Commercial loans:						
Commercial real estate	415,519	16.4	286,353	12.2	182,707	10.0
Construction and development	136,420	5.4	147,735	6.3	57,636	3.1
Commercial and industrial	61,255	2.4	46,787	2.0	30,415	1.7
Total adjustable-rate loans	1,259,414	49.8 %	1,125,209	47.8 %	885,576	48.3 %
Total loans	2,526,616	100.0%	2,352,415	100.0%	1,832,459	100.0%
Less:						
Deferred costs (fees), net	(764)		(945)		372	
Allowance for losses	(21,060)		(21,151)		(21,292)	
Total loans receivable, net	$2,504,792		$2,330,319		$1,811,539	

The increase in loans since 2016 was primarily due to the $258.1 million in loans acquired from TriSummit and organic loan growth, especially the origination of indirect auto finance loans, commercial real estate, and construction and development loans. For further discussion, see "Management’s Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report.

Loan Maturity. The following table sets forth certain information at June 30, 2018 regarding the dollar amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Retail Consumer Due During Years Ending June 30,															
	2019		2020		2021		2022 to 2023		2024 to 2027		2028 to 2032		2033 and following		Total	
	(Dollars in thousands)															
One-to-four family																
Amount	$11,824		10,993		19,579		44,326		44,644		165,816		367,107		$664,289	
Weighted Average Rate	5.21	%	4.79	%	4.42	%	4.27	%	4.41	%	3.53	%	4.12	%	4.04	%
Home equity - originated																
Amount	$5,703		5,389		4,892		21,828		21,913		11,650		66,189		$137,564	
Weighted Average Rate	5.14	%	5.13	%	5.44	%	5.17	%	4.96	%	5.32	%	5.51	%	5.33	%
Home equity - purchased																
Amount	$—		—		—		—		—		—		166,276		$166,276	
Weighted Average Rate	—	%	—	%	—	%	—	%	—	%	—	%	4.71	%	4.71	%
Construction and land/lots																
Amount	$514		128		267		1,182		4,748		4,669		54,093		$65,601	
Weighted Average Rate	6.25	%	6.13	%	5.44	%	5.43	%	5.79	%	5.35	%	4.02	%	4.29	%
Indirect auto finance																
Amount	$243		2,266		10,479		77,399		82,708		—		—		$173,095	
Weighted Average Rate	3.75	%	3.66	%	3.22	%	3.27	%	3.94	%	—	%	—	%	3.59	%
Consumer																
Amount	$301		298		977		2,404		835		2,988		4,576		$12,379	
Weighted Average Rate	5.63	%	4.33	%	5.21	%	4.85	%	5.37	%	5.01	%	6.82	%	5.69	%

	Commercial Loans Due During Years Ending June 30,															
	2019		2020		2021		2022 to 2023		2024 to 2027		2028 to 2032		2033 and following		Total	
	(Dollars in thousands)															
Commercial real estate																
Amount	51,553		64,940		133,575		294,958		185,963		96,380		29,946		$857,315	
Weighted Average Rate	4.54	%	4.17	%	4.12	%	4.15	%	4.17	%	4.31	%	5.29	%	4.23	%
Construction and development																
Amount	67,156		33,669		25,010		48,301		10,564		4,953		2,449		$192,102	
Weighted Average Rate	5.24	%	5.01	%	4.77	%	3.98	%	3.62	%	4.03	%	3.79	%	4.86	%
Commercial and industrial																
Amount	24,396		12,086		26,655		44,284		36,142		2,642		2,618		$148,823	
Weighted Average Rate	5.09	%	5.12	%	4.86	%	4.36	%	4.29	%	6.03	%	4.84	%	4.59	%
Municipal leases(1)																
Amount	832		956		3,148		12,077		18,415		44,150		29,594		$109,172	
Weighted Average Rate	4.09	%	3.37	%	3.55	%	3.32	%	4.95	%	4.48	%	4.78	%	4.54	%

	Total Amount	Weighted Average Rate
	(Dollars in thousands)	
Due During Years Ending June 30,		
2019	$162,522	4.99 %
2020	130,725	4.58
2021	224,582	4.34
2022 to 2023	546,759	4.25
2024 to 2027	405,932	4.47
2028 to 2032	333,248	4.01
2033 and following	722,848	4.47
Total	$2,526,616	4.39 %

(1) The weighted average rate of municipal loans is adjusted for a 30% combined federal and state tax rate since the interest income from these leases is tax exempt.

The total amount of loans due after June 30, 2019, which have predetermined interest rates is $1.21 billion, while the total amount of loans which have adjustable interest rates is $1.15 billion.

Lending Authority. Loan credit authority is granted to various officers of the Bank and approved at least annually by the Credit Risk Committee, which is made up of the Chief Banking Officer, Chief Credit Officer, and Chief Risk Officer. Generally, total credit exposure that exceeds the loan credit authority of each officer must be approved by the Senior Credit Officer or Chief Credit Officer. In the absence of the Chief Credit Officer, another Senior Credit Officer not directly involved with the borrower may approve the credit instead of the Chief Credit Officer.

Loan relationships in excess of $7.5 million in total credit exposure must be approved by our Senior Loan Committee, which is comprised of the Chief Banking Officer, Chief Credit Officer, and/or the Commercial Banking Group Executive. Any loan submitted for Senior Loan Committee approval must have the prior approval of the Relationship Manager, the Market President and their assigned Senior Credit Officer. Loans in excess of $15.0 million in total credit exposure must be approved by the Executive Loan Committee comprised of the Chief Executive Officer, Chief Banking Officer, Commercial Banking Group Executive, Chief Credit Officer and another Senior Credit Officer not involved with the credit at a meeting of at least three members, one of whom must be either the Chief Credit Officer or the Senior Credit Officer. A 70% vote is required for approval. Total credit exposure exceeding 60% of the Bank’s legal lending limit must be approval by the Bank's board of directors.

At June 30, 2018, the maximum amount under federal regulation that we could lend to any one borrower and the borrower’s related entities was approximately $53.5 million. Our five largest lending relationships are with commercial borrowers and totaled $106.6 million in the aggregate, or 4.2% of our $2.5 billion loan portfolio at June 30, 2018. As of June 30, 2018, all loans to these borrowers were performing in accordance with their original repayment terms.

The largest lending relationship at June 30, 2018 consisted of three loans totaling approximately $24.4 million to three borrowers in Charlotte, NC. The largest loan in this relationship had an outstanding balance of $11.6 million as of June 30, 2018 and was secured by a non-owner-occupied medical office property located in southeast Louisiana. The remaining relationship exposure consisted of two loans secured by non-owner-occupied medical office properties located in Gaston County, North Carolina and northwest Georgia.

The second largest lending relationship at June 30, 2018 was approximately $21.9 million consisting of six loans. The largest loan in this relationship at June 30, 2018 had an outstanding balance of $7.0 million and was secured by a hotel property located in Greensboro, NC. The remaining relationship exposure consisted of loans secured by hotel properties located in Wake Forest, NC, Clinton, SC, and Fayetteville, NC.

The third largest lending relationship at June 30, 2018 was $20.6 million consisting of seven loans, the largest of which had an outstanding balance of $5.8 million and was secured by a non-owner-occupied flex-space property located in Greensboro, NC. The remaining exposure consisted of loans secured by non-owner-occupied industrial properties and non-owner-occupied stand-alone retail properties. These properties were located in eastern Tennessee, central Tennessee, southwest Virginia, and northwest Georgia.

The fourth largest lending relationship at June 30, 2018 was $20.4 million consisting of nine loans, the largest of which had an outstanding balance of approximately $5 million and was secured by a non-owner-occupied industrial property in Roanoke, VA. The remaining relationship exposure was secured by non-owner-occupied industrial and flex-space properties, as well as self-storage properties, all of which were located throughout southwest Virginia.

The fifth largest lending relationship at June 30, 2018 was approximately $19.3 million consisting of three loans, the largest of which had an outstanding balance of $12.1 million and was primarily secured by accounts receivable, inventory, and other business assets. Additionally, the loan was secured by owner-occupied industrial property, which also secured the second largest loan in the relationship with an outstanding balance of approximately $6.1 million. The borrower and collateral securing these loans are located in western North Carolina.

Retail Consumer Loans

One-to-Four Family Real Estate Lending. We originate loans secured by first mortgages on one-to-four family residences typically for the purchase or refinance of owner-occupied primary or secondary residences located primarily in our market areas. We originate one-to-four family residential mortgage loans primarily through referrals from real estate agents, builders, and from existing customers. Walk-in customers are also important sources of loan originations. At June 30, 2018, $664.3 million, or 26.3%, of our loan portfolio consisted of loans secured by one-to-four family residences.

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

The majority of our one-to-four family residential loans are originated with fixed rates and have terms of ten to 30 years. At June 30, 2018 our one-to-four family residential loan portfolio included $334.0 million in fixed rate loans, of which $24.9 million were ten year fixed rate loans. We generally originate fixed rate mortgage loans with terms greater than 15 years for sale to various secondary market investors on a servicing released basis. We also originate adjustable-rate mortgage, or ARM, loans which have interest rates that adjust annually to the yield on U.S. Treasury securities adjusted to a constant one-year maturity plus a margin. Most of our ARM loans are hybrid loans, which after an initial fixed rate period of one, five, seven, or ten years will convert to an annual adjustable interest rate for the remaining term of the loan. Our ARM loans have terms up to 30 years. Our pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions and consistent with our asset/liability management objectives. Our ARM loans generally have a floor interest rate set at the initial interest rate, and a cap of two percentage points on rate adjustments during any one year and six percentage points over the life of the loan. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as is our cost of funds.

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

Most of our loans are written using generally accepted underwriting guidelines, and are readily saleable to Freddie Mac, Fannie Mae, or other private investors. Our real estate loans generally contain a “due on sale” clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property. The average size of our one-to-four family residential loans was $122,128 at June 30, 2018.

A majority of our loans are “non-conforming” because they are adjustable rate mortgages which contain interest rate floors or do not satisfy credit or other requirements due to personal and financial reasons (i.e. divorce, bankruptcy, length of time employed, etc.), conforming loan limits (i.e. jumbo mortgages), and other requirements, imposed by secondary market purchasers. Some of these borrowers have higher debt-to-income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan-to-value ratios to reduce the risk of these loans. We believe that these loans satisfy a need in our local market areas. As a result, subject to market conditions, we intend to continue to originate these types of loans. Total non-conforming loans were $373.2 million at

June 30, 2018, including $101.6 million of jumbo one- to four-family residential loans which may also expose us to increased risk because of their larger balances.

Property appraisals on real estate securing our one-to-four family loans in excess of $250,000 that are not originated for sale are made by a state-licensed or state-certified independent appraiser approved by the board of directors. Appraisals are performed in accordance with applicable regulations and policies. For loans that are less than $250,000, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal. We generally require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability, fire and, if required, flood insurance policies are also required for one-to-four family loans. We do not originate permanent one-to-four family mortgage loans with a negatively amortizing payment schedule, and currently do not offer interest-only mortgage loans. We have not typically originated stated income or low or no documentation one-to-four family loans. At June 30, 2018, $6.1 million of our one-to-four family loans were interest-only of which $5.8 million served as collateral for commercial purpose loans. In connection with the new rules issued by the Consumer Financial Protection Bureau ("CFPB"), which includes a definition for “qualified mortgage” loans based on the borrower’s ability to repay the loan, we believe that substantially all of the mortgage loans approved by us meet this standard.

At June 30, 2018, $86.1 million of our one-to-four family loan portfolio consisted of loans secured by non-owner occupied residential properties. Loans secured by residential rental properties represent a unique credit risk to us and, as a result, we adhere to specific underwriting guidelines for such loans. Additionally, we have established specific loan portfolio concentration limits for loans secured by residential rental property to prevent excessive credit risk that could result from an elevated concentration of these loans. A primary risk factor in non-owner occupied residential real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the successful operation and management of the properties, as well as, the ability of tenants to pay rent. As a result, repayment of such loans may be subject to adverse economic conditions and unemployment trends, and may be sensitive to changes in the supply and demand for such properties. We consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. We periodically monitor the performance and cash flow sufficiency of certain residential rental property borrowers based on a number of factors such as loan performance, loan size, total borrower credit exposure, and risk grade.

Home Equity Lines of Credit. Our originated home equity lines of credit ("HELOCs"), consisting primarily of adjustable-rate lines of credit, have been one of the largest component of our retail loan portfolio over the past several years. At June 30, 2018, HELOCs-originated totaled $137.6 million or 5.4% of our loan portfolio of which $69.7 million was secured by a first lien on owner-occupied residential property. The lines of credit may be originated in amounts, together with the amount of the existing first mortgage, typically up to 85% of the value of the property securing the loan (less any prior mortgage loans) with an adjustable-rate of interest based on The Wall Street Journal prime rate plus a margin. Currently, our home equity line of credit floor interest rate is dependent on the overall loan to value, and has a cap of 16% above the floor rate over the life of the loan. Originated HELOCs generally have up to a ten-year draw period and amounts may be reborrowed after payment at any time during the draw period. Once the draw period has lapsed, the payment is amortized over a 15-year period based on the loan balance at that time. At June 30, 2018, unfunded commitments on these lines of credit totaled $187.4 million.

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

In December 2014, the Company began purchasing HELOCs originated by other financial institutions. At June 30, 2018, HELOCs-purchased totaled $166.3 million, or 6.6% of our loan portfolio. Unfunded commitments on these lines of credit were $35.4 million at June 30, 2018. The credit risk characteristics are different for these loans since they were not originated by the Company and the collateral is located outside the Company's market area, primarily in several western states. All of these loans were originated in 2012 or later and had an average FICO score of 740 and loan to values of less than 90% at origination. Loan charge-offs in this portfolio since December 2014 totaled $48,000. The Company will continue to monitor the performance of these loans and adjust the allowance for loan losses as necessary.

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

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

At June 30, 2018, our construction and land/lot loan portfolio was $65.6 million compared to $50.1 million at June 30, 2017. At June 30, 2018, unfunded loan commitments totaled $58.9 million, compared to $42.4 million at June 30, 2017. Construction-to-permanent loans are made for the construction of a one-to-four family property which is intended to be occupied by the borrower as either a primary or secondary residence. Construction-to-permanent loans are originated to the homeowner rather than the homebuilder and are structured to be converted to a first lien fixed- or adjustable-rate permanent loan at the completion of the construction phase. We do not originate construction phase only or junior lien construction-to-permanent loans. The permanent loan is generally underwritten to the same standards as our one-to-four family residential loans and may be held by us for portfolio investment or sold in the secondary market. At June 30, 2018 our construction-to-permanent loans totaled $52.6 million and the average loan size was $199,000. During the construction phase, which typically lasts for six to 12 months, we make periodic inspections of the construction site and loan proceeds are disbursed directly to the contractors or borrowers as construction progresses. Typically, disbursements are made in monthly draws during the construction period. Loan proceeds are disbursed based on a percentage of completion. Construction-to-permanent loans require payment of interest only during the construction phase. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser. Construction loans may be originated up to 95% of the cost or of the appraised value upon completion, whichever is less; however, we generally do not originate construction loans which exceed the lower of 80% loan to cost or appraised value without securing adequate private mortgage insurance or other form of credit enhancement such as the Federal Housing Administration or other governmental guarantee. We also require general liability, builder’s risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) on all construction loans. At June 30, 2018, the largest construction to permanent loan had an outstanding balance of $2.5 million and was performing according to the original repayment terms.

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

Land/lot loans are typically originated in an amount up to 70% of the lower of the purchase price or appraisal, are secured by a first lien on the property, for up to a 20-year term, require payments of interest only and are structured with an adjustable rate of interest on terms similar to our one-to-four family residential mortgage loans. At June 30, 2018, our land/lot loans totaled $13.0 million and the average land/lot loan size was

$53,000. At June 30, 2018, the largest land/lot loan had an outstanding balance of $414,000 and was performing according to the original repayment terms.

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

Indirect Auto Finance. As of June 30, 2018, our indirect auto finance installment contracts totaled $173.1 million, or 6.9% of our total loan portfolio. Going forward, the Company expects to maintain the size of this portfolio at approximately the same current percentage of the total loan portfolio. As an indirect lender, we market to automobile dealerships, both manufacturer franchised dealerships and independent dealerships, who utilize our origination platform to provide automotive financing through installment contracts on new and used vehicles. As of June 30, 2018, we worked with 68 auto dealerships located in western North Carolina and upstate South Carolina. Working with strong dealerships within our market area provides us with the opportunity to actively deepen customer relationships through cross-selling opportunities, as 83.0% of our indirect auto finance loans are originated to noncustomers.

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

Our underwriting guidelines for indirect auto loans allow for financing the entire cost of the vehicle and therefore focuses on the ability of the borrower to repay the loan rather than the value of the underlying collateral. Our underwriting procedures for indirect auto loans include an evaluation of an applicant's credit profile along with certain applicant specific characteristics to arrive at an estimate of the associated credit risk. Additionally, internal underwriters may also verify an applicant's employment income and/or residency or where appropriate, verify an applicant's payment history directly with the applicant's creditors. We will also generally verify receipt of the automobile and other information directly with the borrower.

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

Our indirect auto portfolio at June 30, 2018, consisted of 9,664 installment loan contracts with a weighted-average contract rate of 4.60%, an average FICO credit score of 754, and an average loan to value ratio of 96.1% based on wholesale dealer invoice on new cars and the NADA Official Used Car Guide for used cars. Approximately 96% were originated through manufacturer franchised dealerships and approximately 4% were originated through independent dealerships; 46% were contracts on new vehicles and 54% were contracts on used vehicles. The loan term is averaging 69 months which is comparable to national auto industry data.

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

Consumer Lending. Our consumer loans consist of loans secured by deposits accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt. At June 30, 2018, our consumer loans totaled $12.4 million, or 0.5% of our loan portfolio. We originate our consumer loans primarily in our market areas. Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

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

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

Commercial Loans

Commercial Real Estate Lending. We originate commercial real estate loans, including loans secured by office buildings, retail/wholesale facilities, hotels, industrial facilities, medical and professional buildings, churches, and multifamily residential properties located primarily in our market areas. As of June 30, 2018, $857.3 million or 33.9% of our total loan portfolio was secured by commercial real estate property, including multifamily loans totaling $106.7 million, or 4.2% of our total loan portfolio. Of the remaining amount, $222.5 million was identified as owner occupied commercial real estate, and $528.1 million was secured by income producing, or non-owner-occupied commercial real estate. Commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by commercial or multi-family properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation, we generally require and obtain personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports.

The average outstanding loan size in our commercial real estate portfolio was $667,000 as of June 30, 2018. The Bank's commercial focus is on developing and fostering strong banking relationships with small to mid-size clients within our market area. At June 30, 2018, the largest commercial real estate loan in our portfolio was to a local borrower in Asheville, NC for $12.9 million, secured by a hotel. Our largest multi-family loan as of June 30, 2018 was a 76.74% interest in a 91 unit apartment property in Charlotte, NC with an outstanding balance of $9.9 million. Both of these loans were performing according to their original repayment terms as of June 30, 2018.

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

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

Construction and Development Lending. We originate residential construction and development loans for the construction of single-family residences, condominiums, townhouses, and residential developments. Our commercial construction development loans are for the development of business properties, including multi-family, retail, office/warehouse and office buildings. Our land, lots, and development loans are predominately for the purchase or refinance of unimproved land held for future residential development, improved residential lots held for speculative investment purposes and for the future construction of speculative one-to-four family or commercial real estate.

Our expansion into larger metro markets combined with the hiring of experienced commercial real estate relationship managers, credit officers, and the development of a construction risk management group to better manage construction risk, has led to a significant increase in and conscience effort to grow the construction and development portfolio. At June 30, 2018, our construction and development loans totaled $192.1 million, or 7.6% of our total loan portfolio. At

June 30, 2018, $54.0 million or 28.1% of our construction and development loans required interest-only payments. A minimal amount of these construction loans provide for interest payments to be paid out of an interest reserve, which is established in connection with the origination of the loan pursuant to which we will fund the borrower's monthly interest payments and add the payments to the outstanding principal balance of the loan. Unfunded commitments at June 30, 2018 totaled $151.6 million compared to $116.0 million at June 30, 2017. Land acquisition and development loans are included in the construction and development loan portfolio, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchase and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sale to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. Land acquisition and development loans are generally secured by property in our primary market areas. In addition, these loans are secured by a first lien on the property, are generally limited up to 65% of the lower of the acquisition price or the appraised value of the land and generally have a maximum amortization term of ten years with a balloon maturity of up to three years. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste. At June 30, 2018, our land acquisition and development loans in our commercial construction and development portfolio totaled $64.5 million. The largest land acquisition and development loan had an outstanding balance at June 30, 2018 of $5.2 million and was performing according to its repayment terms. The subject loan is secured by a residential lot development. At June 30, 2018, 12 land acquisition and development loans totaling $2.0 million were classified as nonaccruing.

Part of our land acquisition and development portfolio consists of speculative construction loans for homes. These homes typically have an average price ranging from $200,000 to $500,000. Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either us or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to fund the debt service on the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant period of time after the completion of construction, until a home buyer is identified. Loans to finance the construction of speculative single-family homes and subdivisions are generally offered to experienced builders with proven track records of performance, are qualified using the same standards as other commercial loan credits and require cash reserves to carry projects through construction completions and sale of the project. These loans require payment of interest-only during the construction phase. At June 30, 2018, loans for the speculative construction of single family properties totaled $48.7 million compared to $44.9 million at June 30, 2017. At June 30, 2018, we had 17 borrowers with an aggregate outstanding loan balance over $1.0 million which comprise 55.5% of the total balance for the speculative construction of single family properties and secured by properties located in our market areas. At June 30, 2018, four speculative construction loans totaling $85,000 were classified as nonaccruing. Unfunded commitments remained unchanged at $30.1 million at both June 30, 2018 and 2017.

Commercial construction and construction to permanent loans are offered on an adjustable interest rate or fixed interest rate basis. Adjustable interest rate loans typically include a floor and ceiling interest rate and are indexed to The Wall Street Journal prime rate, plus or minus an interest rate margin. The initial construction period is generally limited to 12 to 24 months from the date of origination, and amortization terms are generally limited to 20 years; however, amortization terms of up to 25 years may be available for certain property types based on elevated underwriting and qualification criteria. Construction to permanent loans generally include a balloon maturity of five years or less; however, balloon maturities of greater than five years are allowed on a limited basis depending on factors such as property type, amortization term, lease terms, pricing, or the availability of credit enhancements. Construction loan proceeds are disbursed commensurate with the percentage of completion of work in place, as documented by periodic internal or third-party inspections. The maximum loan-to-value limit applicable to these loans is generally 80% of the appraised post-construction value. Disbursement of funds is at our sole discretion and is based on the progress of construction. At June 30, 2018 we had $79.3 million of non-residential construction loans included in our commercial construction and development loan portfolio.

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

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

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

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

Commercial and industrial loans typically have shorter maturity terms and higher interest rates than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. We are focusing our efforts on small- to medium-sized, privately-held companies with local or regional businesses that operate in our market areas. At June 30, 2018, commercial and industrial loans totaled $148.8 million, which represented 5.9% of our total loan portfolio. Our commercial and industrial lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of our credit analysis. We generally obtain personal guarantees on our commercial business loans.

During fiscal 2018, we began commercial business loan originations made under the U.S. Small Business Administration ("SBA") 7(a) and United States Department of Agriculture Business & Industry ("USDA B&I") programs to small businesses located throughout the Southeast. We originate these loans and utilize a third party service provider that assists with processing and closing services based on the Bank's underwriting and credit approval criteria. Loans made by the Bank under the SBA 7(a) and USDA B&I programs generally are made to small businesses to provide working capital needs, to refinance existing debt or to provide funding for the purchase of businesses, real estate, machinery, and equipment. These loans generally are secured by a combination of assets that may include receivables, inventory, furniture, fixtures, equipment, business real property, commercial real estate and sometimes additional collateral such as an assignment of life insurance and a lien on personal real estate owned by the guarantor(s). The terms of these loans vary by use of funds. The loans are primarily underwritten on the basis of the borrower's ability to service the loan from qualifying business income. Under the SBA 7(a) and USDA B&I loan program the loans carry a government guaranty up to 90% of the loan in some cases. Typical maturities for this type of loan vary up to twenty-five years and can be thirty years in some circumstances. SBA 7(a) and USDA B&I loans will normally be adjustable rate loans based upon the Wall Street Journal prime lending rate. Under the loan programs, we will typically sell in the secondary market the guaranteed portion of these loans to generate noninterest income and retain the related unguaranteed portion of these loans; loan servicing is handled by a third party loan sub-service provider for a fee paid for by the purchaser of the guaranteed loan portion. We generally offer SBA 7(a) loans up to $5.0 million and USDA B&I loans up to $10.0 million. During the year ended June 30, 2018, we originated $17.7 million and sold participating interests of $13.2 million in SBA 7(a) and USDA B&I loans.

Repayment of our commercial and industrial loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Our commercial and industrial loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of equipment, inventory or accounts receivable. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Municipal Leases. We offer ground and equipment lease financing to fire departments located primarily throughout North Carolina and, to a lesser extent, South Carolina. Municipal leases are secured primarily by a ground lease in our name with a sublease to the borrower for a fire station or an equipment lease for fire trucks and firefighting equipment. Prior to December 31, 2016, we originated these loans primarily through a third party that assigned the lease to us after we funded the loan. On December 31, 2016, we acquired the third party originator, United Financial of North Carolina, Inc., and now all originations and underwriting is performed directly by us prior to funding. These leases are at a fixed rate of interest and may have a term to maturity of up to 20 years.

At June 30, 2018, municipal leases totaled $109.2 million, which represented 4.3% of our total loan portfolio. At that date, $38.7 million, or 35.4% of our municipal leases were secured by fire trucks, $28.7 million, or 26.3%, were secured by firehouses, $39.0 million or 35.7%, were secured by both, with the remaining $2.8 million or 2.6% secured by miscellaneous firefighting equipment. At June 30, 2018, the average outstanding municipal lease size was $384,000.

Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2018, $11.6 million of our municipal leases contained a non-appropriation clause.

Loan Originations, Purchases, Sales, Repayments and Servicing

We originate both fixed-rate and adjustable-rate loans. Our ability to originate loans, however, is dependent upon customer demand for loans in our market area. Demand is affected by competition and the interest rate environment. During the past few years, we, like many other financial institutions, have experienced significant prepayments on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions, including us, to originate large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. We do not generally purchase loans or loan participations except for certain HELOCs. We actively sell the majority of our long-term fixed-rate residential first mortgage loans to the secondary market at the time of origination and retain our adjustable-rate residential mortgages and certain fixed-rate mortgages with terms to maturity less than or equal to 15 years and other consumer and commercial loans. In addition, we began selling the guaranteed portion of SBA 7(a) and USDA B&I loans during fiscal 2018. During the years ended June 30, 2018 and 2017 we sold $139.2 million and $138.1 million, respectively, of predominantly one-to-four family loans and SBA 7(a) loans to the secondary market. We release the servicing on the loans we sell into the secondary market. Loans are generally sold on a non-recourse basis.

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

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

	Years Ended June 30,		
	2018	2017	2016
Originations:[1]			
Retail consumer:	(In thousands)		
One-to-four family	$189,562	$233,478	$173,540
Home equity - originated	57,018	47,072	50,406
Construction and land/lots	100,421	71,674	42,493
Indirect auto finance	99,558	84,707	87,844
Consumer	3,100	2,722	4,192
Commercial loans:			
Commercial real estate	257,494	238,870	137,660
Construction and development	234,102	192,803	164,945
Commercial and industrial	77,871	92,591	22,933
Municipal leases	21,038	8,278	—
Total loans originated	$1,040,164	$972,195	$684,013
Purchases:			
Retail consumer:			
Home equity - purchased	$60,371	$77,000	$109,045
Commercial loans:			
Commercial real estate	790	930	489
Municipal leases	—	8,973	11,118
Loans acquired through business combination	—	258,059	—
Total loans purchased or acquired	$61,161	$344,962	$120,652
Sales and repayments:			
Retail consumer:			
One-to-four family	$125,830	$135,365	$92,054
Home equity - originated	—	—	15
Consumer	—	—	1
Commercial loans:			
Commercial real estate	—	2,781	89
Construction and development	116	—	44
Commercial and industrial	13,244	—	287
Total sales	139,190	138,146	92,490
Principal repayments	787,487	660,548	565,142
Total reductions	$926,677	$798,694	$657,632
Net increase	$174,648	$518,463	$147,033

(1) Originations include one-to-four family loans, SBA 7(a) loans, and USDA B&I loans originated for sale of $143.8 million, $134.3 million, and $92.0 million for years ended June 30, 2018, 2017, and 2016, respectively.

Asset Quality

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

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

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

The following table sets forth our loan delinquencies by type, by amount and by percentage of type at June 30, 2018.

	Loans Delinquent For:						Total Loans Delinquent 30 Days or More		
	30-89 Days			90 Days and Over					
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
	(Dollars in thousands)								
Retail consumer loans:									
One-to-four family	52	$ 3,001	0.45 %	31	$ 1,756	0.26 %	83	$ 4,757	0.72 %
Home equity - originated	1	98	0.07	8	268	0.19	9	366	0.27
Construction and land/lots	2	44	0.07	3	54	0.08	5	98	0.15
Indirect auto finance	26	335	0.19	13	127	0.07	39	462	0.27
Consumer	8	238	1.92	6	39	0.32	14	277	2.24
Commercial loans:									
Commercial real estate	2	169	0.02	17	1,412	0.16	19	1,581	0.18
Construction and development	3	260	0.14	12	1,928	1.00	15	2,188	1.14
Commercial and industrial	1	15	0.01	34	69	0.05	35	84	0.06
Total	95	$ 4,160	0.16 %	124	$ 5,653	0.22 %	219	$ 9,813	0.39 %

Nonperforming Assets. Nonperforming assets were $14.6 million, or 0.44% of total assets at June 30, 2018, compared to $20.0 million, or 0.62%, at June 30, 2017.

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

Loans are placed on nonaccrual status when the collection of principal and/or interest becomes doubtful or other factors involving the loan warrant placing the loan on nonaccrual status. Troubled debt restructurings are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. During the fiscal year ended June 30, 2018, 31 loans for $4.2 million were modified from their original terms and were classified as a troubled debt restructuring. This compares to 41 loans for $4.9 million that were modified in the fiscal year ended June 30, 2017. As of June 30, 2018, the outstanding balance of troubled debt restructured loans was $26.2 million, comprised of 329 loans as compared to $32.7 million comprised of 361 loans at June 30, 2017.

Once a nonaccruing troubled debt restructuring has performed according to its modified terms for six months and the collection of principal and interest under the revised terms is deemed probable, the troubled debt restructuring is removed from nonaccrual status. At June 30, 2018, $4.2 million of troubled debt restructurings were classified as nonaccrual, including $1.5 million of construction and development loans, the largest of which was $1.0 million as discussed below. As of June 30, 2018, $21.2 million, or 81.3% of the restructured loans have a current payment status as compared to $27.0 million, or 82.6% at June 30, 2017. Performing troubled debt restructurings decreased $5.8 million, or 21.4%, from June 30, 2017 to June 30, 2018. The table below sets forth the amounts and categories of nonperforming assets.

	At June 30,				
	2018	2017	2016	2015	2014
Nonaccruing loans:[1]	(In thousands)				
Retail consumer loans:					
One-to-four family	$4,308	$6,453	$9,192	$10,523	$14,917
Home equity - originated	656	1,291	1,026	1,856	2,749
Home equity - purchased	187	192	—	—	—
Construction and land/lots	165	245	188	465	443
Indirect auto finance	255	1	20	—	—
Consumer	321	29	15	49	27
Commercial loans:					
Commercial real estate	2,863	2,756	3,222	5,103	12,953
Construction and development	2,045	1,766	1,417	3,461	5,697
Commercial and industrial	114	827	3,019	3,081	1,134
Municipal leases	—	106	419	316	—
Total nonaccruing loans	10,914	13,666	18,518	24,854	37,920
Real Estate Owned assets:					
Retail consumer loans:					
One-to-four family	801	990	794	1,613	3,876
Home equity - originated	197	45	30	20	627
Construction and land/lots	498	690	846	1,096	1,613
Commercial loans:					
Commercial real estate	1,730	2,736	1,211	978	3,820
Construction and development	458	1,857	3,075	3,317	4,725
Total foreclosed assets	3,684	6,318	5,956	7,024	14,661
Total nonperforming assets	$14,598	$19,984	$24,474	$31,878	$52,581
Total nonperforming assets as a percentage of total assets	0.44 %	0.62 %	0.90 %	1.15 %	2.53 %
Performing Troubled Debt Restructurings	$21,251	$27,043	$28,263	$21,891	$22,179

(1) Purchased-credit impaired ("PCI") loans totaling $3,353 at June 30, 2018, $6,664 at June 30, 2017, $6,607 at June 30, 2016, $8,158 at June 30, 2015, and $9,091 at June 30, 2014 are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.

For the years ended June 30, 2018 and 2017, gross interest income which would have been recorded had the nonaccruing loans been current in accordance with their original terms amounted to $668,000 and $897,000, respectively. The amount that was included in interest income on such loans was $702,000 and $1.0 million, respectively. At June 30, 2018, $13.9 million in impaired loans were individually evaluated for impairment; $197,000 of the allowance for loan losses was allocated to these individually impaired loans at period-end. A loan is impaired when it is probable, based on current information and events, that we will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreements. Troubled debt restructurings are also

considered impaired. Impaired loans are measured on an individual basis for individually significant loans based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.
We record real estate owned ("REO") (property acquired through a lending relationship) at fair value less cost to sell on a non-recurring basis. All REO properties are recorded at amounts which are equal to the fair value of the properties based on independent appraisals (reduced by estimated selling costs) upon transfer of the loans to REO. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed to operations. For the years ended June 30, 2018 and 2017, we recognized $539,000 and $292,000, respectively, of REO impairment charges.

Within our nonaccruing loans, as of June 30, 2018 we had one nonaccrual lending relationship with aggregate loan exposure in excess of $1.0 million, or 9.4% of our total nonaccruing loans. This loan is a $1.0 million troubled debt restructuring for construction and development loan secured by improved land zoned for commercial purposes located in Buncombe County, NC. At June 30, 2018, we had $3.7 million of REO, the largest of which had a book value of $563,000 and is related to commercial real estate located in Boiling Springs, NC. The second and third largest REO properties at June 30, 2018 consist of multifamily properties located in Bristol, VA with book values of $549,000 and $312,000, respectively. At June 30, 2018 all other REO properties have individual book values of less than $212,000. REO decreased $2.6 million, to $3.7 million at June 30, 2018 primarily due to the $3.9 million in sales of REO, partially offset by $1.3 million in transfers from loans. The total balance of REO included $956,000 in land, construction and development projects (both residential and commercial), $1.7 million in commercial real estate, and $998,000 in single-family homes at June 30, 2018.

In fiscal 2018, we liquidated $8.4 million in REO based on contractual loan values at the time of foreclosure, realizing $3.9 million in net proceeds, or 46.5%, of the foreclosed contractual loan balances. As of June 30, 2018, the book value of our REO, expressed as a percentage of the related contractual loan balances at the time the properties were transferred to REO was 39.8%.

Other Loans of Concern. In addition to the nonperforming assets set forth in the table above, as of June 30, 2018, there were 351 accruing loans totaling $32.8 million with respect to which known information about the possible credit problems of the borrowers have caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the nonperforming asset categories. These loans have been considered in management's determination of our allowance for loan losses.

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

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

We regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets, at June 30, 2018, our classified assets (consisting of $29.4 million of loans and $3.7 million of REO) totaled $33.1 million, or 1.00%, of our assets, of which $10.9 million was included in nonaccruing loans. The aggregate amounts of our classified assets and special mention loans at the dates indicated (as determined by management), were as follows:

	At June 30,	
	2018	2017
Classified Assets:	(In thousands)	
Loss	$31	$28
Doubtful	952	1,560
Substandard– performing	18,042	29,436

– nonaccruing	10,349	12,869
Total classified loans	29,374	43,893
REO	3,684	6,318
Total classified assets	33,058	50,211
Special mention loans	14,359	18,481
Total classified assets and special mention loans	$47,417	$68,692

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

In recent years, home and lot sales activity and real estate values have improved along with general economic conditions in our market areas resulting in materially lower loan charge-offs and nonaccruing loans than in prior fiscal years. Proactively managing our loan portfolio and aggressively resolving troubled assets has been and will continue to be a primary focus for us. As a result, our nonperforming assets declined substantially over the last several years. At June 30, 2018, our nonaccruing loans decreased to $10.9 million as compared to $13.7 million at June 30, 2017, and $18.5 million at June 30, 2016. At June 30, 2018, $5.6 million, or 51.6%, of our total nonaccruing loans were current on their loan payments as compared to $6.6 million, or 48.0%, of total nonaccruing loans at June 30, 2017. During fiscal 2018 classified assets decreased $17.2 million, or 34.2%, to $33.1 million and delinquent loans (loans delinquent 30 days or more) decreased $5.4 million, or 35.5%, to $9.8 million at June 30, 2018. There were $91,000 and $141,000 in net loan charge-offs during the fiscal years ended June 30, 2018 and 2017, respectively. There was no provision for loan losses during fiscal 2018 or 2017. We did not record a loan loss provision in either fiscal year as our improved risk profile, as indicated by the improvement in our key credit quality metrics, offset any additional allowance that might have been required to cover loan growth. Although we continue to actively engage our borrowers in resolving remaining problem assets, future additions to our allowance for loan losses will be meaningfully influenced by the course of economic conditions in our primary market areas as well as the national economy.

At June 30, 2018, our allowance for loan losses was $21.1 million, or 0.83%, of our total loan portfolio, and 193.0% of total nonaccruing loans. Excluding loans acquired, which have been recorded at fair value with an appropriate credit discount, the allowance for loan losses was 0.91% of total loans at June 30, 2018. Management’s estimation of an appropriate allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. The level of allowance is based on estimates and the ultimate losses may vary from these estimates. Large groups of smaller balance homogeneous loans, such as residential real estate, small commercial real estate, home equity and consumer loans, are evaluated in the aggregate using historical loss factors adjusted for current economic conditions. Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received. In the opinion of management, the allowance, when taken as a whole, reflects estimated loan losses in our loan portfolio.

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

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

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

	At June 30, 2018		2017		2016		2015		2014	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
	(Dollars in thousands)									
Allocated at end of period to:										
Retail consumer loans:										
One-to-four family	$3,360	26.29 %	$4,476	29.08 %	$6,595	34.04 %	$7,990	38.61 %	$10,527	44.09 %
Home equity - originated	1,123	5.44	1,384	6.68	1,997	8.91	1,777	9.56	2,487	9.90
Home equity - purchased	795	6.58	838	6.90	558	7.88	432	4.27	—	—
Construction and land/lots	1,153	2.60	977	2.13	1,344	2.08	1,822	2.73	2,420	3.95
Indirect auto finance	1,126	6.85	881	5.99	1,016	5.92	464	3.11	113	0.59
Consumer	68	0.49	57	0.34	61	0.25	128	0.22	184	0.42
Commercial loans:										
Commercial real estate	8,195	33.94	7,351	31.04	6,430	26.55	6,339	26.20	5,439	25.21
Construction and development	3,346	7.60	3,166	8.42	1,908	4.74	1,581	3.83	1,241	3.78
Commercial and industrial	1,476	5.89	1,524	5.12	721	4.00	1,104	5.03	249	4.97
Municipal leases	418	4.32	497	4.30	662	5.63	737	6.44	769	7.09
Total loans	$21,060	100.00%	$21,151	100.00%	$21,292	100.00%	$22,374	100.00%	$23,429	100.00%

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

	Years Ended June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance at beginning of period:	$21,151	$21,292	$22,374	$23,429	$32,073
Provision for (recovery of) loan losses	—	—	—	150	(6,300)
Charge-offs:					
Retail consumer loans:					
One-to-four family	538	439	799	1,878	3,269
Home equity - originated	9	18	94	551	330
Home equity - purchased	—	48	—	—	—
Construction and land/lots	2	165	321	483	804
Indirect auto finance	578	531	281	107	—
Consumer	15	18	168	274	33
Total retail consumer loans	1,142	1,219	1,663	3,293	4,436
Commercial loans:					
Commercial real estate	282	139	200	704	413
Construction and development	381	21	259	368	377
Commercial and industrial	842	1,171	1,582	495	110
Municipal leases	—	—	—	—	—
Total commercial loans	1,505	1,331	2,041	1,567	900
Total charge-offs	2,647	2,550	3,704	4,860	5,336
Recoveries:					
Retail consumer loans:					
One-to-four family	411	181	683	758	875
Home equity - originated	307	231	157	231	153
Construction and land/lots	173	487	44	95	624
Indirect auto finance	39	122	58	34	—
Consumer	60	63	292	91	10
Total retail consumer loans	990	1,084	1,234	1,209	1,662
Commercial loans:					
Commercial real estate	107	58	883	479	120
Construction and development	81	539	265	1,311	1,052
Commercial and industrial	1,378	728	240	656	159
Municipal leases	—	—	—	—	—
Total commercial loans	1,566	1,325	1,388	2,446	1,331
Total recoveries	2,556	2,409	2,622	3,655	2,993
Net charge-offs	91	141	1,082	1,205	2,343
Balance at end of period	$21,060	$21,151	$21,292	$22,374	$23,429
Net charge-offs during the period to average loans outstanding during the period	— %	0.01 %	0.06 %	0.07 %	0.19 %
Net charge-offs during the period to average non-performing assets	0.53 %	0.67 %	3.77 %	2.89 %	3.40 %
Allowance as a percentage of nonperforming assets	144.27 %	105.84 %	87.00 %	70.19 %	44.56 %
Allowance as a percentage of total loans[1]	0.83 %	0.90 %	1.16 %	1.33 %	1.56 %

(1) Excluding loans acquired, which have been recorded at fair value with an appropriate credit discount, the allowance for loan losses was 0.91%, 1.03%, 1.32%, 1.58%, and 2.05% of total loans at June 30, 2018, 2017,

2016, 2015, and 2014, respectively.

Investment Activities

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

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

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to optimize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk, and interest rate risk. At June 30, 2018, our $154.9 million securities portfolio consisted primarily of U.S. government agency securities and mortgage-backed securities, all held as available for sale. We currently do not have any investments held to maturity or for trading.

These securities are of high quality, possess minimal credit risk, and have an aggregate market value which is $2.1 million less than total amortized cost as of June 30, 2018. For more information, please see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Asset/Liability Management” and Note 3 of the Notes to Consolidated Financial Statements contained in Item 8 in this report.

The Company began purchasing commercial paper during fiscal 2015 in conjunction with its short-term leverage strategy, to take advantage of higher returns with relatively low risk, yet remain highly liquid. The commercial paper balance at June 30, 2018 was $229.1 million. For more information, please see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Financial Condition at June 30, 2018 and June 30, 2017.”

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

As a member of the FHLB of Atlanta, we had $29.9 million in stock of the FHLB of Atlanta at June 30, 2018. For the years ended June 30, 2018 and 2017, we received $1.6 million and $1.3 million, respectively, in dividends from the FHLB of Atlanta. As a member bank of the Federal Reserve, the Bank is required to maintain stock in the Federal Reserve Bank of Richmond ("FRB"). At June 30, 2018 we had $7.3 million in FRB stock. For the years ended June 30, 2018 and 2017, we received $438,000 and $383,000, respectively, in dividends from the FRB.

The following table sets forth the composition of our securities portfolio and other investments at the dates indicated. All securities at the dates indicated have been classified as available for sale. At June 30, 2018, our securities portfolio did not contain securities of any issuer with an aggregate book value in excess of 10% of our equity capital, excluding those issued by the United States government or its agencies or United States government sponsored entities.

	At June 30,					
	2018		2017		2016	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)					
Securities available for sale:						
U.S. government agencies	$48,025	$47,542	$65,947	$65,830	$77,356	$77,980
Mortgage-backed securities	71,949	70,599	92,841	92,971	95,668	97,408
Municipal bonds	30,865	30,766	34,135	34,510	16,242	17,234

Corporate bonds	6,166	6,023	6,267	6,293	7,773	7,967
Equity securities	63	63	63	63	63	63
Total securities available for sale	157,068	154,993	199,253	199,667	197,102	200,652
FHLB stock	29,907	29,907	32,071	32,071	23,304	23,304
FRB stock	7,307	7,307	7,284	7,284	6,182	6,182
Total securities	$194,282	$192,207	$238,608	$239,022	$226,588	$230,138

The composition and contractual maturities of our investment securities portfolio as of June 30, 2018, excluding equity securities, FHLB, and FRB stock, are indicated in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	June 30, 2018									
	1 year or less		Over 1 year to 5 years		Over 5 to 10 years		Over 10 years		Total	
Securities available for sale:	(Dollars in thousands)									
U.S. government agencies:										
Amortized cost	$25,984		$22,041		$—		$—		$48,025	
Fair value	25,827		21,715		—		—		47,542	
Weighted average yield	1.23	%	1.74	%	—	%	—	%	1.47	%
Mortgage-backed securities										
Amortized cost	1,000		8,183		26,610		36,156		71,949	
Fair value	996		8,008		25,836		35,759		70,599	
Weighted average yield	2.63	%	1.61	%	2.07	%	2.81	%	2.40	%
Municipal bonds										
Amortized cost	2,744		13,066		5,749		9,306		30,865	
Fair value	2,746		12,925		5,829		9,266		30,766	
Weighted average yield	1.94	%	2.61	%	3.76	%	2.89	%	2.85	%
Corporate bonds										
Amortized cost	—		6,166		—		—		6,166	
Fair value	—		6,023		—		—		6,023	
Weighted average yield	—	%	3.15	%	—	%	—	%	3.15	%
Total securities										
Amortized cost	$29,728		$49,456		$32,359		$45,462		$157,005	
Fair value	$29,569		$48,671		$31,665		$45,025		$154,930	
Weighted average yield	1.34	%	2.13	%	2.37	%	2.83	%	2.23	%

Sources of Funds

General. Our sources of funds are primarily deposits, borrowings, payments of principal and interest on loans, and funds provided from operations. Deposits increased $147.8 million, or 7.2%, to $2.2 billion at June 30, 2018 as compared to $2.0 billion at June 30, 2017.

Deposits. We offer a variety of deposit accounts with a wide range of interest rates and terms to both consumers and businesses. Our deposits consist of savings, money market and demand accounts, and certificates of deposit ("CDs"). We solicit deposits primarily in our market areas. At June 30, 2018, 2017 and 2016, we had $108.9 million, $16.8 million, and $13.6 million in brokered deposits, respectively, which included certificates of deposit made under our participation in the Certificate of Deposit Account Registry Service® (“CDARS”). Through CDARS, we can provide a depositor the ability to place up to $50.0 million on deposit with us while receiving FDIC insurance on the entire deposit by placing customer funds in excess of the FDIC deposit limits with other financial institutions in the CDARS network. In return, these financial institutions place customer funds with us on a reciprocal basis. As of June 30, 2018, core deposits, which we define as our non-certificate or non-time deposit accounts, represented approximately 76.5% of total deposits.

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

Approximately 23.5% of our total deposits are comprised of CDs. Our liquidity could be reduced if a significant amount of CDs, maturing within a short period of time, were not renewed. Historically, a significant portion of our CDs remain with us after they mature and we believe that this will continue. However, the need to retain these time deposits could result in an increase in our cost of funds.

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

	Years Ended June 30,		
(Dollars in thousands)	2018	2017	2016
Beginning balance	$2,048,451	$1,802,696	$1,872,126
Deposits acquired from business combination	—	280,234	—
Net deposit increase (decrease)	141,048	(39,067)	(73,961)
Interest credited	6,754	4,588	4,531
Ending balance	$2,196,253	$2,048,451	$1,802,696
Net increase (decrease)	$147,802	$245,755	$(69,430)
Percent increase (decrease)	7.22 %	13.63 %	(3.71)%

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

	2018		2017		2016	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)						
Transaction and Savings Deposits:						
Interest-bearing checking	$471,364	21.46 %	$469,377	22.91 %	$403,574	22.39 %
Noninterest-bearing checking	317,822	14.47	310,172	15.14	225,336	12.50
Savings	213,250	9.71	237,149	11.58	210,817	11.69
Money market	677,665	30.86	569,607	27.81	520,320	28.86
Total non-certificates	$1,680,101	76.50 %	$1,586,305	77.44 %	$1,360,047	75.45 %
Certificates:						
0.00-0.99%	$273,087	12.43 %	$360,449	17.60 %	$385,342	21.38 %
1.00-1.99%	197,875	9.01	89,279	4.36	40,841	2.27
2.00-2.99%	35,707	1.63	2,755	0.13	2,760	0.15
3.00-3.99%	5,066	0.23	5,234	0.26	9,275	0.51
4.00-4.99%	4,415	0.20	4,427	0.22	4,427	0.25
5.00% and over	2	—	2	—	4	—
Total certificates	$516,152	23.50 %	$462,146	22.56 %	$442,649	24.55 %
Total deposits	$2,196,253	100.00%	$2,048,451	100.00%	$1,802,696	100.00%

The following table shows rate and maturity information for our CDs at June 30, 2018.

	0.00-0.99%	1.00-1.99%	2.00-2.99%	3.00-3.99%	4.00-4.99%	5.00% or greater	Total	Percent of Total
	(In thousands)							
Quarter ending:								
September 30, 2018	$103,720	$81,898	$—	$85	$—	$ —	$185,703	36.0 %
December 31, 2018	40,571	43,361	4	—	—	—	83,936	16.3
March 31, 2019	28,569	23,124	16,408	—	—	—	68,101	13.2
June 30, 2019	22,178	21,827	3,991	—	—	—	47,996	9.3
September 30, 2019	13,497	10,583	442	2,768	69	—	27,359	5.3
December 31, 2019	10,655	7,420	3,244	1,392	—	—	22,711	4.4
March 31, 2020	8,560	1,518	81	772	—	—	10,931	2.1
June 30, 2020	9,246	482	1,305	21	—	—	11,054	2.1
September 30, 2020	6,286	541	434	—	—	2	7,263	1.4
December 31, 2020	6,666	1,361	318	—	—	—	8,345	1.6
March 31, 2021	3,674	1,173	101	—	—	—	4,948	1.0
June 30, 2021	3,723	948	652	—	—	—	5,323	1.0
Thereafter	15,742	3,639	8,727	28	4,346	—	32,482	6.3
Total	$273,087	$197,875	$35,707	$5,066	$4,415	$ 2	$516,152	100.0%
Percent of total	52.9 %	38.3 %	6.9 %	1.0 %	0.9 %	— %	100.0 %	

The following table indicates the amount of our CDs by time remaining until maturity as of June 30, 2018.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
	(In thousands)				
CDs less than $100,000	$17,166	$27,795	$21,828	$66,390	$133,179
CDs of $100,000 or more	116,575	52,122	69,839	62,166	300,702
Public funds(1)	51,961	4,018	24,432	1,860	82,271
Total certificates of deposit	$185,702	$83,935	$116,099	$130,416	$516,152

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(1) Deposits from government and other public entities.

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

We may obtain advances from the FHLB of Atlanta upon the security of certain of our mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features, and all long-term advances are required to provide funds for residential home financing. As of June 30, 2018, we had $635.0 million in FHLB advances outstanding and the ability to borrow an additional $79.2 million. In addition to FHLB advances, at June 30, 2018 we had a $132.3 million line of credit with the FRB, subject to qualifying collateral, and $60.0 million available through lines of credit with three unaffiliated banks, none of which was outstanding at June 30, 2018. See Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for more information about our borrowings.

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

	Year ended June 30,		
	2018	2017	2016
	(Dollars in thousands)		
Maximum balance:			
Federal Home Loan Bank advances	$699,000	$696,500	$507,000
Average balances:			
Federal Home Loan Bank advances	$658,240	$577,848	$482,576
Weighted average interest rate:			
Federal Home Loan Bank advances	1.41 %	0.63 %	0.31 %

	At June 30,		
	2018	2017	2016
	(Dollars in thousands)		
Balance outstanding at end of period:			
Federal Home Loan Bank advances	$635,000	$696,500	$491,000
Weighted average interest rate:			
Federal Home Loan Bank advances	1.95 %	1.13 %	0.42 %

Subsidiary and Other Activities

HomeTrust Bank has one operating subsidiary, Western North Carolina Service Corporation (“WNCSC”), whose primary purpose is to own several office buildings in Asheville, North Carolina which are leased to HomeTrust Bank. Our capital investment in WNCSC as of June 30, 2018 was $938,000.

Employees

At June 30, 2018, we had a total of 466 full-time employees and 54 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good. Management also considers our employees to be a great team of highly engaged, competent and caring people who ensure every day that our customers are "Ready For What's Next" in their financial life. Their performance creates word-of-mouth referrals that result in the growth of new customers and expanded customer relationships.

Internet Website

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

HOW WE ARE REGULATED

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

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

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

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

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

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Regulatory Relief Act”), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory changes for community banks such as HomeTrust Bank, and their holding companies.

The Regulatory Relief Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8 and 10 percent. Any qualifying depository institution or its holding company that exceeds the “community bank leverage ratio” will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be “well capitalized” under the prompt corrective action rules. In addition, the Regulatory Relief Act includes certain regulatory relief regarding such matters as call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

It is difficult at this time to predict when or how any new standards under the Regulatory Relief Act will ultimately be applied to us or what specific impact the Act and the yet-to-be-written implementing rules and regulations will have on community banks.

Regulation of HomeTrust Bank

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

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

The Bank is subject to a statutory lending limit on aggregate loans to one person or a group of persons combined because of certain relationships and common interests. That limit is generally equal to 15% of unimpaired capital and surplus, which was $53.5 million as of June 30, 2018. The limit is increased to 25% for loans fully secured by readily marketable collateral. The Bank has no lending relationships in excess of its lending limit.

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

Pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the "Volcker Rule"). These rules became effective April 15, 2014, but the Federal Reserve extended the conformance period for certain features to July 21, 2017. Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliates from engaging in short-term proprietary trading of certain securities, investing in funds not registered with the SEC with collateral not entirely comprised of loans, and from engaging in hedging activities that do not hedge a specific identified risk.

Insurance of Accounts and Regulation by the FDIC. The deposit insurance fund of the FDIC insures deposit accounts in HomeTrust Bank up to $250,000 per separately insured deposit ownership right or category.

Under the FDIC's risk-based assessment system, insured institutions are assessed based on supervisory ratings and in general, stronger institutions pay lower rates while riskier institutions pay higher rates. Currently, assessment rates (inclusive of certain possible adjustments) range from 1.5 to 40.0 basis points of each institution's total average consolidated assets less average tangible equity (subject to upward adjustment for certain debt). The FDIC has authority to increase insurance assessments, and any significant increases would have an adverse effect on the operating expenses and results of operations of the Company. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition, or violation that may lead to termination of our deposit insurance.

Transactions with Related Parties. Federal laws strictly limit the ability of banks to engage in certain transactions with their affiliates, including their bank holding companies. Transactions between the Bank and its affiliates are required to be on terms as favorable to the Bank as transactions with non-affiliates. Certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the Bank's capital, and loans to affiliates require eligible collateral in specified amounts. HomeTrust Bancshares, Inc is an affiliate of the Bank.

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

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

Effective January 1, 2015 (with some changes transitioned into full effectiveness by January 1, 2019), the Bank became subject to capital regulations, which created a new required ratio for common equity Tier 1 (“CET1”) capital, increased the minimum leverage and Tier 1 capital ratios, changed the risk-weightings of certain assets for purposes of the risk-based capital ratios, created an additional capital conservation buffer over the required capital ratios, and changed what qualifies as capital for purposes of meeting the capital requirements. These regulations implement the regulatory capital reforms required by the Dodd Frank Act and the “Basel III” requirements.

Under the capital regulations, the minimum required capital ratios for the Company and the Bank are (i) a CETI capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6.0%; (iii) a total capital ratio of 8.0%; and (iv) a Tier 1 leverage ratio of 4.0% for all financial institutions. CET1 generally consists of common stock and retained earnings. Tier 1 capital generally consists of CET1 and noncumulative perpetual preferred stock. Tier 2 capital generally consists of other preferred stock and subordinated debt meeting certain conditions plus an amount of the allowance for loan and lease losses up to 1.25% of assets. Total capital is the sum of Tier 1 and Tier 2 capital. The CET1 capital ratio, the Tier 1 capital ratio and the total capital ratio are sometimes referred to as the risk-based capital ratios and are determined based on risk-weightings of assets and certain off-balance sheet items that range from 0% to 1,250%.

In addition to the capital requirements, there are a number of changes in what constitutes regulatory capital, subject to a certain transition period. These changes include the phasing-out of certain instruments as qualifying capital. At June 30, 2018 the Bank did not have any of these instruments. Mortgage servicing and deferred tax assets over designated percentages of CET1 are deducted from capital, subject to a transition period ending December 31, 2017. Because of our asset size, we were eligible to elect and have elected to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt and equity securities in our capital calculations.

As noted above, in addition to the risk-based capital ratios, the Bank must maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the minimum levels for such ratios in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. The capital conservation buffer requirement began to be phased in starting in January 2016 at an amount more than 0.625% of risk-weighted assets and will increase each year until fully implemented to an amount more than 2.5% of risk-weighted assets in January 2019. Once fully phased in on January 1, 2019, the new minimum capital ratios applicable to the Company and the Bank are (i) a CETI capital ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; (iii) a total capital ratio of 10.5%; and (iv) a Tier 1 leverage ratio of 4.0%. As of June 30, 2018, the conservation buffer was 1.875%.

To be consider "well capitalized," a depository institution must have a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 10%, a CET1 capital ratio of at least 6.5% and a leverage ratio of at least 5% and not be subject to an individualized order, directive or agreement under which its primary federal banking regulator requires it to maintain a specific capital level. Institutions that are not well capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits. Under certain circumstances, regulators are required to take certain actions against banks that fail to meet the minimum required capital ratios. Any such institution must submit a capital restoration plan and, until such plan is approved may not increase its assets, acquire another depository institution, establish a branch or engage in any new activities, or make capital distributions. As of June 30, 2018, HomeTrust Bank met the requirements to be "well capitalized" and met the fully phased-in capital conservation buffer requirement. For additional information regarding the Bank's required and actual capital levels at June 30, 2018, see Note 18 of the Notes to Consolidated Financial Statements included in Item 8 in this report.

Federal Home Loan Bank System. HomeTrust Bank is a member of the FHLB of Atlanta, one of 11 regional Federal Home Loan Banks that administer the home financing credit function of financial institutions. The Federal Home Loan Banks are subject to the oversight of the Federal Housing Finance Agency ("FHFA") and each FHLB serves as a reserve or central bank for its members within its assigned region. The Federal

Home Loan Banks are funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System and makes loans or advances to members in accordance with policies and procedures established by the Board of Directors of the FHLB, which are subject to the oversight of the FHFA. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. See "Business -Sources of Funds - Borrowings."

At June 30, 2018, the Bank held $29.9 million in FHLB stock that was in compliance with the holding requirements. The FHLB pays dividends quarterly, and HomeTrust Bank received $1.6 million in dividends during the year ended June 30, 2018.

The FHLBs continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a decrease in net income and possibly capital.

Commercial Real Estate Lending Concentrations. The federal banking agencies have issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance directs the Federal Reserve and other bank regulatory agencies to focus their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk:

- Total reported loans for construction, land development and other land represent 100% or more of the bank's total regulatory capital; or
- Total commercial real estate loans (as defined in the guidance) represent 300% or more of the bank's total regulatory capital and the outstanding balance of the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

The guidance provides that the strength of an institution's lending and risk management practices with respect to such concentrations will be taken into account in supervisory guidance on evaluation of capital adequacy. As of June 30, 2018, HomeTrust Bank's aggregate recorded loan balances for construction, land development and land loans were 56.1% of regulatory capital. In addition, at June 30, 2018, HomeTrust Bank's loans on commercial real estate, as defined by the guidance, were 247.6% of regulatory capital.

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

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

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

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

Holding Company Regulation

As a bank holding company under the BHCA, HomeTrust Bancshares, Inc. is subject to regulation, supervision, and examination by the Federal Reserve. The Federal Reserve has enforcement authority with respect to HomeTrust Bancshares, Inc. similar to its enforcement authority over the Bank. We are required to file quarterly reports with the Federal Reserve and provide additional information as the Federal Reserve may require. The Federal Reserve may examine us, and any of our subsidiaries, and charge us for the cost of the examination. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. HomeTrust Bancshares, Inc. is also required to file certain reports with, and otherwise comply with the rules and regulations of the SEC.

The Bank Holding Company Act. Under the BHCA, we are supervised by the Federal Reserve. The Federal Reserve has a policy that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, the Dodd-Frank Act and earlier Federal Reserve policy provide that a bank holding company should serve as a source of strength to its subsidiary banks by having the ability to provide financial assistance to its subsidiary banks during periods of financial distress to the banks. A bank holding company's failure to meet its obligation to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both. No regulations have yet been proposed by the Federal Reserve to implement the source of strength doctrine required by the Dodd-Frank Act. HomeTrust Bancshares, Inc. and any subsidiaries that it may control are considered “affiliates” within the meaning of the Federal Reserve Act, and transactions between HomeTrust Bancshares, Inc. and affiliates are subject to numerous restrictions. With some exceptions, HomeTrust Bancshares, Inc. and its subsidiaries are prohibited from tying the provision of various services, such as extensions of credit, to other services offered by HomeTrust Bancshares, Inc. or by its affiliates.

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

Capital Requirements for HomeTrust Bancshares. As a bank holding company, HomeTrust Bancshares, Inc. is subject to the minimum regulatory capital requirements established by the Federal Reserve regulation, which generally are the same as the capital requirements for the Bank. These capital requirements include provisions that might impact the ability of the Company to pay dividends to its stockholders or repurchase its shares. For a description of the capital regulations, see " Regulation of HomeTrust Bank-Current Capital Requirements for HomeTrust Bank" and Note 18 of the Notes to Consolidated Financial Statements included in Item 8 in this report. At June 30, 2018, the HomeTrust Bancshares, Inc. exceeded its minimum regulatory capital requirements under Federal Reserve regulations.

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

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

On October 28, 2015, the Auditing Standards Board of the American Institute of Certified Public Accountants ("AICPA") issued Statement on Auditing Standards ("SAS") No. 130 - An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statement. Under SAS 130, our auditors are required to opine on the effectiveness of internal controls over financial reporting for the current fiscal year.

Sarbanes-Oxley Act. The Sarbanes-Oxley Act (“SOX Act”) of 2002 addresses a broad range of corporate governance, auditing and accounting, executive compensation, and disclosure requirements for public companies and their directors and officers. The SOX Act requires our Chief Executive Officer and Chief Financial Officer to certify the accuracy of certain information included in our quarterly and annual reports. The rules require these officers to certify that they are responsible for establishing, maintaining, and regularly evaluating the effectiveness of our financial reporting and disclosure controls and procedures; that they have made certain disclosures to the auditors and to the Audit Committee of the Board of Directors about our controls and procedures; and that they have included information in their quarterly and annual filings about their evaluation and whether there have been significant changes to the controls and procedures or other factors which would significantly impact these controls subsequent to their evaluation. Section 404 of the SOX Act requires management to undertake an assessment of the adequacy and effectiveness of our internal controls over financial reporting and requires our auditors to attest to and report on the effectiveness of these controls.

Dividends. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses its view that although there are no specific regulations restricting dividend payments by bank holding companies other than state corporate laws, a bank holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company's net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company's capital needs, asset quality, and overall financial condition. The Federal Reserve policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. As described above under “Regulation of HomeTrust Bank-Current Capital Requirements for HomeTrust Bank," the capital conservation buffer requirement can also restrict HomeTrust Bancshares, Inc. and the Bank’s ability to pay dividends.

Stock Repurchases. A bank holding company, except for certain “well-capitalized” and highly rated bank holding companies, is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve.

Legislative and Regulatory Proposals. Any changes in the extensive regulatory scheme to which the HomeTrust Bancshares, Inc. or the Bank is and will be subject, whether by any of the federal banking agencies or Congress, or the North Carolina legislature or NCCOB, could have a material effect on the Company or HomeTrust Bank, and HomeTrust Bancshares, Inc. and the Bank cannot predict what, if any, future actions may be taken by legislative or regulatory authorities or what impact such actions may have.

Federal Taxation

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

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act reduces the corporate federal income tax rate from a maximum of 35% to a flat 21%. The corporate federal income tax rate reduction was effective January 1, 2018. Since the Company has a fiscal year end of June 30th, the reduced federal corporate income tax rate for fiscal year 2018 was the result of the application of a blended federal statutory tax rate of 27.5%, which was based on the applicable tax rates before and after the Tax Act and corresponding number of days in the fiscal year before and after enactment, and then will be a flat 21% corporate income tax rate for fiscal 2019 and thereafter. The Tax Act also required a revaluation the Company’s deferred tax assets and liabilities to account for the future impact of lower corporate income tax rates and other provisions of the legislation. As a result of the Company’s revaluation, the net deferred tax asset (“DTA”) was reduced through an increase to the provision for income tax. The revaluation of our DTA balance resulted in a one-time increase for the fiscal year ended June 30, 2018 to federal income tax of $17.6 million. See Note 12 "Income Taxes" in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information.

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

Minimum Tax. Prior to the enactment of the Tax Act, the Internal Revenue Code ("IRC") imposed an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax was payable to the extent such alternative minimum taxable income was in excess of the regular tax. Net operating losses could offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax could be used as credits against regular tax liabilities in future years. At June 30, 2018, we had alternative minimum tax credit carryforwards of approximately $4.9 million. Upon enactment of the Tax Act, the alternative minimum tax was repealed.

Net Operating Loss Carryovers. A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. In 2009, IRC 172 (b) (1) was amended to allow businesses to carry back losses incurred in 2008 and 2009 for up to five years to offset 50% of the available income from the fifth year and 100% of the available income for the other four years. At June 30, 2018, we had $40.8 million of net operating loss carryforwards for federal income tax purposes.

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

State Taxation

North Carolina. On July 24, 2013, The Tax Simplification and Reduction Act of 2013 was signed into law. With this act, corporate income tax rates in North Carolina were reduced as net General Fund tax collection revenues goals were met. For tax years beginning on or after January 1, 2017, 2016, and 2015 the tax rate was 3%, 4%, and 5%, respectively. In June 2017, the state announced an additional reduction in the tax rate to 2.5% beginning on January 1, 2019. This rate reduction is not contingent on any revenue goals. The decrease in the North Carolina corporate tax rate will continue to decrease the deferred tax assets currently recorded on our balance sheet with a corresponding increase to our income tax provision, as temporary tax differences are reversed at lower state tax rates.

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

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

South Carolina. The state of South Carolina requires banks to file a bank tax return. As a multi-state bank, we pay taxes on the portion of revenue generated within the state. In 2018 and 2017 the tax rate was 5.0% and 4.5%, respectively.

Tennessee. The state of Tennessee requires banks to file a franchise and excise tax form for financial institutions. The franchise tax is based on the portion of revenue generated in the state, the net worth of the Bank, and the applicable franchise tax, which was $0.25 per $100 in 2018 and 2017. The excise tax is based on the taxable income (as defined by the state), the portion of revenue generated in the state, and the applicable excise tax, which was 6.5% in 2018 and 2017.

Virginia. The state of Virginia requires banks to file a bank franchise tax. The tax is based on the portion of capital deployed within the state and county level (as defined by the state) and taxed at $1 per $100 of taxable value.

EXECUTIVE OFFICERS

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

Name	Age[1]	Position
Dana L. Stonestreet	64	Chairman, President and Chief Executive Officer
Tony J. VunCannon	53	Executive Vice President, Chief Financial Officer, Corporate Secretary, and Treasurer
Howard L. Sellinger	65	Executive Vice President and Chief Information Officer
C. Hunter Westbrook	55	Executive Vice President and Chief Banking Officer
Keith Houghton	56	Executive Vice President and Chief Credit Officer
Parrish Little	50	Executive Vice President and Chief Risk Officer

(1) As of June 30, 2018.

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

Dana L. Stonestreet, Chairman and Chief Executive Officer. In his 29 years of service, Mr. Stonestreet has overseen ten acquisitions and the growth of the Bank from $300 million to $3.3 billion in assets at June 30, 2018. As part of the CEO succession plan for HomeTrust Bancshares, Inc. and the Bank, Mr. Stonestreet, who had been serving as President and Chief Operating Officer and as a director of HomeTrust Bank since 2008 and as President and Chief Operating Officer of HomeTrust Bancshares, Inc. since HomeTrust Bank's mutual-to-stock conversion, became co-Chief Executive Officer of HomeTrust Bancshares, Inc. and the Bank in July 2013. Mr. Stonestreet became President, Chairman and Chief Executive Officer of HomeTrust Bancshares, Inc. and the Bank effective at the annual meeting in November 2013. Mr. Stonestreet joined HomeTrust Bank in 1989 as its Chief Financial Officer and was promoted to Chief Operating Officer in 2003. Mr. Stonestreet began his career with Hurdman & Cranston (an accounting firm that was later merged into KPMG) as a certified public accountant. Mr. Stonestreet serves as a

director of the HUB Community Economic Development Alliance Board. In addition, Mr. Stonestreet has served as Chairman of the Asheville Chamber of Commerce and as a director for RiverLink, the YMCA, United Way, the North Carolina Bankers Association and other community organizations. In July 2017, Mr. Stonestreet was appointed to the North Carolina Banking Commission for a four-year term. Mr. Stonestreet's 29 years of service with HomeTrust Bank gives him in-depth knowledge of nearly all aspects of its operations. Mr. Stonestreet's accounting background and prior service as HomeTrust Bank's Chief Financial Officer also provide him with a strong understanding of the various financial matters brought before the Board.
Tony J. VunCannon, Executive Vice President, Chief Financial Officer, Corporate Secretary, and Treasurer. Mr. VunCannon has served as HomeTrust Bank's Chief Financial Officer since July 2006. Mr. VunCannon joined the Bank in April 1992 as Controller; later becoming the Treasurer in March 1997 until July 2006 when he was also named Chief Financial Officer. In 2018, he was named Corporate Secretary. Prior to joining the Bank, Mr. VunCannon worked as an auditor in KPMG's Charlotte office where his focus was in the community banking sector. Mr. VunCannon is a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science Degree in Business Administration/Accounting. He is also a Certified Public Accountant.

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

C. Hunter Westbrook, Executive Vice President and Chief Banking Officer. Mr. Westbrook joined HomeTrust Bank in June 2012 as our Chief Banking Officer. He began his career in banking with TCF Bank in Minneapolis and later joined TCF National Bank Illinois as Senior Vice President of Finance. In 2004 he was promoted to Executive Vice President of Retail Banking for Illinois, Wisconsin and Indiana markets that included 250 branches and $4 billion in deposits. He also served as President and Chief Executive Officer of First Community Bancshares in Texas, from 2006 to 2008, where he was responsible for repositioning the bank's retail operating model and implemented the bank's retail and corporate lending product offerings. In his most recent role, Mr. Westbrook served as President and Chief Executive Officer of Second Federal Savings and Loan Association of Chicago, from 2010 to 2012, where he significantly grew core operating revenue, net checking account balances, and repositioned the bank's entire product line.

Keith Houghton, Executive Vice President and Chief Credit Officer. Mr. Houghton joined HomeTrust Bank in March of 2014 as our Chief Credit Officer. Mr. Houghton has more than 30 years of experience in the banking industry. For nearly 17 years, he held a variety of senior positions in the credit and lending areas with StellarOne Corporation, a Charlottesville, VA-based bank holding company with approximately $3 billion in assets, and its predecessors, until the sale of StellarOne to another bank in January 2014. The most recent of those positions was Chief Credit Risk Officer, which Mr. Houghton held since 2007.

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

Item 1A. Risk Factors

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

Risks Related to Our Business

Adverse economic conditions in the market areas we serve could adversely impact our earnings and could increase the credit risk associated with our loan portfolio.

Our primary market areas are concentrated in North Carolina (including the Asheville metropolitan area, Greensboro / "Piedmont" region, Charlotte, and Raleigh/Cary), South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City/Bristol, Knoxville, and Morristown) and the Roanoke Valley area of Virginia. Adverse economic conditions in our market areas can reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely.

While real estate values and unemployment rates have recently improved, deterioration in economic conditions, particularly within our primary market areas could result in the following consequences, among others, any of which could materially hurt our business:

- loan delinquencies, problem assets and foreclosures may increase;

- we may increase our allowance for loan losses;
- the slowing of sales of foreclosed assets;
- demand for our products and services may decline, possibly resulting in a decrease in our total loans or assets;
- collateral for loans made may decline further in value, exposing us to increased risk of loss on existing loans and reducing customers' borrowing power;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- the amount of our deposits may decrease and the composition of our deposits may be adversely affected.

At June 30, 2018, the most significant portion of our loans located outside of our primary market areas was HELOCs-purchased totaling $166.3 million, or 6.5% of our loan portfolio, secured by one-to-four family properties located primarily in several western states. As a result, our financial condition and results of operations will be subject to general economic conditions and the real estate conditions prevailing in the markets in which the underlying properties securing these loans are located, as well as the conditions in our primary market areas. If economic conditions or if the real estate market declines in the areas in which these properties are located, we may suffer decreased net income or losses associated with higher default rates and decreased collateral values on our existing portfolio. Further, because of their geographical diversity, these loans can be more difficult to oversee than loans in our market areas in the event of delinquency.

A decline in economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower’s ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

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

At June 30, 2018, $661.7 million, or 26.2% of our total loan portfolio, was secured by first liens on one-to-four family residential loans. In addition, at June 30, 2018, our home equity lines of credit totaled $303.8 million or 12.0% of our total loan portfolio, including $69.7 million secured by a first lien on the residential property. These types of loans are generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values resulting from a downturn in the housing market may reduce the value of the real estate collateral securing these types of loans and increase our risk of loss if borrowers default on their loans. Recessionary conditions or declines in the volume of real estate sales and/or the sales prices coupled elevated unemployment rates may result in higher than expected loan delinquencies or problem assets, and a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity, and damage our financial condition and business operations. Further, the Tax Act enacted in December 2017 could negatively impact our customers because it lowers the existing caps on mortgage interest deductions and limits the state and local tax deductions. These changes could make it more difficult for borrowers to make their loan payments, and could also negatively impact the housing market, which could adversely affect our business and loan growth.

A majority of our loans are “non-conforming” because they are adjustable rate mortgages which contain interest rate floors or do not satisfy credit or other requirements due to personal and financial reasons (i.e. divorce, bankruptcy, length of time employed, etc.), conforming loan limits (i.e. jumbo mortgages), and other requirements, imposed by secondary market purchasers. Some of these borrowers have higher debt-to-income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan-to-value ratios to reduce the risk of these loans. We believe that these loans satisfy a need in our local market areas. As a result, subject to market conditions, we intend to continue to originate these types of loans. Total non-conforming loans were $373.2 million at June 30, 2018, including $101.6 million of jumbo one- to four-family residential loans which may also expose us to increased risk because of their larger balances.

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

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

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

At June 30, 2018, $86.1 million, or 13.6%, of our one-to-four family loans and 4.0% of our total loan portfolio, consisted of loans secured by non-owner-occupied residential properties. Loans secured by non-owner-occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner-occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner-occupied properties is often below that of owner-occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner-occupied residential loan borrowers have more than one loan outstanding with HomeTrust Bank which may expose us to a greater risk of loss compared to an adverse development with respect to an owner-occupied residential mortgage loan.

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

At June 30, 2018, construction and land/lot loans in our retail consumer loan portfolio was $65.6 million, or 2.6%, of our total loan portfolio, and consists primarily of construction to permanent loans to homeowners building a residence or developing lots in residential subdivisions intending to construct a residence within one year. Construction and development loans in our commercial loan portfolio at June 30, 2018, totaled $192.1 million, or 7.6%, of our total loan portfolio, and consists of loans to contractors and builders primarily to finance the construction of single and multi-family homes, subdivisions, as well as commercial properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale.

Construction and development lending generally involves additional risks because funds are advanced upon estimates of costs in relation to values associated with the completed project. Construction and development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the collateral for the project based on an estimate of costs that will produce a future value at completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the complete project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the completed project loan-to-value ratio. Changes in demand for new housing and higher than anticipated building costs, may cause actual results to vary significantly from those estimated. For these reasons, this type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. A downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Some of the builders we deal with have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss.
In addition, during the term of some of our construction and development loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. As a result, these loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including cost comparisons and on-site inspections, these loans are more difficult and costly to monitor. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and/or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end-purchaser for the finished project. At June 30, 2018, $48.7 million of our construction and development loans were for speculative construction loans and none were classified as nonaccruing.
Loans on land under development or held for future construction as well as lot loans made to individuals for the future construction of a residence also pose additional risk because the length of time from financing to completion of a development project is significantly longer than for a traditional construction loan, which makes them more susceptible to declines in real estate values, declines in overall economic conditions which may delay the development of the land and changes in the political landscape that could affect the permitted and intended use of the land being financed, and the potential illiquid nature of the collateral. In addition, during this long period of time from financing to completion, the collateral often does not generate any cash flow to support the debt service.
Our commercial real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.
While commercial real estate lending may potentially be more profitable than single-family residential lending, it is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans require a more detailed analysis at the time of loan underwriting and on an ongoing basis. At June 30, 2018, commercial real estate loans were $857.3 million, or 33.9% of our total loan portfolio, including multifamily loans totaling $106.7 million or 4.0% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans and some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan. Repayment of these loans is

dependent upon income being generated from the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. Commercial real estate loans also expose a lender to greater credit risk than loans secured by one-to-four family residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. At June 30, 2018, commercial real estate loans that were nonperforming were $2.9 million, or 26.2% of our total nonperforming loans. A secondary market for most types of commercial real estate loans is not readily available, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans. As a result of these characteristics, if we foreclose on a commercial real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential loans because there are fewer potential purchasers of the collateral. Accordingly, charge-offs on commercial real estate loans may be larger on a per loan basis than those incurred with our residential and consumer loan portfolios.

The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny.

The FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100% or more of total capital, or (ii) total reported loans secured by multifamily and non-farm residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. Based on the criteria, the Bank has a concentration in commercial real estate lending as total loans for multifamily, non-farm/non-residential, construction, land development and other land represented 247.6% of total risk-based capital at June 30, 2018. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. While we believe we have implemented policies and procedures with respect to our loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

Our auto finance lending increases our exposure to lending risks.

At June 30, 2018, $173.1 million, or 6.9%, of our total loan portfolio consisted of indirect auto finance loans originated by us. Indirect auto finance loans are inherently risky as they are secured by assets that depreciate rapidly. In some cases, repossessed collateral for a defaulted automobile loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency may not warrant further substantial collection efforts against the borrower. Automobile loan collections depend on the borrower’s continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. In addition, our ability to originate loans is reliant on our relationships with automotive dealers. In particular, our automotive finance operations depend in large part upon our ability to establish and maintain relationships with reputable automotive dealers that direct customers to our offices or originate loans at the point-of-sale. Although we have relationships with certain automotive dealers, none of our relationships are exclusive and any may be terminated at any time. If our existing dealer base experiences decreased sales we may experience decreased loan volume in the future, which may have an adverse effect on our business, results of operations, and financial condition.

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

At June 30, 2018, municipal leases were $109.2 million, or 4.3%, of our total loan portfolio. We offer ground and equipment lease financing to fire departments located throughout North Carolina and, to a lesser extent, South Carolina. Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for that purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2018, $11.6 million of our municipal leases contained a non-appropriation clause.

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

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

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;

- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

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

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

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance for loan losses through the provision for losses on loans which is charged against income. Additionally, pursuant to our growth strategy, management recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. Further, the Financial Accounting Standards Board has adopted a new accounting standard that will be effective for our fiscal year beginning July 1, 2020. This standard, referred to as Current Expected Credit Loss ("CECL") will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for credit losses. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations.

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

Our nonperforming assets (which consist of nonaccruing loans and REO) were $14.6 million, or 0.4%, of total assets at June 30, 2018, compared to $20.0 million, or 0.62% of total assets, and $24.5 million, or 0.9% of total assets, at June 30, 2017 and 2016, respectively. Our nonperforming assets adversely affect our net income in various ways:

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

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our nonperforming assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. We have also classified $21.3 million in loans as performing troubled debt restructurings at June 30, 2018.

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

In order to achieve our desired loan portfolio growth, we opportunistically purchase loans outside of our primary market areas either individually, through participations, or in bulk or “pools”. We perform certain due diligence procedures and may re-underwrite these loans to our underwriting standards prior to purchase, and anticipate acquiring loans subject to customary limited indemnities, however, we may be exposed to a greater risk of loss as we acquire loans of a type or in geographic areas where management may not have substantial prior experience and which may be more difficult for us to monitor. During the years ended June 30, 2018, 2017 and 2016 we purchased $61.2 million, $345.0 million and $120.6 million of loans, respectively. Loan pools purchased in the past three years consisted primarily of home equity loans secured by single family residential properties located in several western states, most of which are still in our loan portfolio. When determining the purchase price we are willing to pay to acquire loans, management will make certain assumptions about, among other things, if and how much borrowers will prepay their loans, the real estate market and our ability to collect loans successfully and, if necessary, when and how to dispose of any real estate that may be acquired through foreclosure. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change (such as an unanticipated decline in the real estate market), the purchase price paid may prove to have been excessive, resulting in a lower yield or a loss of some or all of the loan principal. Our success in increasing our loan portfolio through loan purchases will depend on our ability to price the loans properly and on general economic conditions in the geographic areas where the underlying properties or collateral for the loans acquired are located. Inaccurate estimates or declines in economic conditions or real estate values in the markets where we purchase loans could significantly adversely affect the level of our nonperforming loans and our results of operations.

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

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

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

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

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

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

An increase in interest rates, change in the programs offered by governmental sponsored entities ("GSE") or our ability to qualify for such programs may reduce our mortgage revenues, which would negatively impact our noninterest income.

Our mortgage banking operations provide a significant portion of our noninterest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and other investors on a servicing released basis. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, significant impairment of our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, result in a lower volume of corresponding loan originations or increase other administrative costs which may materially adversely affect our results of operations.

We have experienced historically low interest rates in recent years but interest rates have been increasing. Mortgage production, especially refinancing, generally declines in rising interest rate environments resulting in fewer loans that are available to be sold to investors. When interest rates rise, or even if they do not, there can be no assurance that our mortgage production will continue at current levels. The profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to the interest rate environment, our mortgage business is dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans into that market. The loans in our held for sale portfolio are carried at fair market value with changes recognized in our statement of operations. Carrying the loans at fair value may also increase the volatility in our earnings.

In addition, our results of operations are affected by the amount of noninterest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans into the secondary market without recourse, we are required to give customary representations and warranties about the loans to the buyers. If we breach those representations and warranties, the buyers may require us to repurchase the loans and we may incur a loss on the repurchase.

Fluctuating interest rates can adversely affect our profitability.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. In an attempt to help the overall economy, the Federal Reserve has kept interest rates low through its targeted Fed Funds rate. The Federal Reserve has steadily increased the targeted federal funds rate over the last three fiscal years to a range of 1.75% to 2.00% at June 30, 2018 and indicated further increases in the targeted federal funds rate in the future, subject to economic conditions. As the Federal Reserve increases the targeted Fed Funds rate, overall interest rates will likely rise, which may negatively impact the housing markets by reducing refinancing activity and new home purchases and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of collateral securing loans, which could negatively affect our financial performance.

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (iii) our ability to obtain and retain deposits in competition with other available investment alternatives; (iv) the ability of our borrowers to repay adjustable or variable rate loans; and (v) the average duration of our investment securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected.

Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates-up or down-could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yields on interest-earning assets catch up. Changes in the slope of the “yield curve”, or the spread between short-term and long-term interest rates-could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income.

A sustained increase in market interest rates could adversely affect our earnings. As a result of the exceptionally low interest rate environment, an increasing percentage of our deposits have been comprised of deposits bearing no or a relatively low rate of interest and having a shorter duration than our assets. At June 30, 2018, we had $385.7 million in certificates of deposit that mature within one year and $1.7 billion in checking, savings, and money market accounts. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected.

In addition, a substantial amount of our loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Further, a significant portion of our adjustable rate loans have interest rate floors below which the loan’s contractual interest rate may not adjust. As of June 30, 2018, our loans with interest rate floors totaled approximately $611.5 million or 24.2% of our total loan portfolio and had a weighted average floor rate of 4.00%. At that date, $71.3 million of these loans were at their floor rate, of which $57.0 million, or 79.9%, had yields that would begin floating again once prime rates increase at least 200 basis points. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, although this result is subject to the risks that borrowers may refinance these loans during periods of declining interest rates. Also, when loans are at their floors, there is a further risk that our interest income may not increase as rapidly as our cost of funds during periods of increasing interest rates which could have a material adverse effect on our results of operations.

Changes in interest rates also affect the value of our interest-earning assets and in particular our securities portfolio. Generally, the fair value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders’ equity.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our consolidated balance sheet or projected operating results. For further discussion of how changes in interest rates could impact us, see "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information about our interest rate risk management.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR may adversely affect our results of operations.

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans and securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings. If LIBOR rates are no longer available, and we are required to implement substitute indices for the calculation of interest rates under our loan agreements with our borrowers, we may incur significant expenses in effecting the transition, and may be subject to disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute indices, which could have an adverse effect on our results of operations.

If limitations arise in our ability to utilize the national brokered deposit market or to replace short-term deposits, our ability to replace maturing deposits on acceptable terms could be adversely impacted.

HomeTrust Bank utilizes the national brokered deposit market for a portion of our funding needs. At June 30, 2018, brokered deposits totaled $107.5 million or 4.89% of total deposits, with remaining maturities of one month to four years. Under FDIC regulations, in the event we are deemed to be less than well-capitalized, we would be subject to restrictions on our use of brokered deposits and the interest rate we can offer on our deposits. If this happens, our use of brokered deposits and the rates we would be allowed to pay on deposits may significantly limit our ability to use deposits as a funding source. If we are unable to participate in this market for any reason in the future, our ability to replace these deposits at maturity could be adversely impacted.

Further, there may be competitive pressures to pay higher interest rates on deposits, which would increase our funding costs. If deposit clients move money out of the Bank deposits and into other investments (or into similar products at other institutions that may provide a higher rate of return), we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. Additionally, any such loss of funds could result in reduced loan originations, which could materially negatively impact our growth strategy and results of operations.

Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.

Liquidity is essential to our business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans or investment securities and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the North Carolina, South Carolina, Virginia, and/or Tennessee markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. In particular, our liquidity position could be significantly constrained if we are unable to access funds from the FHLB Atlanta or other wholesale funding sources, or if adequate financing is not available at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources, our revenues may not increase proportionately to cover our costs. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

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

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

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;
- Prices at which future acquisitions can be made may not be acceptable to us;
- Our growth initiatives may require us to recruit experienced personnel to assist in such initiatives. The failure to identify and retain such personnel would place significant limitations on our ability to execute our growth strategy;
- Our strategic efforts may divert resources or management’s attention from ongoing business operations and may subject us to additional regulatory scrutiny;
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The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful;

- To finance a future acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders;
- We have completed four mergers during the past four fiscal years that enhanced our rate of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in the future; and
- We expect our net income will increase following our acquisitions, however, we also expect our general and administrative expenses and consequently our efficiency rates will also increase. Ultimately, we would expect our efficiency ratio to improve; however, if we are not

successful in our integration process, this may not occur, and our acquisitions or branching activities may not be accretive to earnings in the short or long-term.

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

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

The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a company’s shareholders. These regulations may sometimes impose significant limitations on operations. The significant federal and state banking regulations that affect us are described under the heading “Item 1. Business-Regulation” in Item I of this Form 10-K. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. New proposals for legislation continue to be introduced in the U.S. Congress that could further alter the regulation of the bank and non-bank financial services industries and the manner in which firms within the industry conduct business. In this regard, in May 2018 the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Act”), was enacted to reduce the application of certain financial reform regulations, including the Dodd-Frank Act, on community banks such as us. The Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8 and 10 percent to replace the leverage and risk-based regulatory capital ratios. It is difficult at this time to predict when or how any new standards under the Act will ultimately be applied to us or what specific impact the Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that they may impact the profitability of our business activities and enhance our ability to originate residential loans while reducing our operating and compliance costs. In addition to this new legislation, federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Future changes in federal policy and at regulatory agencies are expected to occur over time through policy and personnel changes, which could lead to changes involving the level of oversight and focus on the financial services industry. These changes may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent registered public accounting firm. These accounting changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes.

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

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. Recently several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. Currently, we believe our capital resources satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support our growth.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may result in the dilution of the interests of existing holders of our common stock. Further, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action.

We are subject to certain risks in connection with our use of technology.

Our security measures may not be sufficient to mitigate the risk of a cyber attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyber-attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage.

Further, our cardholders use their debit and credit cards to make purchases from third parties or through third party processing services. As such, we are subject to risk from data breaches of such third party’s information systems or their payment processors. Such a data security breach could compromise our account information. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for losses associated with reimbursing our clients for such fraudulent transactions on clients’ card accounts, as well as costs incurred by payment card issuing banks and other third parties or may be subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. We may also incur other costs related to data security breaches, such as replacing cards associated with compromised card accounts. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs.

Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or our clients’ or counterparties’ confidential information, including employees. The Corporation is continuously working to install new and upgrade its existing information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to further protect the Corporation against cyber risks and security breaches.

There continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for companies, including ours. We are not aware that we have experienced any material misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information as a result of a cyber-security breach or other act, however, some of our clients may have been affected by these breaches, which could increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions. Any compromise of our security could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and could result in losses to us or our customers, our loss of business and/or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. While the Corporation selects third-party vendors carefully, it does not control their actions. If our third-party providers encounter difficulties including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyber-attacks and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our customers and otherwise conduct business operations could be adversely impacted. Replacing these third-party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We cannot assure you that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses as a result of third party failures and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures or other disruptions. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

The board of directors oversees the risk management process, including the risk of cybersecurity, and engages with management on cybersecurity issues.

Our operations rely on numerous external vendors.

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor’s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by a third party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of our vendors’ performance, including aspects which they delegate to third parties. Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Our framework for managing risks may not be effective in mitigating risk and loss to us.

We have established processes and procedures intended to identify measure, monitor, report, analyze and control the types of risk to which we are subject. These risks include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. We also maintain a compliance program to identify, measure, assess, and report on our adherence to applicable laws, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. As with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses which could have a material adverse effect on our financial condition and results of operations.

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.

As a bank, we are susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur.

Managing reputational risk is important to attracting and maintaining customers, investors and employees.
Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.
We may experience future goodwill impairment.
In accordance with GAAP, we record assets acquired and liabilities assumed at their fair value, and, as such, acquisitions typically result in recording goodwill. We perform a goodwill evaluation at least annually to test for goodwill impairment. As part of its testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines the fair value of a reporting unit is less than its carrying amount using these qualitative factors, the Company then compares the fair value of goodwill with its carrying amount, and then measures impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Adverse conditions in our business climate, including a significant decline in future operating cash flows, a significant change in our stock price or market capitalization, or a deviation from our expected growth rate and performance may significantly affect the fair value of our goodwill and may trigger additional impairment losses, which could be materially adverse to our operating results and financial position.
We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge has an adverse effect on our results of shareholders' equity and financial results and could cause a decline in our stock price.
Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.
As of June 30, 2018, we had approximately $40.8 million of federal net operating losses ("NOLs"). The majority of these NOLs will expire for federal tax purposes from 2024 through 2036. Our ability to use our NOLs and other pre-ownership change losses (collectively, "Pre-Change Losses") to offset future taxable income will be limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"). In general, an ownership change occurs if, among other things, the shareholders (or specified groups of shareholders) who own or have owned, directly or indirectly, 5% or more of a corporation's common stock or are otherwise treated as 5% shareholders under Section 382 and U.S. Treasury regulations promulgated thereunder increase their aggregate percentage ownership of that corporation's stock by more than 50 percentage points over the lowest percentage of the stock owned by these shareholders over a rolling three-year period. If we experience an ownership change our Pre-Change Losses will be subject to an annual limitation on their use, which is generally equal to the fair market value of our outstanding stock immediately before the ownership change multiplied by the long-term tax-exempt rate, which was 2.09% for ownership changes occurring in June 2018. Depending on the size of the annual limitation (which is in part a function of our market capitalization at the time of the ownership change) and the remaining carryforward period for our Pre-Change Losses (U.S. federal net operating losses generally may be carried forward for a period of 20 years), we could realize a permanent loss of some or all of our Pre-Change Losses, which could have a material adverse effect on our results of operations and financial condition.
In September 2012, we adopted a shareholder rights plan (the "Rights Plan"), which provides an economic disincentive for any person or group to become an owner, for relevant tax purposes, of 4.99% or more of our stock. While adoption of the Rights Plan should reduce the likelihood that future transactions in our stock will result in an ownership change under Section 382, there can be no assurance that the Rights Plan will be effective to deter a shareholder from increasing its ownership interests beyond the limits set by the Rights Plan or that an ownership change will not occur in the future.
We rely on dividends from the Bank for substantially all of our revenue at the holding company level.

We are an entity separate and distinct from our principal subsidiary, HomeTrust Bank, and derive substantially all of our revenue at the holding company level in the form of dividends from that subsidiary. Accordingly, we are, and will be, dependent upon dividends from the Bank to pay the principal of and interest on our indebtedness, to satisfy our other cash needs and to pay dividends on our common stock, if desired. HomeTrust Bank’s ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to us, we may not be able to pay dividends on our common stock when desired or continue stock repurchases. Also, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain our administrative office, which is owned by us, in Asheville, North Carolina. In total, as of June 30, 2018, we have 43 locations, which include: North Carolina (including the Asheville metropolitan area, Greensboro / "Piedmont" region, Charlotte, and Raleigh/Cary), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City/Bristol, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley).

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

The Company’s common stock is listed on the Nasdaq Global Market under the symbol “HTBI.” The common stock was issued at a price of $10.00 per share in connection with the Conversion. The Conversion was completed on July 10, 2012 and the Company’s common stock commenced trading on the Nasdaq Global Market on July 11, 2012. As of the close of business on September 10, 2018, there were 19,015,568 shares of common stock outstanding held by 1,264 holders of record. Certain shares are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for the Company’s common stock for the year ended June 30, 2018 and 2017.

	Year Ended June 30,			
	2018		2017	
	High	Low	High	Low
First quarter	$26.50	$21.40	$19.41	$17.28
Second quarter	28.00	24.41	27.05	18.00
Third quarter	28.00	24.20	26.30	21.80
Fourth quarter	29.60	25.88	25.73	22.90

The Company did not declare any dividends on its common stock during the fiscal years ended June 30, 2018 or 2017. The timing and amount of cash dividends paid depends on our earnings, capital requirements, financial condition and other relevant factors. We also have the ability to receive dividends or capital distributions from HomeTrust Bank, our wholly owned subsidiary. There are regulatory restrictions on the ability of HomeTrust Bank to pay dividends. See Item 1, “Business—How We Are Regulated,” for more information regarding the restrictions on the Company’s and the Bank’s abilities to pay dividends.

Unregistered Sales of Equity Securities and Use of Proceeds

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

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

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

On December 15, 2015, the Company announced that its Board of Directors had authorized the repurchase of up to 922,855 shares of the Company's common stock, representing 5% of the Company's outstanding shares, of which 443,155 remain available for repurchase at June 30, 2018. There were no shares repurchased during the year ended

June 30, 2018 and during the year ended June 30, 2017, 479,700 of the shares approved on December 15, 2015 were repurchased at an average price of $18.00.
Since its Conversion in July 2012, as of June 30, 2018, the Company has repurchased a total of 5,351,065 shares of common stock at an average price of $16.63.

Equity Compensation Plans

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

Shareholder Return Performance Graph Presentation

The performance graph below compares the Company's cumulative shareholder return on its common stock since June 30, 2013 to the cumulative total return of the Nasdaq Composite, and the Nasdaq Bank Index for the periods indicated. The information presented below assumes $100 was invested on June 30, 2013, in the Company's common stock and in each of the indices and assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance. Total return assumes the reinvestment of all dividends and that the value of common stock and each index was $100 on June 30, 2013.

	Year Ended June 30,					
	2013	2014	2015	2016	2017	2018
HomeTrust Bancshares, Inc.	100.00	92.98	98.82	109.08	143.87	165.98
NASDAQ Bank Index	100.00	117.83	130.36	123.63	169.83	186.90
NASDAQ Composite	100.00	152.64	172.68	167.68	212.62	260.05

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Item 6. Selected Financial and Other Data.

The summary information presented below under "Selected Financial Condition Data" and "Selected Operations Data" for the years ended June 30, 2018, 2017 and 2016 are derived in part from the audited consolidated financial statements that appear in this annual report. The following information is only a summary and you should read it in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this report and "Financial Statements and Supplementary Data" under Item 8 of this report below.

	At June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$3,304,169	$3,206,533	$2,717,677	$2,783,114	$2,074,454
Loans receivable, net[(1)]	2,504,792	2,330,319	1,811,539	1,663,333	1,473,529
Allowance for loan losses	21,060	21,151	21,292	22,374	23,429
Certificates of deposit in other banks	66,937	132,274	161,512	210,629	163,780
Securities available for sale, at fair value	154,993	199,667	200,652	257,606	168,774
FHLB and FRB stock[(2)]	37,214	39,355	29,486	28,711	3,697
Deposits	2,196,253	2,048,451	1,802,696	1,872,126	1,583,047
Borrowings	635,000	696,500	491,000	475,000	50,000
Stockholders' equity	409,242	397,647	359,976	371,050	377,151

	Years Ended June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Selected Operations Data:					
Total interest and dividend income	$116,702	$99,436	$87,747	$85,156	$60,281
Total interest expense	16,072	8,245	6,040	5,390	5,432
Net interest income	100,630	91,191	81,707	79,766	54,849
Provision for (recovery of) loan losses	—	—	—	150	(6,300)
Net interest income after provision for (recovery of) loan losses	100,630	91,191	81,707	79,616	61,149
Service charges and fees on deposit accounts	8,802	7,709	7,469	5,930	2,783
Mortgage banking income and fees	5,452	3,645	3,069	2,989	3,218
Bank owned life insurance income	2,117	2,088	1,643	1,651	1,484
Gain on sale of securities	—	22	—	61	10
Gain on sale of fixed assets	164	385	10	—	—
Other noninterest income	3,137	2,258	2,101	1,888	1,243
Total noninterest income	19,672	16,107	14,291	12,519	8,738
Total noninterest expense	85,331	90,259	79,641	81,552	55,032
Income before provision for income taxes	34,971	17,039	16,357	10,583	14,855
Income tax expense	26,736	5,192	4,901	2,558	4,513
Net income	$8,235	$11,847	$11,456	$8,025	$10,342
Per Share Data:					
Net income per common share:					
Basic	$0.45	$0.66	$0.65	$0.42	$0.54
Diluted	$0.44	$0.65	$0.65	$0.42	$0.54

	At or For the Years Ended June 30, 2018	2017	2016	2015	2014
Selected Financial Ratios and Other Data:					
Performance ratios:					
Return on assets (ratio of net income to average total assets)	0.25 %	0.40 %	0.42 %	0.32 %	0.62 %
Return on equity (ratio of net income to average equity)	2.05	3.14	3.16	2.12	2.86
Tax equivalent yield on earning assets(3)	3.97	3.79	3.62	3.88	4.15
Rate paid on interest-bearing liabilities	0.65	0.37	0.29	0.29	0.46
Tax equivalent average interest rate spread(3)	3.32	3.42	3.33	3.59	3.69
Tax equivalent net interest margin(3)(4)	3.43	3.49	3.37	3.64	3.79
Noninterest expense to average total assets	2.63	3.04	2.88	3.25	3.29
Average interest-earning assets to average interest-bearing liabilities	120.77	120.26	119.25	120.61	130.20
Efficiency ratio	70.93	84.12	82.96	88.37	86.55
Efficiency ratio - adjusted(5)	70.12	75.48	80.43	79.78	78.50
Asset quality ratios:					
Nonperforming assets to total assets(6)	0.44 %	0.62 %	0.90 %	1.15 %	2.53 %
Nonaccruing loans to total loans(6)	0.43	0.58	1.01	1.47	2.53
Total classified assets to total assets	1.00	1.57	2.17	2.92	4.51
Allowance for loan losses to nonaccruing loans(6)	192.96	154.77	114.98	90.02	61.79
Allowance for loan losses to total loans	0.83	0.90	1.16	1.33	1.56
Net charge-offs (recoveries) to average loans	—	0.01	0.06	0.07	0.19
Capital ratios:					
Equity to total assets at end of period	12.39 %	12.40 %	13.25 %	13.33 %	18.18 %
Average equity to average assets	12.41	12.80	13.24	15.11	21.62
Dividend payout to common shareholders	—	—	—	—	—

(1) Net of allowances for loan losses, loans in process and deferred loan fees.
(2) FRB stock was first purchased as part of membership requirements in fiscal year 2015.
(3) For the year ended June 30, 2018 the weighted average rate for municipal leases is adjusted for a 30% combined federal and state tax rate since the interest from these leases is tax exempt. All other periods were at 37%.
(4) Net interest income divided by average interest-earning assets.
(5) See Part II, Item 7 - "Non-GAAP Financial Measures" for additional details.
(6) Nonperforming assets include nonaccruing loans including certain restructured loans and real estate owned. At June 30, 2018, there were $4.2 million of restructured loans included in nonaccruing loans and $5.6 million, or 51.6%, of nonaccruing loans were current on their loan payments.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reviews our consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the Consolidated Financial Statements and notes thereto, which are included in Item 8 of this Form 10-K. You should read the information in this section in conjunction with the business and financial information regarding us as provided in this Form 10-K.

Overview

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, U.S. Small Business Administration ("SBA") loans, equipment finance leases, indirect automobile loans, and municipal leases. 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, 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.
At June 30, 2018, we had 43 locations in North Carolina (including the Asheville metropolitan area, Greensboro/"Piedmont" region, Charlotte, and Raleigh/Cary), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City/Bristol, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley).
Recent Merger, Acquisition, and Consolidation Activity
On March 29, 2018, the Company opened a de novo branch office in Cary, North Carolina.
On August 1, 2017, the Company opened a commercial loan production office in Greensboro, North Carolina.
On January 1, 2017, the Company 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 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. TriSummit had seven offices throughout the East Tennessee market. The acquisition added approximately $258.0 million in loans and $280.0 million in deposits.
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 for the purchase of fire trucks and related equipment as well as the construction of fire stations and other municipal buildings across the Carolinas and other southeastern states. United Financial underwrites and originates these municipal leases and then sells them to HomeTrust and other financial institutions. Beginning January 1, 2017, United Financial has conducted business under the name United Financial, a division of HomeTrust Bank.
On October 30, 2015, the Bank consolidated six branch offices located in North Carolina and Tennessee. The closures were the result of a review of customer banking preferences and the current branch network. The Company had a nonrecurring impairment charge of $400,000 for the year ended June 30, 2016 in relation to the consolidation of these offices.
Business and Operating Strategy and Goals
Our primary objective is to continue to operate and grow HomeTrust Bank as a well-capitalized, profitable, independent, community banking organization. Our mission is to create stockholder value by building relationships

with our employees, customers, and communities in our primary markets in North Carolina (including the Asheville metropolitan area, Greensboro / "Piedmont" region, Charlotte, and Raleigh/Cary), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City/Bristol, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley) through exceptional service and helping our customers every day to be "Ready For What's Next" in their financial lives. We will also need to continue providing our employees with the tools necessary to effectively deliver our products and services to customers in order to compete effectively with other financial institutions operating in our market areas and to fulfill our "Commitment to the Customer Experience."

Continuing to originate residential and commercial real estate loans and municipal leases. Our primary lending focus has been, and will continue to be, on operating as a residential and commercial mortgage lender. We originate both fixed and adjustable-rate residential and commercial mortgage loans. Most of the long term fixed-rate residential mortgage loans that we originate are sold into the secondary market with servicing released, while most of the residential adjustable rate mortgages and fixed rate mortgages with terms to maturity of 15 years or less, all commercial real estate loans, and all municipal leases that we originate, are retained in our portfolio. We intend to continue to emphasize these lending activities particularly in the larger attractive markets we have added in the past several years.

Expanding our lines of businesses. In our commitment to sound and profitable organic growth, we continuously focus on enhancing our lines of businesses. During fiscal year 2018, we added 13 additional commercial market presidents/relationship managers primarily throughout our seven metro markets to further expand our commercial and industrial lending, as well as our knowledge of the growing markets. During fiscal 2018, we implemented a new loan decision platform and overhauled our home equity lines of credit ("HELOCs") origination process resulting in 75% increase in branch originations and a 68% decrease in the amount of time to close the loan. Commercial loan originations for the years ended June 30, 2018, 2017, 2016 were $590.5 million, $532.5 million, and $325.5 million, respectively. Fiscal year 2018 marked the fourth full year of our indirect auto finance line of business, which serves automobile dealerships, its owners, and consumers buying automobiles from these dealerships throughout western North Carolina and upstate South Carolina. Our focus on working with strong dealerships affords us the opportunity to expand into additional market areas and to actively deepen relationships through cross-selling opportunities, while building a strong reputation. Indirect auto loans grew to $173.1 million at June 30, 2018 from $140.9 million at June 30, 2017.

Building on the momentum we have generated, we opened a de novo branch in Cary, North Carolina in March 2018 and a new Commercial LPO in Greensboro, North Carolina in August 2017. In addition, we began operations for our new SBA 7(a) loan program and equipment finance line of business. As we look forward, we will continue to focus on organic loan growth through both established and new lines of business as well as refocusing on business banking and consumer lending through branches.

Disciplined franchise expansion. We believe opportunities currently exist within our new market areas to grow our franchise as illustrated by 84% of our commercial loan originations in fiscal year 2018 were originated by commercial relationship managers located in market areas we entered subsequent to 2012. 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.

Maintaining and improving asset quality. The Company believes that strong asset quality is a key to long-term financial success. The percentage of nonperforming loans to total loans was 0.43% and 0.58% for June 30, 2018 and 2017, respectively. The Company’s percentage of nonperforming assets to total assets at June 30, 2018 was 0.44% compared to 0.62% at June 30, 2017. The Company has actively managed the delinquent loans and nonperforming assets by aggressively pursuing the collection of consumer debts and marketing saleable properties upon foreclosure or repossession, work-outs of classified assets and loan charge-offs. In the past several years, the Company has applied more conservative and stringent underwriting practices to new loans, including, among other things, an increased emphasis on a borrower’s ongoing ability to repay a loan by requiring lower debt to income ratios, higher credit scores and lower loan to value ratios than our previous lending policies had required. Although the Company intends to grow the commercial loan portfolio by expanding commercial real estate and commercial and industrial lending, the Company intends to manage credit exposures through the use of experienced bankers in this area, internal concentration limits, and a conservative approach to lending.

Emphasizing lower cost core deposits to manage the funding costs of our loan growth. We offer personal checking, savings and money-market accounts, which generally are lower-cost sources of funds than certificates of deposit and are less sensitive to withdrawal when interest rates fluctuate. To build our core deposit base, over the past several years, we have sought to reduce our dependence on traditional higher cost deposits in favor of stable lower cost demand deposits. We have utilized additional product offerings, technology and a focus on customer service in working toward this goal. In addition, we intend to increase demand deposits by growing business banking relationships through a recently expanded product line tailored to our target business customers’ needs. We are also pursuing a number of strategies that include enhancing our online and mobile banking platform, including improvements to online account opening and sales promotions on money market and checking accounts to encourage the growth of lower cost deposits. As a result, core deposits (which we define as our non-certificate or non-time deposit accounts) have increased 6% during fiscal 2018 and were 77% of total deposits at June 30, 2018.

Improving profitability through customer growth and balance sheet management. We are continuing to focus significant efforts on creating brand awareness, offering competitive products and employing a strong and experienced workforce. In order to deepen the relationships with our customers and increase individual customer profitability, we have continued our cross-marketing program, which allows us to better identify lending opportunities and services for customers when a new account is opened. In addition, we have targeted our direct mail campaigns to take advantage of competitor mergers and/or branch closures to acquire new customer core deposits. We believe these initiatives have positioned us well to implement a strategy focused on improving revenue growth and noninterest income.

Hiring and retaining experienced employees with a customer service focus. We have been successful in attracting and retaining banking professionals with strong community relationships and significant knowledge of our markets, through both individual hires and business combinations, which is central to our business strategy. Exceptional service, local involvement and timely decision-making are integral parts of our business strategy, and we continue to seek additional highly qualified and motivated individuals. We believe that by focusing on experienced bankers who are established in their communities, we enhance our market position and add profitable growth opportunities. Our compensation and incentive systems are aligned with our strategies to grow core deposits and our loan portfolio as the economy improves, while improving asset quality. We have a strong corporate culture based on personal accountability and high ethical standards with an emphasis on "character" and "competence" across all our business lines and locations.

Critical Accounting Policies

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.

The following represent our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions, and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, bank regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings.

Business Combinations and Acquired Loans. We use the acquisition method of accounting for all business combinations. The acquisition method of accounting requires us as acquirer to recognize the fair value of assets acquired and liabilities assumed at the acquisition date, as well as, recognize goodwill or a gain from a bargain purchase, if appropriate. Any acquisition-related costs and restructuring costs are recognized as period expenses as incurred.

We account for purchased performing loans acquired in business combinations using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. We record purchased performing loans at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. We do not establish any allowance for loan losses for purchased performing loans, however we will record a provision for loan losses for any further deterioration in these loans subsequent to the acquisition.

We consider loans purchased with evidence of credit deterioration and for which it is probable that all contractually required payments will not be collected as purchased credit-impaired ("PCI") loans. Evidence of credit quality deterioration as of the purchase date may include the internal loan risk grade, delinquent and nonaccrual status, recent credit scores, and recent loan-to-value percentages. We initially record PCI loans at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Thus, we do not establish any allowance for loan losses for PCI loans. We estimate the cash flows expected to be collected at the purchase date using specific credit reviews of certain loans and quantitative models incorporating credit risk, prepayment assumptions, and various other factors. These estimates require significant judgment given the impact of real estate prices, changing loss estimates, prepayment assumptions, and other relevant factors. The excess of cash flows expected to be collected over the estimated fair value is the accretable yield and is recognized in interest income over the remaining life of the loan. The difference between the contractually required payments and the cash flows expected to be collected at the purchase date, considering the impact of prepayments, is the nonaccretable difference and is available to absorb future loan chargeoffs.

Real Estate Owned ("REO"). REO represents real estate acquired as a result of customers' loan defaults. At the time of foreclosure, REO is recorded at fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Revenue and expenses from operations and subsequent valuation adjustments to the carrying amount of the property are included in noninterest expense in the consolidated statements of income. In some instances, we may make loans to facilitate the sales of REO. Management reviews all sales for which it is the lending institution for compliance with sales treatment under provisions established by Accounting Standards Codification ("ASC") Topic 360, "Accounting for Sales of Real Estate." Any gains related to sales of REO may be deferred until the buyer has a sufficient initial and continuing investment in the property.

Goodwill and Intangibles. Goodwill is reviewed for potential impairment on an annual basis during the fourth quarter, or more often if events or circumstances indicate there may be impairment. In testing goodwill for impairment, we have the option to assess either qualitative or quantitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely than not, we are then required to perform a quantitative impairment test, otherwise no further analysis is required. Under the quantitative impairment test, the evaluation involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value an impairment charge is recognized for the difference, but limited by the amount of goodwill allocated to that reporting unit. Other identifiable intangible assets are evaluated for impairment if events or changes in circumstances indicate a possible impairment.

Deferred Tax Assets. 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. See Note 12 in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information.

Non-GAAP Financial Measures

In addition to results presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), this Form 10-K contains certain non-GAAP financial measures, which include: efficiency ratio; tangible book value per share; tangible equity to tangible assets ratio; net interest income and net interest margin as adjusted to exclude additional Federal Home Loan Bank ("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.

The Company believes these measures facilitate comparison of the quality and composition of the Company's capital and earnings ability over time and in comparison to its competitors. These non-GAAP measures have inherent limitations, are not required to be uniformly applied and are not audited. They should not be considered in isolation or as a substitute for total stockholders' equity or operating results determined in accordance with GAAP. These non-GAAP measures may not be comparable to similarly titled measures reported by other companies.

Set forth below is a reconciliation to GAAP of our efficiency ratio:

(Dollars in thousands)	Year Ended June 30,				
	2018	2017	2016	2015	2014
Noninterest expense	$85,331	$90,259	$79,641	$81,552	$55,032
Less merger-related expenses	—	7,805	—	5,417	2,708
Less impairment charge for branch consolidations	—	—	400	375	—
Noninterest expense – as adjusted	$85,331	$82,454	$79,241	$75,760	$52,324
Net interest income	$100,630	$91,191	$81,707	$79,766	$54,849
Plus noninterest income	19,672	16,107	14,291	12,519	8,738
Plus tax equivalent adjustment	1,559	2,354	2,537	2,736	3,076
Less gain on sale of fixed assets	164	385	10	—	—
Less realized gain on securities	—	22	—	61	10
Net interest income plus noninterest income – as adjusted	$121,697	$109,245	$98,525	$94,960	$66,653
Efficiency ratio	70.12 %	75.48 %	80.43 %	79.78 %	78.50 %

Efficiency ratio (without adjustments)	70.93	%	84.12	%	82.96	%	88.37	%	86.55	%

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

(Dollars in thousands, except per share data)	At June 30,				
	2018	2017	2016	2015	2014
Total stockholders' equity	$409,242	$ 397,647	$ 359,976	$ 371,050	$ 377,151
Less: goodwill, core deposits intangibles, net of taxes	29,125	30,157	17,169	19,000	12,344
Tangible book value (1)	$380,117	$ 367,490	$ 342,807	$ 352,050	$ 364,807
Common shares outstanding	19,041,668	18,967,875	17,998,750	19,488,449	20,632,008
Tangible book value per share	$19.96	$ 19.37	$ 19.05	$ 18.06	$ 17.68
Book value per share	$21.49	$ 20.96	$ 20.00	$ 19.04	$ 18.28

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

	At June 30,	
(Dollars in thousands)	2018	2017
Tangible book value[1]	$380,117	$367,490
Total assets	3,304,169	3,206,533
Less: goodwill, core deposit intangibles, net of taxes	29,125	30,157
Total tangible assets[2]	$3,275,044	$3,176,376
Tangible equity to tangible assets	11.61 %	11.57 %

(1) Tangible book value is equal to total shareholders' 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 net interest income and net interest margin as adjusted to exclude additional FHLB borrowings and proceeds from such borrowings:

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Average Balance Outstanding	Interest Earned / Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned / Paid	Yield/ Rate
Interest-earning assets	$2,976,262	$118,261	3.97 %	$2,683,956	$101,790	3.79 %
Less: Interest-earning assets funded by additional FHLB borrowings [1]	213,750	4,069	1.90 %	318,000	3,640	1.14 %
Interest-earning assets - adjusted	$2,762,512	$114,192	4.13 %	$2,365,956	$98,150	4.15 %
Interest-bearing liabilities	$2,464,339	$16,072	0.65 %	$2,231,759	$8,245	0.37 %
Additional FHLB borrowings	213,750	2,971	1.39 %	318,000	1,856	0.58 %
Interest-bearing liabilities - adjusted	$2,250,589	$13,101	0.58 %	$1,913,759	$6,389	0.33 %
Net interest income and net interest margin		$102,189	3.43 %		$93,545	3.49 %
Net interest income and net interest margin - adjusted		101,091	3.66 %		91,762	3.88 %
Difference		$1,098	(0.23)%		$1,783	(0.39)%

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

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

(Dollars in thousands, except per share data)	Year Ended June 30,				
	2018	2017	2016	2015	2014
Merger-related expenses	$—	$7,805	$—	$5,417	$2,708
State tax expense adjustment [1]	(142)	490	526	—	—
Change in federal tax law adjustment [2]	17,908	—	—	—	—
Gain on sale of premises and equipment	(164)	(385)	(10)	—	—
Impairment charges for branch consolidation	—	—	400	374	—
Provision/(recovery) of loan losses [3]	N/A	N/A	N/A	(150)	(6,300)
Total adjustments	17,602	7,910	916	5,641	(3,592)
Tax effect [4]	49	(2,646)	(144)	(1,882)	1,506
Total adjustments, net of tax	17,651	5,264	772	3,759	(2,086)
Net income (GAAP)	8,235	11,847	11,456	8,025	10,342
Net income (non-GAAP)	$25,886	$17,111	$12,228	$11,784	$8,256
Per Share Data					
Average shares outstanding - basic	18,028,854	17,379,487	17,417,046	19,038,098	18,630,744
Average shares outstanding - diluted	18,726,431	17,956,443	17,606,689	19,117,902	18,715,669
Basic EPS					
EPS (GAAP)	$0.45	$0.66	$0.65	$0.42	$0.54
Non-GAAP adjustment	0.99	0.30	0.05	0.19	(0.10)
EPS (non-GAAP)	$1.44	$0.96	$0.70	$0.61	$0.44
Diluted EPS					
EPS (GAAP)	$0.44	$0.65	$0.65	$0.42	$0.54
Non-GAAP adjustment	0.94	0.29	0.05	0.19	(0.10)
EPS (non-GAAP)	$1.38	$0.94	$0.70	$0.61	$0.44
Average Balances					
Average assets	$3,243,661	$2,945,365	$2,741,188	$2,510,296	$1,673,267
Average equity	$402,605	$376,970	$362,916	$379,316	$361,727
ROA					
ROA (GAAP)	0.25%	0.40%	0.42%	0.32%	0.62%
Non-GAAP adjustment	0.55%	0.18%	0.03%	0.15%	(0.13)%
ROA (non-GAAP)	0.80%	0.58%	0.45%	0.47%	0.49%
ROE					
ROE (GAAP)	2.05%	3.14%	3.16%	2.12%	2.86%
Non-GAAP adjustment	4.38%	1.40%	0.21%	0.99%	(0.58)%

ROE (non-GAAP)	6.43	%	4.54	%	3.37	%	3.11	%	2.28	%

(1) State tax adjustment is a result of various revaluations of state deferred tax assets.
(2) Revaluation of net deferred tax assets due to the Tax Cuts and Jobs Act.
(3) Tax amounts have been adjusted for certain nondeductible merger-related expenses.
(4) Beginning in fiscal 2016, the Provision/(recovery) of loan losses was no longer included in this calculation.

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

	As of	
(Dollars in thousands)	June 30, 2018	June 30, 2017
Total gross loans receivable (GAAP)	$2,526,616	$2,352,415
Less: acquired loans	271,801	374,538
Adjusted loans (non-GAAP)	$2,254,815	$1,977,877
Allowance for loan losses (GAAP)	$21,060	$21,151
Less: allowance for loan losses on acquired loans	483	727
Adjusted allowance for loan losses	20,577	20,424
Allowance for loan losses / Adjusted loans (non-GAAP)	0.91 %	1.03 %

Comparison of Financial Condition at June 30, 2018 and June 30, 2017

General. Total assets increased $97.6 million, or 3.0% to $3.3 billion at June 30, 2018 from $3.2 billion at June 30, 2017. Total liabilities increased $86.0 million, or 3.1% to $2.9 billion at June 30, 2018 from $2.8 billion at June 30, 2017. Deposit growth of $147.8 million, or 7.2% and the cumulative decrease of $126.3 million, or 30.1% in cash and cash equivalents, certificates of deposit in other banks and investment securities during the year ended June 30, 2018 were used to partially fund the $174.4 million, or 7.4% increase in total loans receivable, the $79.2 million, or 52.9% increase in commercial paper, and reduce borrowings by $61.5 million, or 8.8%. We continue to utilize our leveraging strategy, where designated short-term FHLB borrowings are invested in various short-term liquid assets to generate additional net interest income, as well as the required purchase of additional FHLB stock which generates increased dividend income; however, we have reduced the amount of assets purchased and liabilities assumed as part of the leveraging strategy during the past year and expect to continue reducing these amounts commensurate with anticipated organic loan growth.

Cash, cash equivalents, and commercial paper. Total cash and cash equivalents decreased $16.2 million, or 18.7%, to $70.7 million at June 30, 2018 from $87.0 million at June 30, 2017. In conjunction with our leveraging strategy, we purchase commercial paper to take advantage of higher returns with relatively low risk while remaining highly liquid. The commercial paper balance increased $79.2 million, or 52.9% to $229.1 million at June 30, 2018 from $149.9 million at June 30, 2017.

Investments. Securities available for sale decreased $44.7 million, to $155.0 million at June 30, 2018 compared to $199.7 million at June 30, 2017. At June 30, 2018, certificates of deposit in other banks totaled $66.9 million compared to $132.3 million at June 30, 2017. All of the certificates of deposit in other banks are fully insured by the FDIC. The Company has reduced its liquidity position in order to fund recent loan growth. We evaluate individual investment securities quarterly for other-than-temporary declines in market value. We do not believe that there are any other-than-temporary impairments at June 30, 2018; therefore, no impairment losses have been recorded for fiscal 2018. Other investments include FHLB and FRB stock. FHLB stock decreased $2.2 million, to $29.9 million over the last fiscal year as a result of required redemptions of FHLB stock due to reduced FHLB borrowings. As a member of the Federal Reserve System, the Bank is required to own FRB stock, which totaled $7.3 million as of June 30, 2018 and 2017. In addition, we held in other assets, $5.2 million of equity securities in small business investment companies.

Loans. Net loans receivable increased $174.4 million, or 7.4%, to $2.5 billion at June 30, 2018 compared to $2.3 billion at June 30, 2017, primarily due to $170.5 million in net organic loan growth.

For fiscal year 2018, the retail loan segment portfolio originations increased to $323.6 million, or 5.9%, from $305.4 million the previous fiscal year. The commercial loan segment portfolio originations increased to $590.5 million, or 9.0%, from $541.5 million the previous fiscal year.

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

	June 30, 2018	June 30, 2017	Change $	Change %	Percent of total June 30, 2018	Percent of total June 30, 2017
Retail consumer loans:						
One-to-four family	$664,289	$684,089	$(19,800)	(2.9)%	26.3 %	29.1 %
HELOCs - originated	137,564	157,068	(19,504)	(12.4)	5.4	6.7
HELOCs - purchased	166,276	162,407	3,869	2.4	6.6	6.9
Construction and land/lots	65,601	50,136	15,465	30.8	2.6	2.1
Indirect auto finance	173,095	140,879	32,216	22.9	6.9	6.0
Consumer	12,379	7,900	4,479	56.7	0.5	0.3
Total retail consumer loans	1,219,204	1,202,479	16,725	1.4	48.3	51.1
Commercial loans:						
Commercial real estate	857,315	730,408	126,907	17.4	33.9	31.0
Construction and development	192,102	197,966	(5,864)	(3.0)	7.6	8.4
Commercial and industrial	148,823	120,387	28,436	23.6	5.9	5.1
Municipal leases	109,172	101,175	7,997	7.9	4.3	4.3
Total commercial loans	1,307,412	1,149,936	157,476	13.7	51.7	48.9
Total loans	$2,526,616	$2,352,415	$174,201	7.4 %	100.0%	100.0%

Recently, our expansion into larger metro markets as well as in-market acquisitions combined with improvements in the economy, employment rates, stronger real estate prices, and a general lack of new housing inventory in certain markets have led to us significantly increasing originations of construction loans for properties located in our market areas. We have hired experienced commercial real estate relationship managers, credit officers, and developed a construction risk management group to better manage construction risk, as part of our efforts to grow the construction portfolio. We will continue to take a disciplined approach in our construction and land development lending by concentrating our efforts on smaller one-to-four residential loans to builders known to us and developers of commercial real estate and multifamily properties with proven success in this type of construction. At June 30, 2018, construction and land/lots totaled $65.6 million including $52.8 million of one-to-four family construction loans that will roll over to permanent loans upon completion of the construction period. Undisbursed construction and land/lots loan commitments at June 30, 2018 totaled $58.9 million. Total construction and development loans at June 30, 2018, were $192.1 million, excluding unfunded loan commitments of $209.7 million, of which $74.5 million was for non-residential commercial real estate construction, $64.5 million was for land development, $48.7 million was for speculative construction of single family properties, and $4.8 million was for multi-family construction. Undisbursed construction and development loan commitments at June 30, 2018 included $108.0 million of commercial real estate projects, multi-family residential projects of $12.4 million and $30.5 million for the speculative construction of one- to four-family residential properties.

Asset Quality. Our overall asset quality metrics continue to demonstrate our commitment to growing and maintaining a loan portfolio with a moderate risk profile. Nonperforming assets decreased 27.0% to $14.6 million, or 0.44% of total assets, at June 30, 2018, compared to $20.0 million, or 0.62% of total assets, at June 30, 2017. Nonperforming assets included $10.9 million in nonaccruing loans and $3.7 million in REO at June 30, 2018, compared to $13.7 million and $6.3 million, in nonaccruing loans and REO, respectively, at June 30, 2017. Included in nonperforming loans are $4.2 million of loans restructured from their original terms of which $2.6 million were current with respect to their modified payment terms. The decrease in nonaccruing loans was primarily due to continued improvements in credit quality throughout the loan portfolio and loans returning to performing status as payment history and the borrower's financial status improved. At June 30, 2018, $5.6 million, or 51.6%, of nonaccruing loans were current on their required loan payments. Purchased impaired loans aggregating $3.4 million acquired from prior acquisitions are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition

method of accounting for business combinations. Nonperforming loans to total loans decreased to 0.43% at June 30, 2018 from 0.58% at June 30, 2017.
The ratio of classified assets to total assets decreased to 1.00% at June 30, 2018 from 1.57% at June 30, 2017. Classified assets decreased 34.2% to $33.1 million at June 30, 2018 compared to $50.2 million at June 30, 2017. Delinquent loans (loans delinquent 30 days or more) at June 30, 2018 were $9.8 million, or 0.4% of total loans compared to $15.2 million, or 0.6% of total loans at June 30, 2017.
As of June 30, 2018, impaired loans decreased to $31.4 million from $39.0 million at June 30, 2017. Our impaired loans are comprised of loans on non-accrual status and all TDRs, whether performing or on non-accrual status under their restructured terms. Impaired loans may be evaluated for reserve purposes using either a specific impairment analysis or on a collective basis as part of homogeneous pools. For more information on these impaired loans, see Note 4 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.
Allowance for loan losses. We establish an allowance for loan losses by charging amounts to the loan provision at a level required to reflect estimated credit losses in the loan portfolio. In evaluating the level of the allowance for loans losses, management considers, among other factors, historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of any underlying collateral, prevailing economic conditions and current risk factors specifically related to each loan

type. See "Critical Accounting Policies – Allowance for Loan Losses" for a description of the manner in which the provision for loan losses is established.

Our allowance for loan losses at June 30, 2018 was $21.1 million, or 0.83% of total loans, compared to $21.2 million, or 0.90% of total loans at June 30, 2017. The allowance for loan losses was 0.91% of gross loans at June 30, 2018, excluding acquired loans from the allowance for loan losses in accordance with the acquisition method of accounting for business combinations, as compared to 1.03% at June 30, 2017. The Company recorded these loans at fair value, which includes a credit discount, therefore, no allowance for loan losses is established for these loans at the time of acquisition. Any subsequent deterioration in credit quality will result in a provision for loan losses. The allowance for our acquired loans at June 30, 2018 was $483,000 compared to $727,000 at June 30, 2017. There was no provision for loan losses for the years ended June 30, 2018 and 2017 as the allowance for loan losses required by our loan growth was offset by continued improvements in our asset quality. Net loan charge-offs decreased to $91,000 for the year ended June 30, 2018 from $141,000 for fiscal 2017. Net charge-offs as a percentage of average loans decreased to 0.00% for the year ended June 30, 2018 from 0.01% for last fiscal year. The allowance as a percentage of nonaccruing loans increased to 192.96% at June 30, 2018, compared to 154.77% a year earlier.

We believe that the allowance for loan losses as of June 30, 2018 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Real estate owned. REO decreased $2.6 million, to $3.7 million at June 30, 2018 primarily due to $3.9 million in sales of REO, which were partially offset by $1.3 million in transfers from foreclosed loans. The total balance of REO included $1.7 million in commercial real estate, $998,000 in single-family homes and $956,000 in land, construction and development projects (both residential and commercial) at June 30, 2018.

Deferred income taxes. Deferred income taxes decreased $24.8 million, or 43.3%, to $32.6 million at June 30, 2018 from $57.4 million at June 30, 2017. The decrease was primarily driven by the revaluation of deferred tax assets as a result of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) enacted on December 22, 2017, the realization of net operating losses through increases in taxable income, and to a lesser extent, the revaluation of various state deferred tax assets, as discussed below. For more information on the Tax Act's impact on the Company's deferred income taxes, see Note 12 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Deposits. Total deposits increased $147.8 million, or 7.2%, to $2.2 billion at June 30, 2018 from $2.0 billion at June 30, 2017. The increase was primarily due to $93.8 million increase in our core deposits, in particular a $108.1 million or 19.0% increase in money market accounts, from marketing initiatives and a $54.0 million increase in certificates of deposit, which related to additional brokered deposits. At June 30, 2018 and 2017, we had $108.9 million and $16.8 million in brokered deposits, respectively.

Borrowings. Borrowings, comprised of FHLB advances, decreased to $635.0 million at June 30, 2018 from $696.5 million at June 30, 2017. At June 30, 2018 there were $255.0 million in FHLB advances with maturities less than 90 days and $150.0 million in convertible FHLB advances with maturities greater than one year; together with a weighted average interest rate of 1.95%.

Equity. Stockholders’ equity at June 30, 2018 increased to $409.2 million from $397.6 million at June 30, 2017. The increase was primarily driven by $8.2 million in net income, $3.0 million in stock-based compensation, and $680,000 in a cumulative adjustment for the adoption of Accounting Standard Update 2016-09, "Improvements to Employee Share-Based Payment Accounting," partially offset by a $1.9 million decrease in other comprehensive income representing unrealized losses on investment securities, net of tax. Tangible book value per share increased $0.59, or 3.0% to $19.96 as of June 30, 2018 compared to $19.37 at June 30, 2017.

Average Balances, Interest and Average Yields/Cost
The following table sets forth the average balance sheets, interest income and expense, and average yields and costs. All average balances are daily average balances. Nonaccruing loans have been included in the table as loans carrying a zero yield.

	Years Ended June 30,								
	2018			2017			2016		
(Dollars in thousands)	Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)	Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)	Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)
Assets:									
Interest-earning assets:									
Loans receivable (1)	$2,418,946	$106,641	4.41%	$2,080,490	$92,423	4.44%	$1,764,229	$80,974	4.59%
Deposits in other financial institutions	137,026	1,934	1.41%	177,753	1,900	1.07%	213,011	1,974	0.93%
Investment securities	172,461	3,668	2.13%	202,866	3,983	1.96%	229,287	4,161	1.81%
Other interest-earning assets(3)	247,829	6,018	2.43%	222,847	3,484	1.56%	289,922	3,174	1.09%
Total interest-earning assets	2,976,262	118,261	3.97%	2,683,956	101,790	3.79%	2,496,449	90,283	3.62%
Other assets	267,399			261,410			244,739		
Total Assets	3,243,661			2,945,366			2,741,188		
Liabilities and equity:									
Interest-bearing liabilities:									
Interest-bearing checking accounts	473,880	970	0.20%	430,527	772	0.18%	389,027	581	0.15%
Money market accounts	644,331	2,442	0.38%	541,030	1,405	0.26%	501,871	1,112	0.22%
Savings accounts	224,582	295	0.13%	228,360	308	0.13%	215,584	289	0.13%
Certificate accounts	463,306	3,051	0.66%	453,994	2,103	0.46%	504,469	2,549	0.51%
Total interest-bearing deposits	1,806,099	6,758	0.37%	1,653,911	4,588	0.28%	1,610,951	4,531	0.28%
Borrowings	658,240	9,314	1.41%	577,848	3,657	0.63%	482,576	1,510	0.31%
Total interest-bearing liabilities	2,464,339	16,072	0.65%	2,231,759	8,245	0.37%	2,093,527	6,041	0.29%
Noninterest-bearing deposits	311,210			271,477			220,764		
Other liabilities	65,489			65,160			63,981		
Total liabilities	2,841,038			2,568,396			2,378,272		
Stockholders' equity	402,623			376,970			362,916		
Total liabilities and stockholders' equity	3,243,661			2,945,366			2,741,188		
Net earning assets	$511,923			$452,197			$402,922		
Average interest-earning assets to average interest-bearing liabilities	120.77%			120.26%			119.25%		
Tax-equivalent:									
Net interest income		$102,189			$93,545			$84,242	
Interest rate spread			3.32%			3.42%			3.33%
Net interest margin(4)			3.43%			3.49%			3.37%

Non-tax-equivalent:			
Net interest income	$100,630	$91,191	$81,707
Interest rate spread	3.27%	3.34%	3.23%
Net interest margin(4)	3.38%	3.40%	3.27%

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

(2) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of $1.6 million, $2.4 million, and $2.5 million for fiscal years ended June 30, 2018, 2017, and 2016, respectively, calculated based on a combined federal and state tax rate of 30%, 37%, and 37%, respectively.

(3) The average other interest-earning assets consists of FRB stock, FHLB stock, and commercial paper.

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

Rate/Volume Analysis

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

(Dollars in thousands)	Years Ended June 30, 2018 vs. 2017 Increase/ (decrease) due to Volume	Rate	Total increase/ (decrease)	Years Ended June 30, 2017 vs. 2016 Increase/ (decrease) due to Volume	Rate	Total increase/ (decrease)
Interest-earning assets:						
Loans receivable	$15,036	$(818)	$14,218	$14,515	$(3,066)	$11,449
Deposits in other financial institutions	(435)	469	34	(327)	253	(74)
Investment securities	(597)	282	(315)	(479)	301	(178)
Other	391	2,143	2,534	(734)	1,044	310
Total interest-earning assets	14,395	2,076	16,471	12,975	(1,468)	11,507
Interest-bearing liabilities:						
Interest-bearing checking accounts	$77	$121	$198	$62	$129	$191
Money market accounts	269	768	1,037	86	207	293
Savings accounts	(6)	(7)	(13)	17	2	19
Certificate accounts	43	905	948	(255)	(191)	(446)
Borrowings	508	5,149	5,657	298	1,849	2,147
Total interest-bearing liabilities	$891	$6,936	$7,827	$208	$1,996	$2,204
Net increase in tax equivalent interest income			$8,644			$9,303

Comparison of Results of Operations for the Years Ended June 30, 2018 and June 30, 2017

General. During 2018, we had net income of $8.2 million, a $3.6 million or 30.5% decrease compared to net income of $11.8 million earned in 2017. The Company's diluted earnings per share was $0.44 for the year ended June 30, 2018 compared to $0.65 for the year ended June 30, 2017. Earnings for the year ended June 30, 2018 included a $17.9 million write-down of deferred tax assets following a deferred tax revaluation resulting from enactment of the Tax Act with no comparable charge in fiscal year 2017, which was partially offset by the absence of merger-related expenses, which totaled $7.8 million in fiscal year 2017.

For the year ended June 30, 2018 and before the write-down of deferred tax assets from the change in the federal tax rate, merger-related expenses, certain state income tax expenses, and gains from the sale of premises and equipment (non-GAAP) net income was $25.9 million, or $1.38 in diluted earnings per share compared to $17.1 million, or $0.94 in diluted earnings per share for the year ended June 30, 2017.

Net Interest Income. Net interest income for 2018 was $100.6 million, a $9.4 million, or 10.4% increase from $91.2 million in 2017. The increase in net interest income for the year ended June 30, 2018 reflects a $17.3 million increase in interest and dividend income due primarily to an increase in average interest-earning assets, partially offset by a $7.8 million increase in interest expense.

During 2018, average interest-earning assets increased $292.3 million, or 10.9% to $3.0 billion compared to $2.7 billion for 2017. The $338.5 million, or 16.3% increase in average balance of total loans receivable for the year ended June 30, 2018 was due to a full year's impact of the TriSummit acquisition and increased organic loan growth. This increase was mainly funded by the cumulative decrease of $46.2 million, or 7.6% in all other average interest-earning

assets, an increase in average interest-bearing deposits of $152.2 million, or 9.2%, and an $80.4 million, or 13.9% increase in average borrowings, consisting entirely of FHLB advances.
Net interest margin (on a fully taxable-equivalent basis) for the year ended June 30, 2018 decreased six basis points to 3.43% from 3.49% for last year. For the year ended June 30, 2018, our leveraging strategy produced an additional $4.1 million in interest and dividend income at an average yield of 1.90%, while the average cost of the borrowings was 1.39%, resulting in approximately $1.1 million in net interest income. Our leveraging strategy produced an additional $3.6 million in interest and dividend income at an average yield of 1.14% during fiscal year 2017, while the average cost of the borrowings was 0.58%, resulting in approximately $1.8 million in net interest income. Excluding the effects of the leveraging strategy, the tax equivalent net interest margin would be 3.66% and 3.88% for the years ended June 30, 2018 and 2017, respectively.

Interest Income. Total interest and dividend income for 2018 was $116.7 million, compared to $99.4 million for 2017, an increase of $17.3 million, or 17.4%. The increase was primarily driven by a $15.0 million, or 16.7% increase in loan interest income, a $2.2 million, or 59.4% increase in certificates of deposit and other interest-bearing deposits, and a $354,000, or 21.3% increase in other investment income partially offset by a $315,000, or 7.9% decrease in interest income from securities available for sale. The additional loan interest income was primarily due to the increase in the average balance of loans receivable, which was partially offset by a $3.0 million decrease in the accretion of purchase discounts on acquired loans to $3.2 million for the year ended June 30, 2018 from $6.1 million for fiscal year 2017, resulting from the full repayments of several loans with large discounts in the previous year. This decrease caused average loan yields to decrease three basis points to 4.41% for the year ended June 30, 2018 from 4.44% in fiscal 2017. The accretion on purchase discounts on acquired loans stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. Each quarter, the Company analyzes the cash flow assumptions on loan pools purchased and, at least semi-annually, the Company updates loss estimates, prepayment speeds, and other variables when analyzing cash flows. In addition to this accretion income, which is recognized over the estimated life of the loans pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. As a result, income from loan pools can be volatile from quarter to quarter as well as year over year. Excluding the effects of the accretion on purchase discounts on acquired loans, loan yields increased 13 basis points to 4.28% for the year ended June 30, 2018 compared to 4.15% in fiscal 2017.

Due to a significant number of adjustable-rate loans in the loan portfolio with interest rate floors below which the loans' contractual interest rate may not adjust, net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. As of June 30, 2018, our loans with interest rate floors totaled approximately $611.5 million or 16.1% of our total loan portfolio and had a weighted average floor rate of 4.00%; $71.3 million of these loans were at their floor rate, of which $57.0 million, or 79.9%, had yields that would begin floating again once prime rates increase at least 200 basis points.

Interest Expense. Total interest expense was $16.1 million in 2018, a $7.8 million, or 94.9% increase from $8.2 million in 2017. The increase was primarily related to the increase in average interest-bearing deposits and borrowings coupled with the increased cost of nine and 78 basis points for the years ended June 30, 2018 and 2017, respectively. The overall cost of funds increased 28 basis points to 0.65% for the year ended June 30, 2018 compared to 0.37% in the last fiscal year primarily due to the impact of the recent increases in the target federal funds rate on the cost of our borrowings.

Provision for Loan Losses. During 2018 and 2017, there was no provision for loan losses reflecting the decline in our required provision loan losses due to the continued improvements in our asset quality outpacing the additional provision otherwise required due to our loan growth. The provision for loan losses reflects the amount required to maintain the allowance for losses at an appropriated level based upon management's evaluation of the adequacy of general and specific loss reserves, trends in delinquencies and net charge-offs and current economic conditions.

See "Comparison of Financial Condition at June 30, 2018 and 2017 - Asset Quality and Allowance for Loan Losses" for additional details.

Noninterest Income. Noninterest income was $19.7 million for 2018 compared to $16.1 million for 2017. The $3.6 million, or 22.1% increase was primarily due to a $1.1 million, or 14.2% increase in service charges on deposit accounts as a result of the increase in deposit accounts and related fees; a $1.8 million, or 49.6% increase in loan income from the gain on sale of mortgage loans and various commercial loan-related fees driven by the commencing of originations and sales of the guaranteed portion of U.S Small Business Administration (“SBA”) commercial loans; and an $879,000, or 38.9% increase in other noninterest income mainly from investments in small business investment companies. Partially offsetting these increases was a $221,000, or 57.4% decrease in gains from the sale of premises and equipment for the year ended June 30, 2018 compared to last fiscal year.

Noninterest Expense. Noninterest expense was $85.3 million in 2018, a $4.9 million, or 5.5% decrease from $90.3 million in 2017. The decrease was primarily driven by the absence of the previously mentioned $7.8 million of merger-related expenses; a $192,000, or 11.5% decrease in marketing and advertising; a $210,000, or 3.2% decrease in computer services; and a $222,000, or 15.7% decrease in real estate owned ("REO") related expenses primarily as a result of fewer REO properties held. Partially offsetting these decreases were the additional expenses related to the TriSummit acquisition, a new commercial loan production office in Greensboro, NC, new SBA and equipment finance lines of business, and the opening of a de novo branch in Cary, NC as shown in the cumulative increase of $3.4 million, or 5.0% in salaries and employee benefits; net occupancy expense; telephone, postage, and supplies; and other expenses for the year ended June 30, 2018 compared to last year. Deposit insurance premiums increased $241,000, or 17.5% as the net asset base has increased.

Income Taxes. The provision for income taxes was $26.7 million for fiscal 2018 as compared to $5.2 million in 2017. The increase was mainly driven by the Tax Act's reduction in the federal corporate tax rate, which required the Company to revalue net deferred tax assets and establish the tax valuation allowance on a portion of our alternative minimum tax ("AMT") credits in accordance with Internal Revenue Service guidelines, resulting in a $17.9 million adjustment through income tax expense; and to a lesser extent higher pre-tax income. In addition, for the year ended June 30, 2018, the Company had a benefit of $142,000 as compared to a charge of $490,000 for the year ended June 30, 2017 related to the revaluation of various state deferred tax assets. In addition, our June 30 fiscal year end required the use of a blended federal income tax rate as prescribed by the Internal Revenue Code. The blended federal income tax rate of 27.5% was retroactively effective July 1, 2017 and was used for the entire fiscal year ended June 30, 2018. For more information on income taxes and deferred taxes, see Note 12 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Comparison of Results of Operation for the Year Ended June 30, 2017 and June 30, 2016
General. During 2017, we had net income of $11.8 million, a $391,000 or 3.4% increase compared to net income of $11.5 million earned in 2016. The Company's diluted earnings per share were $0.65 for both years ended June 30, 2017 and 2016. The leading factors in the increase of net income for both periods ended June 30, 2017 were an increase in net interest income from organic loan growth and the acquisition of TriSummit, which outpaced all merger-related expenses. The Company's earnings per share were impacted by the issuance of 765,277 new common shares in conjunction with the TriSummit acquisition on January 1, 2017.
Net Interest Income. Net interest income for 2017 was $91.2 million, a $9.5 million, or 11.6% increase from $81.7 million in 2016. During 2017, average interest-earning assets increased $187.5 million, or 7.5% to $2.7 billion compared to $2.5 billion for 2016. The $316.3 million, or 17.9% increase in average balance of loan receivables for 2017 was due to the TriSummit acquisition and increased organic loan growth, which was mainly funded by the cumulative decrease of $128.8 million, or 17.6% in average interest-earning deposits with banks, securities available for sale, and other interest-earning assets and an increase in average FHLB borrowings of $95.3 million, or 19.7%.
Net interest margin (on a fully taxable-equivalent basis) for 2017 increased 12 basis points to 3.49% from 3.37% for last year. During 2017, our leveraging strategy produced an additional $3.6 million in interest income at an average yield of 1.14%, while the average cost of the borrowings was 0.58%, resulting in approximately $1.8 million in net interest income. Our leveraging strategy produced an additional $3.3 million in interest income at an average yield of 0.81% during 2016, while the average cost of the borrowings was 0.31%, resulting in approximately $2.0 million in net interest income. Excluding the effects of the leveraging strategy, the net interest margin would have decreased five basis points to 3.88% for 2017 compared to 3.93% for 2016.
Interest Income. Total interest and dividend income for 2017 was $99.4 million, compared to $87.7 million for 2016, an increase of $11.7 million, or 13.3%.The increase was primarily driven by an $11.6 million, or 14.8% increase in loan interest income and a $196,000, or 13.4% increase in other investment income, which were partially offset by a $178,000, or 4.3% decrease in interest from securities available for sale. The additional loan interest income was due to the increase in the average balance of loans receivable and a $1.6 million increase in the accretion of purchase discounts on acquired loans to $6.1 million for 2017 from $4.5 million for 2016, as a result of early prepayments. Net interest margin is enhanced by the amortization of purchase accounting discounts on purchased loans and certificates of deposit received in recent acquisitions, which is accreted into net interest income. This additional income stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. Each quarter, the Company analyzes the cash flow assumptions on loan pools purchased and, at least semi-annually, the Company updates loss estimates, prepayment speeds, and other variables when analyzing cash flows. In addition to this accretion income, which is recognized over the estimated life of the loans pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. As a result, income from loan pools can be volatile from quarter to quarter as well as year over year.
Average loan yields decreased 15 basis points to 4.44% for the year ended June 30, 2017 from 4.59% in fiscal 2016. For the years ended June 30, 2017 and 2016, the average loan yields included 29 and 26 basis points, respectively, from the accretion of purchase discounts on acquired loans.
Due to a significant number of adjustable-rate loans in the loan portfolio with interest rate floors below which the loans' contractual interest rate may not adjust, net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. As of June 30, 2017, our loans with interest rate floors totaled approximately $633.8 million or 27.0% of our total loan portfolio and had a weighted average floor rate of 4.00%; $192.6 million of these loans were at their floor rate, of which $148.0 million, or 76.9%, had yields that would begin floating again once prime rates increase at least 200 basis points.
Interest Expense. Total interest expense was $8.2 million in 2017, a $2.2 million, or 36.5% increase from $6.0 million in 2016. The increase was primarily due to a 32 basis point increase in the average cost of borrowings increasing interest expense on borrowings by $2.1 million to $3.7 million for 2017 as compared to $1.5 million in 2016. In addition, average borrowings increased by $95.3 million to $577.8 million to partially fund the increase in total loans

and to provide funds for the TriSummit acquisition and our leveraging strategy. The TriSummit acquisition was the leading factor for the $298.6 million increase in the average balance of interest-bearing deposits. The overall average cost of funds increased eight basis points to 0.37% for 2017 compared to 0.29% for 2016 primarily due to the impact of the recent increases in the federal funds rate on our borrowings.
Provision for Loan Losses. During 2017 and 2016, there was no provision for loan losses reflecting the decline in our required provision loan losses due to the continued improvements in our asset quality outpacing the additional provision otherwise required due to our loan growth. The provision for loan losses reflects the amount required to maintain the allowance for losses at an appropriated level based upon management's evaluation of the adequacy of general and specific loss reserves, trends in delinquencies and net charge-offs and current economic conditions.
Noninterest Income. Noninterest income was $16.1 million for 2017 compared to $14.3 million for 2016. The $1.8 million, or 12.7% increase was primarily due to a $576,000, or 18.8% increase in loan income and fees from increases in originations of mortgage loans held for sale, a $445,000, or 27.1% increase in BOLI income, and a $385,000 gain on the sale of a previously closed branch office building. In addition, service charges on deposit accounts increased $362,000, or 5.4%, reflecting the increase in deposit accounts from the TriSummit acquisition.
Noninterest Expense. Noninterest expense was $90.3 million in 2017, a $10.6 million, or 13.3% increase from $79.6 million in 2016. The overall increase was primarily due to $7.8 million of merger-related expenses related to the TriSummit acquisition. Salaries and employee benefits expense increased $3.9 million, or 9.3% as a result of the TriSummit acquisition and an increase in stock-based compensation expense primarily driven by the increase in the Company's stock price. As a result of management's continued commitment to reduce operating expenses and the

consolidation of six branches during the second quarter of 2016, there was a cumulative decrease of $773,000, or 5.4% in net occupancy expense; marketing and advertising; and telephone, postage, and supplies. This decrease was offset by an $837,000, or 14.4% increase in computer services as a result of the TriSummit acquisition. In addition, deposit insurance premiums decreased $607,000, or 30.6% due to a decline in the rates charged by the FDIC that occurred during the first quarter of fiscal 2017. REO-related expenses decreased $385,000 as a result of a $234,000 decrease in writedowns and net losses on the sale of REO properties and a $151,000 decrease in REO expenses.

Income Taxes. The provision for income taxes was $5.2 million for fiscal 2017, representing an effective tax rate of 30.5%, as compared to $4.9 million and an effective tax rate of 30.0% in 2016, as a result of higher income before taxes. During 2017 and 2016, the Company incurred a charge of $490,000 and $526,000, respectively, which related to the decrease in value of our deferred tax assets based on recent decreases in North Carolina's corporate tax rate. The rate was reduced to 4.0% in August 2015 and to 3.0% in August 2016 once certain state revenue triggers were achieved.

Asset/Liability Management

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Our loans generally have longer maturities than our deposits. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk. If interest rates rise, our net interest income could be reduced because interest paid on interest-bearing liabilities, including deposits and borrowings, could increase more quickly than interest received on interest-earning assets, including loans and other investments. In addition, rising interest rates may hurt our income because they may reduce the demand for loans.

How We Measure Our Risk of Interest Rate Changes. As part of our process to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on market conditions, their payment streams and interest rates, the timing of their maturities, their sensitivity to actual or potential changes in market interest rates, and interest rate sensitivities of the Company's non-maturity deposits with respect to interest rates paid and the level of balances. The board of directors sets the asset and liability policy of HomeTrust Bank, which is implemented by management and an asset/liability committee whose members include certain members of senior management.

The purpose of this committee is to communicate, coordinate and control asset/liability management consistent with our business plan and board approved policies. The committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals.

The committee generally meets on a quarterly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to net present value of portfolio equity analysis and income simulations. The committee recommends appropriate strategy changes based on this review. The committee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors at least quarterly.

Among the techniques we use to manage interest rate risk are: (i) increasing our portfolio of hybrid and adjustable-rate one-to-four family residential loans and commercial loans; (ii) maintaining a strong capital position, which provides for a favorable level of interest-earning assets relative to interest-bearing liabilities; and (iii) emphasizing less interest rate sensitive and lower-costing “core deposits.” We also maintain a portfolio of short-term or adjustable-rate assets and use fixed-rate FHLB advances and brokered deposits to extend the term to repricing of our liabilities.

We consider the relatively short duration of our deposits in our overall asset/liability management process. As short-term rates increase, we have assets and liabilities that increase with the market. This is reflected in the change in our present value equity (“PVE”) when rates increase (see the table below). PVE is defined as the net present value of our existing assets and liabilities. In addition, we have historically demonstrated an ability to maintain retail deposits through various interest rate cycles. If local retail deposit rates increase dramatically, we also have access to wholesale funding through our lines of credit with the FHLB and FRB, as well as through the brokered deposit market to replace retail deposits, as needed.

Depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the committee may in the future determine to increase our interest rate risk position somewhat in order to maintain or increase our net interest margin. In particular, we believe that the increased net interest income resulting from a mismatch in the maturity of our assets and liabilities portfolios can, during periods of stable or declining interest rates, provide high enough returns to justify increased exposure to sudden and unexpected increases in interest rates. As a result of this philosophy, our results of operations and the economic value of our equity will remain vulnerable to increases in interest rates and to declines due to differences between long- and short-term interest rates.

The committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and our PVE. The committee also valuates these impacts against the potential changes in net interest income and market value of our portfolio equity that are monitored by the board of directors of HomeTrust Bank generally on a quarterly basis.

Our asset/liability management strategy sets limits on the change in PVE given certain changes in interest rates. The table presented here, as of June 30, 2018, is forward-looking information about our sensitivity to changes in interest rates. The table incorporates data from an independent service, as it relates to maturity repricing and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. Interest rate risk is measured by changes in PVE for instantaneous parallel shifts in the yield curve up and down 400 basis points. Given the current targeted federal funds rate is 1.75% to 2.00% making an immediate change of -200 and -300 basis points improbable, a PVE calculation for a decrease of greater than 100 basis points has not been prepared. An increase in rates would slightly increase our PVE because the repricing of nonmaturing deposits tend to lag behind the increase in market rates. This positive impact is partially offset by the negative effect from our loans with interest rate floors which will not adjust until such time as a loan's current interest rate adjusts to an increase in market rates which exceeds the interest rate floor. Conversely, in a falling interest rate environment these interest rate floors will assist in maintaining our net interest income. As of June 30, 2018, our loans with interest rate floors totaled approximately $611.5 million or 16.1% of our total loan portfolio and had a weighted average floor rate of 4.00%, $71.3 million of these loans were at their floor rate, of which $57.0 million, or 79.9%, had yields that would begin floating again once prime rates increase at least 200 basis points.

June 30, 2018

Change in Interest Rates in	Present Value Equity			PVE
Basis Points	Amount	$ Change	% Change	Ratio
(Dollars in Thousands)				
+ 400	$744,049	$28,227	4 %	24 %
+ 300	742,932	27,110	4	24
+ 200	738,771	22,949	3	23
+ 100	730,437	14,615	2	23
Base	715,822	—	—	22
- 100	668,983	(46,839)	(7)	20

In evaluating our exposure to interest rate movements, certain shortcomings inherent in the method of analysis presented in the foregoing table must be considered. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in interest rates. Additionally, certain assets, such as adjustable rate mortgages, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a significant change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed above. Finally, the ability of many borrowers to service their debt may decrease in the event of an interest rate increase. We consider all of these factors in monitoring our exposure to interest rate risk.

The board of directors and management of HomeTrust Bank believe that certain factors afford HomeTrust Bank the ability to operate successfully despite its exposure to interest rate risk. HomeTrust Bank may manage its interest rate risk by originating and retaining adjustable rate loans in its portfolio, by borrowing from the FHLB to match the duration of our funding to the duration of originated fixed rate one-to-four family and commercial loans held in portfolio and by selling on an ongoing basis certain currently originated longer term fixed rate one-to-four family real estate loans.

Liquidity

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

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of June 30, 2018, HomeTrust Bank had an additional borrowing capacity of $79.3 million with the FHLB of Atlanta, a $132.3 million line of credit with the FRB, and three lines of credit with three unaffiliated banks totaling $60.0 million. At June 30, 2018, we had $635.0 million in FHLB advances outstanding. Additionally, the Company classifies its securities portfolio as available for sale, providing an additional source of liquidity. Management believes that our security portfolio is of high quality and the securities would therefore be marketable. In addition, we have historically sold fixed-rate mortgage loans in the secondary market to reduce interest rate risk and to create still another source of liquidity. From time to time we also utilize brokered time deposits to supplement our other sources of funds. Brokered time deposits are obtained by utilizing an outside broker that is paid a fee. This funding requires advance notification to structure the type of deposit desired by us. Brokered deposits can vary in term from one month to several years and have the benefit of being a source of longer-term funding. We also utilize brokered deposits to help manage interest rate risk by extending the term to repricing of our liabilities, enhance our liquidity and fund asset growth. Brokered deposits are typically from outside our primary market areas, and our brokered deposit levels may vary from time to time depending on competitive interest rate conditions and other factors. At June 30, 2018, brokered deposits totaled $108.9 million or 4.96% of total deposits.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer term basis, we maintain a strategy of investing in various lending products and investment securities, including mortgage-backed securities. The Company on a stand-alone level is a separate legal entity from HomeTrust

Bank and must provide for its own liquidity and pay its own operating expenses. The Company's primary source of funds consists of the net proceeds retained by the Company from the Conversion. We also have the ability to receive dividends or capital distributions from HomeTrust Bank, although there are regulatory restrictions on the ability of HomeTrust Bank to pay dividends. At June 30, 2018, the Company (on an unconsolidated basis) had liquid assets of $23.0 million.

We use our sources of funds primarily to meet our ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At June 30, 2018, the total approved loan commitments and unused lines of credit outstanding amounted to $259.7 million and $491.6 million, respectively, as compared to $202.1 million and $414.4 million, respectively, as of June 30, 2017. Certificates of deposit scheduled to mature in one year or less at June 30, 2018, totaled $385.7 million. It is management's policy to manage deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with us.

During fiscal 2018, cash and cash equivalents decreased $16.2 million, or 18.7%, from $87.0 million as of June 30, 2017 to $70.7 million as of June 30, 2018. Cash provided by operating activities of $31.3 million and financing activities of $86.4 million was partially offset by cash used in investing activities of $134.0 million. Primary sources of cash for the year ended June 30, 2018 included proceeds from maturities of investment securities of $20.7 million, maturities of certificates of deposit in other banks, net of purchases, of $65.3 million, principal repayments of mortgage-backed securities of $20.5 million, and a $147.8 million increase in net deposits. Primary uses of cash during the period included an increase in portfolio loans of $168.6 million, a $3.5 million increase in fixed asset purchases, a decrease in borrowings of $61.5 million, and the purchase of commercial paper, net of maturities, of $75.2 million. All sources and uses of cash reflect our cash management strategy to increase our amount of higher yielding investments and loans, reducing our holdings in lower yielding investments and increasing our lower costing deposits.

During fiscal 2017, cash and cash equivalents increased $34.4 million, or 65.4%, from $52.6 million as of June 30, 2016 to $87.0 million as of June 30, 2017 primarily due to the increase in borrowings to partially fund the increase in total loans, and to provide funds for the TriSummit acquisition and our leveraging strategy. Cash provided by operating activities of $15.1 million and financing activities of $126.0 million was partially offset by cash used in investing activities of $106.8 million. Primary sources of cash for the year ended June 30, 2017 included proceeds from an increase in borrowings of $158.0 million, maturities and sales of investment securities of $46.4 million, maturities of commercial paper, net of purchases, of $81.0 million, maturities of certificates of deposit in other banks, net of purchases, of $29.5 million, and principal repayments of mortgage-backed securities of $23.9 million. Primary uses of cash during the period included, the purchase of securities available for sale of $15.1 million, a $34.5 million decrease in net deposits, an increase in portfolio loans of $255.9 million, a $2.8 million increase in fixed asset purchases, and $10.6 million for the TriSummit acquisition, net of cash received.

Contractual Obligations

The following table presents the Company's significant contractual obligations at June 30, 2018 (in thousands):

	1 Year or Less	Over 1 to 3 Years	Over 3 to 5 Years	More Than 5 Years	Total
Borrowings	$435,000	$—	$—	$200,000	$635,000
Capital lease	133	402	423	1,849	2,807
Operating leases	1,661	2,413	1,902	1,543	7,519
Total contractual obligations	$436,794	$2,815	$2,325	$203,392	$645,326

Off-Balance Sheet Activities

In the normal course of operations, we engage in a variety of financial transactions that are not recorded in our financial statements. These transactions involve varying degrees of off-balance sheet credit, interest rate and liquidity risks. These transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For the year ended June 30, 2018, we engaged in no off-balance sheet transactions likely to have a material effect on our financial condition, results of operations or cash flows.

A summary of our off-balance sheet commitments to extend credit at June 30, 2018, is as follows (in thousands):

Undisbursed portion of construction loans	$209,726
Commitments to make loans	49,949
Unused lines of credit	491,649
Unused letters of credit	8,227
Total loan commitments	$759,551

Capital Resources

At June 30, 2018, equity totaled $409.2 million. Management monitors the capital levels of the Company to provide for current and future business opportunities and to ensure HomeTrust Bank meets regulatory guidelines for “well-capitalized” institutions.

HomeTrust Bancshares, Inc. is a bank holding company and a financial holding company subject to regulation by the Board of Governors of the Federal Reserve System (“Federal Reserve”). As a bank holding company, we are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act and the regulations of the Federal Reserve. Our subsidiary, the Bank, an FDIC-insured, North Carolina state-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve and the North Carolina Office of the Commissioner of Banks and is subject to minimum capital requirements applicable to state member banks established by the Federal Reserve that are calculated in the same manner to those applicable to bank holding companies.

HomeTrust Bancshares, Inc. and the Bank are required to maintain specified levels of regulatory capital under federal banking regulations. The capital adequacy requirements are quantitative measures established by regulation that require HomeTrust Bancshares, Inc. and the Bank to maintain minimum amounts and ratios of capital. HomeTrust Bancshares, Inc.'s and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by bank regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At June 30, 2018, HomeTrust Bancshares, Inc. and the Bank each exceeded all regulatory capital requirements.

Consistent with our goals to operate a sound and profitable organization, our policy is for the Bank to maintain a "well-capitalized" status under the regulatory capital categories of the Federal Reserve. As of June 30, 2018, the Bank was considered "well capitalized" in accordance with its regulatory capital guidelines and exceeded all regulatory capital requirements with Common Equity Tier 1, Tier 1 Risk-Based, Total Risk-Based, and Tier 1 Leverage capital ratios of 11.70%, 11.70%, 12.45%, and 10.33%, respectively. As of June 30, 2017, Common Equity Tier 1, Tier 1 Risk-Based, Total Risk-Based, and Tier 1 Leverage capital ratios were 11.68%, 11.68%, 12.50%, and 9.97%, respectively.

As of June 30, 2018, HomeTrust Bancshares, Inc. exceeded all regulatory capital requirements with Common Equity Tier 1, Tier 1 Risk-Based, Total Risk-Based, and Tier 1 Leverage capital ratios of 12.97%, 12.97%, 13.72%, and 11.45%, respectively. As of June 30, 2017, Common Equity Tier 1, Tier 1 Risk-Based, Total Risk-Based, and Tier 1 Leverage capital ratios were 13.07%, 13.07%, 13.89%, and 11.13%, respectively.

See Item 1, "Business-How We are Regulated," and Note 18 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for additional details on the Company's capital requirements.

Impact of Inflation

The Consolidated Financial Statements and related financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. The primary impact of inflation is reflected in the increased cost of our operations. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services. In a period of rapidly rising interest rates, the liquidity and maturity structures of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of noninterest expense. Expense items such as employee compensation, employee benefits, and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in dollar value of the collateral securing loans that we have made. Our management is unable to determine the extent, if any, to which properties securing loans have appreciated in dollar value due to inflation.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for additional details on the Company's capital requirements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises principally from interest rate risk inherent in our lending, investing, deposit and borrowings activities. Management actively monitors and manages its interest rate risk exposure. In addition to other risks that we manage in the normal course of business, such as credit quality and liquidity, management considers interest rate risk to be a significant market risk that could have a potentially material effect on our financial condition and result of operations. The information contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Asset Liability Management” in this Form 10-K is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
HomeTrust Bancshares, Inc. and Subsidiary
Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of HomeTrust Bancshares, Inc. and Subsidiary (the “Company”) as of June 30, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for each of the years in the three-year period ended June 30, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the result of their operations and their cash flows for each of the three years in the period ended June 30, 2018, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control- Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2018 expressed an unqualified opinion thereon.

Basis for Opinion
These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidate